

On A First-Name Basis



PATRICK

ANNA

ALAN

JOE

DAVID

ELLEN

BETH

JANIE



Rent-A-Center, Inc., is the largest operator in the United States rent-to-own industry with an approximate 29% market share based on store count. At December 31, 2002, we operated 2,407 company-owned stores nationwide and in Puerto Rico, including 23 stores in Wisconsin operated by our subsidiary Get It Now, LLC under the name "Get It Now." Another of our subsidiaries, ColorTyme, Inc., is a national franchisor of rent-to-own stores. At December 31, 2002, ColorTyme had 318 franchised stores in 40 states, 306 of which operated under the ColorTyme name and 12 of which operated under the Rent-A-Center name. These franchise stores represent a further 4% market share based on store count.

Our stores generally offer high quality, durable products such as home electronics, furniture and accessories, appliances and computers under flexible rent-to-own agreements that generally allow the customer to obtain ownership of the merchandise at the conclusion of an agreed upon rental period. These rent-to-own agreements are designed to appeal to a wide variety of customers by allowing them to obtain merchandise that they might otherwise be unable to obtain due to insufficient cash resources or a lack of access to credit. These agreements also cater to customers who have only a temporary need, or who simply desire to rent rather than purchase the merchandise. Get It Now offers our merchandise on an installment sales basis in Wisconsin. We offer well known brands such as Philips, Sony, JVC, Toshiba and Mitsubishi home electronics; Whirlpool appliances; Dell, IBM, Compaq and Hewlett-Packard computers and Ashley, England, Berkline and Standard furniture.

Rent-A-Center's principal executive offices are located at 5700 Tennyson Parkway, Third Floor, Plano, Texas 75024. Our telephone number is (972) 801-1100 and our company web site is www.rentacenter.com. Our common stock is traded on the NASDAQ National Market under the symbol RCII.

FINANCIAL HIGHLIGHTS

	Year ended December 31, 2002	Year ended December 31, 2001
(in thousands, except per share and store data)		
STATEMENTS OF EARNINGS		
Revenues	\$ 2,010,044	\$ 1,808,528
Earnings Before Income Taxes	288,443	124,806
Net Earnings	172,173	66,217
Diluted Earnings Per Common Share	\$ 4.74	\$ 1.79
BALANCE SHEET DATA		
Cash & Cash Equivalents	\$ 85,723	\$ 107,958
Rental Merchandise, Net	631,724	653,701
Total Assets	1,616,052	1,619,920
Total Debt	521,330	702,506
Stockholders' Equity	842,400	405,378
STORES OPEN		
Rent-A-Center	2,384	2,281
Get It Now	23	-
ColorTyme	318	342
Total	2,725	2,623

LETTER TO STOCKHOLDERS



Mark E. Speese (seated)
Chairman of the Board and
Chief Executive Officer

Mitchell E. Fadel
President and Chief Operating Officer

To Our Stockholders:

2002 – A CAPSULE LOOK 2002 was a year of outstanding financial results and dynamic growth initiatives for us, capped by record revenue and earnings of \$2.01 billion and \$172.2 million, respectively. This performance reflects the solid execution and sound corporate governance that make Rent-A-Center the leader in the \$5 billion-plus rent-to-own industry. In a year punctuated by retail closings and layoffs, we thrived – purchasing the account portfolios of 126 locations and opening or acquiring 153 stores, while at the same time reducing our outstanding debt by \$181.3 million. Stockholder value was further enhanced by our repurchase of \$65.6 million of our outstanding common stock. An agreement signed in the fourth quarter of 2002 culminated in the February 2003 acquisition of 295 stores from Rent-Way, Inc., a \$100.4 million transaction wholly funded from cash on hand. The following section explains the market dynamics and operating principles of the unique business proposition that we believe will enable Rent-A-Center to continue expanding profitably, even in an uncertain economy.

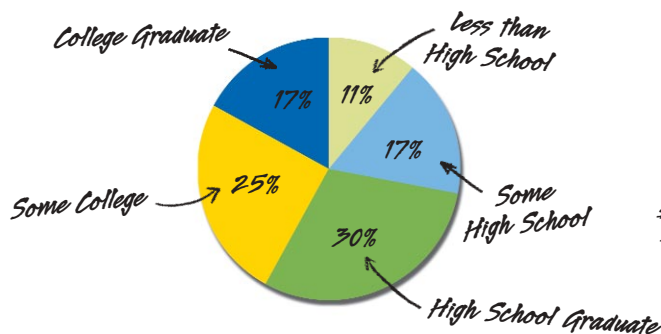
THE RENT-TO-OWN PROPOSITION Upgrading to a digital television or replacing old furniture or appliances is, for many households, as easy as making the desired choice and handing over a check or credit card. But for those consumers with cash or credit constraints, such choices

can be out of reach. For other families with only a temporary need, buying may not make sense. We help balance that equation by offering new, high-quality goods on a weekly or monthly rental term that requires no down payment or deposit. Any family can fill a need, upgrade their lifestyle and improve their lives by paying a little at a time, with no credit or repair worries and no big cash outlay. We make their shopping experience a positive one: bright, well-merchandised stores staffed by respectful Rent-A-Center co-workers who are trained and incented to build lasting business relationships with each customer – usually on a first-name basis.

Rent-to-own is not to be confused with credit sales. In fact, laws in 47 states make a clear distinction between our business and both installment sales and long-term leasing. The differences are compelling: the rent-to-own customer is never obligated to continue renting, and Rent-A-Center, as the owner of the goods, absorbs the cost of service and upkeep for the duration of the rental term, as well as any delivery, pickup and refurbishing that may be needed. This unique and comprehensive package of financial flexibility, service and benefits has strong appeal to working Americans with steady incomes who need an alternative means of acquiring big-ticket goods.

While nothing may be recession-proof, the rent-to-own industry over the last three decades has proved to be at least “recession-resistant.” In a soft economy, our customers

EDUCATION LEVEL OF RENT-A-CENTER CUSTOMERS



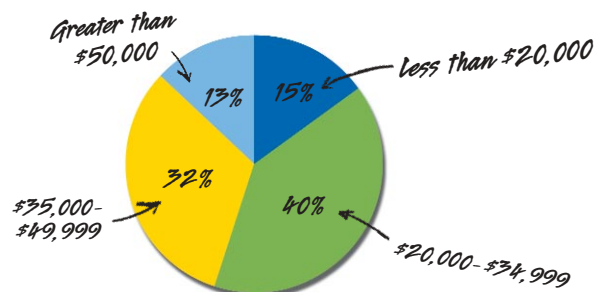
appreciate the freedom to move easily into and out of the rental agreement. Conversely, a growth economy expands the number of potential Rent-A-Center customers who can again afford to make payments but may have impaired their ability to get financing. Although we generally anticipate an increase in new rentals during the fourth quarter of each calendar year, the ease of entering into a rental agreement and the ongoing nature of the rent-to-own transaction generally subjects us to less seasonality overall than many other retail businesses.

An April 2000 Federal Trade Commission report revealed that customers of rent-to-own stores enjoy a decidedly higher degree of satisfaction with the products and services they receive than customers in more traditional industries such as automotive, home repair and insurance. We believe our strong focus on customer service and our empowerment of local managers creates good incentives for our customers to continue renting by making timely in-store renewal payments.

Delinquent accounts are managed proactively within each store. Our past-due customers can (and do) simply return the goods to us with the opportunity to re-rent the same or similar goods later, picking up in the new agreement where they previously left off. The obvious benefit to us from this policy is a ready market for returned merchandise, with little added risk. Historically, the resulting high level of repeat renters and customer referrals – coupled with our policy of clustering stores – helps lower our customer acquisition cost.

Rent-A-Center is the largest operator in the 8,300-store industry. At March 24, 2003, we owned 2,543 stores with another 318 stores franchised through our wholly owned ColorTyme subsidiary. We are able to maintain consistent and effective controls across this large operating base through a timely application of both technology

HOUSEHOLD INCOME LEVEL OF RENT-A-CENTER CUSTOMERS



and hands-on expertise. A proprietary and scalable point-of-sale system provides daily data to our seasoned corps of operators, most of whom have risen through the ranks and spend the majority of their workweek in the field. Rent-A-Center's purchasing power allows merchandise to be drop-shipped to our stores, eliminating any warehousing or distribution costs. Our national network of service centers provides repair and refurbishment on the goods that we carry, with about a fourth of the cost being offset by warranty payments from manufacturers.

2002 RESULTS In the deteriorating retail environment of 2002, we increased guidance six times and reported the highest revenue and earnings in Rent-A-Center's history. Many of the initiatives introduced in the fall of 2001 continue to be successful, as we maintain our dual focus on both revenue growth and cost controls. Revenue has increased as a result of new customer traffic, enhanced merchandise mix, the 2001 pricing and term adjustments, and successful store openings and acquisitions. These revenue enhancements, along with the savings impact of regional pay plans, synergies in our marketing and advertising and close oversight on spending, have led to improved margins and earnings without impairing the ability of our stores to deliver outstanding customer service.

Total revenue for the 12 months ended December 31, 2002, increased to \$2.01 billion from \$1.81 billion in 2001, representing an increase of 11.1%. Net earnings for the 12 months ended December 31, 2002, were \$172.2 million, compared to \$66.2 million for the 12 months ended December 31, 2001. Diluted earnings per share rose to \$4.74 for the 12 months ended December 31, 2002, compared to earnings of \$1.79 per diluted share for the 12 months ended December 31, 2001. During

The Williams Family

MIKE
He loves friends, football
and his widescreen TV.



LISA
She has a busy schedule but
still makes time to entertain
friends and neighbors.

Mike and Lisa live on a close-knit block. Mike and his friends get together every weekend to watch sports on the widescreen TV, while the neighborhood kids are getting dirty playing sports outside. Rent-A-Center is great because the Williams family can have both a widescreen TV and a washer and dryer.

Rent-A-Center has something for everyone in the family – from a widescreen TV to name brand appliances.

For 2002, Fortune magazine ranked Rent-A-Center No. 70 among America's 100 Fastest Growing Companies.

the year ended December 31, 2002, we generated \$294.5 million in cash flow from operations, enabling us to reduce our total debt outstanding by \$181.3 million, open 70 stores and acquire 83 others, purchase account portfolios from 126 locations and repurchase \$65.6 million in outstanding common stock. We ended 2002 with approximately \$85.7 million cash on hand.

Our success brought national recognition for the second consecutive year. For 2002, *Fortune* magazine ranked Rent-A-Center No. 70 among America's 100 Fastest Growing Companies. Our record revenue year lifted us to No. 754 from No. 832 on the Fortune 500 list.

We are also resilient. 2002 was a year of resolution and initiative. Some longstanding issues were satisfactorily resolved and forward-thinking programs set in place to improve our return on investment in human capital. Chief among these was appointing a new vice president for Human Resources and significantly expanding that department's capabilities and reach. Our stated goal is a work environment that provides equal opportunity for

professional success and personal growth for all co-workers. We are broadening and accelerating the development of managers at all levels, with an emphasis on interpersonal, communication and problem solving skills. We also anticipate deploying an online learning management system during 2003 to facilitate training of front-line and home office co-workers.

In addition to being an employer of choice, we strive to be a good neighbor in the communities that we serve. During 2002, we continued our efforts to reunite missing children with their families by renewing Rent-A-Center's partnership with the National Center for Missing and Exploited Children. In 2003, we will join with our customers in supporting the Big Brothers Big Sisters organization with an in-store promotion and a matching grant from Rent-A-Center. In addition, at-risk schoolchildren in Florida will now benefit from a Rent-A-Center scholarship fund established on their behalf, duplicating our earlier contribution to Pennsylvania public schools. These projects are in addition to the hundreds of local, store-based initiatives supporting community food banks, family shelters and other good causes throughout our markets.

GOING FORWARD Studies of the rent-to-own market in the United States suggest that just over 6% of the potential 45 million customer households are presently being served. Certainly, population densities and other factors work against 100% penetration, but we estimate that the market can absorb as many as 6,000 additional stores. Accordingly, we believe there is ample room for growth. We believe we are strategically positioned to capitalize on this growth opportunity: unimpeded merchandise flow facilitated by electronic ordering at the store level; daily tracking of idle inventory by aging and store location;

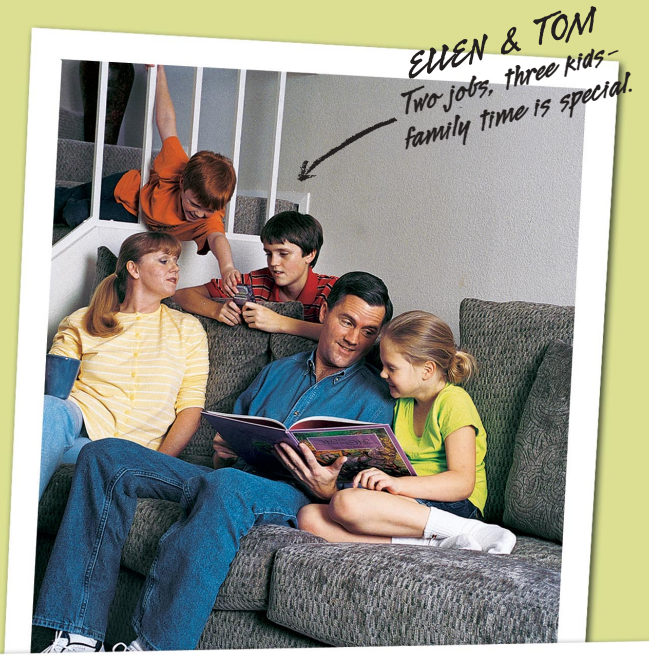


At Rent-A-Center, renting is more than just easy, it's family-friendly too.

The Matthews Family

Ellen's house can get really crazy. When her three kids aren't at school or at practice, they're at home, and they're never tired.

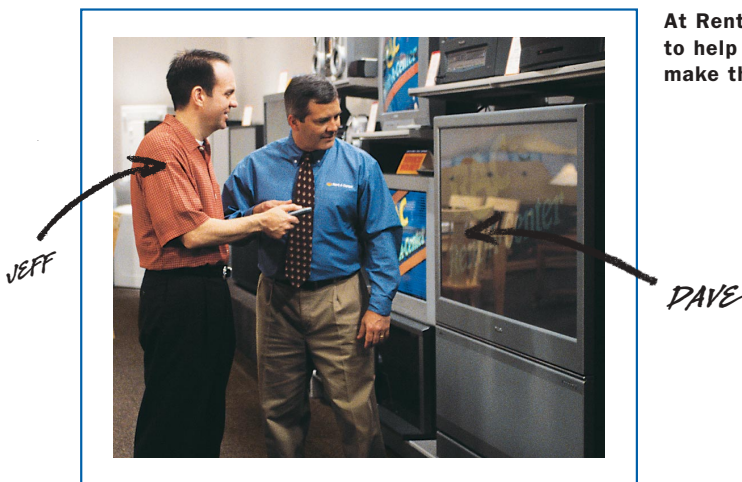
She loves Rent-A-Center because she can get the latest and greatest to keep Michelle, Bobby and Matt entertained ...and out of trouble.



After school the boys stay busy with their Playstation, and Michelle loves hanging out in her room because she picked out the furniture.



Thanks to Rent-A-Center, the hardworking Matthews family can own the things they need and always get the things they want.



At Rent-A-Center we like to help our customers make the best choice.

strong national branding achieved through our consistent network and cable television advertising; instant dissemination of knowledge and information throughout the company via intranet; product service centers that can repair, refurbish and return over 10,000 items per week; and a management structure that maintains tight controls over collections and spending while empowering people to make good customer decisions at the store level. We believe we are positioned to build out the company's market presence as fast as new managers can be developed.

Critical to Rent-A-Center's growth strategy is an aggressive new store plan. We intend to open 80 to 100 new stores in 2003. From late 2000 through the end of 2002, Rent-A-Center opened more than 180 stores. The overall performance of these stores exceeded our new store model for both revenue and EBITDA. For example, at the end of 2002, the 20% of these stores open at least 24 months had annual revenue run rates of \$711,000, beating our new store model by \$60,000.

Growth will not be limited to store openings. We will continue seeking acquisition opportunities that meet our proven criteria. Our continued strong performance throughout 2002 enabled us to fund the Rent-Way transaction without adding one dollar of debt. This \$100.4 million acquisition, which reflects a purchase price of slightly less than 10 times average monthly revenue, was good for us in many respects. We believe the most important reason is that it is consistent with our established growth strategy. We have completed a number of significant transactions over the years, and our strong operating discipline and sound business model have allowed us to quickly and efficiently integrate the new customers into our system. The Rent-Way acquisition expanded our presence in existing markets

and allowed us to enter new ones with an established revenue base. Integration of those stores and accounts was completed by mid-March 2003, and we are again looking for appropriate acquisition targets.

We are also aggressively researching and evaluating other ways of leveraging our existing customer base. We are currently evaluating new products, including pre-paid phone services and extended product service plans for the thousands of Rent-A-Center customers who each month take ownership of their goods. One of our strengths in delivering consistent results is our thoroughness in determining the viability of new products or extensions before rolling them out. That process will continue. Furthermore, we do not believe that future growth should necessarily be limited to customers in U.S. markets. To that end, we are cautiously exploring the feasibility of expanding our business model overseas and throughout the Americas.

Our success in fiscal 2002 can be attributed in large part to the 14,000 Rent-A-Center co-workers who support our goals and objectives each day with dedication and determination. Their efforts, along with the guidance and oversight of our Board of Directors and the support of our stockholders, give us reason to be excited and confident about our prospects for continued profitable growth.

Mark E. Speese
Chairman of the Board and
Chief Executive Officer

Mitchell E. Fadel
President and
Chief Operating Officer

The Hernandez Family

JOSÉ
Proud Papa. His only daughter Maria will be graduating from college.



José was so excited about his daughter Maria's graduation, he used his video camera from Rent-A-Center to make a movie to send to the rest of his family. José filmed Maria 24/7, from studying for finals to the party he and his wife threw for her after the ceremony.



Maria loves the desktop computer she used for college, but she really wants to look at the laptops she saw at Rent-A-Center last week.



The Hernandez family has many things to celebrate, like Maria's graduation. With a little help from Rent-A-Center, José captured all these special moments.

The Rent-A-Center Family

Giving back is part of our culture at Rent-A-Center. We support nonprofit organizations whose national presence benefits those in need.

KIDCARE IN NEWARK, NJ



ANNA getting her picture taken



SHERI & SUSIE

Project KidCare®



Big Brothers Big Sisters

Little Moments. Big Magic.™

Current partnerships include: The National Center for Missing and Exploited Children (NCMEC), KidCare events – in conjunction with NCMEC and the Fraternal Order of Police – and Big Brothers Big Sisters of America.

The Board of Directors

SEATED, from left to right:

Mark E. Speese
Chairman of the Board and
Chief Executive Officer
Rent-A-Center, Inc.

Mary Elizabeth Burton
Chief Executive Officer
BB Capital, Inc.

STANDING, from left to right:

Peter P. Copses
Vice President
Apollo Management, L.P.

Andrew S. Jhavar
Vice President
Apollo Management, L.P.

Mitchell E. Fadel
President and
Chief Operating Officer
Rent-A-Center, Inc.

Laurence M. Berg
Vice President
Apollo Management, L.P.

J. V. Lentell
Vice Chairman
Intrust Bank, N.A.



Corporate Officers:

Mark E. Speese
Chairman of the Board and
Chief Executive Officer

Mitchell E. Fadel
President and
Chief Operating Officer

Dana F. Goble
Executive Vice President –
Operations

Robert D. Davis
Senior Vice President – Finance,
Chief Financial Officer and Treasurer

Christopher A. Korst
Senior Vice President –
General Counsel

Steven M. Arendt
Chief Executive Officer and
President of ColorTyme, Inc.

Corporate Information:

CORPORATE OFFICES
5700 Tennyson Parkway
Plano, TX 75024
www.rentacenter.com

INDEPENDENT AUDITORS
Grant Thornton LLP
1717 Main Street
Suite 500
Dallas, TX 75201

COMPANY COUNSEL
Winstead Sechrest & Minick P.C.
5400 Renaissance Tower
1201 Elm Street
Dallas, TX 75270
www.winstead.com

ANNUAL MEETING
May 21, 2003, at 9:30 a.m.
5700 Tennyson Parkway
Plano, TX 75024

TRANSFER AGENT AND REGISTRAR
Mellon Investor Services L.L.C.
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660
800-635-9270
www.mellon-investor.com

INVESTOR INQUIRIES
Requests for interim and annual reports,
Form 10-K, or other financial information
should be directed to:
Investor Relations
Rent-A-Center, Inc.
5700 Tennyson Parkway
Plano, TX 75024
Fax: (972) 943-0113

Rent-A-Center news releases and
other financial information are available
at the following internet address:
www.rentacenter.com

The following table sets forth for each
quarter the high and low sale price per
share of the company's common stock
during 2002.

2002	HIGH	LOW
First	\$ 52.00	\$ 30.75
Second	63.87	48.51
Third	59.31	45.09
Fourth	52.93	37.65

STOCK LISTING
NASDAQ National Market
Ticker Symbol: **RCII**



5700 Tennyson Parkway
Third Floor
Plano, TX 75024

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2002
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 0-25370

RENT-A-CENTER, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

45-0491516

(I.R.S. Employer Identification No.)

5700 Tennyson Parkway
Third Floor
Plano, Texas 75024
972-801-1100

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.01 per share

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES [X] NO []

Aggregate market value of the 33,631,901 shares of Common Stock held by non-affiliates of the registrant at the closing sales price on March 24, 2003	\$ 1,854,799,340
Number of shares of Common Stock outstanding as of the close of business on March 24, 2003:	34,853,773

Documents incorporated by reference:

Portions of the definitive proxy statement relating to the 2003 Annual Meeting of Stockholders of Rent-A-Center, Inc. are incorporated by reference into Part III of this report.

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PART I

Item 1. *Business*

Overview

Unless the context indicates otherwise, references to "we," "us" and "our" refers to the consolidated business operations of Rent-A-Center, Inc., the parent, and all of its direct and indirect subsidiaries.

We are the largest operator in the United States rent-to-own industry with an approximate 29% market share based on store count. At December 31, 2002, we operated 2,407 company-owned stores nationwide and in Puerto Rico, including 23 stores in Wisconsin operated by our subsidiary Get It Now, LLC under the name "Get It Now." Another of our subsidiaries, ColorTyme, Inc., is a national franchisor of rent-to-own stores. At December 31, 2002, ColorTyme had 318 franchised stores in 40 states, 306 of which operated under the ColorTyme name and 12 of which operated under the Rent-A-Center name. These franchise stores represent a further 4% market share based on store count.

Our stores generally offer high quality, durable products such as home electronics, appliances, computers and furniture and accessories under flexible rental purchase agreements that generally allow the customer to obtain ownership of the merchandise at the conclusion of an agreed upon rental period. These rental purchase agreements are designed to appeal to a wide variety of customers by allowing them to obtain merchandise that they might otherwise be unable to obtain due to insufficient cash resources or a lack of access to credit. These agreements also cater to customers who only have a temporary need or who simply desire to rent rather than purchase the merchandise. Get It Now offers our merchandise on an installment sales basis in Wisconsin. We offer well known brands such as Philips, Sony, JVC, Toshiba and Mitsubishi home electronics, Whirlpool appliances, Dell, IBM, Compaq and Hewlett-Packard computers and Ashley, England, Berkline and Standard furniture.

Our customers often lack access to conventional forms of credit. We offer products such as big screen televisions, computers and sofas, and well known brands that might otherwise be unavailable without credit. We also offer high levels of customer service at no charge, including repair, pick-up and delivery. Our customers benefit from the ability to return merchandise at any time without further obligation and make payments that build toward ownership. We estimate that approximately 62% of our business is from repeat customers.

Our principal executive offices are located at 5700 Tennyson Parkway, Third Floor, Plano, Texas 75024. Our telephone number is (972) 801-1100 and our company website is www.rentacenter.com. We do not intend for information contained on our website to be part of this Form 10-K. We make available free of charge on or through our website our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material or furnish it to the SEC. Additionally, we voluntarily will provide electronic or paper copies of our filings free of charge upon request.

Corporate Reorganization

Effective as of December 31, 2002, we completed a tax-free internal reorganization of our corporate structure. The reorganization was effected through an inversion merger whereby Rent-A-Center, Inc. became a wholly-owned subsidiary of Rent-A-Center Holdings, Inc., a newly formed Delaware holding company, which was incorporated as a Delaware corporation on November 26, 2002. Upon the merger, Rent-A-Center, Inc. changed its name to "Rent-A-Center East, Inc.," and Rent-A-Center Holdings, Inc. adopted the name "Rent-A-Center, Inc." The newly formed parent company, Rent-A-Center, Inc., is deemed the "successor issuer" to Rent-A-Center East, Inc. Rent-A-Center East was originally incorporated as a Delaware corporation on September 16, 1986.

Industry Overview

According to industry sources and our estimates, the rent-to-own industry consists of approximately 8,300 stores, and provides approximately 7.0 million products to over 2.8 million households each year. We estimate the six largest rent-to-own industry participants account for approximately 4,700 of the total number of stores, and the majority of the remainder of the industry consists of operations with fewer than 20 stores. The rent-to-own industry is highly fragmented and, due primarily to the decreased availability of traditional financing sources, has experienced, and we believe will continue to experience, increasing consolidation. We believe this consolidation trend in the industry presents opportunities for us to continue to acquire additional stores on favorable terms.

The rent-to-own industry serves a highly diverse customer base. According to the Association of Progressive Rental Organizations, 92% of rent-to-own customers have incomes between \$15,000 and \$50,000 per year. Many of the customers served by the industry do not have access to conventional forms of credit and are typically cash constrained. For these customers, the rent-to-own industry provides access to brand name products that they would not normally be able to obtain. The Association of Progressive Rental Organizations also estimates that 93% of customers have high school diplomas. According to a Federal Trade Commission study, 75% of rent-to-own customers were satisfied with their experience with rent-to-own transactions. The study noted that customers gave a wide variety of reasons for their satisfaction, "including the ability to obtain merchandise they otherwise could not, the low payments, the lack of a credit check, the convenience and flexibility of the transaction, the quality of the merchandise, the quality of the maintenance, delivery, and other services, the friendliness and flexibility of the store employees, and the lack of any problems or hassles."

Strategy

We are currently focusing our strategic efforts on:

- enhancing the operations and profitability in our store locations;
- opening new stores and acquiring existing rent-to-own stores; and
- building our national brand.

Enhancing Store Operations

We continually seek to improve store performance through strategies intended to produce gains in operating efficiency and profitability. For example, in the later part of 2001, we implemented programs to refocus our operational personnel to prioritize store profit growth, including the effective pricing of rental merchandise and the management of store level operating expenses. Similarly, we instituted a transitional duty program to maintain store level productivity as well as to minimize costs related to the workers compensation component of our insurance programs.

We believe we will achieve further gains in revenues and operating margins in both existing and newly acquired stores by continuing to:

- use focused advertising to increase store traffic;
- expand the offering of upscale, higher margin products, such as Philips, Sony, JVC, Toshiba and Mitsubishi home electronics, Whirlpool appliances, Dell, IBM, Compaq and Hewlett-Packard computers and Ashley, England, Berkline and Standard furniture to increase the number of product rentals;
- employ strict store-level cost control;
- closely monitor each store's performance through the use of our management information system to ensure each store's adherence to established operating guidelines; and
- use a revenue and profit based incentive pay plan.

Opening New Stores and Acquiring Existing Rent-To-Own Stores

We intend to expand our business both by opening new stores in targeted markets and by acquiring existing rent-to-own stores. We will focus new market penetration in adjacent areas or regions that we believe are underserved by the rent-to-own industry, which we believe represents a significant opportunity for us. In addition, we intend to pursue our acquisition strategy of targeting under-performing and under-capitalized chains of rent-to-own stores. We have gained significant experience in the acquisition and integration of other rent-to-own operators and believe the fragmented nature of the rent-to-own industry will result in ongoing consolidation opportunities. Acquired stores benefit from our administrative network, improved product mix, sophisticated management information system and purchasing power. In addition, we have access to our franchise locations, which we have the right of first refusal to purchase.

Since March 1993, our company-owned store base has grown from 27 to 2,407 at December 31, 2002, primarily through acquisitions. During this period, we acquired over 2,200 company-owned stores and over 350 franchised stores in more than 120 separate transactions, including six transactions where we acquired in excess of 70 stores. In May 1998, we acquired substantially all of the assets of Central Rents, Inc., which operated 176 stores, for approximately \$100 million in cash. In August 1998, we acquired Thorn Americas, Inc. for approximately \$900 million in cash, including the repayment of certain debt of Thorn Americas. Prior to this acquisition, Thorn Americas was our largest competitor, operating 1,409 company-owned stores and franchising 65 stores in 49 states and the District of Columbia.

Having successfully integrated the Thorn Americas and Central Rents acquisitions, we resumed our strategy of increasing our store base. The table below summarizes the store growth activity over the last three years.

	<u>2002</u>	<u>2001</u>	<u>2000</u>
New store openings	70	76	36
Acquired stores	83	95	74
Stores from which we acquired accounts	126	90	73
Closed stores			
Merged with existing stores	23	42	22
Sold	4	6	4
Closed without merger	--	--	1
Total approximate purchase price of acquisitions	\$59.5 million	\$49.8 million	\$42.5 million

In February 2003, we acquired substantially all of the assets of 295 stores located throughout the United States from Rent-Way, Inc. and certain of its subsidiaries for approximately \$100.4 million in cash. Of the 295 stores, 176 were merged with existing locations. For more details on the Rent-Way transaction, please read the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments." Furthermore, since December 31, 2002, we acquired additional accounts from one store location for approximately \$100,000 in cash and opened an additional 20 new stores. We also closed three stores, merging them with existing stores, resulting in a total store count of 2,543 at March 24, 2003.

We continue to believe there are attractive opportunities to expand our presence in the rent-to-own industry. We intend to increase the number of stores in which we operate by an average of approximately 5% to 10% per year over the next several years. We plan to accomplish our future growth through both selective and opportunistic acquisitions and new store development.

Building Our National Brand

We have implemented strategies to increase our name recognition and enhance our national brand. As part of that strategy, we utilize television and radio commercials, print, direct response and in-store signage, all of which are designed to increase our name recognition among our customers and potential customers. We believe that as the Rent-A-Center name gains in familiarity and national recognition through our advertising efforts, we will continue to educate the customer about the rent-to-own alternative to merchandise purchases as well as solidify our reputation as a leading provider of high quality branded merchandise.

Our Stores

At December 31, 2002, we operated 2,407 stores nationwide and in Puerto Rico. In addition, our subsidiary ColorTyme franchised 318 stores in 40 states. This information is illustrated by the following table:

<u>Location</u>	<u>Number of Stores</u>		<u>Location</u>	<u>Number of Stores</u>	
	<u>Owned</u>	<u>Franchised</u>		<u>Owned</u>	<u>Franchised</u>
Alabama	48	-	Nebraska	8	-
Alaska	4	-	Nevada	16	5
Arizona	53	7	New Hampshire	14	2
Arkansas	25	3	New Jersey	40	8
California	146	8	New Mexico	12	9
Colorado	31	3	New York	126	14
Connecticut	30	5	North Carolina	97	14
Delaware	15	1	North Dakota	1	-
District of Columbia	4	-	Ohio	159	4
Florida	137	11	Oklahoma	37	13
Georgia	92	13	Oregon	19	9
Hawaii	11	3	Pennsylvania	91	6
Idaho	6	4	Puerto Rico	22	-
Illinois	115	5	Rhode Island	12	1
Indiana	104	5	South Carolina	34	5
Iowa	20	-	South Dakota	3	-
Kansas	27	18	Tennessee	78	5
Kentucky	40	6	Texas	250	54
Louisiana	35	5	Utah	15	2
Maine	20	9	Vermont	7	-
Maryland	53	6	Virginia	43	8
Massachusetts	49	8	Washington	37	9
Michigan	95	12	West Virginia	12	2
Minnesota	4	-	Wisconsin	23*	-
Mississippi	23	4	Wyoming	5	-
Missouri	56	8			
Montana	3	4	TOTAL	2,407	318

* Represents stores operated by Get It Now, LLC, one of our subsidiaries.

Our stores average approximately 4,400 square feet and are located primarily in strip malls. Because we receive merchandise shipments directly from vendors, we are able to dedicate approximately 80% of the store space to showroom floor, and also eliminate warehousing costs.

Rent-A-Center Store Operations

Product Selection

Our stores offer merchandise from four basic product categories: home electronics, appliances, computers and furniture and accessories. Although we seek to ensure our stores maintain sufficient inventory to offer customers a wide variety of models, styles and brands, we generally limit inventory to prescribed levels to ensure strict inventory controls. We seek to provide a wide variety of high quality merchandise to our customers, and we emphasize high-end products from brand-name manufacturers. For the year ended December 31, 2002, home electronic products accounted for

approximately 42% of our store rental revenue, furniture and accessories for 32%, appliances for 16% and computers for 10%. Customers may request either new merchandise or previously rented merchandise. Previously rented merchandise is offered at the same weekly or monthly rental rate as is offered for new merchandise, but with an opportunity to obtain ownership of the merchandise after fewer rental payments.

Home electronic products offered by our stores include high definition and wide-screen televisions, DVD players, home entertainment centers, video cassette recorders and stereos from top brand manufacturers such as Philips, Sony, JVC, Toshiba and Mitsubishi. We rent major appliances manufactured by Whirlpool, including refrigerators, washing machines, dryers, microwave ovens, freezers and ranges. We offer personal and laptop computers from Dell, IBM, Compaq and Hewlett Packard. We rent a variety of furniture products, including dining room, living room and bedroom furniture featuring a number of styles, materials and colors. We offer furniture made by Ashley, England, Berkline and Standard and other top brand manufacturers. Accessories include pictures, lamps and tables and are typically rented as part of a package of items, such as a complete room of furniture. Showroom displays enable customers to visualize how the product will look in their homes and provide a showcase for accessories.

Rental Purchase Agreements

Our customers generally enter into weekly or monthly rental purchase agreements, which renew automatically upon receipt of each payment. We retain title to the merchandise during the term of the rental purchase agreement. Ownership of the merchandise generally transfers to the customer if the customer has continuously renewed the rental purchase agreement for a period of 6 to 30 months, depending upon the product type, or exercises a specified early purchase option. Although we do not conduct a formal credit investigation of each customer, a potential customer must provide store management with sufficient personal information to allow us to verify their residence and sources of income. References listed by the customer are contacted to verify the information contained in the customer's rental purchase order form. Rental payments are generally made in the store in cash, by money order or debit card. Approximately 85% of our customers pay on a weekly basis. Depending on state regulatory requirements, we charge for the reinstatement of terminated accounts or collect a delinquent account fee, and collect loss/damage waiver fees from customers desiring product protection in case of theft or certain natural disasters. These fees are standard in the industry and may be subject to government-specified limits. Please read the section entitled “--- Government Regulation.”

Product Turnover

On average, a minimum rental term of 18 months is generally required to obtain ownership of new merchandise. We believe that only approximately 25% of our initial rental purchase agreements are taken to the full term of the agreement, although the average total life for each product is approximately 22 months, which includes the initial rental period, all re-rental periods and idle time in our system. Turnover varies significantly based on the type of merchandise rented, with certain consumer electronics products, such as camcorders and video cassette recorders, generally rented for shorter periods, while appliances and furniture are generally rented for longer periods. To cover the relatively high operating expenses generated by greater product turnover, rental purchase agreements require higher aggregate payments than are generally charged under other types of purchase plans, such as installment purchase or credit plans.

Customer Service

We offer same day or 24-hour delivery and installation of our merchandise at no additional cost to the customer. We provide any required service or repair without additional charge, except for damage in excess of normal wear and tear. Repair services are provided through our national network of 23 service centers, the cost of which may be reimbursed by the vendor if the item is still under factory warranty. If the product cannot be repaired at the customer's residence, we provide a temporary replacement while the product is being repaired. The customer is fully liable for damage, loss or destruction of the merchandise, unless the customer purchases an optional loss/damage waiver covering the particular loss. Most of the products we offer are covered by a manufacturer's warranty for varying periods, which, subject to the terms of the warranty, is transferred to the customer in the event that the customer obtains ownership.

Collections

Store managers use our management information system to track collections on a daily basis. Our goal is to have no more than 6.50% of our rental agreements past due one day or more each Saturday evening. For fiscal years 2002, 2001, and 2000, the average week ending past due percentages were 5.95%, 5.74% and 5.83%, respectively. If a customer fails to make a rental payment when due, store personnel will attempt to contact the customer to obtain payment and reinstate the agreement, or will terminate the account and arrange to regain possession of the merchandise. We attempt to recover the rental items as soon as possible following termination or default of a rental purchase agreement, generally by the seventh to tenth day. Collection efforts are enhanced by the numerous personal and job-related references required of customers, the personal nature of the relationships between the stores' employees and customers and the fact that, following a period in which a customer is temporarily unable to make payments on a piece of rental merchandise and must return the merchandise, that customer generally may re-rent a piece of merchandise of similar type and age on the terms the customer enjoyed prior to that period. Charge-offs due to lost or stolen merchandise, expressed as a percentage of store revenues, were approximately 2.5% in each of 2002, 2001 and 2000.

Management

We organize our network of stores geographically with multiple levels of management. At the individual store level, each store manager is responsible for customer and credit relations, delivery and collection of merchandise, inventory management, staffing, training store personnel and certain marketing efforts. Three times each week, store management is required to count the store's inventory on hand and compare the count to the accounting records, with the market manager performing a similar audit at least bi-monthly. In addition, our individual store managers track their daily store performance for revenue collected as compared to the projected performance of their store. Each store manager reports to a market manager within close proximity who typically oversees six to eight stores. Typically, a market manager focuses on developing the personnel in his or her market and ensuring all stores meet our quality, cleanliness and service standards. In addition, a market manager routinely audits numerous areas of the stores' operations, including gross profit per rental agreement, petty cash and customer order forms. A significant portion of a market manager's and store manager's compensation is dependent upon store revenues and profits, which are monitored by our management reporting system and our tight control over inventory afforded by our direct shipment practice.

At December 31, 2002, we had 328 market managers who, in turn, reported to 55 regional directors. Regional directors monitor the results of their entire region, with an emphasis on developing and supervising the market managers in their region. Similar to the market managers, regional directors are responsible for ensuring store managers are following the operational guidelines, particularly those involving store presentation, collections, inventory levels and order verification. The regional directors report to eight senior vice presidents at our headquarters. The regional directors receive a significant amount of their compensation based on the profitability of the stores under their management.

Our executive management team at the home office directs and coordinates purchasing, financial planning and controls, employee training, personnel matters and new store site selection. Our executive management team also evaluates the performance of each region, market and store, including the use of on-site reviews. All members of our executive management team receive a significant amount of their total compensation based on the profits generated by the entire company. As a result, our business strategy emphasizes strict cost containment.

Management Information Systems

Through a licensing agreement with High Touch, Inc., we utilize an integrated management information and control system. Each store is equipped with a computer system utilizing point of sale software developed by High Touch. This system tracks individual components of revenue, each item in idle and rented inventory, total items on rent, delinquent accounts, items in service and other account information. We electronically gather each day's activity report, which provides our executive management with access to all operating and financial information concerning any of our stores, markets or regions and generates management reports on a daily, weekly, month-to-date and year-to-date basis for each store and for every rental purchase transaction. The system enables us to track each of our approximately 2.3 million units of merchandise and each of our approximately 1.5 million rental

purchase agreements, which often include more than one unit of merchandise. In addition, our bank reconciliation system performs a daily sweep of available funds from our stores' depository accounts into our central operating account based on the balances reported by each store. Our system also includes extensive management software and report-generating capabilities. The reports for all stores are reviewed on a daily basis by management and unusual items are typically addressed the following business day. Utilizing the management information system, our executive management, regional directors, market managers and store managers closely monitor the productivity of stores under their supervision according to our prescribed guidelines.

The integration of our management information system, developed by High Touch, with our accounting system, developed by Lawson Software, Inc., facilitates the production of our financial statements. These financial statements are distributed monthly to all stores, markets, regions and our executive management team for their review.

Purchasing and Distribution

Our executive management determines the general product mix in our stores based on analyses of customer rental patterns and the introduction of new products on a test basis. Individual store managers are responsible for determining the particular product selection for their store from the list of products approved by executive management. Store and market managers make specific purchasing decisions for the stores, subject to review by executive management. Additionally, we have predetermined levels of inventory allowed in each store which restrict levels of merchandise that may be purchased. All merchandise is shipped by vendors directly to each store, where it is held for rental. We do not utilize any distribution centers. These practices allow us to retain tight control over our inventory and, along with our selection of products for which consistent historical demand has been shown, reduces the number of obsolete items in our stores.

We purchase the majority of our merchandise from manufacturers, who ship directly to each store. Our largest suppliers include Ashley, Whirlpool and Philips, who accounted for approximately 16.3%, 14.0%, and 10.0%, respectively, of merchandise purchased in 2002. No other supplier accounted for more than 10% of merchandise purchased during this period. We do not generally enter into written contracts with our suppliers that obligate us to meet certain minimum purchasing levels. Although we expect to continue relationships with our existing suppliers, we believe that there are numerous sources of products available, and we do not believe that the success of our operations is dependent on any one or more of our present suppliers.

Marketing

We promote the products and services in our stores through direct mail advertising, radio, television and secondary print media advertisements. Our advertisements emphasize such features as product and brand-name selection, prompt delivery and the absence of initial deposits, credit investigations or long-term obligations. Advertising expense as a percentage of store revenue for the years ended December 31, 2002, 2001 and 2000 was approximately 3.2%, 4.0% and 4.0%, respectively. As we obtain new stores in our existing market areas, the advertising expenses of each store in the market can be reduced by listing all stores in the same market-wide advertisement.

Competition

The rent-to-own industry is highly competitive. According to industry sources and our estimates, the six largest industry participants account for approximately 4,700 of the 8,300 rent-to-own stores in the United States. We are the largest operator in the rent-to-own industry with 2,407 stores and 318 franchised locations as of December 31, 2002. Our stores compete with other national and regional rent-to-own businesses, as well as with rental stores that do not offer their customers a purchase option. With respect to customers desiring to purchase merchandise for cash or on credit, we also compete with department stores, credit card companies and discount stores. Competition is based primarily on store location, product selection and availability, customer service and rental rates and terms.

ColorTyme Operations

ColorTyme is our nationwide franchisor of rent-to-own stores. At December 31, 2002, ColorTyme franchised 318 rent-to-own stores in 40 states. These rent-to-own stores offer high quality durable products such as home electronics, appliances, computers and furniture and accessories. During 2002, 16 new locations were added, four were closed and 36 were sold, of which 35 were sold to us.

All but 12 of the ColorTyme franchised stores use ColorTyme's tradenames, service marks, trademarks, logos, emblems and indicia of origin. These 12 stores are franchises acquired in the Thorn Americas acquisition and continue to use the Rent-A-Center name. All stores operate under distinctive operating procedures and standards. ColorTyme's primary source of revenue is the sale of rental merchandise to its franchisees who, in turn, offer the merchandise to the general public for rent or purchase under a rent-to-own program. As franchisor, ColorTyme receives royalties of 2.0% to 4.0% of the franchisees' monthly gross revenue and, generally, an initial fee of between \$7,500 per location for existing franchisees and up to \$25,000 per location for new franchisees.

The ColorTyme franchise agreement generally requires the franchised stores to utilize specific computer hardware and software for the purpose of recording rentals, sales and other record keeping and central functions. ColorTyme retains the right to retrieve data and information from the franchised stores' computer systems. The franchise agreements also limit the ability of the franchisees to compete other franchisees.

The franchise agreement also requires the franchised stores to exclusively offer for rent or sale only those brands, types and models of products that ColorTyme has approved. The franchised stores are required to maintain an adequate mix of inventory that consists of approved products for rent as dictated by ColorTyme policy manuals. ColorTyme negotiates purchase arrangements with various suppliers it has approved. ColorTyme's largest supplier is Whirlpool, which accounted for approximately 14.9% of merchandise purchased by ColorTyme in 2002.

ColorTyme is a party to an agreement with Textron Financial Corporation, who provides \$40 million in aggregate financing to qualifying franchisees of ColorTyme. Under this agreement, in the event of default by the franchisee under agreements governing this financing and upon the occurrence of certain events, Textron may assign the loans and the collateral securing such loans to ColorTyme, with ColorTyme then succeeding to the rights of Textron under the debt agreements, including the rights to foreclose on the collateral. An additional \$10.0 million in financing is provided by Texas Capital Bank, National Association under an arrangement similar to the Textron financing. We guarantee the obligations of ColorTyme under these agreements up to a maximum amount of \$50.0 million, of which \$33.8 million was outstanding as of December 31, 2002. Mark E. Speese, our Chairman of the Board and Chief Executive Officer, is a passive investor in Texas Capital Bank, owning less than 1% of its outstanding equity.

ColorTyme has established a national advertising fund for the franchised stores, whereby ColorTyme has the right to collect up to 3% of the monthly gross revenue from each franchisee as contributions to the fund. Currently, ColorTyme has set the monthly franchisee contribution at \$250 per store per month. ColorTyme directs the advertising programs of the fund, generally consisting of advertising in print, television and radio. ColorTyme also has the right to require franchisees to expend 3% of their monthly gross revenue on local advertising.

ColorTyme licenses the use of its trademarks to the franchisees under the franchise agreement. ColorTyme owns the registered trademarks ColorTyme®, ColorTyme-What's Right for You®, and FlexTyme®, along with certain design and service marks.

Some of ColorTyme's franchisees may be in locations where they directly compete with our company-owned stores, which could negatively impact the business, financial condition and operating results of our company-owned stores.

The ColorTyme franchise agreement provides us a right of first refusal to purchase the franchise location of a ColorTyme franchisee that wishes to exit the business or that goes into default under their financing agreement.

Get It Now Operations

On September 30, 2002, we transferred all of our Wisconsin store operations to a newly formed wholly-owned subsidiary, Get It Now, LLC. On October 1, 2002, Get It Now began operations in the state of Wisconsin under a retail operation which generates installment credit sales through a retail transaction. As of December 31, 2002, we operated 23 company-owned stores within Wisconsin, all of which operate under the name “Get It Now.”

Trademarks

We own various registered trademarks, including Rent-A-Center®, Renters Choice®, Remco® and Get It Now®. The products held for rent also bear trademarks and service marks held by their respective manufacturers.

Employees

As of March 21, 2003, we had approximately 14,300 employees, of whom 255 are assigned to our headquarters and the remainder are directly involved in the management and operation of our stores and service centers. As of the same date, we had approximately 20 employees dedicated to ColorTyme, all of whom were employed full-time. The employees of the ColorTyme franchisees are not employed by us. None of our employees, including ColorTyme employees, are covered by a collective bargaining agreement. However, in June 2001 the employees of six of our stores in New York, New York elected to be represented by the Teamsters union. However, we have not entered into a collective bargaining agreement covering these employees.

We believe relationships with our employees and ColorTyme’s relationships with its employees are generally good. In connection with the settlement of the *Wilfong* matter finalized in December 2002, we entered into a four-year consent decree, which can be extended by the *Wilfong* court for an additional one year upon a showing of good cause. We also agreed to augment our human resources department and our internal employee complaint procedures, enhance our gender anti-discrimination training for all employees, hire a consultant mutually acceptable to the parties for two years to advise us on employment matters, provide certain reports to the EEOC during the period of the consent decree, seek qualified female representation on our board of directors, publicize our desire to recruit, hire and promote qualified women, offer to fill job vacancies within our regional markets with qualified class members who reside in those markets and express an interest in employment by us to the extent of 10% of our job vacancies in such markets over a fifteen month period, and to take certain other steps to improve opportunities for women. We initiated many of the above programs prior to entering into the settlement of the *Wilfong* matter.

Government Regulation

State Regulation

Currently 47 states, the District of Columbia and Puerto Rico have legislation regulating rental purchase transactions. We believe this existing legislation is generally favorable to us, as it defines and clarifies the various disclosures, procedures and transaction structures related to the rent-to-own business with which we must comply. With some variations in individual states, most related state legislation requires the lessor to make prescribed disclosures to customers about the rental purchase agreement and transaction, and provides time periods during which customers may reinstate agreements despite having failed to make a timely payment. Some state rental purchase laws prescribe grace periods for non-payment, prohibit or limit certain types of collection or other practices, and limit certain fees that may be charged. Nine states limit the total rental payments that can be charged. These limitations, however, generally do not become applicable unless the total rental payments required under an agreement exceed 2.0 times to 2.4 times of the disclosed cash price or the retail value of the rental product.

Minnesota, which has a rental purchase statute, and New Jersey and Wisconsin, which do not have rental purchase statutes, have had court decisions which treat rental purchase transactions as credit sales subject to consumer lending restrictions. In response, we have developed and utilized a separate rental agreement in Minnesota which does not provide customers with an option to purchase rented merchandise. In New Jersey, we have provided increased disclosures and longer grace periods. In Wisconsin, our Get It Now customers are provided an opportunity to purchase our merchandise through an installment sale transaction. We operate four stores in Minnesota and 40 stores

in New Jersey. Our subsidiary Get It Now operates 23 stores in Wisconsin. Please read the section entitled "— Legal Proceedings."

North Carolina has no rental purchase legislation. However, the retail installment sales statute in North Carolina recognizes that rental purchase transactions which provide for more than a nominal purchase price at the end of the agreed rental period are not credit sales under such statute. We operate 97 stores in North Carolina.

There can be no assurance that new or revised rental purchase laws will not be enacted or, if enacted, that the laws would not have a material and adverse effect on us.

Federal Legislation

To date, no comprehensive federal legislation has been enacted regulating or otherwise impacting the rental purchase transaction. We do, however, comply with the Federal Trade Commission recommendations for disclosure in rental purchase transactions.

From time to time, we have supported legislation introduced in Congress that would regulate the rental purchase transaction by establishing a national standard relating to the various disclosures, procedures and rent-to-own transaction structures with which we must comply. While both beneficial and adverse legislation may be introduced in Congress in the future, any adverse federal legislation, if enacted, could have a material and adverse effect on us.

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. We believe these are all the material risks currently facing our business. Our business, financial condition or results of operations could be materially adversely affected by these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. You should also refer to the other information included or incorporated by reference in this report, including our financial statements and related notes.

We may not be able to successfully implement our growth strategy, which could cause our future earnings to grow more slowly or even decrease.

As part of our growth strategy, we intend to increase our total number of stores in both existing markets and new markets through a combination of new store openings and store acquisitions. We increased our store base by 83 stores in 2000, 123 stores in 2001 and 126 stores in 2002. We also recently completed the acquisition of 295 stores from Rent-Way and certain of its subsidiaries. Our growth strategy could place a significant demand on our management and our financial and operational resources. This growth strategy is subject to various risks, including uncertainties regarding our ability to open new stores and our ability to acquire additional stores on favorable terms. We may not be able to continue to identify profitable new store locations or underperforming competitors as we currently anticipate. If we are unable to implement our growth strategy, our earnings may grow more slowly or even decrease.

Our continued growth also depends on our ability to increase sales in our existing stores. Our same store sales increased by 12.6%, 8.0% and 6.0% for 2000, 2001 and 2002, respectively. As a result of new store openings in existing markets and because mature stores will represent an increasing proportion of our store base over time, our same store sale increases in future periods may be lower than historical levels.

If we fail to effectively manage our growth and integrate new stores, our financial results may be adversely affected.

The benefits we anticipate from our growth strategy may not be realized. The addition of new stores, both through store openings and through acquisitions, requires the integration of our management philosophies and personnel, standardization of training programs, realization of operating efficiencies and effective coordination of sales and marketing and financial reporting efforts. In addition, acquisitions in general are subject to a number of special risks, including adverse short-term effects on our reported operating results, diversion of management's attention and unanticipated problems or legal liabilities. Further, a newly opened store generally does not attain positive cash flow during its first year of operations.

There are legal proceedings pending against us seeking material damages. The costs we incur in defending ourselves or associated with settling any of these proceedings, as well as a material final judgment or decree against us, could materially adversely affect our financial condition by requiring the payment of the settlement amount, a judgment or the posting of a bond.

Some lawsuits against us involve claims that our rental agreements constitute installment sales contracts, violate state usury laws or violate other state laws enacted to protect consumers. We are also defending a class action lawsuit alleging we violated the securities laws and lawsuits alleging we violated state wage and hour laws. Because of the uncertainties associated with litigation, we cannot estimate for you our ultimate liability for these matters, if any. The failure to pay any judgment would be a default under our senior credit facilities and the indenture governing Rent-A-Center East's outstanding subordinated notes.

Our debt agreements impose restrictions on us which may limit or prohibit us from engaging in certain transactions. If a default were to occur, our lenders could accelerate the amounts of debt outstanding, and holders of our secured indebtedness could force us to sell our assets to satisfy all or a part of what is owed.

Covenants under our senior credit facilities and the indenture governing Rent-A-Center East's outstanding subordinated notes restrict our ability to pay dividends, engage in various operational matters, as well as require us to maintain specified financial ratios and satisfy specified financial tests. Our ability to meet these financial ratios and tests may be affected by events beyond our control. These restrictions could limit our ability to obtain future financing, make needed capital expenditures or other investments, repurchase our outstanding debt or equity, withstand a future downturn in our business or in the economy, dispose of operations, engage in mergers, acquire additional stores or otherwise conduct necessary corporate activities. Various transactions that we may view as important opportunities, such as specified acquisitions, are also subject to the consent of lenders under the senior credit facilities, which may be withheld or granted subject to conditions specified at the time that may affect the attractiveness or viability of the transaction.

If a default were to occur, the lenders under our senior credit facilities could accelerate the amounts outstanding under the credit facilities, and our other lenders could declare immediately due and payable all amounts borrowed under other instruments that contain certain provisions for cross-acceleration or cross-default. In addition, the lenders under these agreements could terminate their commitments to lend to us. If the lenders under these agreements accelerate the repayment of borrowings, we may not have sufficient liquid assets at that time to repay the amounts then outstanding under our indebtedness or be able to find additional alternative financing. Even if we could obtain additional alternative financing, the terms of the financing may not be favorable or acceptable to us.

The existing indebtedness under our senior credit facilities is secured by substantially all of our assets. Should a default or acceleration of this indebtedness occur, the holders of this indebtedness could sell the assets to satisfy all or a part of what is owed. Our senior credit facilities also contain provisions prohibiting the modification of Rent-A-Center East's outstanding subordinated notes, as well as limiting the ability to refinance such notes.

A change of control could accelerate our obligation to pay our outstanding indebtedness, and we may not have sufficient liquid assets to repay these amounts.

Under our senior credit facilities, an event of default would result if a third party became the beneficial owner of 33.33% or more of our voting stock or upon certain changes in the constitution of our Board of Directors. As of December 31, 2002, we were required to make principal payments under our senior credit facilities of \$1.1 million in 2003, \$13.0 million in 2004, \$49.1 million in 2005, \$114.1 million in 2006, and \$72.2 million after 2006. These payments reduce our cash flow. If the lenders under our debt instruments accelerate these obligations, we may not have sufficient liquid assets to repay amounts outstanding under these agreements.

Under the indenture governing Rent-A-Center East's outstanding subordinated notes, in the event that a change in control occurs, Rent-A-Center East may be required to offer to purchase all of its outstanding subordinated notes at 101% of their original aggregate principal amount, plus accrued interest to the date of repurchase. A change in control also would result in an event of default under our senior credit facilities, which could then be accelerated by our lenders.

Rent-to-own transactions are regulated by law in most states. Any adverse change in these laws or the passage of adverse new laws could expose us to litigation or require us to alter our business practices.

As is the case with most businesses, we are subject to various governmental regulations, including specifically in our case regulations regarding rent-to-own transactions. There are currently 47 states that have passed laws regulating rental purchase transactions and another state that has a retail installment sales statute that excludes rent-to-own transactions from its coverage if certain criteria are met. These laws generally require certain contractual and advertising disclosures. They also provide varying levels of substantive consumer protection, such as requiring a grace period for late fees and contract reinstatement rights in the event the rental purchase agreement is terminated. The rental purchase laws of nine states limit the total amount of rentals that may be charged over the life of a rental

purchase agreement. Several states also effectively regulate rental purchase transactions under other consumer protection statutes. We are currently subject to outstanding judgments and other litigation alleging that we have violated some of these statutory provisions.

Although there is no comprehensive federal legislation regulating rental-purchase transactions, adverse federal legislation may be enacted in the future. From time to time, legislation has been introduced in Congress seeking to regulate our business. In addition, various legislatures in the states where we currently do business may adopt new legislation or amend existing legislation that could require us to alter our business practices.

Our business depends on a limited number of key personnel, with whom we do not have employment agreements. The loss of any one of these individuals could disrupt our business.

Our continued success is highly dependent upon the personal efforts and abilities of our senior management, including Mark E. Speese, our Chairman of the Board and Chief Executive Officer, Mitchell E. Fadel, our President and Chief Operating Officer, and Dana F. Goble our Executive Vice President – Operations. We do not have employment contracts with or maintain key-person insurance on the lives of any of these officers and the loss of any one of them could disrupt our business.

A small group of our directors and their affiliates have significant influence over the outcome of certain corporate transactions affecting us, including potential mergers or acquisitions, the constitution of our board of directors and sales or changes in control.

Affiliates of Apollo Management IV, L.P. hold all of our outstanding Series A preferred stock. Under the terms of our Series A preferred stock, the holders of Series A preferred stock generally have the right to elect two members to our board of directors. In addition, pursuant to the terms of a stockholders agreement entered into among us, Apollo, Mark E. Speese and certain other parties, Apollo has the right to designate a third person to be nominated to our board of directors. The terms of our Series A preferred stock as well as the stockholders agreement also contain provisions requiring Apollo's approval to effect certain transactions involving us, including repurchasing shares of our common stock, declaring or paying any dividend on our common stock, increasing the size of our board of directors, selling all or substantially all of our assets and entering into any merger or consolidation or other business combination.

These documents also provide that one member of each of our audit committee, compensation committee and finance committee must be a director who was elected by Apollo. In addition, the terms of our Series A preferred stock and the stockholders agreement restrict our ability to issue debt or equity securities with a value in excess of \$10 million without the majority affirmative vote of our finance committee, and in most cases, require the unanimous vote of our finance committee for the issuance of our equity securities with a value in excess of \$10 million.

Our organizational documents, Series A preferred stock and debt instruments contain provisions that may prevent or deter another group from paying a premium over the market price to our stockholders to acquire our stock.

Our organizational documents contain provisions that classify our board of directors, authorize our board of directors to issue blank check preferred stock and establish advance notice requirements on our stockholders for director nominations and actions to be taken at annual meetings of the stockholders. In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law relating to business combinations. Our senior credit facilities, the indenture governing Rent-A-Center East's subordinated notes and our Series A preferred stock certificate of designations each contain various change of control provisions which, in the event of a change of control, would cause a default under those provisions. These provisions and arrangements could delay, deter or prevent a merger, consolidation, tender offer or other business combination or change of control involving us that could include a premium over the market price of our common stock that some or a majority of our stockholders might consider to be in their best interests.

Our stock price is volatile, and you may not be able to recover your investment if our stock price declines.

The stock price of our common stock has been volatile and can be expected to be significantly affected by factors such as:

- quarterly variations in our results of operations, which may be impacted by, among other things, changes in same store sales and when and how many stores we acquire or open;
- quarterly variations in our competitors' results of operations;
- changes in earnings estimates or buy/sell recommendations by financial analysts;
- the stock price performance of comparable companies; and
- general market conditions or market conditions specific to particular industries.

Item 2. Properties

We lease space for all of our stores, as well as our corporate and regional offices, under operating leases expiring at various times through 2010. Most of these leases contain renewal options for additional periods ranging from three to five years at rental rates adjusted according to agreed-upon formulas. Store sizes range from approximately 1,800 to 25,000 square feet, and average approximately 4,400 square feet. Approximately 80% of each store's space is generally used for showroom space and 20% for offices and storage space. Our headquarters, including Get It Now, and ColorTyme's headquarters are each located at 5700 Tennyson Parkway, Plano, Texas, and consist of approximately 78,536 and 5,116 square feet devoted to our operations and ColorTyme's operations, respectively.

We believe that suitable store space generally is available for lease and we would be able to relocate any of our stores without significant difficulty should we be unable to renew a particular lease. We also expect additional space is readily available at competitive rates to open new stores. Under various federal and state laws, lessees may be liable for environmental problems at leased sites even if they did not create, contribute to, or know of the problem. We are not aware of and have not been notified of any material violations of federal, state or local environmental protection or health and safety laws, but cannot guarantee that we will not incur material costs or liabilities under these laws in the future.

Item 3. Legal Proceedings

From time to time, we, along with our subsidiaries, are party to various legal proceedings arising in the ordinary course of business. Except as described below, we are not currently a party to any material litigation.

Colon v. Thorn Americas, Inc. The plaintiff filed this class action in November 1997 in New York state court. This matter was assumed by us in connection with the Thorn Americas acquisition, and appropriate purchase accounting adjustments were made for such contingent liabilities. The plaintiff acknowledges that rent-to-own transactions in New York are subject to the provisions of New York's Rental Purchase Statute but contends the Rental Purchase Statute does not provide Thorn Americas immunity from suit for other statutory violations. The plaintiff alleges Thorn Americas has a duty to disclose effective interest under New York consumer protection laws, and seek damages and injunctive relief for Thorn Americas' failure to do so. This suit also alleges violations relating to excessive and unconscionable pricing, late fees, harassment, undisclosed charges, and the ease of use and accuracy of its payment records. In the prayer for relief, the plaintiff requested class certification, injunctive relief requiring Thorn Americas to cease certain marketing practices and price their rental purchase contracts in certain ways, unspecified compensatory and punitive damages, rescission of the class members contracts, an order placing in trust all moneys received by Thorn Americas in connection with the rental of merchandise during the class period, treble damages, attorney's fees, filing fees and costs of suit, pre- and post-judgment interest, and any further relief granted by the court. The plaintiff has not alleged a specific monetary amount with respect to the request for damages.

The proposed class includes all New York residents who were party to Thorn Americas' rent-to-own contracts from November 26, 1994. In November 2000, following interlocutory appeal by both parties from the denial of cross-motions for summary judgment, we obtained a favorable ruling from the Appellate Division of the State of New York, dismissing the plaintiff's claims based on the alleged failure to disclose an effective interest rate. The plaintiff's other claims were not dismissed. The plaintiff moved to certify a state-wide class in December 2000. The plaintiff's class certification motion was heard by the court on November 7, 2001 and, on September 12, 2002, the court issued an opinion denying in part and granting in part the plaintiff's requested certification. The opinion grants certification as to all of the plaintiff's claims except the plaintiff's pricing claims pursuant to the Rental Purchase Statute, as to which certification was denied. The parties have differing views as to the effect of the court's opinion, and accordingly, the court has granted the parties permission to submit competing orders as to the effect of the opinion on the plaintiff's specific claims. We anticipate submitting our proposed order to the court in the near future, but in any event intend to pursue an interlocutory appeal of the court's certification order.

We believe these claims are without merit and will continue to vigorously defend ourselves in this case. However, we cannot assure you that we will be found to have no liability in this matter.

Wisconsin Attorney General Proceeding. On August 4, 1999, the Wisconsin Attorney General filed suit against us and our subsidiary ColorTyme in the Circuit Court of Milwaukee County, Wisconsin, alleging that our rent-to-rent transaction, coupled with the opportunity afforded our rental customers to purchase the rented merchandise under what we believed was a separate transaction, was a disguised credit sale subject to the Wisconsin Consumer Act. Accordingly, the Attorney General alleged that we failed to disclose credit terms, misrepresented the terms of the transaction and engaged in unconscionable practices. The Attorney General sought injunctive relief, restoration of any losses suffered by any Wisconsin consumer harmed and civil forfeitures and penalties in amounts ranging from \$50 to \$10,000 per violation.

On October 1, 2002, in anticipation of the settlement of this matter, we changed our business practices in Wisconsin to a retail sale model. Accordingly, our 23 Wisconsin stores now offer credit sale transactions and operate under our subsidiary Get It Now, which is subject to regulation under the Wisconsin Consumer Act.

On November 12, 2002, we signed a settlement agreement for this suit with the Attorney General, which was approved by the court on the same day. Under the terms of the settlement, we created a restitution fund in the amount of \$7.0 million for our eligible Wisconsin customers who had completed or active transactions with us as of September 30, 2002. In addition, we paid \$1.4 million to the State of Wisconsin for fines, penalties, costs and fees. A portion of the restitution fund is allocated for customers with completed transactions as of September 30, 2002, and the balance is allocated for restitution on active transactions as of September 30, 2002, which will be allowed to terminate according to their terms when customers either acquire or return the merchandise. Restitution will be offered on the active transactions when all such active transactions have terminated, which we anticipate will occur by the fall of 2004. Any unclaimed restitution funds at the conclusion of the restitution period will be returned to us. To the extent the amount in the restitution fund is insufficient to pay the required amount of restitution, we are obligated to provide additional funds to do so. However, we believe the amount in the restitution fund allocated for the active transactions, together with the amount of funds we anticipate will remain unclaimed by customers with completed transactions, will be sufficient to pay the required amount of restitution on all eligible active transactions. Any customer accepting a restitution check will be required to release us and our subsidiary ColorTyme from all claims related to their transaction or transactions with us. We, together with ColorTyme, also agreed to enter into an injunction requiring each of us to comply with the Wisconsin Consumer Act in any transaction in Wisconsin in which the customer can become the owner of merchandise other than through a single lump sum payment.

Terry Walker, et. al. v. Rent-A-Center, Inc., et. al. On January 4, 2002, a putative class action was filed against us and certain of our current and former officers and directors by Terry Walker in federal court in Texarkana, Texas. The complaint alleges that the defendants violated Sections 10(b) and/or Section 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by issuing false and misleading statements and omitting material facts regarding our financial performance and prospects for the third and fourth quarters of 2001. The complaint purports to be brought on behalf of all purchasers of our common stock from April 25, 2001 through October 8, 2001 and seeks damages in unspecified amounts. Similar complaints were consolidated by the court with the Walker matter in October 2002.

On November 25, 2002, the lead plaintiffs in the Walker matter filed an amended consolidated complaint which added certain of our outside directors as defendants to the Exchange Act claims. The amended complaint also added additional claims that we, and certain of our current and former officers and directors, violated various provisions of the Securities Act of 1933 as a result of alleged misrepresentations and omissions in connection with an offering in May 2001 and also added the managing underwriters in that offering as defendants.

On February 7, 2003, we, along with the officer and director defendants, filed a motion to dismiss the matter as well as a motion to transfer venue. On February 19, 2003, the underwriter defendants also filed a motion to dismiss. The court has scheduled a hearing for June 26, 2003 to hear each of these motions.

We believe the plaintiff's claims in this matter are without merit and intend to vigorously defend ourselves. However, we cannot assure you that we will be found to have no liability in this matter.

Gregory Griffin, et. al. v. Rent-A-Center, Inc. On June 25, 2002, a suit originally filed by Gregory Griffin in state court in Philadelphia, Pennsylvania was amended to seek relief both individually and on behalf of a class of

customers in Pennsylvania, alleging that we violated the Pennsylvania Goods and Services Installment Sales Act and the Pennsylvania Unfair Trade Practices and Consumer Protection Law. The amended complaint asserts that our rental purchase transactions are, in fact, retail installment sales transactions, and as such, are not governed by the Pennsylvania Rental-Purchase Agreement Act, which was enacted after the adoption of the Pennsylvania Goods and Services Installment Sales Act and the Pennsylvania Unfair Trade Practices Act. Griffin's suit seeks class-wide remedies, including injunctive relief, unspecified statutory, actual and treble damages, as well as attorney's fees and costs.

In July 2002, we filed preliminary objections to the complaint in Griffin. On December 13, 2002, the court granted our preliminary objections and dismissed the plaintiffs' claims. On January 6, 2003, the plaintiffs filed a notice of appeal. We believe the plaintiffs' claims in this matter are without merit and intend to vigorously defend ourselves. However, we cannot assure you that we will be found to have no liability in this matter.

State Wage and Hour Class Actions. On August 20, 2001, a putative class action was filed against us in state court in Multnomah County, Oregon entitled *Rob Pucci, et. al. v. Rent-A-Center, Inc.* alleging violations of Oregon state law regarding overtime, lunch and work breaks and failure to timely pay all wages due our Oregon employees, as well as contract claims that we promised but failed to pay overtime. Pucci seeks to represent a class of all present and former executive assistants, inside/outside managers and account managers employed by us within the six year period prior to the filing of the complaint as to the contract claims, and three years as to the statutory claims, and seeks class certification, payments for all unpaid wages under Oregon law, statutory and civil penalties, costs and disbursements, pre- and post-judgment interest in the amount of 9% per annum and attorneys fees. As of March 24, 2003, we operated 23 stores in Oregon. On July 25, 2002, the plaintiffs filed a motion for class certification and on July 31, 2002, we filed our motion for summary judgment. On January 15, 2003, the court orally granted our motion for summary judgment in part, ruling that the plaintiffs were prevented from recovering overtime payments at the rate of "time and a half," but stated that the plaintiffs may recover "straight-time" to the extent plaintiffs could prove purported class members worked in excess of forty hours in a work week but were not paid for such time worked. The court denied our motion for summary judgment on the remaining claims and granted plaintiff's motion for class certification with respect to the remaining claims. We strongly disagree with the court's rulings against our positions and have requested that the court grant us interlocutory appeal on those matters. Although we believe the claims remaining in this case are without merit, we cannot assure you we will be found to have no liability in this matter.

We are subject to a similar suit pending in Clark County, Washington entitled *Kevin Rose, et al. v. Rent-A-Center, Inc., et al.* and two similar suits pending in Los Angeles, California entitled *Jeremy Burdusis, et al. v. Rent-A-Center, Inc., et al.* and *Israel French, et al. v. Rent-A-Center, Inc., et al.*, each of which allege similar violations of the wage and hour laws of those respective states. As of March 24, 2003, we operated 41 stores in Washington and 151 stores in California. The same law firm seeking to represent the purported class in *Pucci* is seeking to represent the purported class in two of the three similar suits. Although the wage and hour laws and class certification procedures of Oregon, Washington and California contain certain differences that could cause differences in the outcome of the pending litigation in these states, we believe the claims of the purported classes involved in each are without merit. We cannot assure you, however, that we will be found to have no liability in these matters.

Gender Discrimination Actions. In June 2002, we agreed to settle the *Wilfong* and Tennessee EEOC gender discrimination matters for an aggregate of \$47.0 million, including attorneys fees. Such settlement contemplated dismissal of the *Bunch* proceeding, a similar suit for gender discrimination pending in a separate federal district court, and provided for a separate \$2.0 million dispute resolution fund for the *Bunch* plaintiffs, which was subsequently approved by the *Bunch* court. On October 4, 2002, the court in the *Wilfong* matter approved the settlement we had reached with the *Wilfong* plaintiffs and entered a final judgment. Only 50 individuals opted out of the settlement and no timely objections were filed with the court. No party filed an appeal of the court's order, and we funded the settlement as provided for in the settlement agreement in December 2002. As contemplated by the *Wilfong* settlement, the Tennessee EEOC action was dismissed in December 2002, and the *Bunch* matter will be dismissed in the near future.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. *Market for Registrant's Common Equity and Related Stockholder Matters*

Our common stock has been listed on the Nasdaq Stock Market® under the symbol "RCH" since January 25, 1995, the date we commenced our initial public offering. The following table sets forth, for the periods indicated, the high and low sales price per share of the common stock as reported.

2002	<u>High</u>	<u>Low</u>
First Quarter	\$ 52.000	\$ 30.750
Second Quarter	63.870	48.510
Third Quarter	59.310	45.090
Fourth Quarter	52.930	37.650
2001	<u>High</u>	<u>Low</u>
First Quarter	\$ 47.438	\$ 30.625
Second Quarter	53.850	33.063
Third Quarter	53.050	21.250
Fourth Quarter	34.300	18.970

As of March 24, 2003, there were approximately 52 record holders of our common stock.

We have not paid any cash dividends on our common stock since the time of our initial public offering.

Under the terms of the certificate of designations governing our Series A preferred stock, dividends on our Series A preferred stock may be paid in cash or additional shares of Series A preferred stock, at our option, until August 5, 2003, after which time the dividends must be paid in cash. From the time of the issuance of our Series A preferred stock in August 1998 until December 2002, we paid the required dividends in additional shares of Series A preferred stock due to restrictions under our senior credit facility. These additional shares were issued under the same terms and with the same conversion ratio as were the shares of our Series A preferred stock issued in August 1998. Accordingly, the shares of Series A preferred stock issued as a dividend were convertible into our common stock at a conversion price of \$27.935.

On August 5, 2002, the first date on which we had the right to optionally redeem the shares of Series A preferred stock, the holders of our Series A preferred stock converted all but two shares of our Series A preferred stock held by them into 7,281,548 shares of our common stock, thereby substantially eliminating the Series A preferred stock dividend requirements. In December 2002, we amended our senior credit facility to, among other things, allow for payments of dividends in cash, subject to certain restrictions.

Cash dividend payments are also subject to the restrictions in the indenture governing Rent-A-Center East's subordinated notes. These restrictions would not currently prohibit the payment of cash dividends.

Any change in our dividend policy, including our dividend policy on our Series A preferred stock, will be made at the discretion of our Board of Directors and will depend on a number of factors, including future earnings, capital requirements, contractual restrictions, financial condition, future prospects and any other factors our Board of Directors may deem relevant. You should read the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" discussed later in this report.

Item 6. Selected Financial Data

The selected financial data presented below for the five years ended December 31, 2002 have been derived from our consolidated financial statements as audited by Grant Thornton LLP, independent certified public accountants. The historical financial data are qualified in their entirety by, and should be read in conjunction with, the financial statements and the notes thereto, the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included in this report.

In May and August 1998, we completed the acquisitions of Central Rents and Thorn Americas, respectively, both of which affect the comparability of the 1998 historical financial and operating data for the periods presented.

	Year ended December 31,				
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(In thousands, except per share data)				
Consolidated Statements of Earnings					
Revenues					
Store					
Rentals and fees.....	\$ 1,828,534	\$ 1,650,851	\$ 1,459,664	\$ 1,270,885	\$ 711,443
Installment sales.....	6,137	--	--	--	--
Merchandise sales.....	115,478	94,733	81,166	88,516	41,456
Other.....	2,589	3,476	3,018	2,177	7,282
Franchise					
Merchandise sales.....	51,514	53,584	51,769	49,696	44,365
Royalty income and fees.....	<u>5,792</u>	<u>5,884</u>	<u>5,997</u>	<u>5,893</u>	<u>5,170</u>
Total revenue.....	2,010,044	1,808,528	1,601,614	1,417,167	809,716
Operating expenses					
Direct store expenses					
Depreciation of rental merchandise.....	383,400	343,197	299,298	265,486	164,651
Cost of installment sales.....	3,776	--	--	--	--
Cost of merchandise sold.....	84,628	72,539	65,332	74,027	32,056
Salaries and other expenses.....	1,070,265	1,019,402	866,234	770,572	423,750
Franchise cost of merchandise sold.....	<u>49,185</u>	<u>51,251</u>	<u>49,724</u>	<u>47,914</u>	<u>42,886</u>
	1,591,254	1,486,389	1,280,588	1,157,999	663,343
General and administrative expenses.....	63,296	55,359	48,093	42,029	28,715
Amortization of intangibles.....	5,045	30,194	28,303	27,116	15,345
Class action litigation settlements.....	--	<u>52,000⁽¹⁾</u>	<u>(22,383)⁽²⁾</u>	--	<u>11,500</u>
Total operating expenses	<u>1,659,595</u>	<u>1,623,942</u>	<u>1,334,601</u>	<u>1,227,144</u>	<u>718,903</u>
Operating profit.....	350,449	184,586	267,013	190,023	90,813
Interest expense, net.....	62,006	59,780	72,618	74,769	37,140
Non-recurring financing costs.....	--	--	--	--	<u>5,018</u>
Earnings before income taxes.....	288,443	124,806	194,395	115,254	48,655
Income tax expense.....	<u>116,270</u>	<u>58,589</u>	<u>91,368</u>	<u>55,899</u>	<u>23,897</u>
NET EARNINGS.....	172,173	66,217	103,027	59,355	24,758
Preferred dividends.....	<u>10,212</u>	<u>15,408</u>	<u>10,420</u>	<u>10,039</u>	<u>3,954</u>
Net earnings allocable to common shareholders.....	<u>\$ 161,961</u>	<u>\$ 50,809</u>	<u>\$ 92,607</u>	<u>\$ 49,316</u>	<u>\$ 20,804</u>
Basic earnings per common share.....	<u>\$ 5.51</u>	<u>\$ 1.97</u>	<u>\$ 3.79</u>	<u>\$ 2.04</u>	<u>\$.84</u>
Diluted earnings per common share.....	<u>\$ 4.74</u>	<u>\$ 1.79</u>	<u>\$ 2.96</u>	<u>\$ 1.74</u>	<u>\$.83</u>

Selected Financial Data -- Continued

	Year ended December 31,				
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Consolidated Balance Sheet Data					
Rental merchandise, net.....	\$ 631,724	\$ 653,701	\$ 587,232	\$ 531,223	\$ 408,806
Intangible assets, net.....	743,852	711,096	708,328	707,324	727,976
Total assets.....	1,616,052	1,619,920	1,486,910	1,485,000	1,502,989
Total debt.....	521,330	702,506	741,051	847,160	805,700
Total liabilities.....	773,650	922,632	896,307	1,007,408	1,088,600
Redeemable convertible voting preferred stock.....	2	291,910	281,232	270,902	259,476
Stockholders' equity.....	842,400	405,378	309,371	206,690	154,913
Operating Data					
Stores open at end of period.....	2,407	2,281	2,158	2,075	2,126
Comparable store revenue growth ⁽³⁾	6.0%	8.0%	12.6%	7.7%	8.1%
Weighted average number of stores.....	2,325	2,235	2,103	2,089	1,222
Franchise stores open at end of period.....	318	342	364	365	324

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- (1) Includes the effects of a pre-tax legal settlement of \$52.0 million associated with the 2001 settlement of class action lawsuits in the states of Missouri, Illinois, and Tennessee.
 - (2) Includes the effects of a pre-tax legal reversion of \$22.4 million associated with the 1999 settlement of three class action lawsuits in the state of New Jersey.
 - (3) Comparable store revenue for each period presented includes revenues only of stores open throughout the full period and the comparable prior period.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are the largest rent-to-own operator in the United States with an approximate 29% market share based on store count. At December 31, 2002, we operated 2,407 company-owned stores nationwide and in Puerto Rico, including 23 stores located in Wisconsin and operated by our subsidiary Get It Now, LLC under the name "Get It Now." Another of our subsidiaries, ColorTyme, is a national franchisor of rent-to-own stores. At December 31, 2002, ColorTyme had 318 franchised stores in 40 states, 306 of which operated under the ColorTyme name and 12 stores of which operated under the Rent-A-Center name. Our stores generally offer high quality durable products such as home electronics, appliances, computers, and furniture and accessories under flexible rental purchase agreements that generally allow the customer to obtain ownership of the merchandise at the conclusion of an agreed-upon rental period. These rental purchase agreements are designed to appeal to a wide variety of customers by allowing them to obtain merchandise that they might otherwise be unable to obtain due to insufficient cash resources or a lack of access to credit. These agreements also cater to customers who only have a temporary need, or who simply desire to rent rather than purchase the merchandise.

We have pursued an aggressive growth strategy since 1989. We have sought to acquire underperforming stores to which we could apply our operating model as well as open new stores. As a result, the acquired stores have generally experienced more significant revenue growth during the initial periods following their acquisition than in subsequent periods. Because of significant growth since our formation, particularly the Thorn Americas acquisition, our historical results of operations and period-to-period comparisons of such results and other financial data, including the rate of earnings growth, may not be meaningful or indicative of future results.

We plan to accomplish our future growth through selective and opportunistic acquisitions, with an emphasis on new store development. Typically, a newly opened store is profitable on a monthly basis in the ninth to twelfth month after its initial opening. Historically, a typical store has achieved cumulative break-even profitability in 18 to 24 months after its initial opening. Total financing requirements of a typical new store approximate \$450,000, with roughly 70% of that amount relating to the purchase of rental merchandise inventory. A newly opened store historically has achieved results consistent with other stores that have been operating within the system for greater than two years by the end of its third year of operation. As a result, our quarterly earnings are impacted by how many new stores we opened during a particular quarter and the quarters preceding it. There can be no assurance that we will open any new stores in the future, or as to the number, location or profitability thereof.

In addition, to provide any additional funds necessary for the continued pursuit of our operating and growth strategies, we may incur from time to time additional short or long-term bank indebtedness and may issue, in public or private transactions, equity and debt securities. The availability and attractiveness of any outside sources of financing will depend on a number of factors, some of which will relate to our financial condition and performance, and some of which are beyond our control, such as prevailing interest rates and general economic conditions. There can be no assurance additional financing will be available, or if available, will be on terms acceptable to us.

If a change in control occurs, Rent-A-Center East may be required to offer to repurchase all of its outstanding subordinated notes at 101% of their principal amount, plus accrued interest to the date of repurchase. Our senior credit facility restricts our ability to repurchase the subordinated notes, including in the event of a change in control. In addition, a change in control would result in an event of default under our senior credit facilities, which could then be accelerated by our lenders. In the event a change in control occurs, we cannot be sure we would have enough funds to immediately pay our accelerated senior credit facility obligations and all of the subordinated notes, or that we would be able to obtain financing to do so on favorable terms, if at all.

Forward-Looking Statements

The statements, other than statements of historical facts, included in this report are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology, such as "may," "will," "would," "expect," "intend," "could," "estimate," "should," "anticipate" or "believe." We believe the expectations reflected in such forward-looking statements are accurate. However, we cannot assure you that such expectations will occur. Our actual future performance could differ materially from such statements. Factors that

could cause or contribute to such differences include, but are not limited to:

- uncertainties regarding our ability to open new stores;
- our ability to acquire additional rent-to-own stores on favorable terms;
- our ability to enhance the performance of these acquired stores;
- our ability to control store level costs;
- our ability to realize benefits from our margin enhancement initiatives;
- the results of our litigation;
- the passage of legislation adversely affecting the rent-to-own industry;
- interest rates;
- our ability to collect on our rental purchase agreements;
- our ability to effectively hedge interest rates on our outstanding debt;
- changes in our effective tax rate;
- changes in our stock price and the number of shares of common stock that we may or may not repurchase under our common stock repurchase program; and
- the other risks detailed from time to time in our SEC reports.

Additional factors that could cause our actual results to differ materially from our expectations are discussed under the section entitled "Risk Factors" and elsewhere in this report. You should not unduly rely on these forward-looking statements, which speak only as of the date of this report. Except as required by law, we are not obligated to publicly release any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

Critical Accounting Policies Involving Critical Estimates, Uncertainties or Assessments in Our Financial Statements

The preparation of our financial statements in conformity with generally accepted accounting principles in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In applying accounting principles, we must often make individual estimates and assumptions regarding expected outcomes or uncertainties. As you might expect, the actual results or outcomes are generally different than the estimated or assumed amounts. These differences are usually minor and are included in our consolidated financial statements as soon as they are known. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Actual results related to the estimates and assumptions made by us in preparing our consolidated financial statements will emerge over periods of time, such as estimates and assumptions underlying the determination of our self-insurance liabilities. These estimates and assumptions are closely monitored by us and periodically adjusted as circumstances warrant. For instance, our liability for our self-insured retentions related to our workers compensation, general liability, medical and auto liability may be adjusted based on higher or lower actual loss experience. Although there is greater risk with respect to the accuracy of these estimates and assumptions because of the period over which actual results may emerge, such risk is mitigated by our ability to make changes to these estimates and assumptions over the same period.

In preparing our financial statements at any point in time, we are also periodically faced with uncertainties, the outcomes of which are not within our control and will not be known for prolonged periods of time. As discussed in Part I, Item 3 "Legal Proceedings" and the notes to our consolidated financial statements, we are involved in actions relating to claims that our rental purchase agreements constitute installment sales contracts, violate state usury laws or violate other state laws enacted to protect consumers, claims asserting violations of wage and hour laws in our employment practices, as well as claims we violated the federal securities laws. We, together with our counsel, make estimates, if determinable, of our probable liabilities and record such amounts in our consolidated financial statements. These estimates represent our best estimate, or may be the minimum range of probable loss when no single best estimate is determinable. We, together with our counsel, monitor developments related to these legal matters and, when appropriate, adjustments are made to liabilities to reflect current facts and circumstances.

We periodically review the carrying value of our goodwill and other intangible assets when events and circumstances warrant such a review. One of the methods used for this review is performed using estimates of future cash flows. If the carrying value of our goodwill or other intangible assets is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the goodwill or intangible assets exceeds its fair value. We believe that the estimates of future cash flows and fair value are reasonable. Changes in estimates of such cash flows and fair value, however, could affect the evaluation.

Based on an assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, we believe that our consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of our company as of, and for, the periods presented in this report. However, we do not suggest that other general risk factors, such as those discussed elsewhere in this report as well as changes in our growth objectives or performance of new or acquired stores, could not adversely impact our consolidated financial position, results of operations and cash flows in future periods.

Significant Accounting Policies

Our significant accounting policies are summarized below and in Note A to our consolidated financial statements included elsewhere herein.

Revenue. We collect non-refundable rental payments and fees in advance, generally on a weekly or monthly basis. This revenue is recognized over the term of the agreement. Rental purchase agreements generally include a discounted early purchase option. Upon exercise of this option, and upon sale of used merchandise, revenue is recognized as these payments are received.

Franchise Revenue. Revenue from the sale of rental merchandise is recognized upon shipment of the merchandise to the franchisee. Franchise fee revenue is recognized upon completion of substantially all services and satisfaction of all material conditions required under the terms of the franchise agreement.

Depreciation of Rental Merchandise. We depreciate our rental merchandise using the income forecasting method. The income forecasting method of depreciation we use does not consider salvage value and does not allow the depreciation of rental merchandise during periods when it is not generating rental revenue. The objective of this method of depreciation is to provide for consistent depreciation expense while the merchandise is on rent. On July 1, 2002, we began accelerating the depreciation on computers that are 21 months old or older and which have become idle using the straight-line method for a period of at least six months. The purpose for this change is to better reflect the depreciable life of a computer in our stores and to encourage the sale of older computers. Though this method will accelerate the depreciation expense on the affected computers, we do not expect it to have a material effect on our financial position, results of operations or cash flows in future periods.

Cost of Merchandise Sold. Cost of merchandise sold represents the book value net of accumulated depreciation of rental merchandise at time of sale.

Salaries and Other Expenses. Salaries and other expenses include all salaries and wages paid to store level employees, together with market managers' salaries, travel and occupancy, including any related benefits and taxes, as well as all store level general and administrative expenses and selling, advertising, insurance, occupancy, fixed asset depreciation and other operating expenses.

General and Administrative Expenses. General and administrative expenses include all corporate overhead expenses related to our headquarters such as salaries, taxes and benefits, occupancy, administrative and other operating expenses, as well as regional directors' salaries, travel and office expenses.

Amortization of Intangibles. Amortization of intangibles consists primarily of the amortization of the excess of purchase price over the fair market value of acquired assets and liabilities. Effective January 1, 2002, under SFAS 142 all goodwill and intangible assets with indefinite lives are no longer subject to amortization. SFAS 142 requires that an impairment test be conducted annually and in the event of an impairment indicator. We conducted our transition test in 2002 which showed no impairment of our goodwill. Following the adoption of SFAS 142, our primary source of amortization comes from customer relationships and non-compete agreements.

Recent Developments

Rent-Way Acquisition. In February 2003, we completed the acquisition of substantially all of the assets of 295 rent-to-own stores from Rent-Way, Inc. for an aggregate purchase price of \$100.4 million in cash. Of the aggregate purchase price, we held back \$10.0 million to pay for various indemnified liabilities and expenses, if any. We funded the acquisition entirely from cash on hand. Of the 295 stores, 176 were merged with our existing stores.

Stock Repurchases. From January 1, 2003 through March 24, 2003, we repurchased 276,000 shares of our common stock pursuant to our common stock repurchase program for approximately \$13.5 million.

Results of Operations

The following table sets forth, for the periods indicated, historical Consolidated Statements of Earnings data as a percentage of total store and franchise revenues.

	<u>Year ended December 31,</u> <u>(Company-owned stores only)</u>			<u>Year ended December 31,</u> <u>(Franchise operations only)</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Revenues						
Rentals and fees	93.6%	94.4%	94.5 %	--%	--%	--%
Merchandise Sales	6.2	5.4	5.3	89.9	90.1	89.6
Other/Royalty income and fees	0.2	0.2	0.2	10.1	9.9	10.4
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Operating Expenses						
Direct store expenses						
Depreciation of rental merchandise	19.6%	19.6%	19.4%	--%	--%	--%
Cost of merchandise sold	4.5	4.1	4.2	85.8	86.2	86.1
Salaries and other expenses	<u>54.8</u>	<u>58.3</u>	<u>56.1</u>	<u>--</u>	<u>--</u>	<u>--</u>
	78.9	82.0	79.7	85.8	86.2	86.1
General and administrative expenses	3.2	3.2	2.9	4.2	4.5	4.4
Amortization of intangibles	0.3	1.7	1.8	0.5	0.6	0.6
Class action litigation settlements	<u>--</u>	<u>3.0</u>	<u>(1.4)</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total operating expenses	<u>82.4</u>	<u>89.9</u>	<u>83.0</u>	<u>90.5</u>	<u>91.3</u>	<u>91.1</u>
Operating profit	17.6	10.1	17.0	9.5	8.7	8.9
Interest expense / (income)	<u>3.2</u>	<u>3.4</u>	<u>4.8</u>	<u>(1.1)</u>	<u>(1.1)</u>	<u>(1.0)</u>
Earnings before income taxes	<u>14.4%</u>	<u>6.7%</u>	<u>12.2%</u>	<u>10.6%</u>	<u>9.8%</u>	<u>9.9%</u>

Comparison of the Years ended December 31, 2002 and 2001

Store Revenue. Total store revenue increased by \$203.6 million, or 11.6%, to \$1,952.7 million for 2002 from \$1,749.1 million for 2001. The increase in total store revenue was primarily attributable to growth in same store revenues during 2002 as well as incremental revenues from the opening of 70 stores and the acquisition of 83 stores and accounts from another 126 stores in 2002.

Same store revenues represent those revenues earned in 1,834 stores that were operated by us for each of the entire years ending December 31, 2002 and 2001. Same store revenues increased by \$88.9 million, or 6.0%, to \$1,570.7 million for 2002 from \$1,481.8 million in 2001. This improvement was primarily attributable to an increase in the number of customers served (approximately 401 per day per store as of December 31, 2002 versus approximately 395 per day per store as of December 31, 2001 in same stores open), as well as revenue earned per customer (approximately \$2,136 per customer for the year ending December 31, 2002 versus approximately \$2,045 per customer for 2001). Merchandise sales increased \$20.8 million, or 21.9%, to \$115.5 million for 2002 from \$94.7 million in 2001. The increase in merchandise sales was primarily attributable to an increase in the number of items sold in 2002 (approximately 875,000) as compared to the number of items sold in 2001 (approximately 761,000), which was primarily the result of an increase in the number of customers exercising early purchase options.

Franchise Revenue. Total franchise revenue decreased by \$2.2 million, or 3.6%, to \$57.3 million for 2002 from \$59.5 million in 2001. This decrease was primarily attributable to a decrease in merchandise sales to franchise locations during 2002 as compared to 2001 resulting from a decrease in the number of franchised locations 342 at December 31, 2001 to 318 at December 31, 2002.

Depreciation of Rental Merchandise. Depreciation of rental merchandise increased by \$40.2 million, or 11.7%, to \$383.4 million for 2002 from \$343.2 million for 2001. This increase was primarily attributable to an increase in rental and fee revenue of \$177.6 million, or 10.7%, to \$1,828.5 million for 2002 from \$1,650.9 for 2001, as well as \$2.4 million of the additional depreciation recognized on computers in 2002 relating to our revised depreciation policy on computers. Depreciation of rental merchandise expressed as a percentage of store rentals and fees revenue increased to 21.0% in 2002 from 20.8% in 2001. This slight increase in 2002 is primarily a result of in-store promotions and pricing changes made during the third quarter of 2001, which included a reduction in the rates and terms on certain rental agreements, causing depreciation to be a greater percentage of store rentals and fees revenue on those promotional items rented through 2002.

Cost of Merchandise Sold. Cost of merchandise sold increased by \$12.1 million, or 16.7%, to \$84.6 million for 2002 from \$72.5 million in 2001. This increase was a result of an increase in the number of items sold in 2002, as compared to 2001, resulting from an increase in early purchase options exercised in 2002 as compared to 2001.

Salaries and Other Expenses. Salaries and other expenses expressed as a percentage of total store revenue decreased to 54.8% for 2002 from 58.3% for 2001. This decrease was primarily attributable to an increase in store revenues during the year ended December 31, 2002 as compared to 2001, coupled with the realization of our margin enhancement initiatives and reductions in store level costs in 2002, including our regional pay plan we implemented in 2002.

Franchise Cost of Merchandise Sold. Franchise cost of merchandise sold decreased by \$2.1 million, or 4.0%, to \$49.2 million for 2002 from \$51.3 in 2001. This decrease is a direct result of a decrease in merchandise sales to franchise locations in 2002 as compared to 2001, offset by a slight increase in gross profit on these sales, to 4.7% in 2002 as compared to 4.6% in 2001.

General and Administrative Expenses. General and administrative expenses expressed as a percent of total revenue increased slightly to 3.2% in 2002 from 3.1% in 2001. This increase is primarily attributable to an increase in home office labor and other overhead expenses for 2002 as compared to 2001.

Amortization of Intangibles. Amortization of intangibles decreased by \$25.2 million, or 83.3%, to \$5.0 million for 2002 from \$30.2 million in 2001. This decrease was directly attributable to the implementation of SFAS 142, which requires that goodwill and other intangibles with indefinite lives no longer be amortized.

Operating Profit. Operating profit increased by \$165.8 million, or 89.9%, to \$350.4 million for 2002 from \$184.6 million for 2001. Excluding the pre-tax effect of the class action litigation settlements of \$16.0 million recorded in the third quarter of 2001 and \$36.0 million recorded in the fourth quarter of 2001, operating profit increased by \$113.9 million, or 48.1%, for the year ended December 31, 2002 from \$236.6 million for the year ended December 31, 2001. Operating profit as a percentage of total revenue increased to 17.4% for the year ended December 31, 2002 from 13.1% for the year ended December 31, 2001 before the pre-tax class action litigation settlement charges of \$52.0 million. This increase was primarily attributable to an increase in store revenues during the year ended December 31, 2002 as compared to 2001, coupled with the realization of our margin enhancement initiatives, reduction of store level costs and the reduction of intangible amortization expense as discussed above. After adjusting reported results for the year ended December 31, 2001 to exclude the effects of goodwill amortization and the non-recurring legal charges, operating profit increased by \$85.9 million, or 32.5% on a comparable basis.

Net Earnings. Net earnings were \$172.2 million for the year ended December 31, 2002 and \$66.2 million for the year ended December 31, 2001. Before the after-tax effect of the \$52.0 million class action litigation settlement charges recorded in 2001, net earnings increased by \$74.7 million, or 76.6%, for the year ended December 31, 2002, from \$97.5 million for the year ended December 31, 2001. This increase is primarily attributable to growth in operating profit as discussed above. After adjusting reported results for the year ended December 31, 2001 to exclude the effects of goodwill amortization and the non-recurring legal charges, net earnings increased by \$52.7 million, or 43.1% on a comparable basis.

Preferred Dividends. Dividends on our Series A preferred stock are payable quarterly at an annual rate of 3.75%. We account for shares of preferred stock distributed as dividends in-kind at the greater of the stated value or the value of the common stock obtainable upon conversion on the payment date. Preferred dividends decreased by \$5.2 million, or 33.7%, to \$10.2 million for the year ended December 31, 2002 as compared to \$15.4 million in 2001. This decrease is a direct result of the conversion of 97,197 shares of preferred stock into 3,500,000 shares of our common stock in May 2002 and the conversion in August 2002 of all but two shares of our outstanding Series A preferred stock into approximately 7,281,548 shares of our common stock, resulting in less preferred shares outstanding in 2002, following the conversions, as compared to 2001.

Comparison of the Years ended December 31, 2001 and 2000

Store Revenue. Total store revenue increased by \$205.2 million, or 13.3%, to \$1,749.1 million for 2001 from \$1,543.9 million for 2000. The increase in total store revenue was primarily attributable to growth in same store revenues during 2001 as well as incremental revenues from the opening of 76 stores and the acquisition of 95 stores in 2001. Same store revenues represent those revenues earned in 1,854 stores that were operated by us for the entire years ending December 31, 2001 and 2000. Same store revenues increased by \$111.6 million, or 8.0%, to \$1,501.7 million for 2001 from \$1,390.1 million in 2000. This improvement was primarily attributable to an increase in the number of customers served (approximately 407 per store as of December 31, 2001 vs. approximately 391 per store as of December 31, 2000 in same stores open), the number of agreements on rent (approximately 624 per store as of December 31, 2001 vs. approximately 597 per store as of December 31, 2000 in same stores open), as well as revenue earned per agreement on rent (approximately \$95 per month per agreement for 2001 vs. approximately \$92 per month per agreement for 2000). This increase in revenue was partially offset by loss of revenues associated with the divestiture or consolidation of 48 stores in 2001.

Franchise Revenue. Total franchise revenue increased by \$1.7 million, or 2.9%, to \$59.5 million for 2001 from \$57.8 million in 2000. This increase was primarily attributable to an increase in merchandise sales to franchise locations during 2001 as compared to 2000, partially offset by a decrease in the number of franchised locations in 2001 as compared to 2000.

Depreciation of Rental Merchandise. Depreciation of rental merchandise increased by \$43.9 million, or 14.7%, to \$343.2 million for 2001 from \$299.3 million for 2000. This increase was primarily attributable to an increase in rental and fee revenue of \$191.2 million, or 13.1%, to \$1,650.9 million for 2001 from \$1,459.7 for 2000. Depreciation of rental merchandise expressed as a percentage of store rentals and fees revenue increased to 20.8% in 2001 from 20.5% in 2000. This increase is a result of an increase in the number of stores acquired in 2001 of 95 from 74 in 2000, and in-store promotions made during the third quarter of 2001, which included a reduction in the rates and terms on certain rental agreements. These in-store promotions caused depreciation to be a greater percentage of store rentals and fees revenue on those promotional items rented.

Cost of Merchandise Sold. Cost of merchandise sold increased by \$7.2 million, or 11.0%, to \$72.5 million for 2001 from \$65.3 million in 2000. This increase was a result of an increase in the number of items sold in 2001, primarily in the third and fourth quarters, as compared to 2000, resulting from a reduction in the rates and terms on certain rental agreements beginning in the third quarter of 2001.

Salaries and Other Expenses. Salaries and other expenses expressed as a percentage of total store revenue increased to 58.3% for 2001 from 56.1% for 2000. This increase was primarily attributable to the infrastructure expenses and costs associated with the opening of new stores under our store growth initiatives, such as labor and recruiting costs for training centers as well as additional middle and senior management personnel, and increases in advertising, store level labor, insurance, and other operating expenses in 2001 over 2000.

Franchise Cost of Merchandise Sold. Franchise cost of merchandise sold increased by \$1.5 million, or 3.1%, to \$51.2 million for 2001 from \$49.7 in 2000. This increase is a direct result of an increase in merchandise sales to franchise locations in 2001 as compared to 2000.

General and Administrative Expenses. General and administrative expenses expressed as a percent of total revenue increased slightly to 3.1% in 2001 from 3.0% in 2000. This increase is primarily attributable to an increase in home office labor and other overhead expenses for 2001 as compared to 2000.

Amortization of Intangibles. Amortization of intangibles increased by \$1.9 million, or 6.7%, to \$30.2 million for 2001 from \$28.3 million in 2000. This increase was primarily attributable to the amortization of additional goodwill associated with the acquisition of 95 stores acquired in 2001. Under SFAS 142 discussed later, amortization of goodwill ceased effective January 1, 2002. Amortization expense for other intangible assets, however, is expected to be approximately \$2.2 million for 2002, based on acquisitions made through the date of this report.

Operating Profit. Operating profit decreased by \$82.4 million, or 30.9%, to \$184.6 million for 2001 from \$267.0 million for 2000. Excluding the pre-tax effect of the class action litigation settlements of \$16.0 million recorded in the third quarter of 2001 and \$36.0 million recorded in the fourth quarter of 2001, as well as the class action litigation settlement refund of \$22.4 million received in the second quarter of 2000, operating profit decreased by \$8.0 million, or 3.3%, to \$236.6 million for the year ended December 31, 2001 from \$244.6 million for the year ended December 31, 2000. Operating profit as a percentage of total revenue decreased to 13.1% for the year ended December 31, 2001 before the pre-tax class action litigation settlement charges of \$52.0 million, from 15.3% for the year ended December 31, 2000 before the pre-tax class action litigation settlement refund of \$22.4 million. The decrease in operating profit before the effects of the class action litigation as a percentage of total revenue is primarily attributable to costs incurred with the opening of 76 new stores in 2001 and losses incurred for those stores in their initial months of operations, increases in advertising, store level labor, insurance, utility, and other operating expenses in 2001 as compared to 2000, and lower gross profit margins in the third and fourth quarter of 2001 resulting from in store promotions whereby rates and terms were reduced on certain rental agreements. These costs were partially offset by an increase in overall store revenue for 2001 and the implementation of expense management efforts in the fourth quarter of 2001.

Net Earnings. Net earnings were \$66.2 million for the year ended December 31, 2001, and \$103.0 million for the year ended December 31, 2000. Before the after-tax effect of the \$52.0 million class action litigation settlement charges recorded in 2001 and the \$22.4 million class action litigation settlement refund received in the second quarter of 2000, net earnings increased by \$6.2 million, or 6.8%, to \$97.5 million for the year ended December 31, 2001, from \$91.3 million for the year ended December 31, 2000. This increase, excluding the after tax effect of the class action litigation settlement adjustments, is primarily attributable to growth in total revenues and reduced interest expenses resulting from a reduction in outstanding debt from our May 2001 equity offering and December 2001 debt offering, partially offset by the increased expenses incurred in connection with the opening of 76 new stores in 2001, increases in operating expenses and lower gross profit margins in the third and fourth quarters of 2001.

Preferred Dividends. Dividends on our Series A preferred stock are payable quarterly at an annual rate of 3.75%. We account for shares of preferred stock distributed as dividends in-kind at the greater of the stated value or the value of the common stock obtainable upon conversion on the payment date. Preferred dividends increased by \$5.0 million, or 47.9%, to \$15.4 million for the year ended December 31, 2001 as compared to \$10.4 million for the year ended December 31, 2000. This increase is a result of more shares of Series A Preferred stock outstanding in 2001 as compared to 2000.

Quarterly Results

The following table contains certain unaudited historical financial information for the quarters indicated.

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
	(In thousands, except per share data)			
Year ended December 31, 2002				
Revenues	\$498,610	\$494,660	\$494,561	\$522,213
Operating profit	88,296	88,240	84,087	89,826
Net earnings	43,563	41,943	41,449	45,218
Basic earnings per common share	\$ 1.57	\$ 1.48	\$ 1.24	\$ 1.29
Diluted earnings per common share	\$ 1.20	\$ 1.14	\$ 1.14	\$ 1.26
Year ended December 31, 2001(1)				
Revenues	\$439,702	\$442,759	\$447,074	\$478,993
Operating profit	62,485	66,640	32,372	23,089
Net earnings	24,998	27,545	9,974	3,700
Basic earnings per common share	\$ 0.83	\$ 0.88	\$ 0.27	\$ 0.01
Diluted earnings per common share	\$ 0.69	\$ 0.74	\$ 0.26	\$ 0.10
Year ended December 31, 2000(2)				
Revenues	\$392,526	\$392,245	\$404,968	\$411,875
Operating profit	58,552	84,184	63,720	60,557
Net earnings	20,889	34,621	23,901	23,616
Basic earnings per common share	\$ 0.75	\$ 1.32	\$ 0.87	\$ 0.85
Diluted earnings per common share	\$ 0.61	\$ 1.00	\$ 0.68	\$ 0.67
	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
	(As a percentage of revenues)			
Year ended December 31, 2002				
Revenues	100.0%	100.0%	100.0%	100.0%
Operating profit	17.7	17.8	17.0	17.2
Net earnings	8.7	8.5	8.4	8.7
Year ended December 31, 2001(1)				
Revenues	100.0%	100.0%	100.0%	100.0%
Operating profit	14.2	15.1	7.2	4.8
Net earnings	5.7	6.2	2.2	0.8
Year ended December 31, 2000(2)				
Revenues	100.0%	100.0%	100.0%	100.0%
Operating profit	14.9	21.4	15.7	14.7
Net earnings	5.3	8.8	5.9	5.7

- (1) Includes the effects of a pre-tax legal settlement of \$16.0 million in the third quarter and \$36 million in the fourth quarter of 2001 associated with the settlement of a class action lawsuit in the states of Missouri, Illinois, and Tennessee.
- (2) Includes the effects of a pre-tax legal reversion of \$22.4 million associated with the settlement of three class action lawsuits in the state of New Jersey.

Liquidity and Capital Resources

Cash provided by operating activities increased by \$118.8 million to \$294.5 million in 2002 from \$175.7 million in 2001. This increase primarily resulted from an increase in net earnings, a decrease in the amount of rental merchandise purchased during 2002 and an increase in deferred income taxes offset by a reduction in accrued liabilities.

Cash used in investing activities decreased by \$10.0 million to \$96.7 million in 2002 from \$106.7 million in 2001. This decrease is primarily attributable to a decrease in the amount of capital expenditures made in 2002 versus 2001, offset by an increase in the amount spent on new store acquisitions in 2002 versus 2001.

Cash used in financing activities increased by \$222.4 million to \$220.0 million in 2001, compared to net cash provided of \$2.4 million in 2001. This increase is a result of our purchase of \$65.6 million in treasury stock, the repurchase of \$2.8 million of our subordinated notes and an increase in debt prepayments of \$40.4 million during the year ended December 31, 2002 as compared to 2001. In addition, there were no proceeds from the issuance of common stock or debt in 2002, as compared to proceeds of approximately \$145.1 million in 2001.

Liquidity Requirements. Our primary liquidity requirements are for debt service, rental merchandise purchases, capital expenditures, litigation and our store expansion program. Our primary sources of liquidity have been cash provided by operations, borrowings and sales of debt and equity securities. In the future, we may incur additional debt, or may issue debt or equity securities to finance our operating and growth strategies. The availability and attractiveness of any outside sources of financing will depend on a number of factors, some of which relate to our financial condition and performance, and some of which are beyond our control, such as prevailing interest rates and general economic conditions. There can be no assurance that additional financing will be available, or if available, that it will be on terms we find acceptable.

We believe that the cash flow generated from operations, together with amounts available under our senior credit facilities, will be sufficient to fund our debt service requirements, rental merchandise purchases, capital expenditures, litigation and our store expansion programs during 2003. Our revolving credit facilities provide us with revolving loans in an aggregate principal amount not exceeding \$130.0 million, of which \$124.3 million was available at March 24, 2003. At March 24, 2003, we had \$80.9 million in cash. While our operating cash flow has been strong and we expect this strength to continue, our liquidity could be negatively impacted if we do not remain as profitable as we expect.

On March 9, 2002, President Bush signed into law the Job Creation and Worker Assistance Act of 2002, which provides for accelerated tax depreciation deductions for qualifying assets placed in service between September 11, 2001 and September 10, 2004. Under these provisions, 30 percent of the basis of qualifying property is deductible in the year the property is placed in service, with the remaining 70 percent of the basis depreciated under the normal tax depreciation rules. Accordingly, our cash flow will benefit from having a lower current cash tax obligation, which in turn will provide additional cash flows from operations until the deferred tax liabilities begin to reverse. We estimate that our operating cash flow will increase by approximately \$60.0 million through 2004 before the deferred tax liabilities begin to reverse over a three year period beginning in 2005.

Rental Merchandise Purchases. We purchased \$494.9 million, \$526.9 million and \$462.1 million of rental merchandise during the years 2002, 2001 and 2000, respectively.

Capital Expenditures. We make capital expenditures in order to maintain our existing operations as well as for new capital assets in new and acquired stores. We spent \$37.6 million, \$57.5 million and \$37.9 million on capital expenditures in the years 2002, 2001 and 2000, respectively, and expect to spend approximately \$40.0 million in 2003.

Acquisitions and New Store Openings. During 2002, we continued our strategy of increasing our store base through opening new stores, as well as through opportunistic acquisitions. We spent approximately \$59.5 million acquiring stores and accounts for the year ended December 31, 2002. It is our intention to increase the number of stores we operate by an average of approximately 5-10% per year over the next several years.

In February 2003, we completed the acquisition of substantially all of the assets of 295 rent-to-own stores from Rent-Way, Inc. for an aggregate purchase price of \$100.4 million in cash. Of the aggregate purchase price, we held back \$10.0 million to pay for various indemnified liabilities and expenses, if any. We funded the acquisition entirely from cash on hand. Of the 295 stores acquired, 176 store were merged with our existing store locations.

The profitability of our stores tends to grow at a slower rate approximately five years from the time we open or acquire them. As a result, in order for us to show improvements in our profitability, it is important for us to continue to open stores in new locations or acquire underperforming stores on favorable terms. There can be no assurance we will be able to acquire or open new stores at the rates we expect, or at all. We cannot assure you the stores we do acquire or open will be profitable at the same levels that our current stores are, or at all.

Borrowings. The table below shows the scheduled maturity dates of our senior debt outstanding at December 31, 2002.

<u>Year ending</u> <u>December 31,</u>	(In thousands)
2003	\$ 1,063
2004	13,040
2005	49,093
2006	114,111
2007	<u>72,193</u>
	<u>\$ 249,500</u>

Under our senior credit facilities, we are required to use 25% of the net proceeds from any equity offering to repay our term loans. In addition, we intend to continue to make prepayments of debt under our senior credit facilities, repurchase some of Rent-A-Center East's outstanding subordinated notes or repurchase our common stock under our common stock repurchase program to the extent we have available cash that is not necessary for store openings or acquisitions. However, we cannot assure you that we will have excess cash for these purposes.

Senior Credit Facilities. The senior credit facilities are provided by a syndicate of banks and other financial institutions led by JPMorgan Chase Bank, as administrative agent. At December 31, 2002, we had a total of \$249.5 million outstanding under the senior credit facility related to our term loans and \$114.3 million of availability under the revolving credit line portion of the senior credit facility.

On December 31, 2002, we amended and restated our senior credit facility to account for our internal corporate reorganization, to restate previous amendments increasing the amounts of our common stock we are permitted to repurchase and to provide for a new Tranche D LC Facility in an aggregate amount at closing equal to \$80.0 million to support our outstanding letters of credit. Under this new Tranche D LC Facility, in the event that a letter of credit is drawn upon, we have the right to either repay the Tranche D LC Facility lenders the amount withdrawn or request a loan in that amount. Interest on any requested Tranche D LC Facility loan accrues at an adjusted prime rate plus 1.75% or, at our option, at the Eurodollar base rate plus 2.80%, with the entire amount of the Tranche D LC Facility due on December 31, 2007.

Borrowings under the senior credit facilities bear interest at varying rates equal to 1.50% to 3.00% over the Eurodollar rate, which was 1.38% at December 31, 2002. We also have a prime rate option under the facilities, but have not exercised it to date. For the year ended December 31, 2002, the average effective rate on outstanding borrowings under the senior credit facilities was 4.94%, before considering the interest rate swap agreements as described below, and 7.77%, after giving effect to the interest rate swap agreements in effect during 2002.

During 1998, we entered into interest rate protection agreements with two banks, one of which expired in 2001. Under the terms of the current interest rate agreements, the Eurodollar rate used to calculate the interest rate charged on our \$250.0 million outstanding senior term debt has been fixed at an average rate of 5.60%. Of the \$250.0 million under protection, \$140.0 million expires in August 2003 and the remaining \$110.0 million expires in September 2003.

The senior credit facilities are secured by a security interest in substantially all of our tangible and intangible assets, including intellectual property and real property. The senior credit facilities are also secured by a pledge of the capital stock of our subsidiaries.

The senior credit facilities contain covenants, including without limitation, covenants that generally limit our ability to:

- incur additional debt (including subordinated debt) in excess of \$25 million at any one time outstanding;
- repurchase our capital stock and senior subordinated notes;
- incur liens or other encumbrances;
- merge, consolidate or sell substantially all our property or business;
- sell assets, other than inventory in the ordinary course of business;
- make investments or acquisitions unless we meet financial tests and other requirements;
- make capital expenditures; or
- enter into a new line of business.

The senior credit facilities require us to comply with several financial covenants, including a maximum consolidated leverage ratio, a minimum consolidated interest coverage ratio and a minimum fixed charge coverage ratio. At December 31, 2002, the maximum consolidated leverage ratio was 3.75:1, the minimum consolidated interest coverage ratio was 3.00:1, and the minimum fixed charge coverage ratio was 1.30:1. On that date, our actual ratios were 1.25:1, 6.35:1 and 2.64:1, respectively.

Events of default under the senior credit facilities include customary events, such as a cross-acceleration provision in the event that we default on other debt. In addition, an event of default under the senior credit facilities would occur if we undergo a change of control. This is defined to include the case where a third party becomes the beneficial owner of 33.33% or more of our voting stock or certain changes in our Board of Directors occur.

Subordinated Notes. In August 1998, Rent-A-Center East issued \$175.0 million of senior subordinated notes, maturing on August 15, 2008, under an indenture dated as of August 18, 1998 among Rent-A-Center East, its subsidiary guarantors and the trustee, which is now The Bank of New York, as successor to IBJ Schroder Bank & Trust Company. In December 2001, Rent-A-Center East issued an additional \$100.0 million of 11% senior subordinated notes, maturing on August 15, 2008, under a separate indenture dated as of December 19, 2001 among Rent-A-Center East, its subsidiary guarantors and The Bank of New York, as trustee. On May 2, 2002, Rent-A-Center East closed an exchange offer for, among other things, all of the notes issued by it under the 1998 indenture, such that all of the senior subordinated notes are now governed by the terms of the 2001 indenture.

The 2001 indenture contains covenants that limit Rent-A-Center East's ability to:

- incur additional debt;
- sell assets or our subsidiaries;
- grant liens to third parties;
- pay dividends or repurchase stock; and
- engage in a merger or sell substantially all of our assets.

Events of default under the 2001 indenture include customary events, such as a cross-acceleration provision in the event that we default in the payment of other debt due at maturity or upon acceleration for default in an amount exceeding \$25 million.

The notes may be redeemed on or after August 15, 2003, at our option, in whole or in part, at a premium declining from 105.5%. The subordinated notes also require that upon the occurrence of a change of control (as defined in the 2001 indenture), the holders of the notes have the right to require us to repurchase the notes at a price equal to 101% of the original aggregate principal amount, together with accrued and unpaid interest, if any, to the date of repurchase. If Rent-A-Center East did not comply with this repurchase obligation, this would trigger an event of default under our senior credit facilities.

Store Leases. We lease space for all of our stores as well as our corporate and regional offices under operating leases expiring at various times through 2010.

ColorTyme Guarantee. ColorTyme is a party to an agreement with Textron Financial Corporation, who generally provides \$40.0 million in aggregate financing to qualifying franchisees of ColorTyme of up to five times their average monthly revenues. Under this agreement, upon an event of default by the franchisee under agreements governing this financing and upon the occurrence of certain other events, Textron may assign the loans and the collateral securing such loans to ColorTyme, with ColorTyme then succeeding to the rights of Textron under the debt agreements, including the rights to foreclose on the collateral. An additional \$10.0 million of financing is provided by Texas Capital Bank, National Association under an arrangement similar to the Textron financing. We guarantee the obligations of ColorTyme under these agreements up to a maximum amount of \$50.0 million, of which \$33.8 million was outstanding as of December 31, 2002. Mark E. Speese, our Chairman of the Board and Chief Executive Officer, is a passive investor in Texas Capital Bank, owning less than 1% of its outstanding equity.

Litigation. In 1998, we recorded an accrual of approximately \$125.0 million for estimated probable losses on litigation assumed in connection with the Thorn Americas acquisition. As of December 31, 2002, we have paid approximately \$124.5 million of this accrual in settlement of most of these matters and legal fees. These settlements were funded primarily from amounts available under our senior credit facilities, including the revolving credit facility and the multidraw facility, as well as from cash flow from operations.

On November 12, 2002, we signed a settlement agreement settling the Wisconsin Attorney General matter, which was approved by the court on the same day. Under the terms of the settlement, we created a restitution fund in the amount of \$7.0 million for our eligible Wisconsin customers who had completed or active transactions with us as of September 30, 2002. In addition, we paid \$1.4 million to the State of Wisconsin for fines, penalties, costs and fees. The settlement of this matter was fully reserved for in our financial statements. A portion of the restitution fund is allocated for customers with completed transactions as of September 30, 2002, and the balance is allocated for restitution on active transactions as of September 30, 2002, which will be allowed to terminate according to their terms when customers either acquire or return the merchandise. Restitution will be offered on the active transactions when all such active transactions have terminated, which we anticipate will occur by the fall of 2004. Any unclaimed restitution funds at the conclusion of the restitution period will be returned to us. To the extent the amount in the restitution fund is insufficient to pay the required amount of restitution, we are obligated to provide additional funds to do so. However, we believe the amount in the restitution fund allocated for the active transactions, together with the amount of funds we anticipate will remain unclaimed by customers with completed transactions, will be sufficient to pay the required amount of restitution on all eligible active transactions.

In June 2002, we agreed to settle the *Wilfong* and Tennessee EEOC gender discrimination matters for an aggregate of \$47.0 million, including attorneys fees. Such settlement contemplated dismissal of the *Bunch* proceeding, a similar suit for gender discrimination pending in a separate federal district court, and provided for a separate \$2.0 million dispute resolution fund for the *Bunch* plaintiffs, which was subsequently approved by the *Bunch* court. On October 4, 2002, the court in the *Wilfong* matter approved the settlement we had reached with the *Wilfong* plaintiffs and entered a final judgment. Only 50 individuals opted out of the settlement and no timely objections were filed with the court. No party filed an appeal of the court's order, and we funded the settlement as provided for in the settlement agreement in December 2002. As contemplated by the *Wilfong* settlement, the Tennessee EEOC action was dismissed in December 2002, and the *Bunch* matter will be dismissed in the near future.

Additional settlements or judgments against us on our existing litigation could affect our liquidity. Please refer to Note J of our consolidated financial statements included herein.

Sales of Equity Securities. During 1998, we issued 260,000 shares of our Series A preferred stock at \$1,000 per share, resulting in aggregate proceeds of \$260.0 million. Dividends on our Series A preferred stock accrue on a quarterly basis at the rate of \$37.50 per annum. Prior to the conversion of all but two shares of our Series A preferred stock in August 2002, we paid these dividends in additional shares of Series A preferred stock because of restrictive provisions in our senior credit facilities. We have the ability to pay the dividends in cash and may do so under our senior credit facilities so long as we are not in default.

On May 31, 2001, we completed an offering of 3,680,000 shares of our common stock at an offering price of \$42.50 per share. In that offering, 1,150,000 shares were offered by us and 2,530,000 shares were offered by some of our stockholders. Net proceeds to us were approximately \$45.6 million.

In connection with the issuance of our Series A preferred stock in August 1998, we entered into a registration rights agreement with Apollo which, among other things, granted them two rights to request that their shares be registered, and a registration rights agreement with an affiliate of Bear Stearns, which granted them the right to participate in any company-initiated registration of shares, subject to certain exceptions. In May 2002, Apollo exercised one of their two rights to request that their shares be registered and an affiliate of Bear Stearns elected to participate in such registration. In connection therewith, Apollo and an affiliate of Bear Stearns converted 97,197 shares of our Series A preferred stock held by them into 3,500,000 shares of our common stock, which they sold in the May 2002 public offering that was the subject of Apollo's request. We did not receive any of the proceeds from this offering.

On August 5, 2002, the first date on which we had the right to optionally redeem the shares of Series A preferred stock, the holders of our Series A preferred stock converted all but two shares of our Series A preferred stock held by them into 7,281,548 shares of our common stock. As a result, the dividend on our Series A preferred stock has been substantially eliminated for future periods. In connection with Apollo's conversion of all but two of the shares of Series A preferred stock held by them on August 5, 2002, we granted Apollo an additional right to effect a demand registration under the existing registration rights agreement we entered into with them in 1998, such that Apollo now has two demand rights.

Contractual Cash Commitments. The table below summarizes debt, lease and other minimum cash obligations outstanding as of December 31, 2002:

<u>Contractual Cash Obligations(1)</u>	<u>Total</u>	<u>Payments due by year</u>					
		<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008 forward</u>
Senior Credit Facilities (including current portion)...	\$ 249,500	\$ 1,063	\$ 13,040	\$ 49,093	\$ 114,111	\$ 72,193	\$ --
11% Senior Subordinated Notes (2).....	451,935	29,948	29,948	29,948	29,948	29,948	302,195
<u>Operating Leases</u>	<u>373,060</u>	<u>128,535</u>	<u>103,501</u>	<u>77,545</u>	<u>43,518</u>	<u>16,502</u>	<u>3,459</u>
Total	\$1,074,495	\$159,546	\$146,489	\$156,586	\$187,577	\$118,643	\$305,654

(1) Excludes obligations under the ColorTyme guarantee, the change in control and acceleration provisions under the senior credit facilities, and the optional redemption, change in control and acceleration provisions under the indentures governing Rent-A-Center East's subordinated notes

(2) Includes interest payments of \$14.97 million on each of February 15 and August 15 of each year.

Repurchases of Outstanding Securities. In connection with the retirement of J. Ernest Talley, our former Chairman of the Board and Chief Executive Officer, we entered into an agreement to repurchase \$25.0 million worth of shares of our common stock beneficially held by Mr. Talley at a purchase price equal to the average closing price of our common stock over the 10 trading days beginning October 9, 2001, subject to a maximum of \$27.00 per share and a minimum of \$20.00 per share. Under this formula, the purchase price for the repurchase was calculated at \$20.258 per share. Accordingly, on October 23, 2001 we repurchased 493,632 shares of our common stock

beneficially held by Mr. Talley at \$20.258 per share for a total purchase price of \$10.0 million, and on November 30, 2001, we repurchased an additional 740,448 shares of our common stock beneficially held by Mr. Talley at \$20.258 per share, for a total purchase price of an additional \$15.0 million. On January 25, 2002, we exercised the option to repurchase all of the remaining 1,714,086 shares of common stock beneficially held by Mr. Talley at \$20.258 per share. We repurchased those remaining shares on January 30, 2002.

In April 2000, we announced that our board of directors had authorized a program to repurchase in the open market up to an aggregate of \$25.0 million of our common stock. In October 2002, our board of directors increased our authority to effect repurchases of our outstanding common stock under our common stock repurchase program from \$25.0 million to \$50.0 million, and in March 2003 they increased the authority from \$50.0 million to \$100.0 million. Through December 31, 2002, we have repurchased approximately 661,000 shares of our common stock under this program for approximately \$30.9 million, all of which was effected in the year ended December 31, 2002. Since December 31, 2002, we repurchased an additional 276,000 shares of our common stock under this program, for approximately \$13.5 million.

As of December 31, 2002, we had repurchased \$2.8 million of our subordinated notes for approximately \$3.0 million, which included a loss of approximately \$179,000. Since December 31, 2002, we have not made any additional repurchases of our subordinated notes.

Economic Conditions. Although our performance has not suffered in previous economic downturns, we cannot assure you that demand for our products, particularly in higher price ranges, will not significantly decrease in the event of a prolonged recession.

Seasonality. Our revenue mix is moderately seasonal, with the first quarter of each fiscal year generally providing higher merchandise sales than any other quarter during a fiscal year, primarily related to federal income tax refunds. Generally, our customers will more frequently exercise their early purchase option on their existing rental purchase agreements or purchase pre-leased merchandise off the showroom floor during the first quarter of each fiscal year. We expect this trend to continue in future periods. Furthermore, we tend to experience slower growth in the number of rental purchase agreements on rent in the third quarter of each fiscal year when compared to other quarters throughout the year. As a result, we would expect revenues for the third quarter of each fiscal year to remain relatively flat with the prior quarter. We expect this trend to continue in future periods unless we add significantly to our store base during the third quarter of future fiscal years as a result of new store openings or opportunistic acquisitions.

Effect of New Accounting Pronouncements

Accounting for Costs Associated with Exit or Disposal Activities. In June 2002, the FASB issued Statement 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This statement requires entities to recognize costs associated with exit or disposal activities when liabilities are incurred rather than when the entity commits to an exit or disposal plan, as currently required. Examples of costs covered by this guidance include one-time employee termination benefits, costs to terminate contracts other than capital leases, costs to consolidate facilities or relocate employees, and certain other exit or disposal activities. This statement is effective for fiscal years beginning after December 31, 2002 and will impact any exit or disposal activities we initiate after that date.

Stock-Based Employee Compensation. In December 2002, the FASB issued Statement 148 (SFAS 148), *Accounting for Stock-Based Compensation — Transition and Disclosure: an amendment of FASB Statement 123* (SFAS 123), to provide alternative transition methods for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in annual financial statements about the method of accounting for stock-based employee compensation and the pro forma effect on reported results of applying the fair value based method for entities that use the intrinsic value method of accounting. The pro forma effect disclosures are also required to be prominently disclosed in interim period financial statements. This statement is effective for financial statements for fiscal years ending after December 15, 2002 and is effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002, with earlier application permitted. We do not

plan to change to the fair value based method of accounting for stock-based employee compensation at this time and have included the disclosure requirements of SFAS 148 in the accompanying financial statements.

Accounting for Guarantees. In November 2002, the FASB issued FASB Interpretation 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. We previously did not record a liability when guaranteeing obligations unless it became probable that we would have to perform under the guarantee. FIN 45 applies prospectively to guarantees we issue or modify subsequent to December 31, 2002, but has certain disclosure requirements effective for interim and annual periods ending after December 15, 2002. We have historically issued guarantees related to our Colortyme franchisees and other limited purposes and do not anticipate FIN 45 will have a material effect on our 2003 financial statements. Disclosures required by FIN 45 are included in the accompanying financial statements.

In January 2003, the FASB issued FASB Interpretation 46 (FIN 46), *Consolidation of Variable Interest Entities*. FIN 46 clarifies the application of Accounting Research Bulletin 51, *Consolidated Financial Statements*, for certain entities that do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties or in which equity investors do not have the characteristics of a controlling financial interest ("variable interest entities"). Variable interest entities within the scope of FIN 46 will be required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. We are in the process of determining what impact, if any, the adoption of the provisions of FIN 46 will have upon our financial condition or results of operations.

Item 7A. *Quantitative and Qualitative Disclosure About Market Risk*

Interest Rate Sensitivity

As of December 31, 2002, we had \$272.3 million in subordinated notes outstanding at a fixed interest rate of 11.0% and \$249.5 million in term loans outstanding at interest rates indexed to the LIBOR rate. The subordinated notes mature on August 15, 2008. The fair value of the subordinated notes is estimated based on discounted cash flow analysis using interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of the subordinated notes at December 31, 2002 was \$292.7 million, which is \$20.9 million above their carrying value. Unlike the subordinated notes, the \$249.5 million in term loans have variable interest rates indexed to current LIBOR rates. Because the variable rate structure exposes us to the risk of increased interest cost if interest rates rise, in 1998 we entered into \$500.0 million in interest rate swap agreements that lock in a LIBOR rate of 5.59%, thus hedging this risk. Of the \$500.0 million in agreements, \$250.0 million expired in September 2001 and the remaining \$250.0 million will expire in 2003, of which \$140.0 million will expire on August 5, 2003 and the remaining \$110.0 million will expire on September 5, 2003. The swap agreements had an aggregate negative fair value of \$6.7 million and \$10.2 million at December 31, 2002 and 2001, respectively. A hypothetical 1.0% change in the LIBOR rate would have affected the fair value of the swaps by approximately \$1.6 million.

Market Risk

Market risk is the potential change in an instrument's value caused by fluctuations in interest rates. Our primary market risk exposure is fluctuations in interest rates. Monitoring and managing this risk is a continual process carried out by the Board of Directors and senior management. We manage our market risk based on an ongoing assessment of trends in interest rates and economic developments, giving consideration to possible effects on both total return and reported earnings.

Interest Rate Risk

We hold long-term debt with variable interest rates indexed to prime or LIBOR that exposes us to the risk of increased interest costs if interest rates rise. To reduce the risk related to unfavorable interest rate movements, we have entered into certain interest rate swap contracts on \$250.0 million of debt to pay a fixed rate of 5.60%.

Item 8. *Financial Statements and Supplementary Data*

Our consolidated financial statements required to be included in Item 8 are set forth in Item 15 of this report.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

PART III

Item 10. *Directors and Executive Officers of the Registrant*(*)

Item 11. *Executive Compensation*(*)

Item 12. *Security Ownership of Certain Beneficial Owners and Management*(*)

Item 13. *Certain Relationships and Related Transactions*(*)

* The information required by Items 10, 11, 12 and 13 is or will be set forth in the definitive proxy statement relating to the 2003 Annual Meeting of Stockholders of Rent-A-Center, Inc., which is to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. This definitive proxy statement relates to a meeting of stockholders involving the election of directors and the portions thereof required to be set forth in this Form 10-K by Items 10, 11, 12 and 13 are incorporated herein by reference pursuant to General Instruction G(3) to Form 10-K.

Item 14. *Controls and Procedures*

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures within 90 days before the filing of this annual report. Based on that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to their evaluation.

Item 15. *Exhibits, Financial Statement Schedules and Reports on Form 8-K*

Financial Statements and Financial Statement Schedules

Financial Statements

Report Of Independent Certified Public Accountants	F-2
Consolidated Financial Statements	
Balance Sheets	F-3
Statements of Earnings	F-4
Statement of Stockholders' Equity	F-5
Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-8

Schedules Supporting Financial Statements

Schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are either not required under the related instructions or inapplicable.

Current Reports on Form 8-K

Current Report on Form 8-K filed on November 12, 2002

Current Report on Form 8-K filed on December 31, 2002

Current Report on Form 8-K filed on December 31, 2002

Exhibits

See attached Exhibit Index incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned duly authorized.

RENT-A-CENTER, INC.

By: /s/ Robert D. Davis
Robert D. Davis
Senior Vice President-Finance
Chief Financial Officer

Date: March 26, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the date indicated.

Signature	Title	Date
<u>/s/ Mark E. Speese</u> Mark E. Speese	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 26, 2003
<u>/s/ Mitchell E. Fadel</u> Mitchell E. Fadel	President, Chief Operating Officer and Director	March 26, 2003
<u>/s/ Robert D. Davis</u> Robert D. Davis	Senior Vice President – Finance, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	March 26, 2003
<u>/s/ Laurence M. Berg</u> Laurence M. Berg	Director	March 26, 2003
<u>/s/ Mary Elizabeth Burton</u> Mary Elizabeth Burton	Director	March 26, 2003
<u>/s/ Peter P. Copses</u> Peter P. Copses	Director	March 26, 2003
<u>/s/ Andrew S. Jhavar</u> Andrew S. Jhavar	Director	March 26, 2003
<u>/s/ J. V. Lentell</u> J. V. Lentell	Director	March 26, 2003

I, Mark E. Speese, certify that:

1. I have reviewed this annual report on Form 10-K of Rent-A-Center, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/ Mark E. Speese
Mark E. Speese
Chairman of the Board
and Chief Executive Officer

I, Robert D. Davis, certify that:

1. I have reviewed this annual report on Form 10-K of Rent-A-Center, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/ Robert D. Davis
Robert D. Davis
Senior Vice President-Finance,
Treasurer and Chief Financial Officer

Exhibit Index

<u>Exhibit Number</u>	<u>Exhibit Description</u>
2.1(1)	— Agreement and Plan of Merger, dated as of December 30, 2002, but effective as of December 31, 2002, by and among Rent-A-Center, Inc., Rent-A-Center Holdings, Inc. and RAC Merger Sub, Inc.
2.2*	— Asset Purchase Agreement, dated as of December 17, 2002, by and among Rent-A-Center East, Inc. and Rent-Way, Inc., Rent-Way of Michigan, Inc. and Rent-Way of TTIG, L.P. (Pursuant to the rules of the SEC, the schedules and exhibits have been omitted. Upon the request of the SEC, Rent-A-Center, Inc. will supplementally supply such schedules and exhibits to the SEC.)
2.3*	— Letter Agreement, dated December 31, 2002
2.4*	— Letter Agreement, dated January 7, 2003
2.5*	— Letter Agreement, dated February 7, 2003
2.6*	— Letter Agreement, dated February 10, 2003 (Pursuant to the rules of the SEC, the exhibit has been omitted. Upon the request of the SEC, Rent-A-Center will supplementally supply such exhibit to the SEC.)
2.7*	— Letter Agreement, dated March 10, 2003 (Pursuant to the rules of the SEC, the exhibit has been omitted. Upon the request of the SEC, Rent-A-Center will supplementally supply such exhibit to the SEC.)
3.1(2)	— Certificate of Incorporation of Rent-A-Center, Inc., as amended
3.2(3)	— Amended and Restated Bylaws of Rent-A-Center, Inc.
4.1(4)	— Form of Certificate evidencing Common Stock
4.2(5)	— Certificate of Designations, Preferences and Relative Rights and Limitations of Series A Preferred Stock of Rent-A-Center, Inc. (formerly known as Rent-A-Center Holdings, Inc.)
4.3(6)	— Form of Certificate evidencing Series A Preferred Stock
4.4(7)	— Indenture, dated as of December 19, 2001, by and among Rent-A-Center, Inc., as Issuer, ColorTyme, Inc., and Advantage Companies, Inc., as Subsidiary Guarantors, and The Bank of New York, as Trustee
4.5(8)	— First Supplemental Indenture, dated as of May 1, 2002, by and among Rent-A-Center, Inc., ColorTyme, Inc., Advantage Companies, Inc. and The Bank of New York, as Trustee
4.6(9)	— Second Supplemental Indenture, dated as of September 30, 2002, by and among Rent-A-Center, Inc., ColorTyme, Inc., Advantage Companies, Inc., Get It Now, LLC and The Bank of New York, as Trustee
4.7*	— Amended and Restated Third Supplemental Indenture, dated as of December 31, 2002, by and among Rent-A-Center, Inc., Rent-A-Center Holdings, Inc., ColorTyme, Inc., Rent-A-Center West, Inc. (formerly known as Advantage Companies, Inc.), Get It Now, LLC, Rent-A-Center Texas, LP, Rent-A-Center Texas, LLC and The Bank of New York, as Trustee
4.8(10)	— Form of 2001 Exchange Note
10.1(11)+	— Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan
10.2*	— Amended and Restated Credit Agreement, dated as of August 5, 1998, as amended and restated as of December 31, 2002, among Rent-A-Center, Inc., Rent-A-Center East, Inc., Comerica Bank, as Documentation Agent, Bank of America NA, as Syndication Agent, and JP Morgan Chase Bank (formerly known as The Chase Manhattan Bank), as Administrative Agent
10.3*	— Guarantee and Collateral Agreement, dated as of August 5, 1998, as amended and restated as of December 31, 2002, made by Rent-A-Center, Inc., Rent-A-Center East, Inc. and certain of its Subsidiaries in favor of JP Morgan Chase Bank (formerly known as The Chase Manhattan Bank), as Administrative Agent
10.4(12)	— Amended and Restated Stockholders Agreement, dated as of October 8, 2001, by and among Apollo Investment Fund IV, L.P., Apollo Overseas Partners IV, L.P., J. Ernest Talley, Mark E. Speese, Rent-A-Center, Inc., and certain other persons
10.5(13)	— Second Amended and Restated Stockholders Agreement, dated as of August 5, 2002, by and among

**Exhibit
Number Exhibit Description**

	Apollo Investment Fund IV, L.P., Apollo Overseas Partners IV, L.P., Mark E. Speese, Rent-A-Center, Inc., and certain other persons
10.6*	— Third Amended and Restated Stockholders Agreement, dated as of December 31, 2002, by and among Apollo Investment Fund IV, L.P., Apollo Overseas Partners IV, L.P., Mark E. Speese, Rent-A-Center, Inc., and certain other persons
10.7(14)	— Registration Rights Agreement, dated August 5, 1998, by and between Renters Choice, Inc., Apollo Investment Fund IV, L.P., and Apollo Overseas Partners IV, L.P., related to the Series A Convertible Preferred Stock
10.8(15)	— Second Amendment to Registration Rights Agreement, dated as of August 5, 2002, by and among Rent-A-Center, Inc., Apollo Investment Fund IV, L.P. and Apollo Overseas Partners IV, L.P.
10.9*	— Third Amendment to Registration Rights Agreement, dated as of December 31, 2002, by and among Rent-A-Center, Inc., Apollo Investment Fund IV, L.P. and Apollo Overseas Partners IV, L.P.
10.10(16)	— Common Stock Purchase Agreement, dated as of October 8, 2001, by and among J. Ernest Talley, Mary Ann Talley, the Talley 1999 Trust and Rent-A-Center, Inc.
10.11(17)	— Exchange and Registration Rights Agreement, dated December 19, 2001, by and among Rent-A-Center, Inc., ColorTyme, Inc., Advantage Companies, Inc., J.P. Morgan Securities, Inc., Morgan Stanley & Co. Incorporated, Bear, Stearns & Co. Inc., and Lehman Brothers, Inc.
10.12(18)	— Amended and Restated Franchisee Financing Agreement, dated March 27, 2002, by and between Textron Financial Corporation, ColorTyme, Inc. and Rent-A-Center, Inc.
10.13(19)	— Franchisee Financing Agreement, dated April 30, 2002, but effective as of June 28, 2002, by and between Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center, Inc.
10.14(20)	— First Amendment to Franchisee Financing Agreement, dated July 23, 2002, by and between Textron Financial Corporation, ColorTyme, Inc. and Rent-A-Center, Inc.
10.15(21)	— Second Amendment to Franchisee Financing Agreement, dated September 30, 2002, by and between Textron Financial Corporation, ColorTyme, Inc. and Rent-A-Center, Inc.
10.16*	— Third Amendment to Franchisee Financing Agreement, dated March 24, 2003, but effective as of December 31, 2002, by and between Textron Financial Corporation, ColorTyme, Inc. and Rent-A-Center, Inc.
21.1*	— Subsidiaries of Rent-A-Center, Inc.
23.1*	— Consent of Grant Thornton LLP
99.1*	— Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Mark E. Speese
99.2*	— Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Robert D. Davis

* Filed herewith.

+ Management contract or company plan or arrangement

- (1) Incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K dated as of December 31, 2002
- (2) Incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K dated as of December 31, 2002
- (3) Incorporated herein by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K dated as of December 31, 2002
- (4) Incorporated herein by reference to Exhibit 4.1 to the registrant's Form S-4 filed on January 11, 1999

- (5) Incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K dated as of December 31, 2002
 - (6) Incorporated herein by reference to Exhibit 4.5 to the registrant's Registration Statement Form S-4 filed on January 11, 1999
 - (7) Incorporated herein by reference to Exhibit 4.6 to the registrant's Registration Statement on Form S-4 filed on January 22, 2002
 - (8) Incorporated herein by reference to Exhibit 4.9 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002
 - (9) Incorporated herein by reference to Exhibit 4.7 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
 - (10) Incorporated herein by reference to Exhibit 4.7 to the registrant's Registration Statement on Form S-4 filed on January 22, 2002
 - (11) Incorporated herein by reference to Exhibit 99.1 to the registrant's Post-Effective Amendment No.1 to Form S-8 dated as of December 31, 2002
 - (12) Incorporated herein by reference to Exhibit 10.7 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001
 - (13) Incorporated herein by reference to Exhibit 10.8 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002
 - (14) Incorporated herein by reference to Exhibit 10.22 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998
 - (15) Incorporated herein by reference to Exhibit 10.10 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002
 - (16) Incorporated herein by reference to Exhibit 10.9 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001
 - (17) Incorporated herein by reference to Exhibit 10.9 to the registrant's Registration Statement on Form S-4 filed on January 22, 2002
 - (18) Incorporated herein by reference to Exhibit 10.13 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002
 - (19) Incorporated herein by reference to Exhibit 10.14 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002
 - (20) Incorporated herein by reference to Exhibit 10.15 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002
 - (21) Incorporated herein by reference to Exhibit 10.14 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
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Report of Independent Certified Public Accountants

Board of Directors and Stockholders
Rent-A-Center, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Rent-A-Center, Inc. and Subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rent-A-Center, Inc. and Subsidiaries as of December 31, 2002 and 2001, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note D to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") on January 1, 2002.

GRANT THORNTON LLP

Dallas, Texas
February 10, 2003

Rent-A-Center, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
	(In Thousands, except per share data)	
ASSETS		
Cash and cash equivalents.....	\$ 85,723	\$ 107,958
Accounts receivable	5,922	1,664
Prepaid expenses and other assets.....	42,882	29,846
Rental merchandise, net		
On rent.....	510,184	531,627
Held for rent	121,540	122,074
Property assets, net.....	105,949	106,883
Deferred income taxes	--	8,772
Intangible assets, net	<u>743,852</u>	<u>711,096</u>
	<u>\$1,616,052</u>	<u>\$1,619,920</u>
LIABILITIES		
Accounts payable—trade	\$43,461	\$ 49,930
Accrued liabilities	122,717	170,196
Deferred income taxes	86,142	--
Senior debt.....	249,500	428,000
Subordinated notes payable, net of discount.....	<u>271,830</u>	<u>274,506</u>
	773,650	922,632
COMMITMENTS AND CONTINGENCIES	--	--
PREFERRED STOCK		
Redeemable convertible voting preferred stock, net of placement costs, \$.01 par value; 5,000,000 shares authorized; 2 and 292,434 shares issued and outstanding in 2002 and 2001, respectively....	2	291,910
STOCKHOLDERS' EQUITY		
Common stock, \$.01 par value; 125,000,000 shares authorized; 39,538,042 and 27,726,092 shares issued in 2002 and 2001, respectively.....	395	277
Additional paid-in capital.....	532,675	191,438
Accumulated comprehensive loss	(3,726)	(6,319)
Retained earnings.....	428,621	269,982
Treasury stock, 4,599,269 and 2,224,179 shares at cost in 2002 and 2001, respectively	<u>(115,565)</u>	<u>(50,000)</u>
	<u>842,400</u>	<u>405,378</u>
	<u>\$1,616,052</u>	<u>\$1,619,920</u>

See accompanying notes to consolidated financial statements.

See accompanying notes to consolidated financial statements.

Rent-A-Center, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS

	Year ended December 31,		
	2002	2001	2000
	(In Thousands, except per share data)		
Revenues			
Store			
Rentals and fees.....	\$1,828,534	\$1,650,851	\$1,459,664
Installment sales.....	6,137	--	--
Merchandise sales.....	115,478	94,733	81,166
Other.....	2,589	3,476	3,018
Franchise			
Merchandise sales.....	51,514	53,584	51,769
Royalty income and fees.....	<u>5,792</u>	<u>5,884</u>	<u>5,997</u>
	2,010,044	1,808,528	1,601,614
Operating expenses			
Direct store expenses			
Depreciation of rental merchandise.....	383,400	343,197	299,298
Cost of installment sales.....	3,776	--	--
Cost of merchandise sold.....	84,628	72,539	65,332
Salaries and other expenses.....	1,070,265	1,019,402	866,234
Franchise cost of merchandise sold.....	<u>49,185</u>	<u>51,251</u>	<u>49,724</u>
	1,591,254	1,486,389	1,280,588
General and administrative expenses.....	63,296	55,359	48,093
Amortization of intangibles.....	5,045	30,194	28,303
Class action litigation settlements.....	<u>--</u>	<u>52,000</u>	<u>(22,383)</u>
Total operating expenses.....	<u>1,659,595</u>	<u>1,623,942</u>	<u>1,334,601</u>
Operating profit.....	350,449	184,586	267,013
Interest expense.....	64,682	60,874	74,324
Interest income.....	<u>(2,676)</u>	<u>(1,094)</u>	<u>(1,706)</u>
Earnings before income taxes.....	288,443	124,806	194,395
Income tax expense.....	<u>116,270</u>	<u>58,589</u>	<u>91,368</u>
NET EARNINGS.....	172,173	66,217	103,027
Preferred dividends.....	<u>10,212</u>	<u>15,408</u>	<u>10,420</u>
Net earnings allocable to common stockholders.....	<u>\$ 161,961</u>	<u>\$ 50,809</u>	<u>\$ 92,607</u>
Basic earnings per common share.....	<u>\$ 5.51</u>	<u>\$ 1.97</u>	<u>\$ 3.79</u>

See accompanying notes to consolidated financial statements.

Rent-A-Center, Inc. and Subsidiaries

Diluted earnings per common share.....	<u>\$ 4.74</u>	<u>\$ 1.79</u>	<u>\$ 2.96</u>
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See accompanying notes to consolidated financial statements.

Rent-A-Center, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the three years ended December 31, 2002
(In Thousands)

	Common Stock		Additional	Retained	Treasury	Accumulated	
	Shares	Amount	Paid-In	Earnings	Stock	Comprehensive	Total
			Capital			Income (Loss)	
Balance at January 1, 2000.....	25,297	\$ 253	\$ 105,627	\$125,810	\$ (25,000)	\$ -	\$206,690
Net earnings.....	-	-	-	103,027	-	-	103,027
Preferred dividends.....	-	-	-	(10,330)	-	-	(10,330)
Issuance of stock options for services.....	-	-	65	-	-	-	65
Exercise of stock options.....	403	4	8,430	-	-	-	8,434
Tax benefits related to exercise of stock options.....	-	-	1,485	-	-	-	1,485
Balance at December 31, 2000.....	25,700	257	115,607	218,507	(25,000)	-	309,371
Net earnings.....	-	-	-	66,217	-	-	66,217
Other comprehensive income (loss):							
Cumulative effect of adoption of SFAS 133...	-	-	-	-	-	1,378	1,378
Losses on interest rate swaps, net of tax.....	-	-	-	-	-	(11,556)	(11,556)
Reclassification adjustment for losses included in net earnings, net of tax.....	-	-	-	-	-	3,859	3,859
Other comprehensive loss.....	-	-	-	-	-	(6,319)	(6,319)
Comprehensive income.....	-	-	-	-	-	-	59,898
Purchase of treasury stock (1,234 shares).....	-	-	-	-	(25,000)	-	(25,000)
Issuance of common stock in public offering, net of issuance costs of \$3,253.....	1,150	12	45,610	-	-	-	45,622
Preferred dividends.....	-	-	4,064	(14,742)	-	-	(10,678)
Issuance of stock options for services.....	-	-	111	-	-	-	111
Exercise of stock options.....	876	8	20,309	-	-	-	20,317
Tax benefits related to exercise of stock options..	-	-	5,737	-	-	-	5,737
Balance at December 31, 2001.....	27,726	277	191,438	269,982	(50,000)	(6,319)	405,378
Net earnings.....	-	-	-	172,173	-	-	172,173
Other comprehensive income:							
Losses on interest rate swaps, net of tax.....	-	-	-	-	-	(6,836)	(6,836)
Reclassification adjustment for losses included in net earnings, net of tax.....	-	-	-	-	-	9,429	9,429
Other comprehensive income.....	-	-	-	-	-	2,593	2,593
Comprehensive income.....	-	-	-	-	-	-	174,766
Purchase of treasury stock (2,375 shares).....	-	-	-	-	(65,565)	-	(65,565)
Preferred dividends.....	-	-	5,383	(13,534)	-	-	(8,151)
Conversion of preferred stock to common (10,782 shares).....	10,782	108	299,951	-	-	-	300,059
Issuance of stock options for services.....	-	-	112	-	-	-	112
Exercise of stock options.....	1,030	10	26,782	-	-	-	26,792
Tax benefits related to exercise of stock options..	-	-	9,009	-	-	-	9,009
Balance at December 31, 2002.....	39,538	\$ 395	\$ 532,675	\$428,621	\$(115,565)	\$ (3,726)	\$842,400

See accompanying notes to consolidated financial statements.

Rent-A-Center, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2002	2001	2000
Cash flows from operating activities	(In Thousands)		
Net earnings	\$ 172,173	\$ 66,217	\$ 103,027
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation of rental merchandise	383,400	343,197	299,298
Depreciation of property assets	38,359	37,910	33,144
Amortization of intangibles	5,045	30,194	28,303
Amortization of financing fees	5,944	2,760	2,705
Deferred income taxes	94,914	23,856	77,738
Changes in operating assets and liabilities, net of effects of acquisitions			
Rental merchandise	(342,954)	(391,932)	(342,233)
Accounts receivable	(4,258)	1,590	629
Prepaid expenses and other assets	(15,973)	(1,709)	(6,624)
Accounts payable – trade	(6,469)	(15,766)	12,197
Accrued liabilities and other	<u>(35,691)</u>	<u>79,413</u>	<u>(16,621)</u>
Net cash provided by operating activities	294,490	175,730	191,563
Cash flows from investing activities			
Purchase of property assets	(37,596)	(57,532)	(37,937)
Proceeds from sale of property assets	398	706	1,403
Acquisitions of businesses	<u>(59,504)</u>	<u>(49,835)</u>	<u>(42,538)</u>
Net cash used in investing activities	<u>(96,702)</u>	<u>(106,661)</u>	<u>(79,072)</u>
Cash flows from financing activities			
Purchase of treasury stock	(65,565)	(25,000)	--
Proceeds from issuance of common stock, net of issuance costs	--	45,622	--
Exercise of stock options	26,792	20,317	8,434
Proceeds from debt	--	99,506	242,975
Repurchase of senior subordinated notes, net of loss	(2,750)	--	--
Repayments of debt	<u>(178,500)</u>	<u>(138,051)</u>	<u>(349,084)</u>
Net cash provided by (used in) financing activities	<u>(220,023)</u>	<u>2,394</u>	<u>(97,675)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(22,235)	71,463	14,816
Cash and cash equivalents at beginning of year	<u>107,958</u>	<u>36,495</u>	<u>21,679</u>
Cash and cash equivalents at end of year	<u>\$ 85,723</u>	<u>\$ 107,958</u>	<u>\$ 36,495</u>
Supplemental cash flow information			
Cash paid during the year for:			
Interest	\$ 53,307	\$ 56,306	\$ 75,956
Income taxes	\$ 31,868	\$ 21,526	\$ 9,520

During 2002, 2001 and 2000, the Company paid Series A preferred dividends of approximately \$8.2 million, \$10.7 million and \$10.3 million by issuing 8,151, 10,678 and 10,330 shares of Series A preferred stock, respectively.

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED INCOME STATEMENTS

Note A – Summary of Accounting Policies and Nature of Operations

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation and Nature of Operations

Effective as of December 31, 2002, the Company completed a tax-free internal reorganization of its corporate structure. The reorganization was effected through an inversion merger whereby Rent-A-Center, Inc. became a wholly-owned subsidiary of Rent-A-Center Holdings, Inc., a newly formed Delaware holding company. Upon the merger, Rent-A-Center, Inc. changed its name to Rent-A-Center East, Inc., (“Rent-A-Center East”) and Rent-A-Center Holdings, Inc. adopted the name Rent-A-Center, Inc.

At December 31, 2002, the Company operated 2,407 company-owned stores nationwide and in Puerto Rico, including 23 stores in Wisconsin operated by a subsidiary, Get It Now, LLC, under the name “Get It Now.” These financial statements include the accounts of Rent-A-Center, Inc. (“Rent-A-Center”) and its direct and indirect wholly-owned subsidiaries (collectively, the “Company”). All significant intercompany accounts and transactions have been eliminated. Rent-A-Center’s primary operating segment consists of leasing household durable goods to customers on a rent-to-own basis. Get It Now offers merchandise on an installment sales basis in Wisconsin.

ColorTyme, Inc. (“ColorTyme”), an indirect wholly-owned subsidiary of Rent-A-Center, is a nationwide franchisor of 318 franchised rent-to-own stores operating in 40 states. These rent-to-own stores offer high quality durable products such as home electronics, appliances, computers, and furniture and accessories. ColorTyme’s primary source of revenues is the sale of rental merchandise to its franchisees, who, in turn, offer the merchandise to the general public for rent or purchase under a rent-to-own program. The balance of ColorTyme’s revenues are generated primarily from royalties based on franchisees’ monthly gross revenues.

Rental Merchandise

Rental merchandise is carried at cost, net of accumulated depreciation. Depreciation for all merchandise is provided using the income forecasting method, which is intended to match as closely as practicable the recognition of depreciation expense with the consumption of the rental merchandise, and assumes no salvage value. The consumption of rental merchandise occurs during periods of rental and directly coincides with the receipt of rental revenue over the rental-purchase agreement period, generally 6 to 30 months. Under the income forecasting method, merchandise held for rent is not depreciated, and merchandise on rent is depreciated in the proportion of rents received to total rents provided in the rental contract, which is an activity based method similar to the units of production method. On July 1, 2002, the Company began accelerating the depreciation on computers that are 21 months old or older and which have become idle using the straight-line method for a period of at least six months. As of December 31, 2002, the Company has recognized an additional \$2.4 million in depreciation expense due to this accelerated method on computers. The purpose for this change is to better reflect the depreciable life of a computer and to encourage the sale of older computers. Though this method will accelerate the depreciation expense on the affected computers, the Company does not expect it to have a material effect on its financial position, results of operations or cash flows in future periods.

Rental merchandise which is damaged and inoperable, or not returned by the customer after becoming delinquent on payments, is written-off when such impairment occurs.

Cash Equivalents

For purposes of reporting cash flows, cash equivalents include all highly liquid investments with an original maturity of three months or less.

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

Rental Revenue and Fees

Merchandise is rented to customers pursuant to rental-purchase agreements which provide for weekly or monthly rental terms with non-refundable rental payments. Generally, the customer has the right to acquire title either through a purchase option or through payment of all required rentals. Rental revenue and fees are recognized over the rental term. No revenue is accrued because the customer can cancel the rental contract at any time and Rent-A-Center cannot enforce collection for non-payment of rents.

ColorTyme's revenue from the sale of rental merchandise is recognized upon shipment of the merchandise to the franchisee.

Get It Now's revenue from the sale of merchandise through an installment credit sale is recognized at the time of the sale, as is the cost of the merchandise sold, net of a provision for uncollectable accounts.

Property Assets and Related Depreciation

Furniture, equipment and vehicles are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the respective assets (generally five years) by the straight-line method. Leasehold improvements are amortized over the term of the applicable leases by the straight-line method.

Intangible Assets and Amortization

The Company adopted SFAS 142, "Goodwill and Other Intangible Assets," effective January 1, 2002 and has identified one reporting unit. In accordance with SFAS 142, the Company discontinued recording goodwill amortization effective January 1, 2002. Non-compete agreements, franchise network and customer relationships are amortized over two to five years, ten years and 18 to 24 months, respectively.

Accounting for Impairment of Long-Lived Assets

The Company evaluates all long-lived assets, including all intangible assets and rental merchandise, for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Impairment is recognized when the carrying amounts of such assets cannot be recovered by the undiscounted net cash flows they will generate.

Derivative Instruments and Hedging Activities

The Company's objective in managing its exposure to fluctuations in interest rates is to decrease the volatility of earnings and cash flows associated with changes in the applicable rates. To achieve this objective, the Company has entered into interest-rate swap agreements. The interest-rate swaps are derivative instruments related to forecasted transactions and are considered to hedge future cash flows. The effective portion of any gains or losses are included in accumulated other comprehensive income (loss) until earnings are affected by the variability of cash flows. Any ineffective portion is recognized currently into earnings. The cash flows of the interest-rate swaps are expected to be effective in achieving offsetting cash flows attributable to fluctuations in the cash flows of the floating-rate senior credit facility. If it becomes probable a forecasted transaction will no longer occur, the interest-rate swap will continue to be carried on the balance sheet at fair value, and gains or losses that were deferred in accumulated other comprehensive income (loss) will be recognized immediately into earnings. If the interest-rate swaps are terminated prior to their expiration dates, any cumulative gains and losses will be deferred and recognized into earnings over the remaining life of the underlying exposure. If the hedged liabilities are to be sold or extinguished, the Company will recognize the gain or loss on the designated financial instruments currently into earnings.

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

Changes in the fair value of the effective cash flow hedges are recorded in accumulated other comprehensive income (loss). The effective portion that has been deferred in accumulated other comprehensive income (loss) will be reclassified to earnings when the hedged items impact earnings.

The Company's adoption of SFAS No.133 on January 1, 2001 resulted in the recognition of approximately \$2.6 million, or \$1.4 million after taxes, of derivative assets on the Company's consolidated balance sheet and \$1.4 million of hedging gains included in accumulated other comprehensive income as the cumulative effect of a change in accounting principle.

The interest-rate swaps were and are based on the same index as their respective underlying debt. The interest-rate swaps have been effective in achieving offsetting cash flows attributable to the fluctuations in the cash flows of the hedged risk, and no amount has been required to be reclassified from accumulated other comprehensive income (loss) into earnings for hedge ineffectiveness during the years ended December 31, 2002 and 2001. The interest-rate swap resulted in an increase of interest expense of \$9.4 million and \$3.9 million for the years ended December 31, 2002 and 2001, respectively. The fair value of the interest-rate swaps increased by \$2.6 million, net of tax, during the year ended December 31, 2002, and decreased by \$6.3 million, net of tax, during the year ended December 31, 2001, which have been recorded in accumulated other comprehensive income. The estimated net amount of existing loss expected to be reclassified into earnings during 2003 is approximately \$3.7 million. During the year ended December 31, 2002, the amount of cash flow loss reclassified to earnings because it became probable that the original forecasted transaction would not occur was not material.

Income Taxes

The Company provides deferred taxes for temporary differences between the tax and financial reporting bases of assets and liabilities at the rate expected to be in effect when taxes become payable.

Earnings Per Common Share

Basic earnings per common share are based upon the weighted average number of common shares outstanding during each period presented. Diluted earnings per common share are based upon the weighted average number of common shares outstanding during the period, plus, if dilutive, the assumed exercise of stock options and the assumed conversion of convertible securities at the beginning of the year, or for the period outstanding during the year for current year issuances.

Advertising Costs

Costs incurred for producing and communicating advertising are expensed when incurred. Advertising expense was \$62.7 million, \$69.1 million, and \$61.2 million in 2002, 2001 and 2000, respectively.

Stock-Based Compensation

The Company has in place a long-term incentive plan for the benefit of certain key employees, consultants and directors, which is described more fully in Note K. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected in net earnings, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

Rent-A-Center, Inc. and Subsidiaries

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

	<u>Year ended December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net earnings allocable to common stockholders	(In Thousands, except per share data)		
As reported	\$ 161,961	\$ 50,809	\$ 92,607
Deduct: Total stock-based employee compensation under fair value based method for all awards, net of related tax expense	<u>11,290</u>	<u>7,380</u>	<u>10,272</u>
Pro forma	<u>\$ 150,671</u>	<u>\$ 43,429</u>	<u>\$ 82,335</u>
Basic earnings per common share			
As reported	\$ 5.51	\$ 1.97	\$ 3.79
Pro forma	\$ 5.13	\$ 1.68	\$ 3.37
Diluted earnings per common share			
As reported	\$ 4.74	\$ 1.79	\$ 2.96
Pro forma	\$ 4.43	\$ 1.59	\$ 2.67

The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: expected volatility of 55.8% to 57.3%; risk-free interest rates of 3.5% to 5.5%, 4.2% to 5.3% and 6.5% in 2002, 2001, and 2000, respectively; no dividend yield; and expected lives of seven years.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenues during the reporting period. Actual results could differ from those estimates.

Other Comprehensive Income

Other comprehensive income refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income but are excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity. The Company's other comprehensive income is attributed to changes in the fair value of interest rate swap agreements, net of tax.

New Accounting Pronouncements

Accounting for Costs Associated with Exit or Disposal Activities. In June 2002, the FASB issued Statement 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This statement requires entities to recognize costs associated with exit or disposal activities when liabilities are incurred rather than when the entity commits to an exit or disposal plan, as currently required. Examples of costs covered by this guidance include one-time employee termination benefits, costs to terminate contracts other than capital leases, costs to consolidate facilities or relocate employees, and certain other exit or disposal activities. This statement is effective for fiscal years beginning after December 31, 2002, and will impact any exit or disposal activities the Company initiates after that date.

Stock-Based Employee Compensation. In December 2002, the FASB issued Statement 148 (SFAS 148), *Accounting for Stock-Based Compensation — Transition and Disclosure: an amendment of FASB Statement 123* (SFAS 123), to provide alternative transition methods for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in annual financial statements about the method of accounting for stock-based employee compensation and the pro forma effect on reported results of applying the fair value based method for entities that use the intrinsic value method of accounting. The pro forma effect disclosures are also required to be prominently disclosed in interim

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

period financial statements. This statement is effective for financial statements for fiscal years ending after December 15, 2002 and is effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002, with earlier application permitted. The Company does not plan to change to the fair value based method of accounting for stock-based employee compensation at this time and have included the disclosure requirements of SFAS 148 in these financial statements.

Accounting for Guarantees. In November 2002, the FASB issued FASB Interpretation 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company previously did not record a liability when guaranteeing obligations unless it became probable that the Company would have to perform under the guarantee. FIN 45 applies prospectively to guarantees the Company issues or modifies subsequent to December 31, 2002, but has certain disclosure requirements effective for interim and annual periods ending after December 15, 2002. The Company has historically issued guarantees related to ColorTyme franchisees and other limited purposes and does not anticipate FIN 45 will have a material effect on its 2003 financial statements. Disclosures required by FIN 45 are included in these financial statements.

Consolidation of Variable Interest Entities. In January 2003, the FASB issued FASB Interpretation 46 (FIN 46), *Consolidation of Variable Interest Entities*. FIN 46 clarifies the application of Accounting Research Bulletin 51, *Consolidated Financial Statements*, for certain entities that do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties or in which equity investors do not have the characteristics of a controlling financial interest ("variable interest entities"). Variable interest entities within the scope of FIN 46 will be required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company is in the process of determining what impact, if any, the adoption of the provisions of FIN 46 will have upon its financial condition or results of operations.

Rent-A-Center, Inc. and Subsidiaries

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

Note B – Rental Merchandise

On rent

Cost.....	\$ 906,305	\$ 885,015
Less accumulated depreciation.....	396,121	353,388
	<u>\$ 510,184</u>	<u>\$ 531,627</u>

Held for rent

Cost.....	\$ 161,316	\$ 156,013
Less accumulated depreciation.....	39,776	33,939
	<u>\$ 121,540</u>	<u>\$ 122,074</u>

Reconciliation of Rental Merchandise

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Beginning Merchandise Value.....	\$ 653,701	\$ 587,232	\$ 531,223
Inventory additions thru acquisitions.....	18,469	17,734	13,074
Purchases.....	494,903	526,909	462,126
Depreciation of Rental Merchandise.....	(383,400)	(343,197)	(299,298)
Cost of good sold.....	(88,404)	(72,539)	(65,332)
Skip Stolens.....	(48,110)	(44,293)	(38,219)
Other Inventory Deletions ⁽¹⁾	(15,435)	(18,145)	(16,342)
Ending Merchandise Value.....	<u>\$ 631,724</u>	<u>\$ 653,701</u>	<u>\$ 587,232</u>

⁽¹⁾ Other inventory deletions include LDW claims and unrepairable and missing merchandise, as well as acquisition write-offs.

Note C – Property Assets

	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
	<u>(In Thousands)</u>	
Furniture and equipment.....	\$ 113,579	\$ 94,689
Transportation equipment.....	24,972	27,384
Building and leasehold improvements.....	99,025	85,699
Construction in progress.....	1,013	6,083
	<u>238,589</u>	<u>213,855</u>
Less accumulated depreciation.....	132,640	106,972
	<u>\$ 105,949</u>	<u>\$ 106,883</u>

Rent-A-Center, Inc. and Subsidiaries

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

Note D – Intangible Assets and Acquisitions

Intangibles consist of the following (in thousands):

	Avg. Life (years)	December 31, 2002		December 31, 2001	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets					
Franchise network	10	\$ 3,000	\$ 1,950	\$ 3,000	\$ 1,650
Non-compete agreements	5	1,510	1,444	1,677	1,405
Customer relationships	1.5	12,706	6,365	3,994	1,882
Intangible assets not subject to amortization					
Goodwill.....		835,557	99,162	806,524	99,162
Total intangibles.....		<u>\$ 852,773</u>	<u>\$ 108,921</u>	<u>\$ 815,195</u>	<u>\$ 104,099</u>

Aggregate Amortization Expense

Year ended December 31, 2002.....	\$ 5,045
Year ended December 31, 2001.....	\$ 30,194

Supplemental information regarding intangible assets and amortization.

Estimated amortization expense, assuming current intangible balances and no new acquisitions, for each of the years ending December 31, is as follows:

	Estimated Amortization Expense (In thousands)
2003.....	6,167
2004.....	838
2005.....	302
2006.....	150
Total.....	<u>\$ 7,457</u>

Changes in the carrying amount of goodwill for the year ended December 31, 2002 are as follows (in thousands):

Balance as of January 1, 2002.....	\$ 707,362
Additions from acquisitions	31,278
Tax benefit not recorded from previous acquisition	(6,125)
Post purchase price allocation adjustments ..	3,880
Balance as of December 31, 2002.....	<u>\$ 736,395</u>

There were no impairment losses to goodwill for the year ended December 31, 2002.

In contrast to accounting standards in effect during 2001 and 2000, SFAS 142, *Goodwill and Other Intangible Assets*, which became effective beginning in 2002, provides that goodwill should not be amortized. Accordingly, with the adoption of SFAS 142 in 2002, the Company discontinued the amortization of goodwill. The information presented below reflects adjustments to information reported in 2001 and 2000 as if SFAS 142 had been applied in those years.

Rent-A-Center, Inc. and Subsidiaries

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

Net earnings and earnings per common share, excluding the after tax effect of amortization expense related to goodwill, for the years ending December 31, 2002, 2001 and 2000 are as follows:

	Year Ended December 31,		
	2002	2001	2000
	Unaudited		
	(In thousands, except per share data)		
Reported net earnings	\$ 172,173	\$ 66,217	\$ 103,027
Goodwill amortization, net of tax	--	24,892	24,323
Adjusted net earnings.....	<u>\$ 172,173</u>	<u>\$ 91,109</u>	<u>\$ 127,350</u>
Basic earnings per common share:			
Reported earnings per share.....	\$ 5.51	\$ 1.97	\$ 3.79
Add back: Goodwill amortization, net of tax..	--	.97	1.00
Adjusted earnings per share	<u>\$ 5.51</u>	<u>\$ 2.94</u>	<u>\$ 4.79</u>
Diluted earnings per common share:			
Reported earnings per share.....	\$ 4.74	\$ 1.79	\$ 2.96
Add back: Goodwill amortization, net of tax..	--	.67	.70
Adjusted earnings per share	<u>\$ 4.74</u>	<u>\$ 2.46</u>	<u>\$ 3.66</u>

Acquisitions

The following table provides information concerning the acquisitions made during the years ended December 31, 2002, 2001 and 2000:

	Year Ended December 31,		
	2002	2001	2000
	(Dollar amounts in thousands)		
Number of stores acquired.....	83	95	74
Number of locations accounts were acquired from.....	126	90	73
Number of transactions.....	53	52	35
Total purchase price	\$ 59,504	\$ 49,835	\$ 42,538
Amounts allocated to:			
Goodwill	\$ 31,278	\$ 29,845	\$ 27,507
Non-compete agreements	10	--	--
Customer relationships	8,783	2,150	1,745
Property assets.....	946	46	183
Rental merchandise.....	18,469	17,734	13,074
Other assets	18	60	29

Acquisitions during 2002 were not significant, individually or in the aggregate, to the Company's consolidated financial position or statement of operations as of December 31, 2002 and for the year then ended. One of the transactions, which took place in June 2001, consisted of 54 stores, for approximately \$21.0 million in cash. All acquisitions have been accounted for as purchases, and the operating results of the acquired businesses have been included in the financial statements since their date of acquisition.

Rent-A-Center, Inc. and Subsidiaries

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

Rent-A-Center, Inc. and Subsidiaries

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

Note E – Senior Credit Facility

The Company has a Senior Credit Facility (the “Facility”) with a syndicate of banks. The Company also has other debt facilities. These facilities consist of the following:

Facility Maturity	December 31, 2002			December 31, 2001			
	Maximum Facility	Amount Outstanding	Amount Available	Maximum Facility	Amount Outstanding	Amount Available	
(In Thousands)							
Senior Credit Facility:							
Term Loan "B".....	2006	\$ 72,404	\$ 72,404	\$ -	\$ 148,850	\$ 148,850	\$ -
Term Loan "C".....	2007	128,753	128,753	-	192,754	192,754	-
Term Loan "D".....	2007	48,343	48,343	-	86,396	86,396	-
Tranche D LC (1).....	2007	80,000	-	-	-	-	-
Revolver (2).....	2004	120,000	-	114,300	120,000	-	56,425
		<u>449,500</u>	<u>249,500</u>	<u>114,300</u>	<u>548,000</u>	<u>428,000</u>	<u>56,425</u>
Other Indebtedness:							
Line of credit.....		10,000	-	10,000	10,000	-	10,000
Total Debt Facilities....		<u>\$ 459,500</u>	<u>\$ 249,500</u>	<u>\$ 124,300</u>	<u>\$ 558,000</u>	<u>\$ 428,000</u>	<u>\$ 66,425</u>

- (1) On May 3, 2002, the Company amended the Facility to provide for a new Tranche D LC Facility in an aggregate amount at closing equal to \$80.0 million to support its outstanding letters of credit. Under this new Tranche D LC Facility, in the event that a letter of credit is drawn upon, the Company has the right to either repay the Tranche D LC lenders the amount withdrawn or request a loan in that amount. Interest on any requested Tranche D LC loan accrues at an adjusted prime rate plus 1.75% or, at the Company's option, at the Eurodollar Rate plus 2.80%, with the entire amount of the Tranche D LC Facility due on December 31, 2007.
- (2) At December 31, 2002 and 2001, the amounts available under the Company's revolving facility were reduced by approximately \$5.7 million and \$63.6 million, respectively, for outstanding letters of credit used to support the Company's insurance obligations. The Company provides assurance to its insurance providers that if they are not be able to draw funds from the Company for claims paid, they have the ability to draw against the Company's letters of credit. At that time, the Company would then owe the drawn amount to the financial institution providing the letter of credit. One of the Company's letters of credit is renewed automatically every year unless the Company notifies the institution not to renew. The other letter of credit expires in August 2003, but is automatically renewed each year for a one year period unless the institution notifies the Company no later than thirty day prior to the applicable expiration date that such institution does not elect to renew the letter of credit for such additional one year period.

Borrowings under the Facility bear interest at varying rates equal to 0.50% to 2.00% over the designated prime rate (4.25% per annum at December 31, 2002) or 1.50% to 3.0% over LIBOR (1.38% at December 31, 2002) at the Company's option, and are subject to quarterly adjustments based on certain leverage ratios. For the year ended December 31, 2002, the average effective rate on outstanding borrowings under the senior credit facilities was 4.94%, before considering the interest rate swap agreements as described below, and 7.77%, after giving effect to the interest rate swap agreements in effect during 2002. A commitment fee equal to 0.25% to 0.50% of the unused portion of the revolving credit facility is payable quarterly.

The Facility is collateralized by substantially all of the Company's tangible and intangible assets, and is unconditionally guaranteed by each of the Company's subsidiaries and parent corporation. In addition, the Facility contains several financial covenants as defined therein, including a maximum consolidated leverage ratio, a minimum consolidated interest coverage ratio, and a minimum consolidated fixed charge coverage ratio, as well as restrictions on capital expenditures, additional indebtedness, and the disposition of assets not in the ordinary course of business.

Rent-A-Center, Inc. and Subsidiaries

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

The following are scheduled maturities of senior debt at December 31, 2002:

Year ending December 31,	(In Thousands)
2003.....	\$ 1,063
2004.....	13,040
2005.....	49,093
2006.....	114,111
2007.....	<u>72,193</u>
	<u>\$249,500</u>

To reduce its risk of greater interest expense because of floating-rate interest obligations under the Facility, the Company entered into three interest-rate swap agreements. One expired in 2001. The two remaining, with an aggregate notional amount of \$250 million, expire in August (\$140.0 million) and September (\$110.0 million) of 2003. Those agreements effectively converted a portion of the Company's floating-rate interest obligations to fixed-rate interest obligations. The fixed Eurodollar Rate applicable to the \$250 notional amount was 5.60% at December 31, 2002 and 2001. The interest-rate swaps had negative a fair value of \$3.7 million, net of tax, at December 31, 2002.

Note F – Subordinated Notes Payable

Rent-A-Center East has \$271.8 million, net of discount, of subordinated notes outstanding, maturing on August 15, 2008, including \$100.0 million which were issued in December 2001 at 99.5% of par. The notes require semi-annual interest-only payments at 11%, and are guaranteed by Rent-A-Center (the "Parent") and certain of Rent-A-Center East's direct and wholly-owned subsidiaries, consisting of ColorTyme, Rent-A-Center West, Inc., Get It Now, Rent-A-Center Texas, L.L.C. and Rent-A-Center Texas, L.P. (collectively, the "Subsidiary Guarantors" and, together with the Parent, the "Guarantors"). The notes are redeemable at Rent-A-Center East's option, at any time on or after August 15, 2003, at a set redemption price that varies depending upon the proximity of the redemption date to final maturity. Upon a change of control, the holders of the subordinated notes have the right to require Rent-A-Center East to redeem the notes.

The notes contain restrictive covenants, as defined therein, including a consolidated interest coverage ratio and limitations on incurring additional indebtedness, selling assets of the Subsidiary Guarantors, granting liens to third parties, making restricted payments and engaging in a merger or selling substantially all of Rent-A-Center East's assets.

The Parent and the Subsidiary Guarantors have fully, jointly and severally, and unconditionally guaranteed the obligations of Rent-A-Center East with respect to these notes. The only direct or indirect subsidiaries of the Parent that are not Guarantors are minor subsidiaries. There are no restrictions on the ability of any of the Guarantors to transfer funds to Rent-A-Center East in the form of loans, advances or dividends, except as provided by applicable law.

Set forth below is certain condensed consolidating financial information as of December 31, 2002 and 2001, and for each of the three years in the period ended December 31, 2002. The financial information includes the Subsidiary Guarantors from the dates they were acquired or formed by Rent-A-Center and Rent-A-Center East and is presented using the push-down basis of accounting.

Rent-A-Center, Inc. and Subsidiaries

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

	<u>Parent Company</u>	<u>Rent-A-Center East</u>	<u>Subsidiary Guarantors</u>	<u>Consolidating Adjustments</u>	<u>Totals</u>
	(in Thousands)				
Condensed consolidating balance sheets Rent-A-Center, Inc. and Subsidiaries					
December 31, 2002					
Merchandise inventory, net.....	\$ 636,256	\$ -	\$ -	\$ -	\$ 636,256
Intangible assets, net.....	-	400,327	343,525	-	743,852
Other assets.....	417,507	121,758	42,953	(341,742)	240,476
Total assets.....	<u>\$ 417,507</u>	<u>\$ 1,152,341</u>	<u>\$ 387,946</u>	<u>\$ (341,742)</u>	<u>\$ 1,616,052</u>
Senior Debt.....	\$ -	\$ 249,500	\$ -	\$ -	\$ 249,500
Other liabilities.....	-	495,511	28,639	-	524,150
Preferred stock.....	2	-	-	-	2
Stockholder's equity.....	417,505	407,330	359,307	(341,742)	842,400
Total liabilities and equity.....	<u>\$ 417,507</u>	<u>\$ 1,152,341</u>	<u>\$ 387,946</u>	<u>\$ (341,742)</u>	<u>\$ 1,616,052</u>
December 31, 2001					
Merchandise inventory, net.....	\$ 653,701	\$ -	\$ -	\$ -	\$ 653,701
Intangible assets, net.....	367,271	-	343,825	-	711,096
Other assets.....	578,077	-	18,788	(341,742)	255,123
Total assets.....	<u>\$ 1,599,049</u>	<u>\$ -</u>	<u>\$ 362,613</u>	<u>\$ (341,742)</u>	<u>\$ 1,619,920</u>
Senior Debt.....	\$ 428,000	\$ -	\$ -	\$ -	\$ 428,000
Other liabilities.....	489,174	-	5,458	-	494,632
Preferred stock.....	291,910	-	-	-	291,910
Stockholder's equity.....	389,965	-	357,155	(341,742)	405,378
Total liabilities and equity.....	<u>\$ 1,599,049</u>	<u>\$ -</u>	<u>\$ 362,613</u>	<u>\$ (341,742)</u>	<u>\$ 1,619,920</u>

	<u>Parent Company</u>	<u>Rent-A-Center East</u>	<u>Subsidiary Guarantors</u>	<u>Total</u>
	(In Thousands)			
Condensed consolidating statements of operations				
Year ended December 31, 2002				
Total revenues.....	\$ -	\$ 1,946,601	\$ 63,443	\$ 2,010,044
Direct store expenses.....	-	1,538,293	3,776.00	1,542,069
Other.....	-	238,288	57,514	295,802
Net earnings.....	<u>\$ -</u>	<u>\$ 170,020</u>	<u>\$ 2,153</u>	<u>\$ 172,173</u>
Year ended December 31, 2001				
Total revenues.....	\$ 1,749,060	\$ -	\$ 59,468	\$ 1,808,528
Direct store expenses.....	1,435,138	-	-	1,435,138
Other.....	243,266	-	63,907	307,173
Net earnings (loss).....	<u>\$ 70,656</u>	<u>\$ -</u>	<u>\$ (4,439)</u>	<u>\$ 66,217</u>
Year ended December 31, 2000				
Total revenues.....	\$ 1,543,848	\$ -	\$ 57,766	\$ 1,601,614
Direct store expenses.....	1,230,864	-	-	1,230,864
Other.....	205,342	-	62,381	267,723
Net earnings (loss).....	<u>\$ 107,642</u>	<u>\$ -</u>	<u>\$ (4,615)</u>	<u>\$ 103,027</u>

Rent-A-Center, Inc. and Subsidiaries

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

	<u>Parent Company</u>	<u>Rent-A- Center East</u>	<u>Subsidiary Guarantors</u>	<u>Total</u>
	(In thousands)			
Condensed consolidating statements of cash flows				
Year ended December 31, 2002				
Net cash provided by operating activities	\$ --	\$288,843	\$ 5,647	\$294,490
Cash flows from investing activities			(701)	
Purchase of property assets	--	(36,895)		(37,596)
Acquisitions of businesses	--	(59,504)	--	(59,504)
Other	--	398	--	398
Net cash used in investing activities	--	(96,001)	(701)	(96,702)
Cash flows from financing activities			--	
Purchase of treasury stock.....	--	(65,565)		(65,565)
Exercise of stock options	--	26,792	--	26,792
Repayments of debt.....	--	(178,500)	--	(178,500)
Repurchase of senior subordinated notes, net of loss	--	(2,750)	--	(2,750)
Intercompany advances	--	4,946	(4,946)	--
Net cash used in financing activities	--	(215,077)	(4,946)	(220,023)
Net decrease in cash and cash equivalents	--	(22,235)	--	(22,235)
Cash and cash equivalents at beginning of year.....	--	107,958	--	107,958
Cash and cash equivalents at end of year	\$ --	\$ 85,723	\$ --	\$ 85,723
Year ended December 31, 2001				
Net cash provided by operating activities	\$169,178	\$ --	\$ 6,552	\$175,730
Cash flows from investing activities				
Purchase of property assets	(57,477)	--	(55)	(57,532)
Acquisitions of businesses	(49,835)	--	--	(49,835)
Other	706	--	--	706
Net cash used in investing activities	(106,606)	--	(55)	(106,661)
Cash flows from financing activities			--	
Purchase of treasury stock.....	(25,000)	--		(25,000)
Exercise of stock options	20,317	--	--	20,317
Repayments of debt.....	(138,051)	--	--	(138,051)
Proceeds from debt.....	99,506	--	--	99,506
Proceeds from issuance of common stock	45,622	--	--	45,622
Intercompany advances	6,497	--	(6,497)	--
Net cash provided by (used in) financing activities ...	8,891	--	(6,497)	2,394
Net increase in cash and cash equivalents	71,463	--	--	71,463
Cash and cash equivalents at beginning of year.....	36,495	--	--	36,495
Cash and cash equivalents at end of year	\$107,958	\$ --	\$ --	\$107,958
Year ended December 31, 2000				
Net cash provided by operating activities	\$185,719	\$ --	\$ 5,844	\$191,563
Cash flows from investing activities				
Purchase of property assets	(37,843)	--	(94)	(37,937)
Acquisitions of businesses	(42,538)	--	--	(42,538)
Other	1,403	--	--	1,403
Net cash used in investing activities	(78,978)	--	(94)	(79,072)
Cash flows from financing activities			--	
Proceeds from debt.....	242,975	--		242,975
Repayments of debt.....	(349,084)	--	--	(349,084)
Exercise of stock options	8,434	--	--	8,434
Intercompany advances	5,750	--	(5,750)	--
Net cash used in financing activities	(91,925)	--	(5,750)	(97,675)
Net decrease in cash and cash equivalents	14,816	--	--	14,816
Cash and cash equivalents at beginning of year	21,679	--	--	21,679
Cash and cash equivalents at end of year	\$ 36,495	\$ --	\$ --	\$ 36,495

Rent-A-Center, Inc. and Subsidiaries

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

Note G – Accrued Liabilities

	December 31,	
	2002	2001
	(In thousands)	
Taxes other than income.....	\$22,719	\$19,071
Income taxes payable.....	--	7,081
Accrued litigation costs.....	1,667	59,044
Accrued insurance costs.....	49,883	36,634
Accrued interest payable.....	13,684	10,618
Accrued compensation and other.....	34,764	37,748
	<u>\$122,717</u>	<u>\$170,196</u>

Included in the \$59.0 million of accrued litigation cost in 2001 is approximately \$52.0 million related to the gender discrimination class action litigation settlements as more fully described in Note J.

Note H – Redeemable Convertible Voting Preferred Stock

In connection with the issuance of Rent-A-Center's Series A preferred stock in August 1998, Rent-A-Center entered into a registration rights agreement with affiliates of Apollo Management IV, L.P. ("Apollo") which, among other things, granted them two rights to request that their shares be registered, and a registration rights agreement with an affiliate of Bear Stearns, which granted them the right to participate in any company-initiated registration of shares, subject to certain exceptions. In May 2002, Apollo exercised one of their two rights to request that their shares be registered and an affiliate of Bear Stearns elected to participate in such registration. In connection therewith, Apollo and the affiliate of Bear Stearns converted 97,197 shares of Rent-A-Center's Series A preferred stock held by them into 3,500,000 shares of Rent-A-Center's common stock, which they sold in the May 2002 public offering that was the subject of Apollo's request. Rent-A-Center did not receive any of the proceeds from this offering.

On August 5, 2002, the first date in which Rent-A-Center had the right to optionally redeem the shares of Series A preferred stock, the holders of Rent-A-Center's Series A preferred stock converted all but two shares of Rent-A-Center's Series A preferred stock held by them into 7,281,548 shares of Rent-A-Center's common stock. As a result, the dividend on Rent-A-Center's Series A preferred stock has been substantially eliminated for future periods.

Rent-A-Center's Series A preferred stock is convertible, at any time, into shares of Rent-A-Center's common stock at a conversion price equal to \$27.935 per share, and has a liquidation preference of \$1,000 per share, plus all accrued and unpaid dividends. No distributions may be made to holders of common stock until the holders of the Series A preferred stock have received the liquidation preference. Dividends accrue on a quarterly basis, at the rate of \$37.50 per annum, per share. Rent-A-Center accounts for shares of preferred stock distributed as dividends in-kind at the greater of the stated value or the value of the common stock obtainable upon conversion on the payment date. During 2002 and 2001, Rent-A-Center paid approximately \$8.2 million and \$10.7 million in Series A preferred dividends by issuing 8,151 and 10,678 shares of Series A preferred stock, respectively. At December 31, 2002 and 2001, Rent-A-Center had two and 292,434 shares, respectively, of its Series A preferred stock outstanding.

Holders of the Series A preferred stock are entitled to two seats on Rent-A-Center's Board of Directors, and are entitled to vote on all matters presented to the holders of Rent-A-Center's common stock. The number of votes per Series A preferred share is equal to the number of votes associated with the underlying voting common stock into which the Series A preferred stock is convertible.

Rent-A-Center, Inc. and Subsidiaries

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

Note I– Income Taxes

The income tax provision reconciled to the tax computed at the statutory Federal rate is:

	Year ended December 31,		
	2002	2001	2000
Tax at statutory rate.....	35.0%	35.0%	35.0%
State income taxes, net of federal benefit.....	4.6%	5.7%	5.5%
Effect of foreign operations, net of foreign tax credits.....	0.1%	0.8%	0.2%
Goodwill amortization.....	0.0%	5.8%	5.0%
Other, net.....	0.4%	(0.4%)	1.3%
Total.....	40.1%	46.9%	47.0%

The components of the income tax provision are as follows:

	Year ended December 31,		
	2002	2001	2000
	(In Thousands)		
Current expense			
Federal.....	\$ 11,211	\$ 24,073	\$ 6,099
State.....	9,625	8,795	5,637
Foreign.....	1,855	1,865	1,894
Total current.....	<u>22,691</u>	<u>34,733</u>	<u>13,630</u>
Deferred expense			
Federal.....	84,368	22,400	68,406
State.....	9,211	1,456	9,332
Total deferred.....	<u>93,579</u>	<u>23,856</u>	<u>77,738</u>
Total.....	<u>\$ 116,270</u>	<u>\$ 58,589</u>	<u>\$ 91,368</u>

Deferred tax assets and liabilities consist of the following:

	December 31,	
	2002	2001
	(In Thousands)	
Deferred tax assets		
State net operating loss carryforwards.....	\$ 1,698	\$ 2,656
Accrued expenses	-	49,187
Intangible assets.....	11,115	17,561
Property assets.....	22,791	23,393
Other tax credit carryforwards.....	-	5,862
Unrealized loss on interest rate swap agreements.....	2,537	3,872
	<u>38,141</u>	<u>102,531</u>
Deferred tax liabilities		
Rental merchandise.....	(70,085)	(93,759)
Accrued expenses	(54,198)	-
	<u>(124,283)</u>	<u>(93,759)</u>
Net deferred taxes.....	<u>\$ (86,142)</u>	<u>\$ 8,772</u>

The Company has no alternative minimum tax credit carryforwards, but does have various state net operating loss carryforwards.

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

Note J – Commitments and Contingencies

The Company leases its office and store facilities and most delivery vehicles. Rental expense was \$138.0 million, \$127.6 million and \$105.6 million for 2002, 2001, and 2000, respectively. Future minimum rental payments under operating leases with remaining noncancelable lease terms in excess of one year at December 31, 2002 are as follows:

Year ending December 31,	(In Thousands)
2003.....	\$128,535
2004.....	103,501
2005.....	77,545
2006.....	43,518
2007.....	16,502
Thereafter.....	<u>3,459</u>
	<u>\$373,060</u>

From time to time, Rent-A-Center, along with its subsidiaries, is party to various legal proceedings arising in the ordinary course of business. Rent-A-Center is currently a party to the following material litigation:

Colon v. Thorn Americas, Inc. In November 1997, the plaintiffs filed this statutory compliance class action lawsuit in New York alleging various statutory violations of New York consumer protection laws. The plaintiffs are seeking damages compensatory, punitive damages, interest, attorney's fees and certain injunctive relief. Although Rent-A-Center intends to vigorously defend itself in this action, the ultimate outcome cannot presently be determined, and there can be no assurance that Rent-A-Center will prevail without liability.

Walker, et. al. v. Rent-A-Center, Inc. In January 2002, a putative class action was filed against Rent-A-Center and certain of its current and former officers alleging that the defendants violated Section 10(b) and/or Section 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by issuing false and misleading statements and omitting material facts regarding Rent-A-Center's financial performance and prospects for the third and fourth quarters of 2001, as well as Sections 11, 12(a)(2) and 5 of the Securities Act of 1933 as a result of alleged misrepresentations and omissions in connection with an offering in May 2001. The complaint purports to be brought on behalf of all purchasers of Rent-A-Center's common stock from April 25, 2001 through October 8, 2001 and seeks damages in unspecified amounts. Rent-A-Center intends to vigorously defend itself in this matter. However, there can be no assurance that Rent-A-Center will prevail without liability.

Gregory Griffin, et. al. v. Rent-A-Center, Inc. On June 25, 2002, a suit originally filed by Gregory Griffin in state court in Philadelphia, Pennsylvania was amended to seek relief both individually and on behalf of a class of customers in Pennsylvania, alleging that the Company violated the Pennsylvania Goods and Services Installment Sales Act and the Pennsylvania Unfair Trade Practices and Consumer Protection Law. The amended complaint asserts that the Company's rental purchase transactions are, in fact, retail installment sales transactions, and as such, are not governed by the Pennsylvania Rental-Purchase Agreement Act, which was enacted after the adoption of the Pennsylvania Goods and Services Installment Sales Act and the Pennsylvania Unfair Trade Practices Act. Griffin's suit seeks class-wide remedies, including injunctive relief, unspecified statutory, actual and treble damages, as well as attorney's fees and costs. The Company intends to vigorously defend itself in this case. However, the Company cannot assure you that it will be found to have no liability in this matter.

State Wage and Hour Class Actions. On August 20, 2001, a putative class action was filed against the Company in state court in Multnomah County, Oregon entitled *Rob Pucci, et. al. v. Rent-A-Center, Inc.* alleging violations of Oregon state law regarding overtime, lunch and work breaks and failure to timely pay

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

all wages due to Company employees in Oregon. The Company is subject to a similar suit pending in Clark County, Washington entitled *Kevin Rose, et al. v. Rent-A-Center, Inc., et al.* and two similar suits pending in Los Angeles, California entitled *Jeremy Burdusis, et al. v. Rent-A-Center, Inc., et al.* and *Israel French, et al. v. Rent-A-Center, Inc.*, each of which allege similar violations of the wage and hour laws of those respective states. The Company intends to vigorously defend itself in these matters. However, given the early stage of these proceedings, there can be no assurance that the Company will prevail without liability.

An adverse ruling in one or more of the aforementioned cases could have a material and adverse effect on the Company's consolidated financial statements.

Wisconsin Attorney General Proceeding. In August 1999, the Wisconsin Attorney General filed suit against Rent-A-Center and its subsidiary ColorTyme in Wisconsin, alleging that its rent-to-rent transaction violates the Wisconsin Consumer Act and the Wisconsin Deceptive Advertising Statute. On November 12, 2002, Rent-A-Center and ColorTyme signed a settlement agreement for this suit with the Attorney General, which was approved by the court on the same day. Under the terms of the settlement, Rent-A-Center created a restitution fund in the amount of \$7.0 million and paid \$1.4 million to the state of Wisconsin for fines, penalties, costs and fees.

Gender Discrimination Actions. In June 2002, the Company agreed to settle the *Wilfong* and Tennessee EEOC gender discrimination matters for an aggregate of \$47.0 million, including attorneys fees. The settlement contemplated dismissal of the *Bunch* proceeding, a similar suit for gender discrimination pending in a separate federal district court, and provided for a separate \$2.0 million dispute resolution fund for the *Bunch* plaintiffs, which was subsequently approved by the *Bunch* court. On October 4, 2002, the court in the *Wilfong* matter approved the settlement the Company had reached with the *Wilfong* plaintiffs and entered a final judgment. The Company funded the settlement as provided for in the settlement agreement in December 2002. As contemplated by the *Wilfong* settlement, the Tennessee EEOC action was dismissed in December 2002, and the *Bunch* matter will be dismissed in the near future.

The Company is also involved in various other legal proceedings, claims and litigation arising in the ordinary course of business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters will not have a material adverse effect on the financial position or results of operations of the Company.

ColorTyme is a party to an agreement with Textron Financial Corporation, who provides \$40.0 million in financing to qualifying franchisees of ColorTyme of up to five times their average monthly revenues. Under this on going agreement, upon an event of default by the franchisee under agreements governing this financing and upon the occurrence of certain other events, Textron may assign the loans and the collateral securing such loans to ColorTyme, with ColorTyme then succeeding to the rights of Textron under the debt agreements, including the rights to foreclose on the collateral. An additional \$10.0 million of financing is provided by Texas Capital Bank, National Association under an agreement similar to the Textron financing. Rent-A-Center guarantees the obligations of ColorTyme under these agreements, excluding the effects of any amounts that could be recovered under collateralization provisions, up to a maximum amount of \$50.0 million, of which \$33.8 million was outstanding as of December 31, 2002. Mark E. Speese, Rent-A-Center's Chairman of the Board and Chief Executive Officer, is a passive investor in Texas Capital Bank, owning less than 1% of its outstanding equity.

Note K – Stock Based Compensation

Rent-A-Center's long-term incentive plan (the "Plan") for the benefit of certain key employees, consultants and directors provides the Board of Directors broad discretion in creating equity incentives. Under the plan, 7,900,000 shares of Rent-A-Center's common stock are reserved for issuance under stock options, stock appreciation rights or restricted stock grants. Options granted to employees under the Plan become exercisable over a period of one to five years from the date of grant and may be exercised up to a maximum of 10 years from date of grant. Options granted to directors are exercisable immediately. There

Rent-A-Center, Inc. and Subsidiaries

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

have been no grants of stock appreciation rights and all options have been granted with fixed prices. At December 31, 2002, there were 1,565,189 shares available for issuance under the Plan. However, pursuant to the terms of the Plan, when an optionee leaves the Company's employ, unvested options granted to that employee terminate and become available for re-issuance under the Plan. Vested options not exercised within 90 days from the date the optionee leaves the Company's employ terminate and become available for re-issuance under the Plan.

Information with respect to stock option activity is as follows:

	2002		2001		2000	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year.....	3,957,940	\$28.43	3,790,275	\$24.32	3,590,038	\$23.57
Granted.....	1,393,375	47.43	2,219,000	33.83	1,782,500	24.40
Exercised.....	(1,029,864)	25.96	(852,309)	23.10	(427,700)	21.34
Forfeited.....	(870,375)	34.44	(1,199,026)	29.20	(1,154,563)	23.60
Outstanding at end of year.....	<u>3,451,076</u>	\$35.32	<u>3,957,940</u>	\$28.43	<u>3,790,275</u>	\$24.32
Options exercisable at end of year....	<u>852,763</u>	\$27.13	<u>954,812</u>	\$24.14	<u>1,097,961</u>	\$23.04

The weighted average fair value per share of options granted during 2002, 2001 and 2000 was \$29.10, \$20.34, and \$14.97, respectively, all of which were granted at market value. Information about stock options outstanding at December 31, 2002 is summarized as follows:

Options outstanding			
<u>Range of exercise prices</u>	<u>Number outstanding</u>	<u>Weighted average remaining contractual life</u>	<u>Weighted average exercise price</u>
\$3.34 to \$6.67	27,850	2.36 years	\$ 6.67
\$6.68 to \$18.50	172,205	6.56 years	\$ 16.18
\$18.51 to \$28.50	1,291,138	8.02 years	\$ 24.56
\$28.51 to \$33.88	679,433	8.28 years	\$ 33.16
\$33.89 to \$49.05	405,950	8.42 years	\$ 45.50
\$49.06 to \$61.78	<u>874,500</u>	9.54 years	\$ 52.83
	<u>3,451,076</u>		

Options exercisable		
<u>Range of exercise prices</u>	<u>Number exercisable</u>	<u>Weighted average exercise price</u>
\$3.34 to \$6.67	27,850	\$ 6.67
\$6.68 to \$18.50	78,705	\$ 16.23
\$18.51 to \$28.50	512,450	\$ 25.26
\$28.51 to \$33.88	152,933	\$ 32.62
\$33.89 to \$49.05	<u>80,825</u>	\$ 46.26
	<u>852,763</u>	

During 2001 and 2000, Rent-A-Center issued 12,500 and 25,000 options, respectively, to a non-employee for services. The options were valued at \$168,378 and \$65,000. No options were issued to non-employees during 2002. The expense related to these option agreements is recognized over the service period.

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

Note L – Employee Benefit Plan

Rent-A-Center sponsors a defined contribution pension plan under Section 401(k) of the Internal Revenue Code for all employees who have completed at least three months of service. Employees may elect to contribute up to 20% of their eligible compensation on a pre-tax basis, subject to limitations. Rent-A-Center may make discretionary matching contributions to the 401(k) plan. During 2002, 2001 and 2000, Rent-A-Center made matching cash contributions of \$3.7 million, \$3.3 million, and \$2.5 million, respectively, which represents 50% of the employees' contributions to the 401(k) plan up to an amount not to exceed 4% of each employee's respective compensation. Since March 15, 2000, employees have been permitted to elect to purchase Rent-A-Center common stock as part of their 401(k) plan. As of December 31, 2002 and 2001, respectively, 14.0% and 10.8% of the total plan assets consisted of the Company's common stock.

Note M – Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, senior debt, subordinated notes payable and interest rate swap agreements. The carrying amount of cash and cash equivalents approximates fair value at December 31, 2002 and 2001, because of the short maturities of these instruments. The Company's senior debt is variable rate debt that reprices frequently and entails no significant change in credit risk, and as a result, fair value approximates carrying value. The fair value of the subordinated notes payable is estimated based on discounted cash flow analysis using interest rates currently offered for loans with similar terms to borrowers of similar credit quality. At December 31, 2002, the fair value of the subordinated notes was \$292.7 million, which is \$20.9 million above their carrying value of \$271.8 million. Information relating to the fair value of the Company's interest rate swap agreements is set forth in Note E.

Note N – Earnings Per Common Share

Summarized basic and diluted earnings per common share were calculated as follows:

	<u>Net Earnings</u>	<u>Shares</u>	<u>Per Share</u>
	(In Thousands, except per share data)		
Year ended December 31, 2002			
Basic earnings per common share.....	\$ 161,961	29,383	\$ 5.51
Effect of dilutive stock options	--	495	
Effect of preferred dividend	<u>10,212</u>	<u>6,468</u>	
Diluted earnings per common share.....	<u>\$ 172,173</u>	<u>36,346</u>	\$ 4.74
Year ended December 31, 2001			
Basic earnings per common share.....	\$ 50,809	25,846	\$ 1.97
Effect of dilutive stock options	--	908	
Effect of preferred dividend	<u>15,408</u>	<u>10,325</u>	
Diluted earnings per common share.....	<u>\$ 66,217</u>	<u>37,079</u>	\$ 1.79
Year ended December 31, 2000			
Basic earnings per common share.....	\$ 92,607	24,432	\$ 3.79
Effect of dilutive stock options	--	433	
Effect of preferred dividend	<u>10,420</u>	<u>9,947</u>	
Diluted earnings per common share.....	<u>\$ 103,027</u>	<u>34,812</u>	\$ 2.96

For 2002, 2001, and 2000, the number of stock options that were outstanding but not included in the computation of diluted earnings per common share because their exercise price was greater than the average market price of the common stock and, therefore anti-dilutive, was 874,500, 628,000 and 1,485,118, respectively.

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

Note O – Unaudited Quarterly Data

Summarized quarterly financial data for 2002 and 2001 is as follows:

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
Year ended December 31, 2002	(In Thousands, except per share data)			
Revenues.....	\$498,610	\$494,660	\$494,561	\$522,213
Operating profit.....	88,296	88,240	84,087	89,826
Net earnings.....	43,563	41,943	41,449	45,218
Basic earnings per common share.....	1.57	1.48	1.24	1.29
Diluted earnings per common share.....	1.20	1.14	1.14	1.26
	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
Year ended December 31, 2001⁽¹⁾	(In Thousands, except per share data)			
Revenues.....	\$439,702	\$442,759	\$447,074	\$478,993
Operating profit.....	62,485	66,640	32,372	23,089
Net earnings.....	24,998	27,545	9,974	3,700
Basic earnings per common share.....	0.83	0.88	0.27	0.01
Diluted earnings per common share.....	0.69	0.74	0.26	0.10

⁽¹⁾ Includes the effects of a pre-tax legal settlement of \$52.0 million associated with a 2001 settlement of a class action lawsuit in the state of Missouri, Illinois and Tennessee.

Note P – Related Party Transactions

On October 8, 2001, Rent-A-Center announced the retirement of J. Ernest Talley as its Chairman and Chief Executive Officer, and the appointment of Mark E. Speese as its new Chairman and Chief Executive Officer. In connection with Mr. Talley's retirement, Rent-A-Center's Board of Directors approved the repurchase of \$25.0 million worth of shares of its common stock beneficially held by Mr. Talley at a purchase price equal to the average closing price of its common stock over the 10 trading days beginning October 9, 2001, subject to a maximum of \$27.00 per share and a minimum of \$20.00 per share. Under this formula, the purchase price for the repurchase was calculated at \$20.258 per share. Accordingly, on October 23, 2001 Rent-A-Center repurchased 493,632 shares of its common stock beneficially held by Mr. Talley at \$20.258 per share for a total purchase price of \$10.0 million and on November 30, 2001, repurchased an additional 740,448 shares of its common stock beneficially Mr. Talley at \$20.258 per share, for a total purchase price of an additional \$15.0 million. Rent-A-Center also had the option to repurchase all of the remaining 1,714,086 shares of its common stock held by Mr. Talley at \$20.258 per share for \$34.7 million by February 5, 2002. Rent-A-Center exercised this option on January 25, 2002 and repurchased the remaining shares on January 30, 2002.

One of Rent-A-Center's directors serves as Vice Chairman of the Board of Directors of Intrust Bank, N.A., one of Rent-A-Center's lenders. Intrust Bank, N.A. was a \$10.7 million participant in Rent-A-Center's senior credit facility as of December 31, 2002. Rent-A-Center also maintains a \$10.0 million revolving line of credit with Intrust Bank, N.A. Although from time to time Rent-A-Center may draw funds from the revolving line of credit, no funds were advanced as of December 31, 2002. In addition, Intrust Bank, N.A. serves as trustee of Rent-A-Center's 401(k) plan.

In June 2000, Rent-A-Center purchased stores from Portland II RAC, Inc. and Wilson Enterprises of Maine, Inc., each of which were ColorTyme franchisees, for \$19.4 million in cash based upon a purchase formula established at the time of the Thorn Americas acquisition. Rent-A-Center's current president held approximately 15% of the stock of each of the franchisees and received \$1,833,046 in cash as a result of the purchase. In July 2000, partners of Rent-A-Center's President purchased his 33 1/3% interest in CTME, LLC, another of the ColorTyme's franchisees, for \$37,500. Rent-A-Center's President no longer owns an

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

interest in any ColorTyme franchisees.

On August 5, 1998, affiliates of Apollo purchased \$250.0 million of Rent-A-Center's Series A preferred stock. Under the terms of the Series A preferred stock, the holders of the Series A preferred stock have the right to elect two members of Rent-A-Center's Board of Directors. Apollo has voting control over 100% of the issued and outstanding Series A preferred stock. In addition, pursuant to the terms of a stockholders agreement entered into between Apollo, Rent-A-Center and Mark E. Speese, Apollo has the right to nominate a third person to Rent-A-Center's Board of Directors.

In connection with the issuance of Rent-A-Center's Series A preferred stock in August 1998, Rent-A-Center entered into a registration rights agreement with Apollo which, among other things, granted them two rights to request that their shares be registered, and a registration rights agreement with an affiliate of Bear Stearns, which granted them the right to participate in any company-initiated registration of shares, subject to certain exceptions. In May 2002, Apollo exercised one of their two rights to request that their shares be registered and an affiliate of Bear Stearns elected to participate in such registration. In connection therewith, Apollo and the affiliate of Bear Stearns converted 97,197 shares of Rent-A-Center's Series A preferred stock held by them into 3,500,000 shares of Rent-A-Center's common stock, which they sold in the May 2002 public offering that was the subject of Apollo's request. Rent-A-Center did not receive any of the proceeds from this offering.

On August 5, 2002, the first date on which Rent-A-Center had the right to optionally redeem the shares of Series A preferred stock, the holders of Rent-A-Center's Series A preferred stock converted all but two shares of the Company's Series A preferred stock held by them into 7,281,548 shares of Rent-A-Center's common stock. In connection with Apollo's conversion of all but two of the shares of Series A preferred stock held by them, Rent-A-Center granted Apollo an additional right to effect a demand registration under the existing registration rights agreement Rent-A-Center entered into with them in 1998, such that Apollo now has two demand rights.

Note Q – Subsequent Event

On February 8, 2003, the Company completed the acquisition of substantially all of the assets of 295 rent-to-own stores from Rent-Way, Inc. for an aggregate purchase price of \$100.4 million in cash. Of the aggregate purchase price, the Company held back \$10.0 million to pay for various indemnified liabilities and expenses, if any. The Company funded the acquisition entirely from cash on hand. Of the 295 stores, 176 were subsequently merged with the Company's existing store locations. The Company entered into this transaction seeing it as an opportunistic acquisition that would allow it to expand its store base in conjunction with the Company's strategic growth plans. The acquisition price was determined by evaluating the average monthly rental income of the acquired stores and applying a multiple to the total. The purchase price will be allocated to rental merchandise, property assets and various intangible accounts, which include goodwill, customer relationships and non-compete agreements. The Company is still assessing the value of the tangible assets and the Company is utilizing a third party to review the valuation of certain intangible assets; thus, the allocation of the purchase price is subject to refinement. The table below summarizes the allocation of the purchase price based on the estimated fair values of the assets acquired:

	Estimated Values (in thousands)
Inventory	\$ 50,100
Property assets.....	3,200
Customer relationships.....	11,500
Non-compete agreement.....	500
Goodwill.....	<u>35,100</u>
Total assets acquired	<u>\$ 100,400</u>

Customer relationships will be amortized over an 18 month period, the non-compete agreement is for four years and, in accordance with SFAS 142, the goodwill associated with the acquisition will not be

Rent-A-Center, Inc. and Subsidiaries

NOTES TO CONSOLIDATED INCOME STATEMENTS – (Continued)

amortized.

Exhibit Index

Exhibit Number	Exhibit Description
2.1(1)	— Agreement and Plan of Merger, dated as of December 30, 2002, but effective as of December 31, 2002, by and among Rent-A-Center, Inc., Rent-A-Center Holdings, Inc. and RAC Merger Sub, Inc.
2.2*	— Asset Purchase Agreement, dated as of December 17, 2002, by and among Rent-A-Center East, Inc. and Rent-Way, Inc., Rent-Way of Michigan, Inc. and Rent-Way of TTIG, L.P. (Pursuant to the rules of the SEC, the schedules and exhibits have been omitted. Upon the request of the SEC, Rent-A-Center, Inc. will supplementally supply such schedules and exhibits to the SEC.)
2.3*	— Letter Agreement, dated December 31, 2002
2.4*	— Letter Agreement, dated January 7, 2003
2.5*	— Letter Agreement, dated February 7, 2003
2.6*	— Letter Agreement, dated February 10, 2003 (Pursuant to the rules of the SEC, the exhibit has been omitted. Upon the request of the SEC, Rent-A-Center will supplementally supply such exhibit to the SEC.)
2.7*	— Letter Agreement, dated March 10, 2003 (Pursuant to the rules of the SEC, the exhibit has been omitted. Upon the request of the SEC, Rent-A-Center will supplementally supply such exhibit to the SEC.)
3.1(2)	— Certificate of Incorporation of Rent-A-Center, Inc., as amended
3.2(3)	— Amended and Restated Bylaws of Rent-A-Center, Inc.
4.1(4)	— Form of Certificate evidencing Common Stock
4.2(5)	— Certificate of Designations, Preferences and Relative Rights and Limitations of Series A Preferred Stock of Rent-A-Center, Inc. (formerly known as Rent-A-Center Holdings, Inc.)
4.3(6)	— Form of Certificate evidencing Series A Preferred Stock
4.4(7)	— Indenture, dated as of December 19, 2001, by and among Rent-A-Center, Inc., as Issuer, ColorTyme, Inc., and Advantage Companies, Inc., as Subsidiary Guarantors, and The Bank of New York, as Trustee
4.5(8)	— First Supplemental Indenture, dated as of May 1, 2002, by and among Rent-A-Center, Inc., ColorTyme, Inc., Advantage Companies, Inc. and The Bank of New York, as Trustee
4.6(9)	— Second Supplemental Indenture, dated as of September 30, 2002, by and among Rent-A-Center, Inc., ColorTyme, Inc., Advantage Companies, Inc., Get It Now, LLC and The Bank of New York, as Trustee
4.7*	— Amended and Restated Third Supplemental Indenture, dated as of December 31, 2002, by and among Rent-A-Center, Inc., Rent-A-Center Holdings, Inc., ColorTyme, Inc., Rent-A-Center West, Inc. (formerly known as Advantage Companies, Inc.), Get It Now, LLC, Rent-A-Center Texas, LP, Rent-A-Center Texas, LLC and The Bank of New York, as Trustee
4.8(10)	— Form of 2001 Exchange Note
10.1(11)+	— Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan
10.2*	— Amended and Restated Credit Agreement, dated as of August 5, 1998, as amended and restated as of December 31, 2002, among Rent-A-Center, Inc., Rent-A-Center East, Inc., Comerica Bank, as Documentation Agent, Bank of America NA, as Syndication Agent, and JP Morgan Chase Bank (formerly known as The Chase Manhattan Bank), as Administrative Agent
10.3*	— Guarantee and Collateral Agreement, dated as of August 5, 1998, as amended and restated as of December 31, 2002, made by Rent-A-Center, Inc., Rent-A-Center East, Inc. and certain of its Subsidiaries in favor of JP Morgan Chase Bank (formerly known as The Chase Manhattan Bank), as Administrative Agent
10.4(12)	— Amended and Restated Stockholders Agreement, dated as of October 8, 2001, by and among Apollo Investment Fund IV, L.P., Apollo Overseas Partners IV, L.P., J. Ernest Talley, Mark E. Speese, Rent-A-Center, Inc., and certain other persons
10.5(13)	— Second Amended and Restated Stockholders Agreement, dated as of August 5, 2002, by and among Apollo Investment Fund IV, L.P., Apollo Overseas Partners IV, L.P., Mark E. Speese, Rent-A-Center, Inc., and certain other persons
10.6*	— Third Amended and Restated Stockholders Agreement, dated as of December 31, 2002, by and

**Exhibit
Number Exhibit Description**

	among Apollo Investment Fund IV, L.P., Apollo Overseas Partners IV, L.P., Mark E. Speese, Rent-A-Center, Inc., and certain other persons
10.7(14)	— Registration Rights Agreement, dated August 5, 1998, by and between Renters Choice, Inc., Apollo Investment Fund IV, L.P., and Apollo Overseas Partners IV, L.P., related to the Series A Convertible Preferred Stock
10.8(15)	— Second Amendment to Registration Rights Agreement, dated as of August 5, 2002, by and among Rent-A-Center, Inc., Apollo Investment Fund IV, L.P. and Apollo Overseas Partners IV, L.P.
10.9*	— Third Amendment to Registration Rights Agreement, dated as of December 31, 2002, by and among Rent-A-Center, Inc., Apollo Investment Fund IV, L.P. and Apollo Overseas Partners IV, L.P.
10.10(16)	— Common Stock Purchase Agreement, dated as of October 8, 2001, by and among J. Ernest Talley, Mary Ann Talley, the Talley 1999 Trust and Rent-A-Center, Inc.
10.11(17)	— Exchange and Registration Rights Agreement, dated December 19, 2001, by and among Rent-A-Center, Inc., ColorTyme, Inc., Advantage Companies, Inc., J.P. Morgan Securities, Inc., Morgan Stanley & Co. Incorporated, Bear, Stearns & Co. Inc., and Lehman Brothers, Inc.
10.12(18)	— Amended and Restated Franchisee Financing Agreement, dated March 27, 2002, by and between Textron Financial Corporation, ColorTyme, Inc. and Rent-A-Center, Inc.
10.13(19)	— Franchisee Financing Agreement, dated April 30, 2002, but effective as of June 28, 2002, by and between Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center, Inc.
10.14(20)	— First Amendment to Franchisee Financing Agreement, dated July 23, 2002, by and between Textron Financial Corporation, ColorTyme, Inc. and Rent-A-Center, Inc.
10.15(21)	— Second Amendment to Franchisee Financing Agreement, dated September 30, 2002, by and between Textron Financial Corporation, ColorTyme, Inc. and Rent-A-Center, Inc.
10.16*	— Third Amendment to Franchisee Financing Agreement, dated March 24, 2003, but effective as of December 31, 2002, by and between Textron Financial Corporation, ColorTyme, Inc. and Rent-A-Center, Inc.
21.1*	— Subsidiaries of Rent-A-Center, Inc.
23.1*	— Consent of Grant Thornton LLP
99.1*	— Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Mark E. Speese
99.2*	— Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Robert D. Davis

* Filed herewith.

+ Management contract or company plan or arrangement

- (1) Incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K dated as of December 31, 2002
- (2) Incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K dated as of December 31, 2002
- (3) Incorporated herein by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K dated as of December 31, 2002
- (4) Incorporated herein by reference to Exhibit 4.1 to the registrant's Form S-4 filed on January 11, 1999
- (5) Incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K dated as of December 31, 2002
- (6) Incorporated herein by reference to Exhibit 4.5 to the registrant's Registration Statement Form S-4 filed on January 11, 1999

- (7) Incorporated herein by reference to Exhibit 4.6 to the registrant's Registration Statement on Form S-4 filed on January 22, 2002
 - (8) Incorporated herein by reference to Exhibit 4.9 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002
 - (9) Incorporated herein by reference to Exhibit 4.7 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
 - (10) Incorporated herein by reference to Exhibit 4.7 to the registrant's Registration Statement on Form S-4 filed on January 22, 2002
 - (11) Incorporated herein by reference to Exhibit 99.1 to the registrant's Post-Effective Amendment No.1 to Form S-8 dated as of December 31, 2002
 - (12) Incorporated herein by reference to Exhibit 10.7 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001
 - (13) Incorporated herein by reference to Exhibit 10.8 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002
 - (14) Incorporated herein by reference to Exhibit 10.22 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998
 - (15) Incorporated herein by reference to Exhibit 10.10 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002
 - (16) Incorporated herein by reference to Exhibit 10.9 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001
 - (17) Incorporated herein by reference to Exhibit 10.9 to the registrant's Registration Statement on Form S-4 filed on January 22, 2002
 - (18) Incorporated herein by reference to Exhibit 10.13 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002
 - (19) Incorporated herein by reference to Exhibit 10.14 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002
 - (20) Incorporated herein by reference to Exhibit 10.15 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002
 - (21) Incorporated herein by reference to Exhibit 10.14 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002
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