IMPAC MORTGAGE HOLDINGS INC
Form SC 13G
March 30, 2005

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

3. *Intangibles.*

Amortization of intangibles consists primarily of the amortization of customer relationships and non-compete agreements.

Intangibles consist of the following (in thousands):

		March 31, 2006		December 31, 2005	
	Avg. Life (years)	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Amortizable intangible assets					
Franchise network	10	$ 3,000	$ 2,925	$ 3,000	$ 2,850
Non-compete agreements	3	6,050	4,739	6,040	4,423
Customer relationships	1.5	33,157	31,837	32,934	31,335
Total		42,207	39,501	41,974	38,608
Intangible assets not subject to amortization					
Goodwill		1,026,961	99,152	1,025,112	99,152
Total intangibles		$ 1,069,168	$ 138,653	$ 1,067,086	$ 137,760

The estimated remaining 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)
2006	$ 2,408
2007	288
2008	10
2009	
Total	$ 2,706

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RENT-A-CENTER, INC. AND SUBSIDIARIES

Changes in the net carrying amount of goodwill are as follows:

	At March 31, 2006	At December 31, 2005
	(In thousands)	
Balance as of January 1,	$ 925,960	$ 913,415
Additions from acquisitions	1,644	25,947
Goodwill impairment		(8,198) (1)
Post purchase price allocation adjustments	205	(5,204)(2)
Balance as of the end of the period	$ 927,809	$ 925,960

(1) Goodwill impairment of approximately $4.5 million was included in our restructuring charges relating to its store consolidation plan and $3.7 million relating to Hurricane Katrina was included in amortization expense.

(2) The post purchase price allocation adjustments in 2005 of approximately $5.2 million are primarily attributable to the tax benefit associated with certain items recorded as goodwill that were deductible for tax purposes.

4. *Earnings Per Share.*

Basic and diluted earnings per common share is computed based on the following information:

	Three months ended March 31, 2006		
(In thousands, except per share data)	**Net earnings**	**Shares**	**Per share**
Basic earnings per common share	$ 40,328	69,256	$ 0.58
Effect of dilutive stock options		994	
Diluted earnings per common share	$ 40,328	70,250	$ 0.57

	Three months ended March 31, 2005		
	Net earnings	**Shares**	**Per share**
Basic earnings per common share	$ 47,669	74,558	$ 0.64
Effect of dilutive stock options		1,514	
Diluted earnings per common share	$ 47,669	76,072	$ 0.63

For the three months ended March 31, 2006 and 2005, 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 Rent-A-Center common stock, and therefore anti-dilutive, was 1,891,038 and 1,865,108, respectively.

5. *Subsidiary Guarantors.*

7[1]/2% Senior Subordinated Notes. On May 6, 2003, Rent-A-Center issued $300.0 million in senior subordinated notes due 2010, bearing interest at 7[1]/2%, pursuant to an indenture dated May 6, 2003, among Rent-A-Center, Inc., its subsidiary guarantors (the Subsidiary Guarantors) and The Bank of New York, as trustee. The proceeds of this offering were used to fund the repurchase and redemption of certain outstanding notes.

The 2003 indenture contains covenants that limit Rent-A-Center s ability to:

incur additional debt;

sell assets or its subsidiaries;

grant liens to third parties;

pay dividends or repurchase stock (subject to a restricted payments basket for which $120.7 million was available for use as of March 31, 2006); and

engage in a merger or sell substantially all of its assets.

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Events of default under the 2003 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 $50.0 million.

The 7 1/2% notes may be redeemed on or after May 1, 2006, at our option, in whole or in part, at a premium declining from 103.75%. The 7 1/2% notes also require that upon the occurrence of a change of control (as defined in the 2003 indenture), the holders of the notes have the right to require Rent-A-Center 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. This would trigger an event of default under our senior credit facility.

Rent-A-Center and the Subsidiary Guarantors have fully, jointly and severally, and unconditionally guaranteed the obligations of Rent-A-Center with respect to the 7 1/2% notes. Rent-A-Center has no independent assets or operations, and each Subsidiary Guarantor is 100% owned directly or indirectly by Rent-A-Center. The only direct or indirect subsidiaries of Rent-A-Center that are not guarantors are minor subsidiaries. There are no restrictions on the ability of any of the Subsidiary Guarantors to transfer funds to Rent-A-Center in the form of loans, advances or dividends, except as provided by applicable law.

6. *Stock Repurchase Plan.*

Our Board of Directors has authorized a common stock repurchase program, permitting us to purchase, from time to time, in the open market and privately negotiated transactions, up to an aggregate of $400.0 million of Rent-A-Center common stock. As of March 31, 2006, we had purchased a total of 14,628,800 shares of Rent-A-Center common stock for an aggregate of $360.8 million under this common stock repurchase program, of which 202,800 shares were repurchased in the first quarter of 2006 for approximately $4.7 million.

7. *Guarantees.*

ColorTyme Guarantee. ColorTyme is a party to an agreement with Wells Fargo Foothill, Inc., which provides $50.0 million in aggregate financing to qualifying franchisees of ColorTyme generally of up to five times their average monthly revenues. Under the Wells Fargo agreement, upon an event of default by the franchisee under agreements governing this financing and upon the occurrence of certain other events, Wells Fargo can assign the loans and the collateral securing such loans to ColorTyme, with ColorTyme paying the outstanding debt to Wells Fargo and then succeeding to the rights of Wells Fargo under the debt agreements, including the right to foreclose on the collateral. The Wells Fargo agreement expires in October 2006. Although we believe we will be able to renew our existing agreement or find other financing arrangements, there can be no assurance that we will not need to fund the foregoing guarantee upon the expiration of the existing agreement. An additional $20.0 million of financing is provided by Texas Capital Bank, National Association under an agreement similar to the Wells Fargo financing. Rent-A-Center East guarantees the obligations of ColorTyme under each of these agreements, excluding the effects of any amounts that could be recovered under collateralization provisions, up to a maximum amount of $70.0 million, of which $32.5 million was outstanding as of March 31, 2006. 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.

Other Guarantees. We also provide assurance to our insurance providers that if they are not able to draw funds from us for claims paid, they have the ability to draw against our letters of credit. Generally, our letters of credit are renewed automatically every year unless we notify the institution not to renew. At March 31, 2006, we had $107.5 million in outstanding letters of credit under our senior credit facilities, all of which is supported by our $250.0 million revolving facility.

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8. *Store Consolidation Plan.*

On September 6, 2005, we announced our plan to close up to 162 stores by December 31, 2005. The decision to close these stores was based on management s analysis and evaluation of the markets in which we operate, including our market share, operating results, competitive positioning and growth potential for the affected stores. The 162 stores included 114 stores that we intended to close and merge with our existing stores and up to 48 additional stores that we intended to sell, merge with a potential acquisition or close by December 31, 2005. As of March 31, 2006, we had merged 113 of the 114 stores identified to be merged with existing locations, sold 35 and merged one of the additional 48 stores on the plan. Of the remaining stores, we intend to keep nine of them open and sell or merge the remaining stores.

We estimated that we would incur restructuring expenses in the range of $12.1 million to $25.1 million, to be recorded in the third and fourth quarters of the fiscal year ending December 31, 2005, based on the closing date of the stores. The following table presents the original range of estimated charges, the total store consolidation plan charges recorded through March 31, 2006, the estimated range of remaining charges to be recorded in the fiscal year ending December 31, 2006 and the remaining accrual as of March 31, 2006:

	Closing Plan Estimate		Expense recognized through March 31, 2006	Estimated remaining charges for 2006	
			(In thousands)		
Lease obligations	$ 8,661	$ 13,047	$ 9,261	$ 0	$ 1,044
Fixed asset disposals	2,630	4,211	3,333	0	110
Net proceeds from stores sold			(2,449)		
Other costs [1]	830	7,875	4,822	0	570
Total	$ 12,121	$ 25,133	$ 14,967	$ 0	$ 1,724

The following table shows the changes in the accrual balance from December 31, 2005 to March 31, 2006, relating to our store consolidation plan.

	December 31, 2005 Balance	Charges to Expense	Cash Payments	March 31, 2006 Balance
			(In thousands)	
Lease obligations	$ 5,364	$	$ (2,500)	$ 2,864
Fixed asset disposals				
Net proceeds from stores sold				
Other costs [1]	91		(91)	
Total	$ 5,455	$	$ (2,591)	$ 2,864

[1] Goodwill impairment charges are the

primary component of other costs. Additional costs include inventory disposals and the removal of signs and various assets from vacated locations.

We expect the total estimated cash outlay in connection with the store consolidation plan to be between $9.0 million to $10.4 million. The total amount of cash used in the store consolidation plan through March 31, 2006 was approximately $6.5 million. Therefore, we expect to use approximately $2.5 million to $3.9 million of cash on hand for future payments primarily related to the satisfaction of lease obligations for closed stores.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

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 that the expectations re forward-looking statements are accurate. However, we cannot assure you that these expectations will occur. Our actual future performance could differ materially from such statements. Factors that could cause or contribute to these differences include, but are not limited to:

uncertainties regarding the ability to open new rent-to-own 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 identify and successfully market products and services that appeal to our customer demographic;

our ability to identify and successfully enter new lines of business offering products and services that appeal to our customer demographic, including our financial services products;

the results of our litigation;

the passage of legislation adversely affecting the rent-to-own or financial services industries;

interest rates;

our ability to enter into new and collect on our rental purchase agreements;

our ability to enter into new and collect on our short term loans;

economic pressures affecting the disposable income available to our targeted consumers, such as high fuel and utility costs;

changes in our effective tax rate;

our ability to maintain an effective system of internal controls;

changes in the number of share-based compensation grants, methods used to value future share-based payments and changes in estimated forfeiture rates with respect to share-based compensation;

changes in our stock price and the number of shares of common stock that we may or may not repurchase; and

the other risks detailed from time to time in our SEC reports.

Additional important factors that could cause our actual results to differ materially from our expectations are discussed under Risk Factors later in this report as well as our Annual Report on Form 10-K for our fiscal year ended December 31, 2005. 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.

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Our Business

We are the largest rent-to-own operator in the United States with an approximate 33% market share based on store count. At March 31, 2006, we operated 2,755 company-owned stores nationwide and in Canada and Puerto Rico, including 21 stores located in Wisconsin and operated by our subsidiary Get It Now, LLC under the name Get It Now and seven stores located in Canada and operated by our subsidiary Rent-A-Centre Canada, Ltd., under the name Rent-A-Centre. Another of our subsidiaries, ColorTyme, is a national franchisor of rent-to-own stores. At March 31, 2006, ColorTyme had 297 franchised stores in 38 states, 289 of which operated under the ColorTyme name and 8 stores of which operated under the Rent-A-Center name.

Our stores generally offer high quality durable products such as major consumer 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. Rental payments are made generally on a weekly basis and, together with applicable fees, constitute our primary revenue source. Our expenses primarily relate to merchandise costs and the operations of our stores, including salaries and benefits for our employees, occupancy expenses for our leased real estate, merchandise delivery expenses, advertising expenses, lost, damaged, or stolen merchandise, fixed asset depreciation, and corporate and other expenses.

We have pursued an aggressive growth strategy since 1993. We have sought to acquire underperforming rent-to-own stores to which we could apply our operating model as well as open new stores. As a result, 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, 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 of existing rent-to-own stores, and development of new rent-to-own stores. Typically, a newly opened rent-to-own 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 $500,000, with roughly 75% 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. In addition, we strategically open or acquire stores near market areas served by existing stores (cannibalize) to enhance service levels, gain incremental sales and increase market penetration. This planned cannibalization may negatively impact our same store revenue. There can be no assurance that we will open any new rent-to-own stores in the future, or as to the number, location or profitability thereof.

Furthermore, we are evaluating other growth strategies, including offering additional products and services designed to appeal to our customer demographic, both through our new and existing rent-to-own stores as well as the entry into additional lines of business. In 2005, we began offering an array of financial services in addition to traditional rent-to-own products in our existing rent-to-own stores. These financial services include, but are not limited to, short term secured and unsecured loans, bill paying, debit cards, check cashing and money transfer services. We believe that traditional financial services providers ineffectively market to our customer base and that an opportunity exists for us to leverage our knowledge of this demographic, as well as our operational infrastructure, into a complementary line of business offering financial services designed to appeal to our customer demographic. As of March 31, 2006, 56 locations in the northwestern United States were offering some or all of these financial services. We intend to offer these financial services in 140 to 200 Rent-A-Center store locations by the end of 2006. There can be no assurance that we will be successful in our efforts to expand our operations to include such complementary financial services, or

that such operations, should they be added, will prove to be profitable.

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Recent Developments

As of April 27, 2006, we have acquired accounts from two stores, opened three new stores and closed ten stores during the second quarter of 2006. Of the closed stores, three were sold and seven were merged with existing locations. We intend to increase the number of rent-to-own stores we operate by an average of approximately 5% per year over the next several years. Additionally, as of April 27, 2006, we have added financial services to three additional existing rent-to-own locations during the second quarter of 2006.

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

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent losses 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. 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. We believe the following are areas where the degree of judgment and complexity in determining amounts recorded in our consolidated financial statements make the accounting policies critical.

Self-Insurance Liabilities. We have self-insured retentions with respect to losses under our workers compensation, general liability, and auto liability insurance policies. We establish reserves for our liabilities associated with these losses by obtaining forecasts for the ultimate expected losses and estimating amounts needed to pay losses within our self-insured retentions.

We make assumptions on our liabilities within our self-insured retentions using actuarial loss forecasts, which are prepared using methods and assumptions in accordance with standard actuarial practice, and third party claim administrator loss estimates which are based on known facts surrounding individual claims. Periodically we reevaluate our estimate of liability within our self-insured retentions, including our assumptions related to our loss forecasts and estimates, using updated actuarial loss forecasts and currently valued third party claim administrator loss estimates. We evaluate the adequacy of our accruals by comparing amounts accrued on our balance sheet for anticipated losses to our updated actuarial loss forecasts and third party claim administrator loss estimates, and make adjustments to our accruals as needed based upon such review.

Over the previous 10 years, our loss exposure has increased, primarily as a result of our growth. We continually institute procedures to manage our loss exposure through a greater focus on the risk management function, a transitional duty program for injured workers, ongoing safety and accident prevention training, and various programs designed to minimize losses and improve our loss experience in our store locations.

As of March 31, 2006, the net amount accrued for losses within our self-insured retentions was $100.6 million, as compared to $90.3 million at March 31, 2005. The increase in the net amount accrued for the 2006 period is a result of an estimate for new claims expected for the current policy period, which incorporates our store growth, increased number of employees, increases in health care costs, and the net effect of prior period claims which have closed or for which additional development or changes in estimates have occurred.

Litigation Reserves. We are the subject of litigation in the ordinary course of our business. Our litigation involves, among other things, actions relating to claims that our rental purchase agreements constitute installment sales contracts, violate state usury laws or violate other state laws 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. In preparing our financial statements at a given point in time, we account for these contingencies pursuant to the provisions of SFAS No. 5, which requires that we accrue for losses that are both probable and reasonably estimable.

Each quarter, we make estimates of our probable liabilities, if reasonably estimable, and record such amounts in our consolidated financial statements. These amounts 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 reflect current facts and circumstances.

As of March 31, 2006, we had accrued $3.8 million relating to our outstanding litigation, of which approximately $1.3 million is related to the prospective settlement of the *Rose/Madrigal* matters, and an additional $2.5 million for anticipated legal fees and expenses with respect to our other outstanding litigation, as compared to $40.8 million for the quarter ended March 31, 2005, of which we had accrued $39.0 million in connection with the settlement of the *Griego/Carrillo* matter, and an additional $1.8 million for probable litigation costs with respect to our other outstanding litigation.

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The ultimate outcome of our litigation is uncertain, and the amount of loss we may incur, if any, cannot in our judgment be reasonably estimated. Additional developments in our litigation or other adverse or positive developments or rulings in our litigation, could affect our assumptions and thus, our accrual.

Income Tax Reserves. We are subject to federal, state, local and foreign income taxes. We estimate our liabilities for income tax exposure by evaluating our income tax reserves each quarter based on the information available to us, and establishing reserves in accordance with the criteria for accrual under SFAS No. 5. In estimating this liability, we evaluate a number of factors in ascertaining whether we may have to pay additional taxes and interest when all examinations by taxing authorities are concluded. The actual amount accrued as a liability is based on an evaluation of the underlying facts and circumstances, a thorough research of the technical merits of our tax positions taken, and an assessment of the chances of us prevailing in our tax positions. We consult with external tax advisers in researching our conclusions. At March 31, 2006, we had accrued $5.2 million relating to our contingent liabilities for income taxes, as compared to $10.4 million at March 31, 2005. The decrease in the amount accrued at March 31, 2006 primarily relates to 2005 adjustments made for the reversal of a $3.3 million state tax reserve in connection with a change in estimate as well as a $2.0 million tax audit reserve associated with the favorable resolution of our 1998 and 1999 federal tax returns, offset slightly by our normal tax accruals.

If we make changes to our accruals in any of these areas in accordance with the policies described above, these changes would impact our earnings. Increases to our accruals would reduce earnings and similarly, reductions to our accruals would increase our earnings. A pre-tax change of $1.1 million in our estimates would result in a corresponding $0.01 change in our earnings per common share.

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 provide a meaningful and fair perspective of our company. However, we do not suggest that other general risk factors, such as those discussed later in this report and in our Annual Report on Form 10-K for our fiscal year ended December 31, 2005 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 in our Annual Report on Form 10-K.

Revenue. Merchandise is rented to customers pursuant to rental-purchase agreements which provide for weekly, semi-monthly 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 as payments are received and merchandise sales revenue is recognized when the customer exercises their purchase option and pays the cash price due. Revenue for the total amount of the rental purchase agreement is not accrued because the customer can terminate the rental agreement at any time and we cannot enforce collection for non-payment of rents. Because Get It Now makes retail sales on an installment credit basis, Get It Now s revenue is recognized at the time of such retail sale, as is the cost of the merchandise sold, net of a provision for uncollectible accounts. The revenue from our financial services is recorded differently depending on the type of transaction. Fees collected on loans are recognized ratably over the term of the loan. For money orders, wire transfers, check cashing and other customer service type transactions, fee revenue is recognized at the time of the transactions.

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. Depreciation of rental merchandise is included in the cost of rentals and fees on our statement of earnings. We depreciate our rental merchandise using the income forecasting method. 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 computers that are 24 months old or older and which have become idle, depreciation is recognized using the straight-line method for a period of at least six months, generally not to exceed an

aggregate depreciation period of 36 months. The purpose is to better reflect the depreciable life of a computer in our stores and to encourage the sale of older computers.

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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, delivery, 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.

Results of Operations

Three Months Ended March 31, 2006 compared to Three Months Ended March 31, 2005

Store Revenue. Total store revenue increased by $4.6 million, or 0.8%, to $593.7 million for the three months ended March 31, 2006 as compared to $589.1 million for the three months ended March 31, 2005. The increase in total store revenue is primarily attributable to an increase in same store sales of approximately $9.1 million, offset by the revenue lost from the stores that were closed or sold during the 12 month period ending March 31, 2006.

Same store revenues represent those revenues earned in stores that were operated by us for each of the entire three month periods ending March 31, 2006 and 2005, excluding store locations that received accounts through an acquisition or merger of an existing store location. Same store revenues increased by $9.1 million, or 1.8%, to $503.8 million for the three months ended March 31, 2006 as compared to $494.7 million in 2005. This increase in same store revenues was primarily attributable to our change in promotional activities and a slight increase in customer traffic.

Franchise Revenue. Total franchise revenue increased by $537,000, or 4.2%, to $13.3 million for the three months ended March 31, 2006 as compared to $12.8 million in 2005. This increase was primarily attributable to an increase in the number of new franchisees purchasing merchandise in the first quarter of 2006 as compared to the first quarter of 2005.

Cost of Rentals and Fees. Cost of rentals and fees consists of depreciation of rental merchandise and the costs associated with our membership programs. Cost of rentals and fees increased by approximately $300,000, or 0.3%, to $112.8 million for the three months ended March 31, 2006 as compared to $112.5 million in 2005. Cost of rentals and fees expressed as a percentage of store rentals and fees revenue remained constant at 21.7% for the quarters ended March 31, 2006 and 2005.

Cost of Merchandise Sold. Cost of merchandise sold increased by $2.0 million, or 4.9%, to $44.1 million for the three months ended March 31, 2006 as compared to $42.1 million in 2005. This increase was primarily a result of an increase in the number of items sold during the first quarter of 2006 as compared to the first quarter 2005. The gross margin percent of merchandise sales decreased to 31.2% in the first quarter of 2006 from 33.0% in the first quarter of 2005. This decrease was primarily attributable to a decrease in the average selling price of merchandise sold during the first quarter of 2006 as compared to the first quarter of 2005.

Salaries and Other Expenses. Salaries and other expenses increased by $4.8 million, or 1.4%, to $338.8 million for the three months ended March 31, 2006 as compared to $334.0 million in 2005. Salaries and other expenses expressed as a percentage of total store revenue increased to 57.1% for the three months ended March 31, 2006 from 56.7% in 2005. The slight increases are primarily the result of an increase in salaries and wages of approximately $2.0 million due to the recognition of stock option expenses as well as higher fuel expenses relating to product deliveries and utility costs.

Franchise Cost of Merchandise Sold. Franchise cost of merchandise sold increased by $690,000, or 6.4%, to $11.6 million for the three months ended March 31, 2006 as compared to $10.9 million in 2005. This increase was primarily attributable to an increase in the number of new franchisees purchasing merchandise in the first quarter of 2006 as compared to the first quarter of 2005.

General and Administrative Expenses. General and administrative expenses increased by $1.7 million, or 9.1%, to $20.9 million for the three months ended March 31, 2006, as compared to $19.2 million in 2005. General and

administrative expenses expressed as a percentage of total revenue increased to 3.5% for the three months ended March 31, 2006 as compared to 3.2% for the three months ended March 31, 2005. These increases are primarily attributable to additional personnel and related expansion at our corporate office to support growth, including our plans to expand into complimentary lines of business in our rent-to-own stores.

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Amortization of Intangibles. Amortization of intangibles decreased by $1.4 million, or 61.4%, to $886,000 for the three months ended March 31, 2006 as compared to $2.3 million in 2005. This decrease was primarily attributable to the completed customer relationship amortization associated with previous acquisitions, such as the acquisition of Rainbow Rentals, Inc. and Rent-Rite in 2004.

Operating Profit. Operating profit decreased by $10.5 million, or 12.2%, to $75.5 million for the three months ended March 31, 2006 as compared to $86.0 million in 2005. Operating profit as a percentage of total revenue decreased to 12.4% for the three months ended March 31, 2006 from 14.3% for the three months ended March 31, 2005. These decreases were primarily attributable to the $8.0 million legal reversion recorded in the first quarter of 2005 as well as the increase in salaries and other expenses during the first quarter of 2006 versus 2005 as discussed above.

Interest Expense. Interest expense increased by $2.1 million, or 19.8%, to $13.0 million for the three months ended March 31, 2006 as compared to $10.9 million in 2005. This increase was primarily attributable to increased borrowings under our revolving credit facility during the first quarter of 2006 as compared to the first quarter of 2005, as well as an increase in our weighted interest rate to 6.41% during the first quarter of 2006 as compared to 4.51% during the first quarter of 2005.

Net Earnings. Net earnings decreased by $7.4 million, or 15.4%, to $40.3 million for the three months ended March 31, 2006 as compared to $47.7 million in 2005. This decrease was primarily attributable to the $8.0 million legal reversion recorded in the first quarter of 2005 as well as the increase in salaries and other expenses during the first quarter of 2006 versus 2005 as discussed above.

Liquidity and Capital Resources

Cash provided by operating activities decreased by $26.5 million to $61.1 million for the three months ended March 31, 2006 as compared to $87.6 million in 2005. This decrease is attributable to a decrease in net earnings and changes in deferred income taxes resulting from the reversal of the effect that the Job Creation and Workers Assistance Act of 2002 had on our cash flow as discussed under *Deferred Taxes* below.

Cash used in investing activities increased by $3.5 million to $17.8 million during the three month period ended March 31, 2006 as compared to $14.3 million in 2005. This increase is primarily attributable to an increase in property assets purchased in the first quarter of 2006 as compared to 2005, offset by a decrease in the amount spent on acquisitions.

Cash used in financing activities decreased by $1.8 million to $55.1 million during the three month period ended March 31, 2006 as compared to $56.9 million in 2005. This decrease is primarily a result of the changes in our outstanding debt, the amount of treasury stock repurchased, amounts received from stock options exercised and tax benefit of options exercised in the first quarter of 2006 as compared to 2005.

Liquidity Requirements. Our primary liquidity requirements are for debt service, rental merchandise purchases, capital expenditures, and implementation of our growth strategies, including store expansion and investment in our financial services business. Our primary sources of liquidity have been cash provided by operations, borrowings and sales of debt and equity securities. In the future, 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 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, and our store expansion programs during the next twelve months. Our revolving credit facilities, including our $10.0 million line of credit at Intrust Bank, provide us with revolving loans in an aggregate principal amount not exceeding $260.0 million, of which $112.5 million was available at April 27, 2006. At April 27, 2006, we had $25.6 million in cash. To the extent we have available cash that is not necessary to fund the items listed above, we intend to repurchase additional shares of our common stock, repurchase some of our outstanding subordinated notes, as well as

make additional payments to service our existing debt. 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.

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If a change in control occurs, we may be required to offer to repurchase all of our 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 would allow our lenders to accelerate the indebtedness owed to them. 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.

Litigation. In November 2005, we reached an agreement in principle to settle all of the pending lawsuits and related matters in Washington brought by the plaintiffs counsel in the *Rose/Madrigal* matters on an agreed state-wide class basis for $1.25 million. These matters alleged violations of various provisions of Washington state law regarding overtime, lunch and work breaks, failure to pay wages due to our Washington employees, and various labor related matters. In January 2006, the court in *Rose/Madrigal* preliminarily approved the class settlement. On April 21, 2006, the court issued its final approval of the class settlement and dismissed the class action with prejudice. We anticipate funding the settlement pursuant to the settlement agreement in May 2006. To account for this prospective settlement, as well as our own attorneys fees, we have accrued an aggregate of $1.3 million for this matter as of March 31, 2006. Additional settlements or judgments against us on our existing litigation could affect our liquidity. Please refer to Legal Proceedings later in this report.

Deferred Taxes. 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% of the basis of qualifying property is deductible in the year the property is placed in service, with the remaining 70% of the basis depreciated under the normal tax depreciation rules. For assets placed in service between May 6, 2003 and December 31, 2004, the Jobs and Growth Tax Relief Reconciliation Act of 2003 increased the percent of the basis of qualifying property deductible in the year the property is placed in service from 30% to 50%. Accordingly, our cash flow benefited from the resulting lower cash tax obligations in those prior years. We estimate that our operating cash flow, on a net cumulative basis, from the accelerated depreciation deductions on rental merchandise increased by approximately $85.3 million through 2004. The associated deferred tax liabilities are expected to reverse over a three year period which began in 2005. Approximately $67.0 million, or 79%, reversed in 2005. We expect that $15.2 million, or 18%, will reverse in 2006 and the remaining $3.1 million will reverse in 2007, which will result in additional cash taxes and a corresponding decrease in our deferred tax liabilities discussed above.

Rental Merchandise Purchases. We purchased $216.1 million and $204.9 million of rental merchandise during the three month periods ended March 31, 2006 and 2005, 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 $15.6 million and $10.9 million on capital expenditures during the three month periods ended March 31, 2006 and 2005, respectively, and expect to spend approximately $67.0 million for the remainder of 2006, which includes amounts we intend to spend with respect to expanding our financial services business and our new corporate headquarters facility as discussed below.

In December 2005, we acquired approximately 15 acres of land located in Plano, Texas, on which we intend to build a new corporate headquarters facility. The purchase price for the land was approximately $5.2 million. Building costs are expected to be in the range of $20.0-$25.0 million, and construction began in January 2006. Building costs will be paid on a percentage of completion basis throughout the construction period, and the building is expected to be completed by the end of 2006. We intend to finance this project from cash flow generated from operations. Our remaining lease obligation on our existing location, as of the estimated move date, will be approximately $6.2 million. We anticipate subleasing some or all of the space at our current location to offset the remaining lease obligation. Additionally, we have adjusted the remaining life on the assets which will be abandoned upon our move to the new facility.

Acquisitions and New Store Openings. During the first three months of 2006, we acquired two stores, accounts from five additional locations, opened 10 new stores, and closed 17 stores. Of the closed stores, 14 were merged with

existing store locations and three stores were sold. The acquired stores and accounts were the result of seven separate transactions with an aggregate price of approximately $2.7 million. Additionally, during the first quarter of 2006, we have added financial services to 17 existing rent-to-own store locations, consolidated one store with financial services into an existing location and ended the first quarter of 2006 with a total of 56 stores providing these services.

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As of April 27, 2006, we have acquired accounts from two store, opened three new stores and closed ten stores during the second quarter of 2006. We intend to increase the number of stores we operate by an average of approximately 5% per year over the next several years. Additionally, as of April 27, 2006, we have added financial services to three additional existing rent-to-own locations during the second quarter of 2006.

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 under-performing stores on favorable terms. There can be no assurance that we will be able to acquire or open new stores at the rates we expect, or at all. We cannot assure that the stores we do acquire or open will be profitable at the same levels that our current stores are, or at all.

Senior Credit Facilities. Our $600.0 million senior credit facilities consist of a $350.0 million term loan and a $250.0 million revolving credit facility. The full amount of the revolving credit facility may be used for the issuance of letters of credit, of which $107.5 million had been utilized for letters of credit as of April 27, 2006. As of April 27, 2006, an additional $40.0 million was outstanding, leaving $102.5 million available under our revolving facility. The revolving credit facility expires in July 2009 and the term loan expires in 2010.

The table below shows the scheduled maturity dates of our senior debt outstanding at March 31, 2006.

YEAR ENDING DECEMBER 31,	**(IN THOUSANDS)**
2006	$ 2,625
2007	3,500
2008	3,500
2009	168,000
2010	166,250
Thereafter	
	$ 343,875

Borrowings under our senior credit facilities bear interest at varying rates equal to the Eurodollar rate plus 1.00% to 2.00%, or the prime rate plus up to 1.00%, at our election. The weighted average Eurodollar rate on our outstanding debt was 4.72% at March 31, 2006. At March 31, 2006, we had borrowed $8.0 million utilizing the prime rate option and $10.0 million utilizing the Eurodollar rate under our revolving credit facility. The margins on the Eurodollar rate and on the prime rate may fluctuate dependent upon an increase or decrease in our consolidated leverage ratio as defined by a pricing grid included in our credit agreement. For the quarter ended March 31, 2006, the average effective rate on outstanding borrowings under the senior credit facilities was 6.52%. We have not entered into any interest rate protection agreements with respect to term loans under the new senior credit facility. A commitment fee equal to 0.20% to 0.50% of the unused portion of the revolving credit facility is payable quarterly. As of April 27, 2006 we had $40.0 million outstanding on our revolving credit facility, of which $30.0 million bears interest at the Eurodollar Rate and $10.0 million currently bears interest at the prime rate, but will be converted to the Eurodollar Rate on May 2, 2006. The weighted average Eurodollar rate on our outstanding debt was 4.73% at April 27, 2006.

We utilize our revolving credit facility for the issuance of letters of credit, as well as to manage normal fluctuations in operational cash flow caused by the timing of cash receipts. In that regard, we may from time to time draw funds under the revolving credit facility for general corporate purposes. The funds drawn on individual occasions have varied in amounts of up to $50.0 million, with total amounts outstanding ranging from $10.0 million up to $88.0 million. The amounts drawn are generally outstanding for a short period of time and are generally paid down as cash is received from our operating activities.

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

subsidiaries, and a portion of the capital stock of our international subsidiaries.

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

incur additional debt (including subordinated debt) in excess of $50 million at any one time outstanding;

repurchase our capital stock and 7 1/2% notes and pay cash dividends (subject to a restricted payments basket for which $117.2 million was available for use as of March 31, 2006);

incur liens or other encumbrances;

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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.

Our 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. The table below shows the required and actual ratios under our credit facilities calculated as at March 31, 2006:

	Required ratio		Actual ratio
Maximum consolidated leverage ratio	No greater than	2.75:1	2.22:1
Minimum consolidated interest coverage ratio	No less than	4.00:1	5.99:1
Minimum fixed charge coverage ratio	No less than	1.50:1	1.79:1

Events of default under our 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 there is a change of control. This is defined to include the case where a third party becomes the beneficial owner of 35% or more of our voting stock or certain changes in our Board of Directors occurs. An event of default would also occur if one or more judgments were entered against us of $20.0 million or more and such judgments were not satisfied or bonded pending appeal within 30 days after entry.

Contractual Cash Commitments. The table below summarizes debt, lease and other minimum cash obligations outstanding as of March 31, 2006:

Payments due by period

Contractual Cash Obligations	**Total**	**2006**	**2007 - 2008**	**2009 2010**	**Thereafter**
			(In thousands)		
Senior Credit Facilities (including current portion)	$ 367,625(1)	$ 8,375	$ 7,000	$ 352,250	$ 0
7 1/2% Senior Subordinated Notes(2)	401,250	22,500	45,000	333,750	0
Operating Leases	473,106	120,745	237,327	108,376	6,658
Total	$ 1,241,981	$ 151,620	$ 289,327	$ 794,376	$ 6,658

(1) Includes amounts due under the Intrust line of credit. Amount referenced does not include the interest on our senior credit facilities. Our senior credit

facilities bear interest at varying rates equal to the Eurodollar rate plus 1.00% to 2.00% or the prime rate plus up to 1.00% at our election. The weighted average Eurodollar rate on our outstanding debt at March 31, 2006 was 4.72%.

(2) Includes interest payments of $11.25 million on each of May 1 and November 1 of each year.

7 1/2% Senior Subordinated Notes. On May 6, 2003, Rent-A-Center issued $300.0 million in senior subordinated notes due 2010, bearing interest at 7 1/2%, pursuant to an indenture dated May 6, 2003, among Rent-A-Center, Inc., its subsidiary guarantors and The Bank of New York, as trustee. The proceeds of this offering were used to fund the repurchase and redemption of our then outstanding 11% senior subordinated notes.

The 2003 indenture contains covenants that limit Rent-A-Center s ability to:

incur additional debt;

sell assets or our subsidiaries;

grant liens to third parties;

pay dividends or repurchase stock (subject to a restricted payments basket for which $120.7 million was available for use as of March 31, 2006); and

engage in a merger or sell substantially all of its assets.

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Events of default under the 2003 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 $50.0 million, as well as in the event a judgment is entered against us in excess of $50.0 million that is not discharged, bonded or insured.

The 7 1/2% notes may be redeemed on or after May 1, 2006, at our option, in whole or in part, at a premium declining from 103.75%. The 7 1/2% notes also require that upon the occurrence of a change of control (as defined in the 2003 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. This would trigger an event of default under our new senior credit facilities. We are not required to maintain any financial ratios under the 2003 indenture.

Store Leases. We lease space for all of our stores and service center locations, as well as our corporate and regional offices under operating leases expiring at various times through 2013. Most of our store leases are five year leases and contain renewal options for additional periods ranging from three to five years at rental rates adjusted according to agreed-upon formulas.

ColorTyme Guarantee. ColorTyme is a party to an agreement with Wells Fargo Foothill, Inc., which provides $50.0 million in aggregate financing to qualifying franchisees of ColorTyme generally of up to five times their average monthly revenues. Under the Wells Fargo agreement, upon an event of default by the franchisee under agreements governing this financing and upon the occurrence of certain other events, Wells Fargo can assign the loans and the collateral securing such loans to ColorTyme, with ColorTyme paying the outstanding debt to Wells Fargo and then succeeding to the rights of Wells Fargo under the debt agreements, including the right to foreclose on the collateral. The Wells Fargo agreement expires in October 2006. Although we believe we will be able to renew our existing agreement or find other financing arrangements, there can be no assurance that we will not need to fund the foregoing guarantee upon the expiration of the existing agreement. An additional $20.0 million of financing is provided by Texas Capital Bank, National Association under an agreement similar to the Wells Fargo financing. Rent-A-Center East guarantees the obligations of ColorTyme under each of these agreements, excluding the effects of any amounts that could be recovered under collateralization provisions, up to a maximum amount of $70.0 million, of which $32.5 million was outstanding as of March 31, 2006. 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.

Repurchases of Outstanding Securities. Our Board of Directors has authorized a common stock repurchase program, permitting us to purchase, from time to time, in the open market and privately negotiated transactions, up to an aggregate of $400.0 million of Rent-A-Center common stock. As of March 31, 2006, we had purchased a total of 14,628,800 shares of Rent-A-Center common stock for an aggregate of $360.8 million under this common stock repurchase program, of which 202,800 shares were repurchased in the first quarter of 2006 for approximately $4.7 million. Please see Unregistered Sales of Equity Securities and Use of Proceeds later in this report.

Store Consolidation Plan. We expect the total estimated cash outlay in connection with the store consolidation plan to be between $9.0 million to $10.4 million. The amount of cash used in the store closing plan through the first quarter of 2006 was $6.5 million. Therefore, we expect to use approximately $2.5 million to $3.9 million of cash on hand for future payments primarily related to the satisfaction of lease obligations for closed stores. Please see Note 8. Store Consolidation Plan in this report for more information on our store consolidation plan.

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. Fluctuations in our targeted customers monthly disposable income, such as those we believe may have been caused by nationwide increases in fuel and energy costs, could adversely impact our results of operations.

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.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Sensitivity

As of March 31, 2006, we had $300.0 million in subordinated notes outstanding at a fixed interest rate of 7 1/2%, $343.9 million in term loans, $10.0 in revolving credit outstanding at interest rates indexed to the Eurodollar rate, $8.0 million outstanding on our line of credit at interest rates discounted from prime and $5.8 million outstanding on our Intrust line of credit. 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 7 1/2% subordinated notes at March 31, 2006 was $300.0 million. As of March 31, 2006, we have not entered into any interest rate swap agreements with respect to term loans under our senior credit facilities.

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 our 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 Eurodollar rate that exposes us to the risk of increased interest costs if interest rates rise. Based on our overall interest rate exposure at March 31, 2006, a hypothetical 1.0% increase or decrease in interest rates would have the effect of causing a $1.6 million additional pre-tax charge or credit to our statement of earnings than would otherwise occur if interest rates remained unchanged.

Item 4. Controls and Procedures.

Evaluation of disclosure 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 (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is (1) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer, to allow timely decisions regarding required disclosure. 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.

Changes in internal controls. For the quarter ended March 31, 2006, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II Other Information

Item 1. 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. The ultimate outcome of our litigation is uncertain and the amount of any loss we may incur, if any, cannot in our judgment be reasonably estimated. Accordingly, other than with respect to the prospective settlement of the *Rose/Madrigal* matter discussed below, anticipated legal fees and expenses for our other material litigation discussed below, as well as provisions for losses incurred or expected to be incurred with respect to litigation arising in the ordinary course of business which we do not believe are material, no provision has been made in our consolidated financial statements for any such loss. As of March 31, 2006, we had accrued $3.8 million relating to our outstanding litigation, of which approximately $1.3 million is related to the settlement of the *Rose/Madrigal* matter.

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. 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 us immunity from suit for other statutory violations. The plaintiff alleges we have a duty to disclose effective interest under New York consumer protection laws, and seeks damages and injunctive relief for 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 payment records. In the prayer for relief, the plaintiff requests class certification, injunctive relief requiring us to cease certain marketing practices and price our 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 us 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 our 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 granted the parties permission to submit competing orders as to the effect of the opinion on the plaintiff s specific claims. Both proposed orders were submitted to the court on March 27, 2003, and on May 30, 2003, the court held a hearing regarding such orders. No clarifying order has yet been entered by the court.

From June 2003 until May 2005, there was no activity in this case. On May 18, 2005, we filed a motion to dismiss the plaintiff s claim and to decertify the class, based upon the plaintiff s failure to schedule her claim in this matter in her earlier voluntary bankruptcy proceeding. The plaintiff opposed our motion to dismiss the case and asked the court to grant it an opportunity to find a substitute class representative in the event the court determined Ms. Colon was no longer adequate. On January 17, 2006, the court issued an order denying our motion to dismiss, but indicated that Ms. Colon was not a suitable class representative and noted that no motion to intervene to add additional class representatives had been filed. On March 14, 2006, plaintiffs counsel filed a motion seeking leave to intervene Shaun Kelly as an additional class representative. The court has also ordered the parties to confer regarding a possible mediation. We are in the process of scheduling Mr. Kelly s deposition. If the court ultimately allows Mr. Kelly to intervene and enters a final certification order, we intend to pursue an interlocutory appeal of such 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.

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 alleged that the defendants violated Sections 10(b) and/or Section 20(a) of the Securities Exchange Act 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 purported to be brought on behalf of all purchasers of our common stock from April 25, 2001 through October 8, 2001 and sought damages in unspecified amounts. Similar complaints were consolidated by the court with the *Walker* matter in October 2002.

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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 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 certain officer and director defendants, filed a motion to dismiss the matter as well as a motion to transfer venue. In addition, our outside directors named in the matter separately filed a motion to dismiss the Securities Act claims on statute of limitations grounds. On February 19, 2003, the underwriter defendants also filed a motion to dismiss the matter. The plaintiffs filed response briefs to these motions, to which we replied on May 21, 2003. A hearing was held by the court on June 26, 2003 to hear each of these motions.

On September 30, 2003, the court granted our motion to dismiss without prejudice, dismissed without prejudice the outside directors and underwriters separate motions to dismiss and denied our motion to transfer venue. In its order on the motions to dismiss, the court granted the lead plaintiffs leave to replead the case within certain parameters.

On July 7, 2004, the plaintiffs again repled their claims by filing a third amended consolidated complaint, raising allegations of similar violations against the same parties generally based upon alleged facts not previously asserted. We, along with certain officer and director defendants and the underwriter defendants, filed motions to dismiss the third amended consolidated complaint on August 23, 2004. A hearing on the motions was held on April 14, 2005. On July 25, 2005, the court ruled on these motions, dismissing with prejudice the claims against our outside directors as well as the underwriter defendants, but denying our motion to dismiss. In evaluating this motion to dismiss, the court was required to view the pleadings in the light most favorable to the plaintiffs and to take the plaintiffs allegations as true. On August 18, 2005, we filed a motion to certify the dismissal order for an interlocutory appeal, which was denied on November 14, 2005. Discovery in this matter has now commenced. A hearing on class certification is scheduled for June 22, 2006.

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

California Attorney General Inquiry. During the second quarter of 2004, we received an inquiry from the California Attorney General regarding our business practices in California with respect to our cash prices and our membership program. We met with representatives of the Attorney General s office during 2005 and 2006, and have provided additional information as requested. Our discussions are continuing with the Attorney General s office regarding these issues, and include possible legislative solutions as well as possible changes in certain of our business practices in California. While we cannot assure you that we will have no liability in this matter, we do not believe that the resolution of these issues with the California Attorney General will have a material adverse impact on our financial position, cash flows or ongoing operations.

Hilda Perez v. Rent-A-Center, Inc., et al. On March 15, 2006, we were notified that the Supreme Court of New Jersey reinstated claims made by the plaintiff in a matter styled *Hilda Perez v. Rent-A-Center, Inc*. The matter is a putative class action filed in the Superior Court, Law Division, Camden County, New Jersey on March 21, 2003, arising out of several rent-to-own contracts Ms. Perez entered into with us. The requested class period is April 23, 1999 to the present.

In her amended complaint, Perez alleges on behalf of herself and a class of similarly situated individuals that the rent-to-own contracts she entered into with us violated New Jersey s Retail Installment Sales Act (RISA) and, as a result, New Jersey s Consumer Fraud Act (CFA) because such contracts imposed a time price differential in excess of the 30% per annum interest rate permitted under New Jersey s criminal usury statute. Perez alleges that RISA incorporates the 30% interest rate limit, limiting time price differentials to 30% per annum. Perez seeks reimbursement of the excess fees and/or interest contracted for, charged and collected, together with treble damages, and an injunction compelling us to cease the alleged violations. Perez also seeks pre-judgment and post-judgment interest, together with attorneys fees and costs and disbursements.

Following the filing of her amended complaint, we filed a counterclaim to recover the merchandise retained by Perez after she ceased making rental payments. Perez answered the counterclaim, denying liability and claiming entitlement

to the items she rented from us. In August 2003, Perez moved for partial summary judgment and we cross-moved for summary

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judgment. In January 2004, the trial court held that rent-to-own transactions are not covered by RISA nor subject to the interest rate limit in New Jersey s criminal usury statute. The court granted our cross-motion, dismissing Perez s claims under RISA and the CFA. Perez then appealed to the Superior Court of New Jersey, Appellate Division. Oral argument before the Appellate Division occurred in December 2004, and in February 2005 the Appellate Division rejected Perez s arguments and ruled in our favor on all of her claims. Perez subsequently appealed to the Supreme Court of New Jersey, who heard oral arguments in November 2005.

On March 15, 2006, the Supreme Court of New Jersey reversed the judgment of the trial court and the Appellate Division and remanded the case to the trial court for reinstatement of Perez s complaint and for further proceedings. In its decision, the Supreme Court held that rent-to-own contracts in New Jersey are retail installment contracts under RISA, and that RISA incorporates the 30% interest rate cap in New Jersey s criminal usury statute. The court rejected our legal arguments and reinstated Perez s claims under RISA and the CFA. We recently filed a motion for reconsideration with the New Jersey Supreme Court, which motion is pending.

We intend to vigorously defend ourselves in this matter. No class has been certified by the trial court and no finding of liability or damages has been made by the court against us. In addition, we believe we have valid arguments limiting the damages sought by Perez under both RISA and the CFA. In light of the Supreme Court s decision, we have addressed the impact of the decision on our operations in New Jersey and have implemented certain changes to mitigate that impact. We currently operate 43 stores in New Jersey and estimate that to date we have entered into approximately 400,000 rent-to-own contracts in New Jersey during the requested class period.

Although we intend to vigorously defend ourselves in this matter, we cannot assure you that we will be found to ultimately have no liability.

State Wage and Hour Class Actions

We are currently subject to various material actions pending against us in the states of California and Washington, all of which allege we violated the wage and hour laws of such states.

Jeremy Burdusis, et al. v. Rent-A-Center, Inc., et al./Israel French, et al. v. Rent-A-Center, Inc. These matters pending in Los Angeles, California were filed on October 23, 2001, and October 30, 2001, respectively, and allege violations of the wage and hour laws of California regarding overtime, lunch and work breaks, and failure to pay wages due to our California employees. The same law firm as in the recently settled *Pucci* matter is seeking to represent the purported class in *Burdusis*. The *Burdusis* and *French* proceedings are pending before the same judge in California. On March 24, 2003, the *Burdusis* court denied the plaintiffs motion for class certification in that case, which we view as a favorable development in that proceeding. On April 25, 2003, the plaintiffs in *Burdusis* filed a notice of appeal of that ruling, and on May 8, 2003, the *Burdusis* court, at our request, stayed further proceedings in *Burdusis* and *French* pending the resolution on appeal of the court s denial of class certification in *Burdusis*. In June 2004, the *Burdusis* plaintiffs filed their appellate brief. Our response brief was filed in September 2004, and the *Burdusis* plaintiffs filed their reply in October 2004. On February 9, 2005, the California Court of Appeals reversed and remanded the trial court s denial of class certification in *Burdusis* and directed the trial court to reconsider its ruling in light of two other recent appellate court decisions, including the opinions of the California Supreme Court in *Sav-On Drugs Stores, Inc. v. Superior Court*, and of the California appeals court in *Bell v. Farmers Insurance Exchange*. After remand, the plaintiffs filed a motion with the trial court seeking to remove from the case the trial court judge who previously denied their motion for class certification. The trial court denied the motion. In response, plaintiffs filed a petition for writ of mandate with the California Court of Appeals requesting review of the trial court s decision. The California Court of Appeals heard oral arguments in this matter on August 29, 2005, and ruled against the plaintiffs, denying the requested relief. The case has been returned to the trial court as previously ordered.

On October 30, 2003, the plaintiffs counsel in *Burdusis* and *French* filed a new non-class lawsuit in Orange County, California entitled *Kris Corso, et al. v. Rent-A-Center, Inc*. The plaintiffs counsel later amended this complaint to add additional plaintiffs, totaling approximately 339 individuals. The claims made are substantially the same as those in *Burdusis*. On January 16, 2004, we filed a demurrer to the complaint, arguing, among other things, that the plaintiffs in *Corso* were misjoined. On February 19, 2004, the court granted our demurrer on the misjoinder argument, with leave for the plaintiffs to replead. On March 8, 2004, the plaintiffs filed an amended complaint in *Corso*, increasing

the number of plaintiffs to approximately 400. The claims in the amended complaint are substantially the same as those in *Burdusis*. We filed a demurrer with respect to the amended complaint on April 12, 2004, which the court granted on May 6, 2004. However, the court allowed the plaintiffs to again replead the action on a representative basis, which they did on May 26, 2004.

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We subsequently filed a demurrer with respect to the newly repled action, which the court granted on August 12, 2004. The court subsequently stayed the *Corso* matter pending the outcome of the *Burdusis* matter. On March 16, 2005, the court lifted the stay and on April 12, 2005, we answered the amended complaint. Discovery is now proceeding. On January 30, 2006, the *Corso* Court heard a motion to coordinate *Corso* with the *Burdusis* and *French* actions. The *Corso* court recommended that *Corso* be coordinated with the other actions before the judge in the *Burdusis* and *French* matters. The Judicial Council subsequently ordered the *Burdusis*, *French* and *Corso* cases coordinated before a new judge in the Los Angeles County Superior Court s complex litigation panel. We subsequently filed a motion to transfer the class certification motion in *Burdusis* back to the judge in *Burdusis*, who originally heard the motion, and to stay discovery in all of the coordinated cases. Plaintiffs have moved to amend the *Burdusis* complaint to add additional causes of actions and allegations, which we intend to oppose. The court has scheduled a hearing on both motions on May 3, 2006.

We believe the claims asserted in *Burdusis*, *French* and *Corso* are without merit and we intend to vigorously oppose each of these cases. We cannot assure you, however, that we will be found to have no liability in these matters. As of March 31, 2006, we operated 149 stores in California.

Kevin Rose, et al. v. Rent-A-Center, Inc. et al. This matter pending in Clark County, Washington was filed on June 26, 2001, and alleges similar violations of the wage and hour laws of Washington as those in *Burdusis*. The same law firm who represented the class in *Pucci* sought to represent the purported class in this matter. On May 14, 2003, the *Rose* court denied the plaintiffs motion for class certification in that case. On June 3, 2003, the plaintiffs in *Rose* filed a notice of appeal, which was subsequently denied. Following the denial by the Court of Appeals, the plaintiffs counsel filed 14 county-wide putative class actions in Washington with substantially the same claims as in *Rose*. In April 2005, the plaintiffs counsel filed another putative county-wide lawsuit and subsequently the plaintiffs counsel filed another putative state-wide lawsuit in federal court in Washington, bringing the total to 16. The purported classes in the county-wide class actions ranged from approximately 20 individuals to approximately 100 individuals.

In November 2005, we reached an agreement in principle to settle for $1.25 million all of the pending lawsuits and related matters bought by the plaintiffs counsel in Washington on an agreed state-wide class basis. In connection therewith, the parties agreed to seek class settlement in the Superior Court of Yakima County, Washington, where one of the putative county-wide class actions, *Madrigal et al. v. Rent-A-Center*, is pending. On January 13, 2006, the court in *Madrigal* preliminarily approved the class settlement. The class consists of approximately 1,300 class members, and notice of settlement has now been sent. Objections to the settlement were due March 15, 2006, and no class members objected. The final approval hearing before the court occurred on April 21, 2006, and the court approved the settlement and dismissed the case with prejudice. We anticipate funding the settlement in May 2006. Accordingly, as of March 31, 2006, we have reserved approximately $1.3 million to fund the prospective settlement as well as our attorneys fees.

Item 1A. 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 rent-to-own stores in both existing markets and new markets through a combination of new store openings and store acquisitions. We increased our store base by 241 stores in 2003, and 227 stores in 2004. In 2005, however, we decreased our store base by 115 stores, as part of our critical evaluation of all stores and in anticipation of continued store growth. As of March 31, 2006, our store base has decreased another five stores during 2006. This growth strategy is subject to various risks, including uncertainties regarding our ability to open new rent-to-own stores and our ability to acquire additional rent-to-own stores on favorable terms. We may not be able to continue to identify profitable new store locations or underperforming

competitors as we currently anticipate.

Our continued growth also depends on our ability to increase sales in our existing rent-to-own stores. Our same store sales increased by 3.0% for 2003 and decreased by 3.6% and 2.3% in 2004 and 2005, respectively. For the quarter ended March 31, 2006, our same store sales increased by 1.8% compared to the quarter ended March 31, 2005. As a result of new store

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openings in existing markets and because mature stores will represent an increasing proportion of our store base over time, our same store revenues in future periods may be lower than historical levels.

We also plan to grow through expansion into the financial services business. We face risks associated with integrating this new business into our existing operations. In addition, the financial services industry is highly competitive and regulated by federal, state and local laws.

Our growth strategy could place a significant demand on our management and our financial and operational resources. If we are unable to implement our growth strategy, our earnings may grow more slowly or even decrease.

If we fail to effectively manage the growth and integration of our new rent-to-own stores, our financial results may be adversely affected.

The addition of new rent-to-own 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 rent-to-own 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. Significant settlement amounts or final judgments could materially and adversely affect our liquidity. The failure to pay any judgment would be a default under our senior credit facilities and the indenture governing our 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 our 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

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owed. Our senior credit facilities also contain certain provisions prohibiting the modification of our 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 35.0% or more of our voting stock or upon certain changes in the constitution of our Board of Directors. As of March 31, 2006, we were required to make principal payments under our senior credit facilities of $2.6 million in 2006, $3.5 million in 2007, $3.5 million in 2008, $186.0 million in 2009 and $166.3 million after 2009. These payments reduce our cash flow.

Under the indenture governing our outstanding subordinated notes, in the event that a change in control occurs, we may be required to offer to purchase all of our 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 would allow our lenders to accelerate indebtedness owed to them.

If the lenders under our debt instruments accelerate these obligations, we may not have sufficient liquid assets to repay amounts outstanding under these agreements.

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 litigation alleging that we have violated some of these statutory provisions.

Although there is currently 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.

Financial services transactions are regulated by federal law as well as the laws of certain states. Any adverse changes in these laws or the passage of adverse new laws with respect to the financial services business could slow our growth opportunities, expose us to litigation or alter our business practices in a manner that we may deem to be unacceptable.

Our financial services business is subject to federal statutes and regulations such as the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act, and similar state laws. In addition, thirty-four states and the District of Columbia provide safe harbor regulations for short term consumer lending, and two additional states permit short term consumer lending by licensed dealers. Safe harbor regulations typically set maximum fees, size and length of the loans. Congress and/or the various legislatures in the states where we currently intend to offer financial services products may adopt new legislation or amend existing legislation with respect to our financial services business that could require us to alter our business practices in a manner that we may deem to be unacceptable, which could slow our growth opportunities.

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 and Mitchell E. Fadel, our President and Chief Operating Officer. 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.

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Our organizational documents 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 and the indenture governing our subordinated notes 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.

We are a holding company and are dependent on the operations and funds of our subsidiaries.

We are a holding company, with no revenue generating operations and no assets other than our ownership interests in our direct and indirect subsidiaries. Accordingly, we are dependent on the cash flow generated by our direct and indirect operating subsidiaries and must rely on dividends or other intercompany transfers from our operating subsidiaries to generate the funds necessary to meet our obligations, including the obligations under our senior credit facilities and our outstanding subordinated notes. The ability of our subsidiaries to pay dividends or make other payments to us is subject to applicable state laws. Should one or more of our subsidiaries be unable to pay dividends or make distributions, our ability to meet our ongoing obligations could be materially and adversely impacted.

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

The 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, when and how many rent-to-own stores we acquire or open, and the rate at which we add financial services to our existing rent-to-own stores;

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.

Failure to achieve and maintain effective internal controls could have a material adverse effect on our business and stock price.

Effective internal controls are necessary for us to provide reliable financial reports. If we cannot provide reliable financial reports, our brand and operating results could be harmed. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

While we continue to evaluate and improve our internal controls, we cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

We have completed documenting and testing our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm addressing these assessments.

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For the year ended December 31, 2005, our management has determined that our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Please refer to management s annual report on internal control over financial reporting, and the report by Grant Thornton LLP, which appear in our Annual report on Form 10-K for our fiscal year ended December 31, 2005. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our stock price.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On October 24, 2003, we announced that our Board of Directors had authorized a common stock repurchase program, permitting us to purchase, from time to time, in the open market and in privately negotiated transactions, up to an aggregate of $100.0 million of Rent-A-Center common stock. Over a period of time, our Board of Directors increased the authorization for stock repurchases under our common stock repurchase program to $400.0 million. As of March 31, 2006, we had repurchased $360.8 million in aggregate purchase price of Rent-A-Center common stock under our stock repurchase program. In the first quarter of 2006, we effected the following repurchases of our common stock:

Period	Total Number of Shares Purchased	Average Price Paid per Share (including fees)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs (including fees)
January 1 through January 31	0	$ 0.0000	0	$ 43,887,581
February 1 through February 28	154,800	$ 23.1473	154,800	$ 40,304,377
March 1 through March 31	48,000	$ 23.1734	48,000	$ 39,192,053
Total	202,800	$ 23.1535	202,800	$ 39,192,053

Item 6. Exhibits.

The exhibits required to be furnished pursuant to Item 6 are listed in the Exhibit Index filed herewith, which Exhibit Index is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Report to be signed on its behalf by the undersigned duly authorized officer.

RENT-A-CENTER, INC.

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

Date: May 1, 2006

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INDEX TO EXHIBITS

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of April 27, 2004, by and between Rent-A-Center, Inc., RAC RR, Inc. and Rent Rite, Inc. d/b/a Rent Rite Rental Purchase (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.) (Incorporated herein by reference to Exhibit 2.8 to the registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.)
3.1	Certificate of Incorporation of Rent-A-Center, Inc., as amended (Incorporated herein by reference to Exhibit 3.1 to the registrant s Current Report on Form 8-K dated as of December 31, 2002.)
3.2	Certificate of Amendment to the Certificate of Incorporation of Rent-A-Center, Inc., dated May 19, 2004 (Incorporated herein by reference to Exhibit 3.2 to the registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)
3.3	Amended and Restated Bylaws of Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 3.(ii) to the registrant s Current Report on Form 8-K dated as of September 20, 2005.)
4.1	Form of Certificate evidencing Common Stock (Incorporated herein by reference to Exhibit 4.1 to the registrant s Registration Statement on Form S-4/A filed on January 13, 1999.)
4.2	Certificate of Elimination of Series A Preferred Stock (Incorporated herein by reference to Exhibit 4.2 to the registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.)
4.3	Certificate of Designations, Preferences and relative Rights and Limitations of Series C Preferred Stock of Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 4.4 to the registrant s Registration Statement on Form S-4 filed July 11, 2003.)
4.4	Certificate of Elimination of Series C Preferred Stock (Incorporated herein by reference to Exhibit 3.(i) to the registrant s Current Report on Form 8-K dated as of September 20, 2005.)
4.5	Indenture, dated as of May 6, 2003, by and among Rent-A-Center, Inc., as Issuer, Rent-A-Center East, Inc., ColorTyme, Inc., Rent-A-Center West, Inc., Get It Now, LLC, Rent-A-Center Texas, L.P. and Rent-A-Center Texas, L.L.C., as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.9 to the registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.)
4.6	First Supplemental Indenture, dated as of December 4, 2003, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.6 to the registrant s Annual Report on Form 10-K/A for the year ended December 31, 2003.)
4.7	Second Supplemental Indenture, dated as of April 26, 2004, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.7 to the registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.)

4.8	Third Supplemental Indenture, dated as of May 7, 2004, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.8 to the registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)
4.9	Fourth Supplemental Indenture, dated as of May 14, 2004, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.9 to the registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)
4.10	Fifth Supplemental Indenture, dated as of June 30, 2005, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.10 to the registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.)
4.11	Form of 2003 Exchange Note (Incorporated herein by reference to Exhibit 4.11 to the registrant s Registration Statement on Form S-4 filed July 11, 2003.)
10.1+	Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.1 to the registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.)

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Exhibit No.	Description
10.2	Amended and Restated Credit Agreement, dated as of May 28, 2003, as amended and restated as of July 14, 2004, among Rent-A-Center, Inc., the several lenders from time to time parties thereto, Calyon New York Branch, SunTrust Bank and Union Bank of California, N.A., as Documentation Agents, Lehman Commercial Paper Inc., as Syndication Agent, and JPMorgan Chase Bank, as Administrative Agent (Incorporated herein by reference to Exhibit 10.1 to the registrant s Current Report on Form 8-K dated July 15, 2004.)
10.3	Amended and Restated Guarantee and Collateral Agreement, dated as of May 28, 2003, as amended and restated as of July 14, 2004, made by Rent-A-Center, Inc. and certain of its Subsidiaries in favor of JPMorgan Chase Bank, as Administrative Agent (Incorporated herein by reference to Exhibit 10.2 to the registrant s Current Report on Form 8-K dated July 15, 2004.)
10.4	Fifth Amended and Restated Stockholders Agreement, dated as of August 13, 2004, 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 (Incorporated herein by reference to Exhibit 10.3 to the registrant s Registration Statement on Form S-3/A filed on September 21, 2004.)
10.5	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. (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.)
10.6	Supplemental Letter Agreement to Franchisee Financing Agreement, dated May 26, 2003, by and between Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 10.23 to the registrant s Registration Statement on Form S-4 filed July 11, 2003.)
10.7	First Amendment to Franchisee Financing Agreement, dated August 30, 2005, by and among Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center East, Inc. (Incorporated herein by reference to Exhibit 10.7 to the registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.)
10.8	Amended and Restated Franchise Financing Agreement, dated October 1, 2003, by and among Wells Fargo Foothill, Inc., ColorTyme, Inc. and Rent-A-Center East, Inc. (Incorporated herein by reference to Exhibit 10.22 to the registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.)
10.9	First Amendment to Amended and Restated Franchisee Financing Agreement, dated December 15, 2003, by and among Wells Fargo Foothill, Inc., ColorTyme, Inc. and Rent-A-Center East, Inc. (Incorporated herein by reference to Exhibit 10.23 to the registrant s Annual Report on Form 10-K/A for the year ended December 31, 2003.)
10.10	Second Amendment to Amended and Restated Franchisee Financing Agreement, dated as of March 1, 2004, by and among Wells Fargo Foothill, Inc., ColorTyme, Inc. and Rent-A-Center East, Inc. (Incorporated herein by reference to Exhibit 10.24 to the registrant s Quarterly Report on Form 10-Q for

the quarter ended March 31, 2004.)

10.11+ Form of Stock Option Agreement issuable to Directors pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.20 to the registrant s Annual Report on Form 10-K for the year ended December 31, 2004.)

10.12+ Form of Stock Option Agreement issuable to management pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.21 to the registrant s Annual Report on Form 10-K for the year ended December 31, 2004.)

10.13+ Summary of Director Compensation (Incorporated herein by reference to Exhibit 10.22 to the registrant s Annual Report on Form 10-K for the year ended December 31, 2004.)

10.14+ Summary of Named Executive Officer Compensation (Incorporated herein by reference to Exhibit 10.23 to the registrant s Current Report on Form 8-K dated December 21, 2005.)

10.15+ Form of Stock Compensation Agreement issuable to management pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan

10.16+ Form of Long-Term Incentive Cash Award issuable to management pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan

10.17+ Form of Loyalty and Confidentiality Agreement entered into with management.

21.1* Subsidiaries of Rent-A-Center, Inc.

31.1* Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by Mark E. Speese

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RENT-A-CENTER, INC. AND SUBSIDIARIES

Exhibit No.	Description
31.2*	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by Robert D. Davis
32.1*	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
32.2*	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

+ Management contract or compensatory plan or arrangement

* Filed herewith.