

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

COMMISSION FILE NO. 0-25370

RENTERS CHOICE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

48-1024367
(I.R.S. Employer
Identification No.)

13800 MONTFORT DRIVE, SUITE 300
DALLAS, TEXAS 75240
(972) 701-0489
(Address, including zip code, and telephone
number, including area code, of registrant's
principal executive offices)

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

Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, PAR VALUE \$.01 PER SHARE

TITLE OF CLASS

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

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

AGGREGATE MARKET VALUE OF THE 15,987,466 SHARES OF COMMON STOCK HELD BY
NON-AFFILIATES OF THE REGISTRANT AT THE CLOSING SALES PRICE ON MARCH 16,
1998 \$427,664,715.50

NUMBER OF SHARES OF COMMON STOCK OUTSTANDING AS OF THE CLOSE OF BUSINESS
ON MARCH 16, 1998:..... 24,927,596

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive proxy statement relating to the 1998 Annual
Meeting of Stockholders of Renters Choice, Inc., are incorporated by reference
into Part III of this report.

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PART I

ITEM 1. BUSINESS

GENERAL

Renters Choice, Inc., a Delaware corporation (the "Company"), currently operates 508 rent-to-own stores providing high quality durable goods in 33 states and in Puerto Rico. The Company's wholly-owned subsidiary, ColorTyme, Inc. ("ColorTyme"), is a national franchisor of 262 rent-to-own stores in 37 states, all of which operate under the "ColorTyme" name. The Company's and the ColorTyme franchisees' stores offer home electronics, appliances, furniture and accessories under flexible rental purchase arrangements that allow the customer to obtain ownership of the merchandise at the conclusion of an agreed upon rental period. The Company's and the ColorTyme franchisees' rental purchase arrangements are designed to appeal to a wide variety of consumers by allowing them to obtain merchandise that they might otherwise be unable or unwilling to obtain due to insufficient cash resources or a lack of access to credit or because they have a temporary, short-term need or a desire to rent rather than to purchase the merchandise.

The Company's principal executive offices are located at 13800 Montfort, Suite 300, Dallas, Texas 75240.

ACQUISITION HISTORY

The Company was incorporated in 1986. In 1989, J. Ernest Talley, the Company's Chairman of the Board and Chief Executive Officer, acquired a controlling interest in the Company and certain related entities, which then owned 22 rent-to-own stores located primarily in New Jersey and Puerto Rico. These related entities were merged into the Company under the name Vista Rent To Own, Inc. in 1990. In March 1993, the Company formed Renters Choice, L.P., for the purpose of acquiring from DEF Investments, Inc. and certain related entities 84 rent-to-own stores located in 12 states (the "1993 Acquisition"). The 1993 Acquisition was consummated in April 1993. The Company changed its name to Renters Choice, Inc. in December 1993 and in May 1994 the Company acquired all of the assets and liabilities of Renters Choice, L.P. in connection with the dissolution of that partnership. Effective as of January 1, 1995, Talley Lease To Own, Inc. ("Talley LTO"), a rent-to-own company owned primarily by Mr. Talley and his son Michael C. Talley, was merged into the Company, with the Company being the surviving corporation. In April 1995, the Company acquired (such acquisition being herein referred to as the "Crown Acquisition") 72 stores located in 18 states, including nine states in which the Company previously had no operations, from Crown Leasing Corporation and certain of its affiliates (collectively, "Crown"), and in September 1995, the Company completed the acquisition of an additional 135 stores located in 10 states, including one state in which the Company previously had no operations, from the shareholders of the parent company of a chain of rent-to-own stores doing business as Magic Rent-to-Own and Kelway Rent-to-Own (the "Magic Acquisition"). In May 1996, the Company acquired ColorTyme, a national franchisor of rent-to-own stores (the "ColorTyme Acquisition"). At the time of the closing of the ColorTyme Acquisition, ColorTyme was a franchisor of 313 rent-to-own stores in 40 states, and directly owned seven rent-to-own stores.

Unless the context otherwise requires, references to the Company are to Renters Choice, Inc. and its predecessors, viewed as a single entity.

COMMON STOCK

On February 1, 1995, the Company consummated its initial public offering of 2,587,500 shares of its common stock, par value \$.01 per share (the "Common Stock"), at a price of \$10 per share, for an aggregate offering price of approximately \$25.9 million. The Company effected two splits of its Common Stock in 1995, including a 3-for-2 split in June and a 2-for-1 split in October. On November 1, 1995, the Company consummated a second public offering of its Common Stock pursuant to which the Company sold an additional 3,650,000 shares

at a price of \$16.00 per share, for an aggregate offering price of \$58.4 million. Net proceeds of both offerings were used by the Company to repay indebtedness, for working capital and general corporate purposes and to fund acquisitions. Unless the context otherwise requires, all information contained in this Report gives effect to the 3-for-2 and 2-for-1 stock splits described above.

RECENT DEVELOPMENTS

ACQUISITIONS AND NEW STORE OPENINGS

As the pool of available large acquisition candidates has significantly decreased in the last two years, the Company in mid-1996 launched an aggressive program to purchase smaller chains of rent-to-own stores, as well as individual stores. The Company hired a Director of Acquisitions to oversee such acquisitions. As a result of this program, the company acquired 76 stores (5 of which were subsequently consolidated) in 18 separate transactions (the "1997 Acquisitions") during 1997 for an aggregate purchase price of \$30.5 million in cash. The acquired stores are located in 16 states. Management believes that the majority of the 1997 Acquisition stores are underperforming. Average monthly revenues (including rentals and fees only) for the 1997 Acquisition stores (measured immediately prior to their acquisitions) were \$37,000. In addition, the Company opened 10 new stores in 4 states and in Puerto Rico during 1997.

The Company has reorganized its regional manager territories to accommodate the stores acquired and opened during 1997 and in previous years. The Company has incorporated all acquired stores into its operating structure and installed its computer system in all such stores to enable increased monitoring of store performance.

Management believes that the 1997 Acquisitions, along with the new stores opened, provide the Company with certain strategic benefits including (i) increased geographic presence, (ii) greater market share in certain states or regions, (iii) improved flexibility to realign regional store management responsibilities on a more favorable geographic basis, and (iv) increased economies of scale in both purchasing and advertising due to its larger store base. Management believes that substantial opportunity exists to improve the performance of the 1997 Acquisition stores and management has implemented certain operating strategies designed to improve the efficiency and performance of such stores.

To date during 1998, the Company has acquired 4 additional stores in 2 states for an aggregate purchase price of approximately \$0.8 million.

INDUSTRY OVERVIEW

The Association of Progressive Rental Organizations ("APRO"), an industry trade association, estimates that at the end of 1995 the rent-to-own industry comprised approximately 7500 stores that provided 5.5 million products to 2.9 million households. Although, according to industry sources and management estimates, the 10 largest industry participants account for 44.7% of the total stores, management estimates that the majority of the industry consists of operations with fewer than 20 stores. The rent-to-own industry is highly fragmented and, due primarily to the decreased availability of traditional financing sources, has experienced and is expected to continue to experience increasing consolidation. Management believes that this consolidation of operations in the industry presents opportunities for the Company, as well as other well capitalized rent-to-own operators, to continue to acquire additional stores on favorable terms.

STRATEGY

The Company plans to continue expanding its business activities and increasing revenue by: (i) increasing the number of stores it owns, both through strategic acquisitions and new store openings; (ii) increasing the number of items on rent at each store through effective merchandising and focused advertising; (iii) increasing the average revenue per unit rented by expanding the Company's offering of higher priced merchandise; (iv) increasing the size and number of ColorTyme franchise locations; (v) closely monitoring each store's performance, through the use of its management information system, to ensure each store's adherence to established operating guidelines; and (vi) emphasizing results-oriented compensation. The Company's business strategy is designed to capitalize on the fragmentation and potential for growth of the rent-to-own industry, which management believes should provide opportunities to grow through strategic and consolidating acquisitions and through the development of new stores.

RENTERS CHOICE STORE OPERATIONS

The number of stores operated by the Company under its Renters Choice brand increased during 1997 from 423 in January to 504 at December 31. The Company currently operates 508 stores in 33 states and in Puerto Rico, as illustrated by the following table:

LOCATION	NUMBER OF STORES	LOCATION	NUMBER OF STORES
Texas.....	79	Missouri.....	8
Florida.....	39	Arizona.....	8
Ohio.....	39	Arkansas.....	6
Georgia.....	38	Wisconsin.....	6
Pennsylvania.....	28	Mississippi.....	6
Tennessee.....	25	Virginia.....	5
Alabama.....	25	Colorado.....	4
New York.....	24	South Carolina.....	4
North Carolina.....	24	Delaware.....	4
Michigan.....	21	Utah.....	3
Indiana.....	19	Iowa.....	2
New Jersey.....	17	Massachusetts.....	2
Puerto Rico.....	16	New Hampshire.....	2
Illinois.....	16	Oklahoma.....	2
Louisiana.....	12	Nevada.....	1
California.....	12	West Virginia.....	1
Kentucky.....	9	Maryland.....	1

PRODUCT SELECTION

Each of the Company's stores offers merchandise from three basic product categories: home electronics, appliances and furniture and accessories. The Company's policy is to ensure that its stores maintain sufficient inventory to offer customers a wide variety of models, styles and brands. The Company seeks to provide a wide variety of high quality merchandise to its customers, and emphasizes products from brand-name manufacturers. During 1997, home electronic products accounted for approximately 46% of the Company's store revenue, appliances for 24% and furniture and accessories for 30%. Customers may request either new merchandise or previously rented merchandise. Previously rented merchandise is offered at the same weekly or monthly rental rate as is offered for new merchandise, but with an opportunity to obtain ownership of the merchandise after fewer

rental payments. Many of the stores acquired in 1997 carried certain merchandise from other product categories and different manufacturers than those selected by the Company. As part of the integration process, the Company has standardized the inventory in each of these stores.

Home electronic products offered by the Company's stores include televisions, video cassette recorders and stereos from top brand manufacturers such as Magnavox, Sony, JVC and Technics. The Company rents major appliances manufactured by Whirlpool, including refrigerators, washing machines, dryers, microwave ovens, freezers and ranges. The Company offers a variety of furniture products, including dining room, living room and bedroom furniture featuring a number of styles, materials and colors. Showroom displays enable customers to visualize how the product will look in their homes and provide a showcase for accessories. The Company offers furniture made by Ashley, England-Corsair, La-Z-Boy and other top brand manufacturers. Accessories include pictures, plants, lamps and tables and are typically rented as part of a package of items, such as a complete room of furniture.

RENTAL PURCHASE AGREEMENTS

The Company's customers generally enter into weekly or monthly rental purchase agreements, which renew automatically upon receipt of each payment. The Company retains title to the merchandise during the term of the rental purchase agreement. Ownership of the merchandise generally transfers to the customer if the customer has continuously renewed the rental purchase agreement for a period of 18 to 36 months or exercises a specified early purchase option. Although the Company does not conduct a formal credit investigation of each customer, a potential customer must provide store management with sufficient personal information to allow the Company to verify sources of income. References listed by the customer are contacted to verify the information contained in the customer's rental purchase order form. Rental payments are made in cash, by money order and, occasionally, by personal check or debit card. Depending on state regulatory requirements, the Company charges for the reinstatement of terminated accounts or collects a delinquent account fee and collects loss/damage waiver fees from customers desiring such product protection in the case of theft and certain natural disasters. Such fees are standard in the industry and may be subject to government-specified limits. See "Item 1. Business-- Government Regulation."

PRODUCT TURNOVER

In the majority of the Company's stores, a minimum rental term of 18 months generally is required to obtain ownership of new merchandise. Management believes that fewer than 25% of the Company's customers complete the full term of the agreement as to a given item of merchandise. Turnover varies significantly based on the type of merchandise rented, with certain consumer electronics products, such as camcorders and VCRs, generally rented for shorter periods, while appliances and furniture are generally rented for longer periods. In order to cover the relatively high operating expenses generated by greater product turnover, rental purchase agreements require higher aggregate payments than are generally charged under installment purchase or credit plans.

CUSTOMER SERVICE

The Company offers same day or 24-hour delivery and installation of its merchandise at no additional cost to the customer. The Company provides any required service or repair without charge, except for damage in excess of normal wear and tear. If the product cannot be repaired at the customer's residence, the Company provides a temporary replacement while the product is being repaired. The customer is fully liable for damage, loss or destruction of the merchandise, unless the customer purchases an optional loss/damage waiver. Most of the products offered by the Company are covered by a manufacturer's warranty for varying periods, which, subject to the terms of the warranty, is transferred to the customer in the event that the customer obtains ownership. Certain of the services provided by the Company, such as repair services, are provided through independent contractors or under factory warranties.

COLLECTIONS

Store managers use the Company's computerized management information system to track cash collections on a daily basis. In the event a customer fails to make a rental payment when due, store management will attempt to contact the customer to obtain payment and reinstate the contract or will terminate the account and arrange to regain possession of the merchandise. The Company attempts to recover the rental items by the seventh to tenth day following termination or default of a rental purchase agreement. Charge-offs due to lost or stolen merchandise, expressed as a percentage of store revenues, were approximately 2.1% in 1997, as compared to approximately 2.3% in 1996. In an effort to improve collections at the stores acquired during 1997, the Company has implemented its collection procedures in such stores, including its management incentive plans, which provide incentives to reduce the percentage of delinquent accounts.

MANAGEMENT

The Company's network of stores is organized geographically with multiple levels of management. At the individual store level, each store manager is responsible for customer and credit relations, deliveries and pickups, inventory management, staffing and certain marketing efforts. Each store manager reports to a regional manager who typically oversees 5 to 7 stores. Regional managers are primarily responsible for monitoring individual store performance and inventory levels within their respective regions. The Company's 84 regional managers, in turn, report to 16 regional vice presidents, who monitor the operations of regions and, through the regional managers, individual store performance. The regional vice presidents report to the Company's senior executives. A significant portion of a regional or store manager's compensation is dependent upon store revenue and profits.

Executive management at the Company's headquarters directs and coordinates purchasing, financial planning and controls, employee training, personnel matters and new store site selection. Headquarters personnel also evaluate the performance of each store, including on-site reviews. The Company's business strategy emphasizes strict cost containment and operational controls.

MANAGEMENT INFORMATION SYSTEMS

The Company uses integrated computerized management information and control systems to track each unit of merchandise in its stores and each rental purchase agreement. The Company's systems also include extensive management software and report-generating capabilities. The reports for all stores are reviewed daily by senior management and any irregularities are addressed the following business day. Each store is equipped with a computer system that tracks individual components of revenue, each item in idle and rented inventory, total items on rent, delinquent accounts and other account information. The Company electronically gathers each day's activity report through the computer located at the headquarters office. This system provides the Company's management with access to operating and financial information about any store location or region in which the Company operates and generates management reports on a daily, weekly, month-to-date and year-to-date basis for each store and every rental purchase transaction. Utilizing the management information system, executive management, regional managers and store managers can closely monitor the productivity of stores under their supervision as compared to Company prescribed guidelines. The integration of the management information system with the Company's accounting system facilitates the production of financial statements. The Company has incorporated the stores purchased in 1997 into its management information system.

The Company is aware of the issues associated with the programming code in existing computer and software systems as the millennium (Year 2000) approaches. The Year 2000 problem is pervasive and complex, as virtually every computer operation could be affected in some way by the rollover of the two-digit year value to "00". The issue is whether

systems will properly recognize date sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause complete system failures. The Company has received confirmation from its primary systems' vendors that their systems will properly handle the rollover to the Year 2000. Based upon these facts, the Company believes that the Year 2000 problem will not have a material effect on the financial position, results of operations or cash flows of the Company.

The Company's electronics and appliances vendors are generally large, multi-national manufacturers of name brand products. These manufacturers have reviewed their products for possible Year 2000 conflicts in their annual product lineups for each of the last several years. Based on the nature of its products and the aforementioned facts, the Company believes there will be no significant Year 2000 complications with its rental products.

PURCHASING AND DISTRIBUTION

The general product mix in the Company's stores is determined by senior management, based on an analysis of customer rental patterns and the introduction of new products on a test basis. Individual store managers are responsible for determining the particular product selection for their store from the list of products approved by senior management. Specific purchasing decisions for the Company's stores are made by store managers, subject to review by headquarters management. All merchandise is shipped by vendors directly to each store, where it is held for rental. The Company does not maintain any warehouse space.

The Company purchases the majority of its merchandise directly from manufacturers. The Company's largest suppliers include Magnavox and Whirlpool, which accounted for approximately 21.7% and 21.6%, respectively, of merchandise purchased for the Company's stores in 1997. No other supplier accounted for more than 10% of merchandise purchased by the Company during such period. The Company generally does not enter into written contracts with its suppliers. Although the Company currently expects to continue relationships with its existing suppliers, management believes there are numerous sources of products available to the Company, and does not believe that the success of the Company's operations is dependent on any one or more of its present suppliers.

MARKETING

The Company promotes the products and services in its stores primarily through direct mail advertising and, to a lesser extent, television, radio and secondary print media advertisement. Company advertisements emphasize such features as product and brand name selection, prompt delivery and the absence of any initial deposit, credit investigation or long-term obligation. Advertising expense as a percentage of store revenue for the year ended December 31, 1997 and 1996, was approximately 4.7% and 5.0% respectively. As the Company obtains new stores in its existing market areas, the advertising expenses of each store in the area can be reduced by listing all stores in the same market-wide advertisement.

TRADEMARKS

The Company owns the registered trademarks "Renters Choice" and "Your Home Furnishing Outlets." The products held for rent by the Company also bear trademarks and service marks held by their manufacturers.

COMPETITION

The rent-to-own industry is highly competitive. According to industry analysts, the 10 largest industry participants account for only 44.7% of the approximately 8300 rent-to-own stores in the United States. The Company currently is the second largest operator of rent-to-own stores with 770 stores (including the ColorTyme franchised rental centers), while Rent-A-Center, a division of Thorn EMI PLC, currently is the largest with approximately 1469 stores. The Company's stores compete with other national and regional rent-to-own businesses, as well as with rental stores that do not offer their customers a purchase option. With respect to customers desiring to purchase merchandise for cash or on credit, the Company also competes with department stores and discount stores. Competition is based primarily on store location, product selection and availability, customer service and rental rates and terms. The Company's largest national competitor has significantly greater resources and name recognition than the Company.

COLORTYME OPERATIONS

ColorTyme is a nationwide franchisor of television, stereo and furniture rental centers. During the year, 26 new ColorTyme locations were added and 58 sold or closed. Of the 54 stores sold, Renters Choice has acquired 39. As of December 31, 1997, there were approximately 262 franchised rental centers operating in 37 states.

All ColorTyme franchised stores use ColorTyme's tradenames, service marks, trademarks, logos, emblems and indicia of origin and operate under distinctive operating procedures and standards specified by ColorTyme. ColorTyme's primary source of revenue is the sale of rental equipment to its franchisees, who, in turn, offer the equipment to the general public for rent or purchase under a rent-to-own program. As franchisor, ColorTyme receives royalties of 2.3% to 4% of the franchisees' rental income and, generally, an initial fee of \$7,500 per location for existing franchisees and up to \$25,000 per location for new franchisees.

ColorTyme has an arrangement with STI Credit Corporation ("STI") whereby STI may provide inventory financing to qualified new franchisees.

The ColorTyme franchise agreement (the "Franchise Agreement") generally requires the franchised stores to utilize certain computer hardware and software for the purpose of recording rentals, sales and other record keeping and central functions. ColorTyme retains the right to upload and download data, troubleshoot, and retrieve that data and information from the franchised stores' computer systems.

The Franchise Agreement also requires the franchised stores to exclusively offer for rent or sale only those brands, types, and models of products that ColorTyme has approved. The franchised stores are required to maintain an adequate mix and inventory of approved products for rent as dictated by ColorTyme policy manuals, and must maintain on display at the franchised stores, such products as specified by ColorTyme. ColorTyme negotiates purchase arrangements with various suppliers it has approved. ColorTyme's largest suppliers are Whirlpool and Magnavox, which accounted for approximately 31% of merchandise purchased by ColorTyme in 1997.

ColorTyme has established a national advertising fund (the "Fund") for the franchised stores, whereby ColorTyme has the right to collect up to 3% of the monthly gross rental payments and sales from each franchisee to be contributed to the Fund. Currently, ColorTyme has set the monthly franchisee contribution at \$250 per store per month. ColorTyme directs the advertising programs of the Fund, generally consisting of advertising in print, television and radio. Furthermore, the franchisees are required to expend 3% of their monthly gross rental payments and sales on local advertising.

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

GOVERNMENT REGULATION

There currently are 45 states that have legislation regulating rental purchase transactions. Of the 33 states in which the Company operates stores, 30 require the Company to provide certain disclosures to customers regarding the terms of the rental purchase transaction, 2 regulate rental purchase transactions as credit sales and 1 state, New Jersey, currently has no legislation regulating rental purchase transactions. No federal legislation has been enacted regulating rental purchase transactions.

With some variations in individual states, most state legislation requires the lessor to make prescribed disclosures to a customer about the rental purchase agreement and transaction. Such legislation also prescribes grace periods for nonpayment and time periods during which a customer may reinstate a rental purchase agreement, prohibits or limits certain types of collection or other practices and, in some instances, limits certain fees that may be charged. Some states, including California, Iowa, Michigan, Ohio and West Virginia, limit the total rental payments that can be charged. Such limitations, however, do not become applicable unless the total rental payments required under the rental purchase agreement exceed 200% of the "disclosed cash price" in California, Iowa and Ohio and 240% of the "retail" value in West Virginia. Michigan limits the amount that may be charged to 2.22 times the price that would have been charged had the product been purchased rather than leased.

In Wisconsin, where the Company operates six stores, legislation has been adopted which treats certain rental purchase transactions as consumer credit sales if the rental purchase agreement permits the lessee to acquire the rental property for no other or nominal consideration upon full compliance with the agreement. The Company has responded to the Wisconsin legislation by developing and using a rent-to-rent agreement similar to agreements used by traditional rent-to-rent companies. In order for the customer to obtain ownership of a rental product, a completely separate transaction is required. While the Wisconsin legislation has caused the Company to adopt this two-step approach, it has not precluded the Company from continuing to conduct business in Wisconsin nor has it materially impacted the Company's operations.

A New Jersey trial court has held that rental purchase transactions in New Jersey are credit sales subject to certain consumer protection laws which, among other things, limit maximum interest rates to 30%. No legislation has been adopted in New Jersey regulating rental purchase transactions as credit sales. The Company currently operates seventeen stores in New Jersey. Management believes that the Company's operations will not be materially affected by a binding decision or legislation requiring rental purchase transactions to be treated as credit sales because the Company anticipates that it would be able to develop and use a contractual arrangement permissible under New Jersey law similar to the rent-to-rent agreement the Company uses in Wisconsin. See "Item 3. Legal Proceedings" for further discussion of New Jersey regulatory issues.

EMPLOYEES

As of March 16, 1998, the Company had approximately 2540 employees, of whom 44 are assigned to the Company's headquarters and the remainder of whom are directly involved in the management and operation of the Company's stores. As of the same date, ColorTyme had approximately 19 employees, all of which were employed full-time. None of the Company's nor ColorTyme's employees are covered by a collective bargaining agreement. Management believes that the Company's and ColorTyme's relationships with their respective employees are generally good.

ITEM 2. PROPERTIES

The Company leases space for all of its retail stores, as well as its corporate and regional offices, under operating leases expiring at various times through 2007. Most of these leases contain renewal options for additional periods ranging from three to five years at rental rates adjusted according to agreed upon formulas. The Company's headquarters are located at 13800 Montfort, Dallas, Texas, and consist of approximately 19,450 square feet. Store sizes range from approximately 1,500 to 8,200 square feet, and average approximately 4,290 square feet. Approximately 80% of each store's space is generally used for showroom space and 20% for offices and storage space. Management believes that suitable store space generally is available for lease and that the Company would be able to relocate any of its stores without significant difficulty should it be unable to renew a particular lease. Management also expects that additional space will be readily available at competitive rates in the event the Company desires to open new stores.

ColorTyme's headquarters are located at 1231 Greenway Drive in Irving, Texas, and consist of approximately 9,600 square feet.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company and ColorTyme are party to various legal proceedings arising in the ordinary course of business. Except as described below, neither the Company nor ColorTyme is currently a party to any material litigation. Although the ultimate outcome of any litigation matter can never be predicted with certainty, management of the Company believes that the Company has established sufficient reserves to cover its reasonable exposure with respect to its outstanding litigation.

IN RE: DEF INVESTMENTS, INC.

On September 5, 1995, a complaint (the "Complaint") was filed in the United States Bankruptcy Court for the District of Minnesota (the "Bankruptcy Court") against Mr. and Mrs. Robert A. Hardesty (the "Hardestys") and the Company, among others (collectively, the "Defendants"). The Complaint was filed by the trustee (the "Trustee") for DEF Investments, Inc. ("DEF"), in an involuntary chapter 7 bankruptcy case against DEF (the "DEF Bankruptcy Case") commenced on April 20, 1995 by the plaintiffs in a pending class action suit against DEF and other companies including the Company (the "Miller Lawsuit"). The Complaint sought, among other things, to void as a fraudulent transfer the conveyance of certain assets purchased in 1993 by a predecessor of the Company from DEF and certain of its subsidiaries, to obtain an order that such assets be turned over to the Trustee, and to require the Company to make all future payments due to the Hardesty's under consulting and noncompetition agreements entered into at the time of the purchase, to the Trustee for the benefit of the DEF bankruptcy estate.

On March 8, 1996, the Company and the Hardestys reached an agreement with the Trustee to settle the claim in bankruptcy (the "Bankruptcy Settlement"). The terms of the Bankruptcy Settlement provided for the Company to be released from the fraudulent transfer claim and the future obligation to pay the \$5.3 million outstanding at March 8, 1996, under the consulting and noncompetition agreements with the Hardestys in exchange for a cash payment of \$4.75 million to the Trustee. The Bankruptcy Settlement was reduced to writing and received approval by the Bankruptcy Court on June 18, 1997. The parties consummated the Bankruptcy Settlement on January 13, 1998, at which time the Company paid the remaining amount due under the Bankruptcy Settlement into the registry of the Bankruptcy Court and the Trustee dismissed the Complaint against the Company and the Hardestys with prejudice. As a part of the Bankruptcy Settlement, the Bankruptcy Court also issued a protective order enjoining the Hardestys from making any claims against the Company or J. E. Talley and certain of their affiliates under the noncompetition and consulting agreements.

In connection with the consummation of the Bankruptcy Settlement, the Miller Lawsuit was also settled. This

resulted in a dismissal of all claims which were or could have been asserted in that case against the Company. The settlement of the Miller Lawsuit also received court approval and it is now finalized. The Company made no payments in connection with the settlement of the Miller Lawsuit.

GALLAGHER V. CROWN LEASING CORPORATION

On January 3, 1996, the Company was served with a class action complaint adding it as a defendant in this action originally filed in April 1994 against Crown Leasing Corporation ("Crown") and certain of its affiliates in state court in New Jersey. The class consists of all New Jersey residents who entered into rent-to-own contracts with Crown between April 25, 1988 and April 20, 1995.

The lawsuit alleges, among other things, that under certain rent-to-own contracts entered into between the Plaintiff class and Crown, some of which were purportedly acquired by the Company pursuant to the Company's acquisition in April 1995 of the rent-to-own assets of Crown (the "Crown Acquisition"), the defendants failed to make the necessary disclosures and charged the plaintiffs fees and expenses that violated the New Jersey Consumer Fraud Act and the New Jersey Retail Installment Sales Act. The plaintiffs seek damages including, among other things, a refund of all excessive fees and/or interest charged or collected by the defendants in violation of such acts, state usury laws and other related statutes and treble damages, as applicable. The amount of such excessive fees and/or interest is unspecified.

Pursuant to the Asset Purchase Agreement entered into between Crown, its controlling shareholder and the Company in connection with the Crown Acquisition, the Company assumed no liabilities pertaining to the Crown's rent-to-own contracts for the period prior to the Crown Acquisition. The Asset Purchase Agreement provides that Crown and its controlling shareholder will indemnify and hold harmless the Company against damages, including reasonable attorneys' fees, due to any claim pertaining to the operation of Crown's rent-to-own business prior to the Crown Acquisition, except as set forth below. This indemnification is applicable regardless of whether the circumstances giving rise to any such claim continued after the Crown Acquisition. Claims covered include claims of customers, other than claims relating to rent-to-own contracts entered into by Crown prior to the Crown Acquisition which remained in full force and effect on October 20, 1995. The Company has provided Crown and its controlling shareholder with a notice of indemnification and tender of defense. Crown then assumed responsibility for defending the Company in this matter pursuant to the Asset Purchase Agreement.

The plaintiffs have obtained summary judgment against Crown on the liability issues. Although the plaintiffs were unsuccessful in their attempt to certify a class against the Company, the plaintiffs have attempted to assert a theory of successor liability against the Company. Management believes there is no basis for a claim of successor liability against the Company, and if Crown is unable to settle the case, the Company will take appropriate steps to defend and preserve for appeal the successor liability issues at trial. The case was scheduled for trial on September 15, 1997. Prior to the trial setting, the plaintiffs filed a motion for summary judgment on damages against Crown. The motion was to be decided at a hearing on August 22, 1997.

On August 15, 1997, Crown filed a voluntary petition under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Texas, Sherman Division (the "Bankruptcy Filing"). Contemporaneously with the Bankruptcy Filing, Crown removed the state court case in New Jersey to the New Jersey federal court and filed a Motion to Transfer Venue (the "Venue Motion") of the case to the United States District Court for the Eastern District of Texas, Sherman Division, so that it could then be assigned to the Texas bankruptcy court for further proceedings. Plaintiffs moved to remand the action to state court for the determination of damages and an entry of final judgment. The Venue Motion was granted by the New Jersey federal court, and the Plaintiff's motion for reconsideration of the court's ruling has now been denied. In the meantime, the Bankruptcy Filing has been transferred to the Bankruptcy Court in El Paso, where other litigation against Crown and its owner is pending. Crown filed a motion with the Eastern District requesting the Gallagher case be transferred to the Western District where its bankruptcy is now pending, and that motion was recently granted. The Gallagher plaintiffs recently moved the El Paso Bankruptcy Court to lift the automatic stay and send the case back to New Jersey state court. That motion was denied on February 9, 1998, without prejudice.

Due to the uncertainties associated with any litigation, the ultimate outcome of this matter cannot presently be determined.

HINTON, SANCHEZ V. COLORTYME, INC.

On May 25, 1994, a class action complaint was filed in Milwaukee County, Wisconsin against ColorTyme alleging that ColorTyme had entered into contracts with residents of Wisconsin that were violative of the Wisconsin Consumer Act (the "Wisconsin Act"). Specifically, the plaintiffs alleged that the ColorTyme contracts were consumer credit transactions under the Wisconsin Act, and that ColorTyme failed to provide required disclosures and violated the Wisconsin Act's collection practice restrictions. The plaintiffs' complaint sought damages in excess of \$2.0 million. Following the Company's purchase of ColorTyme in May 1996, the plaintiffs added the Company as a defendant in the case.

At a mediation on June 20 and 21, 1997, ColorTyme and the Company settled the claims of the class, including the cost of class counsel's fees and related settlement expenses, for \$2.9 million, subject to final court approval. The fairness hearing on the settlement occurred on January 26, 1998 at which time the court entered its final order approving the settlement. The settlement proceeds will now be distributed to eligible class members, with any residual funds not distributed to such class members to be donated to charities chosen by class counsel, ColorTyme and the Company.

MICHELLE NEWHOUSE V. RENTERS CHOICE, INC.

On November 26, 1997 a class action complaint was filed against the Company by Michelle Newhouse in New Jersey state court alleging, among other things, that under certain rent-to-own contracts entered into between the plaintiffs and the Company, the Company failed to make the necessary disclosures and charged the plaintiffs fees and expenses that violated the New Jersey Consumer Fraud Act and the New Jersey Installment Sales Act. The proposed class consists of all residents of New Jersey who are or have been parties to contracts to rent-to-own merchandise from the Company within the past six years.

The Company removed the case to federal court on January 21, 1998, and was then advised by the plaintiffs' attorney that Michelle Newhouse no longer wished to serve as class representative, and papers would be filed seeking court approval for the withdrawal of the complaint. However, management believes that it is probable that the attorneys representing the plaintiffs will file a similar complaint on behalf of a new class representative.

Due to the uncertainties associated with any litigation, the ultimate outcome of this matter cannot presently be determined.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Stock has been quoted on the National Market of the Nasdaq Stock Market, Inc. ("Nasdaq") under the symbol "RCII" since January 25, 1995, the date the Company commenced its initial public offering. The following table sets forth, for the periods indicated, the high and low sales price per share of the Common Stock as reported on Nasdaq.

1997	HIGH	LOW
	-----	-----
First Quarter	\$17.500	\$11.750
Second Quarter	20.625	13.250
Third Quarter	24.250	17.000
Fourth Quarter	24.250	18.000
1996	HIGH	LOW
	-----	-----
First Quarter	\$18.500	\$12.750
Second Quarter	28.750	17.000
Third Quarter	26.000	16.250
Fourth Quarter	22.750	14.125

As of March 16, 1998, there were 76 record holders of the Common Stock.

Since the Company's initial public offering in 1995, the Company has not paid any cash dividends and expects that it will retain all available earnings generated by its operations for the development and growth of its business. The Company does not anticipate paying any cash dividends on its Common Stock in the foreseeable future. Any change in the Company's dividend policy will be made at the discretion of the Board of Directors of the Company and will depend on a number of factors, including the future earnings, capital requirements, contractual restrictions, financial condition and future prospects of the Company and such other factors as the Board of Directors may deem relevant. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources."

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below for the five years ended December 31, 1997 have been derived from the consolidated financial statements of the Company audited by Grant Thornton LLP, independent certified public accountants. The historical financial data are qualified in their entirety by, and should be read in conjunction with, the financial statements and the notes thereto included elsewhere herein.

YEAR ENDED DECEMBER 31, (1)

	1997	1996(2)	1995(3)	1994(4)	1993(4)
STATEMENT OF EARNINGS DATA					
REVENUE	(In thousands, except per share data)				
Rentals and fees	\$275,344	\$ 198,486	\$126,264	\$70,590	\$51,162
Merchandise sales	14,125	10,604	6,383	3,470	1,678
Other	679	687	642	325	372
Franchise revenue(6)	41,393	28,188	--	--	--
	331,541	237,965	133,289	74,385	53,212
OPERATING EXPENSES					
Direct store expenses					
Depreciation of rental merchandise	57,223	42,978	29,640	15,614	11,626
Cost of merchandise sold	11,365	8,357	4,954	2,915	1,756
Salaries and other expenses	162,458	116,577	70,012	37,786	27,820
Franchise operating expenses					
Cost of franchise merchandise sold (6)	35,841	24,010	--	--	--
	266,887	191,922	104,606	56,315	41,202
General and administrative expenses	13,304	10,111	5,766	2,809	2,151
Amortization of intangibles	5,412	4,891	3,109	6,022	5,304
Total operating expenses	285,603	206,924	113,481	65,146	48,657
Operating profit	45,938	31,041	19,808	9,239	4,555
Interest expense (income), net	1,890	(61)	1,312	2,160	1,817
Earnings before income taxes	44,048	31,102	18,496	7,079	2,738
Income tax expense	18,170	13,076	7,784	1,600	937
Net earnings	\$ 25,878	\$ 18,026	\$ 10,712	\$ 5,479	\$ 1,801
Basic earnings per share	\$ 1.04	\$ 0.73	\$ 0.52	--	--
Diluted earnings per share	\$ 1.03	\$ 0.72	\$ 0.52	--	--

OPERATING DATA

Stores open at end of period	504	423	325	114	112
Comparable store revenue growth (5)	8.1%	3.8%	18.1%	10.8%	11.1%

BALANCE SHEET DATA

Rental merchandise, net	\$112,759	\$ 95,110	\$ 64,240	\$28,096	\$20,672
Intangible assets, net	61,183	47,192	29,549	3,712	9,741
Total assets	208,868	174,467	147,294	36,959	34,813
Total debt	27,172	18,993	40,850	23,383	27,592
Total liabilities	56,115	48,964	50,810	27,673	30,645
Stockholders' equity	152,753	125,503	96,484	9,286	4,168

(1) The Company has pursued an aggressive growth strategy since it was acquired in 1989 by J.E. Talley. Because of the significant growth of the Company since its formation, the Company's historical results of operations, its period-to-period comparisons of such results and certain financial data may not be comparable, meaningful or indicative of future results.

(2) In May 1996, the Company completed the ColorTyme Acquisition, which affects the comparability between the historical financial and operating data for the periods presented.

(3) On April 20, 1995, the Company completed the Crown Acquisition, and in September 1995, the Company completed the Magic Acquisition, both of which affect the comparability between the historical financial and operating data for the periods presented.

(4) In each of the periods presented ending prior to January 1, 1995, the Company operated as an S corporation under Subchapter S of the Internal Revenue Code and comparable provisions of certain state tax laws. Accordingly, prior to January 1, 1995, the Company was not

subject to federal income taxation. Earnings per share are not provided for periods prior to January 1, 1995, because operating results for these periods are not comparable.

- (5) Comparable store revenue for each period presented includes revenues only of stores open throughout the full period and the comparable prior period.
- (6) Prior to the Company's acquisition of ColorTyme in May 1996, the Company conducted no franchise operations. Therefore, franchise operations financial information is presented for the years ended December 31, 1996 and 1997 only.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains forward-looking statements that involve risks and uncertainties. The actual future results of the Company could differ materially from those statements. Factors that could cause or contribute to such differences include, but are not limited to, (i) uncertainties regarding the ability to open new stores, (ii) the ability to acquire additional rent-to-own stores on favorable terms, (iii) the ability to enhance the performance of the required stores and to integrate the acquired stores into the Company's operations, (iv) the passage of legislation adversely affecting the rent-to-own industry, (v) interest rates, and (vi) the ability of the Company to collect on its rental purchase agreements at the current rate.

The following discussion and analysis should be read in conjunction with the information set forth under the caption "Selected Financial Data" and the financial statements of the Company and the accompanying notes thereto included elsewhere in this Report.

GENERAL

The Company has pursued an aggressive growth strategy since it was acquired in 1989 by J.E. Talley. In general, the Company has sought to acquire underperforming stores to which it could apply its operating strategies. See "Business--Strategy." As a result, the acquired stores generally have experienced more significant revenue growth during the initial periods following their acquisition than in subsequent periods. Because of the significant growth of the Company since its formation, the Company's historical results of operations and period-to-period comparisons of such results and certain financial data may not be meaningful or indicative of future results.

The Company expects to grow through both the acquisition of existing stores and the opening of new stores. If the Company opens new stores or acquires underperforming or unprofitable stores, start-up costs associated with new stores and excess salaries, other overhead costs and operating results associated with acquired stores could negatively impact the Company's earnings until these stores are fully integrated into the Company's operations and become profitable.

COMPONENTS OF INCOME

REVENUE. The Company collects non-refundable rental payments and fees in advance, generally on a weekly or monthly basis. This revenue is recognized when collected. Rental purchase agreements generally include a discounted early purchase option. Amounts received upon sales of merchandise pursuant to such options, and upon the sale of used merchandise, are recognized as revenue when the merchandise is sold.

FRANCHISE REVENUE. Revenue from the sale of rental equipment is recognized upon shipment of the equipment 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. Except for tax purposes, the Company depreciates its rental merchandise using the income forecasting method. The income forecasting method of depreciation does not consider salvage value and does not allow the depreciation of rental merchandise during periods when it is not generating rental revenue. For periods prior to 1996, the Company used the income forecasting method to

calculate depreciation of its rental merchandise for tax purposes. However, in 1996, the Company began using the MACRS method of depreciation using a five-year class life for its rental purchase merchandise. In August 1997, the Internal Revenue Service issued a revenue ruling requiring rental purchase companies to use MACRS, with a 3 year class life for all purchases after August 5, 1997. The Company began application of the ruling for all purchases effective August 5, 1997, and thereafter.

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 and Regional Management salaries, travel and occupancy, including any related benefits and taxes, as well as all store level general and administrative expenses and selling, advertising, occupancy, non-rental depreciation and other operating expenses.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses include all corporate overhead expenses related to the Company's headquarters such as salaries, taxes and benefits, occupancy, administrative and other operating expenses, as well as Regional Vice President's salaries, travel and office expenses.

AMORTIZATION OF INTANGIBLES. Amortization of intangibles consists primarily of the amortization of the excess of purchase price over the fair market value of acquired assets.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain historical Statement of Earnings data as a percentage of total revenue.

	YEAR ENDED DECEMBER 31, (Company owned stores only)			YEAR ENDED DECEMBER 31, (Franchise operations)		
	1997 ----	1996 ----	1995 ----	1997 ----	1996 ----	1995 -----
REVENUE						
Rentals and fees	94.9%	94.7%	94.7%	--	--	--
Merchandise Sales	4.9	5.0	4.8	90.3%	89.6%	--
Other/Royalties	0.2	0.3	0.5	9.7	10.4	--
	-----	-----	-----	-----	-----	-----
	100.0%	100.0%	100.0%	100.0%	100.0%	--
	=====	=====	=====	=====	=====	=====
OPERATING EXPENSES						
Direct expenses						
Depreciation of rental merchandise	19.7%	20.5%	22.2%	--	--	--
Cost of merchandise sold	3.9	3.9	3.8	86.6%	85.0%	--
Salaries and other expenses ..	56.0	55.6	52.5	1/M	--	--
	-----	-----	-----	-----	-----	-----
	79.6	80.0	78.5	86.6	85.0	--
General and administrative expenses	3.8	3.8	4.3	5.3	7.7	--
Amortization of intangibles	1.7	2.3	2.3	1.0	0.6	--
	-----	-----	-----	-----	-----	-----
Total operating expenses	85.1	86.1	85.1	92.9	93.3	--
	-----	-----	-----	-----	-----	-----
Operating profit	14.9	13.9	14.9	7.1	6.7	--
Interest expense / (income)8	0.1	1.0	(0.6)	(1.9)	--
	-----	-----	-----	-----	-----	-----
Earnings before income taxes	14.1%	13.8%	13.9%	7.7%	8.6%	--
	=====	=====	=====	=====	=====	=====

COMPARISON OF YEARS ENDED DECEMBER 31, 1997 AND 1996

Between January 1, 1997 and December 31, 1997 the Company acquired 76 stores (5 of which were subsequently consolidated with existing locations). The 1997 Acquisitions were accounted for as purchases, and accordingly, the operating results of the acquired operations have been included in the results of operations of the Company since the respective dates of acquisition. Primarily as a result of the 1997 Acquisitions, comparisons of the Company's operating results for 1997 and 1996 may not be meaningful or indicative of future results.

Total revenue increased by \$93.5 million, or 39.3%, to \$331.5 million for 1997 from \$238.0 million for 1996. The increase in total revenue was primarily attributable to the inclusion of 71 stores purchased in 1997 (net of consolidation) and the inclusion of the operating results from the franchise operations for an entire fiscal year in 1997, compared to only eight months in 1996. Total revenue exclusive of the 71 (net of consolidation) new stores and franchise operations increased by \$52.6 million, or 25.1% to \$262.4 million for 1997 from \$209.8 million in 1996.

Depreciation of rental merchandise increased by \$14.2 million, or 33%, to \$57.2 million for 1997 from \$43.0 million for 1996. Depreciation of rental merchandise as a percent of total store revenue decreased to 19.7%

for 1997 from 20.5% for 1996. The decrease in depreciation of rental merchandise as a percent of revenue was primarily attributable to higher rental rates on rental merchandise.

Salaries and other expenses as a percentage of store revenue increased to 56.0% for 1997 from 55.6% for 1996. This increase is attributable to the increase in salaries for employees and other expenses of the acquired stores immediately following the acquisitions. Occupancy costs also increased as a percent of total store revenue due to the relocation of certain stores acquired in 1996 and 1997 to locations that are larger in square footage. Generally, revenue from these stores increased gradually while the additional payroll and occupancy costs were incurred immediately. The average square footage per store was approximately 4,150 at December 31, 1996 as compared to 4,290 for 1997.

General and administrative expenses expressed as a percentage of total revenue decreased from 4.2% in 1996 to 4.0% in 1997. Expressed as a percentage of store revenue only, general and administrative expenses, exclusive of expenses relative to ColorTyme, were 3.8% in both 1997 and 1996. Franchise general and administrative expenses as a percentage of franchise revenue totaled 5.3% in 1997, down significantly from 7.7% in 1996. This decrease was primarily attributable to our streamlining efforts as overhead reductions were implemented in 1996 and 1997.

Operating profit increased by \$14.9 million, or 48.1%, to \$45.9 million for 1997 from \$31.0 million for 1996. This improvement was primarily due to an increase in both the number of items on rent and in revenue earned per item on rent in the stores acquired in 1997 and 1996. The revenue increase exceeded increases in direct store expenses, as many of the stores acquired by the Company are beginning to flourish in the Company systems and processes.

Net earnings increased by \$7.9 million, or 43.9%, to \$25.9 million in 1997 from \$18.0 million in 1996. The improvement was the result of the increase in operating profit described above.

COMPARISON OF YEARS ENDED DECEMBER 31, 1996 AND 1995

In May 1996, the Company completed the ColorTyme Acquisition, and between May 1996 and December 1996, the Company acquired a total of 94 additional stores. The 1996 acquisitions were accounted for as purchases, and accordingly, the operating results of the acquired operations have been included in the results of operations of the Company since the respective dates of acquisition. Primarily as a result of all of the 1996 acquisitions on the Company's results of operations, comparisons of the Company's operating results for 1996 and 1995 may not be meaningful or indicative of future results.

Total revenue increased by \$104.6 million, or 78.5%, to \$237.9 million for 1996 from \$133.3 million for 1995. The increase in total revenue was primarily attributable to the inclusion of 94 stores purchased in 1996 and the operating results from the franchise operations. Total revenue exclusive of the 94 new stores and franchise operations increased by \$67.9 million, or 50.9% to \$201.1 million for 1996 from \$133.3 million in 1995.

Depreciation of rental merchandise increased by \$13.4 million, or 45.3%, to \$43.0 million for 1996 from \$29.6 million for 1995. Depreciation of rental merchandise as a percent of total store revenue decreased to 20.5% for 1996 from 22.2% for 1995. The decrease in depreciation of rental merchandise as a percent of revenue was primarily attributable to higher rental rates on rental merchandise.

Salaries and other expenses as a percentage of store revenue increased to 55.6% for 1996 from 52.5% for 1995. This increase is attributable to the increase in salaries for employees and other expenses of the acquired stores immediately following the acquisitions while store revenue has increased gradually. Additionally, the Company increased its advertising efforts during 1996 in the markets related to the stores acquired in 1996.

Occupancy costs also increased as a percent of total store revenue due to the relocation of certain stores acquired in 1996 to stores that are larger in square footage. Revenue from these stores increased gradually while the additional occupancy costs are incurred immediately. The average square footage per store was approximately 3,800 at December 31, 1995 compared to 4,150 at December 31, 1996.

General and administrative expenses expressed as a percentage of total revenue decreased to 4.2% in 1996 from 4.3% in 1995. This relatively small decrease was due to the leveraging of corporate overhead expenses over a larger store and revenue base offset by franchise general and administrative expenses incurred in 1996 for the first year of operations. Franchise general and administrative expenses as a percentage of franchise revenue totaled 7.7% in 1996. This increase was offset by the aforementioned decrease in corporate overhead for store operations in 1996, which declined to 3.8% of store revenue in 1996 compared to 4.3% in 1995.

Operating profit increased by \$11.2 million, or 56.6%, to \$31.0 million for 1996 from \$19.8 million for 1995. This improvement was primarily due to an increase in both the number of items on rent and in revenue earned per item on rent in the stores acquired prior to 1996. The revenue increase exceeded increases in direct store expenses.

Net earnings increased by \$7.3 million, or 68.3%, to \$18.0 million in 1996 from \$10.7 million in 1995. The improvement was the result of the increase in operating profit described above, as well as a reduction in interest expense from 1995.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary requirements for capital are the acquisition of existing stores, the opening of new stores, the purchase of additional rental merchandise and the replacement of rental merchandise which has been sold, charged-off or is no longer suitable for rent. During the year ended December 31, 1997, the Company acquired 71 stores (net of consolidation) for an aggregate purchase price of \$30.5 million, all of which was paid in cash. During the year ended December 31, 1997, the Company purchased rental merchandise in the amount of \$85.9 million. The Company purchased \$75.2 million and \$44.5 million of rental merchandise during the years ended December 31, 1996 and 1995, respectively.

For 1997, cash provided by operating activities increased by \$9.4 million from \$19.4 million in 1996 to \$28.8 million in 1997, primarily due to the \$7.9 million increase in net earnings. Cash used in investing activities increased by \$4.3 million from \$36.3 million in 1996 to \$40.6 million in 1997, primarily due to additional cash paid pursuant to the 1997 Acquisitions. Additionally, the Company paid \$2.3 million more in 1997 than 1996 for the purchase of property assets. The increase is attributable primarily to relocating and improving acquired stores. During 1997, cash provided by financing activities was \$10.6 million, primarily from the Company's credit facility. During 1996, cash used in financing activities was \$12.5 million, which relates primarily to repayment of debt to the Magic selling shareholders which was paid in full on January 2, 1996, offset by the net proceeds of the sale of the ColorTyme franchisee loan portfolio.

On November 27, 1996, the Company consummated a \$90 million revolving line of credit with a group of banks led by Comerica Bank as agent. The credit facility has a stated term of three years and replaces the Company's prior \$40 million credit facility. Advances under the line of credit may be used by the Company for general business purposes such as working capital and for the financing of acquisitions. Borrowings under the line of credit will bear interest at the Company's choice of a bank prime rate or a LIBOR-based rate, and are secured by liens on substantially all of the assets of the Company. The amount outstanding under the line of credit as of March 6, 1998 is \$15 million. The facility bears a commitment fee ranging from 0.3% to 0.5% of the average unused portions.

In connection with the 1993 Acquisition, monthly payments of \$33,333 were due under a consulting agreement through April 1, 2001, and monthly payments of \$125,000 were due under a non-competition agreement from February 1996 through January 1998. The settlement agreement described under the caption "Item 3. Legal Proceedings -- IN RE: DEF INVESTMENTS, INC." was completed in January 1998, at which time the Company was released from its obligation to make payments under such consulting and non-competition agreements, in exchange for a final cash payment of \$950,000.

In connection with the Crown Acquisition, monthly payments of \$16,667 were made under a consulting agreement that ended in October 1996, and in connection with the Magic Acquisition, monthly payments in the aggregate amount of \$32,500 each are due under certain non-competition agreements through August 2000.

The Company currently expects to open approximately twelve new stores during 1998 and to open a comparable number of stores in each of the next few years. Currently, the Company estimates that the average investment with respect to new stores is approximately \$350,000 per store, of which rental merchandise comprises approximately 80% of the investment. The remaining investment consists of leasehold improvements, delivery trucks, store signs, computer equipment and start-up costs. There can be no assurance that the Company will open any new stores in the future, or as to the number, location or profitability thereof.

In addition to its intention to open new stores annually, the Company intends to increase the number of stores it operates through acquisitions. In particular, the Company's goal is to increase the number of stores it operates by approximately 75-100 stores in each of the next few years, primarily through acquisitions. Management believes that there are currently a number of possible future acquisition opportunities in the rent-to-own industry, and it is possible that any acquisition could be material to the Company. There can be no assurance that the Company will be able to acquire any additional stores, or that any stores that are acquired will be or will become profitable.

Management believes that cash flow from operations and the previously described credit facility will be adequate to fund the operations and expansion plans of the Company during 1998. In addition, to provide any additional funds necessary for the continued pursuit of the Company's growth strategies, the Company may incur, from time to time, additional short and long-term bank indebtedness and may issue, in public or private transactions, its equity and debt securities. The availability and attractiveness of any outside sources of financing will depend on a number of factors, some of which will relate to the financial condition and performance of the Company, and some of which will be beyond the Company's control such as prevailing interest rates and general economic conditions. There can be no assurance that such additional financing will be available or, if available, will be on terms acceptable to the Company.

INFLATION

During the years ended December 31, 1997, 1996 and 1995, the cost of rental merchandise, lease expense and salaries and wages have increased modestly. The increases have not had a significant effect on the Company's results of operations because the Company has been able to charge commensurately higher rental rates for its merchandise.

QUARTERLY RESULTS

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

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
----- (IN THOUSANDS) -----				
Year ended December 31, 1997(1)				
Revenue	\$74,587	\$80,803	\$83,864	\$92,288
Operating profit	9,639	11,341	11,766	12,970
Net earnings	5,412	6,357	6,724	7,385
Basic Earnings per share	0.22	0.25	0.27	0.30
Diluted Earnings per share ...	\$ 0.22	\$ 0.25	\$ 0.27	\$ 0.29
Year ended December 31, 1996(2)				
Revenue	\$49,002	\$57,756	\$60,025	\$71,182
Operating profit	6,344	7,558	7,957	9,183
Net earnings	3,617	4,369	4,729	5,311
Basic Earnings per share	0.15	0.18	0.19	0.21
Diluted Earnings per share ...	\$ 0.15	\$ 0.17	\$ 0.19	\$ 0.21

- (1) During 1997, 28 stores were purchased during the first quarter; 39 stores were purchased during the second quarter; and 9 stores were purchased during the third quarter. Of the 76 stores acquired, 5 were subsequently consolidated with existing store locations. In addition, two stores were opened during the first quarter; two stores were opened during the second quarter; four stores were opened during the third quarter; and two stores were opened during the fourth quarter.
- (2) During 1996, 11 stores were purchased during the second quarter, 12 stores were purchased during the third quarter, and 71 stores were purchased during the fourth quarter of 1996. In addition, three stores were opened in the second quarter, four stores were opened in the third quarter, and six stores were opened in the fourth quarter of 1996.

EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

In 1997, the FASB issued SFAS No. 130, Reporting Comprehensive Income. The provision of SFAS No. 130 establishes new rules for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. The new rules require that all items that are recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company will adopt SFAS No. 130 in 1998 and does not expect that such adoption will have a material impact on results of operations, financial position or cash flows.

In 1997, the FASB issued SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. The provisions of SFAS No. 131 require public companies to use a management approach to determining their operating segments. This management approach model defines operating segments as revenue-producing components of the enterprise for which separate financial information is produced internally and are subject to evaluation by the chief operating decision maker in deciding how to allocate resources to segments. SFAS No. 131 also expands the financial and descriptive information disclosures relative to the identified operating segments. The Company will adopt SFAS No. 131 in 1998 and anticipates that it will have two reportable segments, rental store operations and franchise operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Company required to be included in this Item 8 are set forth in Item 14 of this Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

- (*)ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT
- (*)ITEM 11. EXECUTIVE COMPENSATION
- (*)ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
- (*)ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

* The information required by Items 10, 11, 12 and 13 is or will be set forth in the definitive proxy statement relating to the 1998 Annual Meeting of Stockholders of Renters Choice, Inc., which is to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. Such definitive proxy statement relates to a meeting of stockholders involving the election of directors and the portions therefrom required to be set forth in this Form 10-K by Items 10, 11, 12 and 13 are incorporated herein by reference pursuant to General Instruction G(3) to Form 10-K.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS

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SCHEDULES SUPPORTING FINANCIAL STATEMENTS

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

CURRENT REPORTS ON FORM 8-K

None

LISTING OF EXHIBITS

Exhibits followed by an (*) constitute management contracts or compensatory plans or arrangements.

EXHIBIT NUMBER	DESCRIPTION
2.1(1)	- Asset Purchase Agreement dated April 20, 1995 among Renters Choice, Inc., Crown Leasing Corporation, Robert White, individually and Robert White Company, a sole proprietorship owned by Robert White
2.2(2)	- Stock Purchase Agreement dated as of August 27, 1995 among Renters Choice, Inc., Starla J. Flake, Rance D. Richter, Bruce S. Johnson and Pro Rental, Inc.
2.3(3)	- Stock Purchase Agreement dated September 29, 1995 between the Company and Terry N. Worrell
2.4(4)	- Partnership Interest Purchase Agreement dated September 29, 1995 among the Company, Worrell Investors, Inc., The Christy Ann Worrell Trust and The Michael Neal Worrell Trust
2.5(5)	- Agreement and Plan of Merger by and among Renters Choice, Inc., Pro Rental, Inc., MRT0 Holdings, Inc. and Pro Rental II, Inc.
2.6(6)	- Agreement and Plan of Reorganization dated May 15, 1996, among Renters Choice, Inc., ColorTyme, Inc., and CT Acquisition Corporation
3.1(7)	- Amended and Restated Certificate of Incorporation of the Company
3.2(8)	- Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company
3.3(9)	- Amended and Restated Bylaws of the Company
4.1(10)	- Form of Certificate evidencing Common Stock
10.1(11)*	- Amended and Restated 1994 Renters Choice, Inc. Long-Term Incentive Plan
10.2(12)	- Revolving Credit Agreement dated as of November 27, 1996 between Comerica Bank, as agent, Renters Choice, Inc. and certain other lenders
10.3(13)	- Consulting Agreement dated April 1, 1993, by and between Bob A. Hardesty and Brenda K. Hardesty and Renters Choice, L.P.
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10.8(18)	- Noncompetition Agreement dated as of August 27, 1995 between Renters Choice, Inc. and Bruce S. Johnson

- 10.9(19) - Noncompetition Agreement dated as of August 27, 1995 between Renters Choice, Inc. and Rance D. Richter
- 10.10(20) - Option Agreement dated August 27, 1995 between the Company and Terry N. Worrell
- 10.11(21) - Option Agreement dated August 27, 1995 among the Company, Worrell Investors, Inc., The Christy Ann Worrell Trust and The Michael Neal Worrell Trust
- 10.15(22) - Portfolio Acquisition Agreement dated May 15, 1996, by and among Renters Choice, Inc., ColorTyme Financial Services, Inc., and STI Credit Corporation
- 10.16(23)* - Employment Agreement, dated March 28, 1997, by and between Renters Choice, Inc. and Danny Z. Wilbanks
- 10.17(24)* - Stock Option Agreement, dated April 1, 1997, by and between Renters Choice, Inc. and Danny Z. Wilbanks
- 23 - Notice of Annual Meeting of Stockholders and Proxy Statement of the Company for the 1998 Annual Meeting of the Company (to be filed with the Securities and Exchange Commission pursuant to Regulation 14A)
- 23.1 - Consent of Independent Certified Public Accountants
- 27 - Financial Data Schedule

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- (2) Incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K dated August 27, 1995
- (3) Incorporated herein by reference to Exhibit 10.19 to the registrant's Registration Statement on Form S-1 (File No. 33-97012)
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- (23) Incorporated herein by reference to Exhibit 10.16 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997
- (24) Incorporated herein by reference to Exhibit 10.16 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997

SIGNATURES

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

RENTERS CHOICE, INC.

By: /s/ J. ERNEST TALLEY
J. Ernest Talley
CHAIRMAN OF THE BOARD AND
CHIEF EXECUTIVE OFFICER

Date: March 16, 1998

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

SIGNATURE	TITLE	DATE
/s/ J. ERNEST TALLEY J. Ernest Talley	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 16, 1998
/s/ MARK E. SPEESE Mark E. Speese	President, Chief Operating Officer and Director	March 16, 1998
/s/ DANNY Z. WILBANKS Danny Z. Wilbanks	Senior Vice President - Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 1998
/s/ J. V. LENTELL J.V. Lentell	Director	March 16, 1998
/s/ JOSEPH V. MARINER Joseph V. Mariner	Director	March 16, 1998
/s/ REX W. THOMPSON Rex W. Thompson	Director	March 16, 1998

EXHIBIT INDEX

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Renters Choice, Inc.

We have audited the accompanying consolidated balance sheets of Renters Choice, Inc. and Subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Renters Choice, Inc. and Subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

GRANT THORNTON LLP

Dallas, Texas
February 12, 1998

Renters Choice, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31,

(IN THOUSANDS OF DOLLARS)

	1997	1996
	-----	-----
ASSETS		
Cash and cash equivalents	\$ 4,744	\$ 5,920
Rental merchandise, net		
On rent	89,007	71,620
Held for rent	23,752	23,490
Accounts receivable - trade	2,839	3,021
Prepaid expenses and other assets	3,164	4,369
Property assets, net	17,700	12,716
Deferred income taxes	6,479	6,138
Intangible assets, net	61,183	47,193
	-----	-----
	\$208,868	\$174,467
	=====	=====
LIABILITIES		
Revolving credit agreement	\$ 26,280	\$ 14,435
Accounts payable - trade	11,935	17,047
Accrued liabilities	17,008	12,924
Other debt	892	4,558
	-----	-----
	56,115	48,964
COMMITMENTS AND CONTINGENCIES		
	--	--
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; 5,000,000 shares authorized; none issued	--	--
Common stock, \$.01 par value; 50,000,000 shares authorized; 24,904,721 and 24,791,085 shares issued and outstanding in 1997 and 1996, respectively	249	248
Additional paid-in capital	99,381	98,010
Retained earnings	53,123	27,245
	-----	-----
	152,753	125,503
	-----	-----
	\$ 208,868	\$ 174,467
	=====	=====

The accompanying notes are an integral part of these statements.

Renters Choice, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS

Year ended December 31,

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)	1997	1996	1995
	-----	-----	-----
Revenue			
Store			
Rentals and fees	\$ 275,344	\$ 198,486	\$ 126,264
Merchandise sales	14,125	10,604	6,383
Other	679	687	642
Franchise			
Merchandise sales	37,385	25,229	--
Royalty income and fees	4,008	2,959	--
	-----	-----	-----
	331,541	237,965	133,289
Operating expenses			
Direct store expenses			
Depreciation of rental merchandise	57,223	42,978	29,640
Cost of merchandise sold	11,365	8,357	4,954
Salaries and other expenses	162,458	116,577	70,012
Franchise operating expense			
Cost of merchandise sales	35,841	24,010	--
	-----	-----	-----
	266,887	191,922	104,606
General and administrative expenses	13,304	10,111	5,766
Amortization of intangibles	5,412	4,891	3,109
	-----	-----	-----
Total operating expenses	285,603	206,924	113,481
Operating profit	45,938	31,041	19,808
Interest expense	2,194	606	2,202
Interest income	(304)	(667)	(890)
	-----	-----	-----
Earnings before income taxes	44,048	31,102	18,496
Income tax expense	18,170	13,076	7,784
	-----	-----	-----
NET EARNINGS	\$ 25,878	\$ 18,026	\$ 10,712
	=====	=====	=====
Basic earnings per share	\$ 1.04	\$ 0.73	\$ 0.52
	=====	=====	=====
Diluted earnings per share	\$ 1.03	\$ 0.72	\$ 0.52
	=====	=====	=====

The accompanying notes are an integral part of these statements.

Renters Choice, Inc. and Subsidiaries
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	RENTERS CHOICE, INC. COMMON STOCK SHARES -----	STOCK AMOUNT -----	ADDITIONAL PAID-IN CAPITAL -----	RETAINED EARNINGS -----	UNAMORTIZED VALUE OF STOCK AWARD -----	TOTAL -----
(IN THOUSANDS OF DOLLARS)						
Balance at January 1, 1995	4,300	\$ 43	\$ 116	\$ 9,126	\$ --	\$ 9,285
Net earnings	--	--	--	10,712	--	10,712
Dividends paid	--	--	--	(1,493)	--	(1,493)
Contribution of undistributed S corporation earnings	--	--	9,126	(9,126)	--	--
Initial public offering of common stock	2,587	26	23,370	--	--	23,396
Issuance of common stock under stock option plan	1	--	10	--	--	10
Three-for-two common stock split effected in the form of a dividend	3,444	34	(34)	--	--	--
Two-for-one common stock split effected in the form of a dividend	10,333	103	(103)	--	--	--
Stock award	63	1	960	--	(961)	--
Amortization of stock award ...	--	--	--	--	63	63
Public offering of common stock	3,650	37	54,474	--	--	54,511
	-----	-----	-----	-----	-----	-----
Balance at December 31, 1995	24,378	244	87,919	9,219	(898)	96,484
Net earnings	--	--	--	18,026	--	18,026
Amortization of stock award ...	--	--	322	322	--	--
Termination of stock award	(37)	--	(576)	--	576	--
Exercise of stock options	107	1	695	--	--	696
Tax benefits related to exercise of stock options ..	--	--	460	--	--	460
Acquisition of ColorTyme, Inc.	343	3	9,512	--	9,515	--
	-----	-----	-----	-----	-----	-----
Balance at December 31, 1996	24,791	248	98,010	27,245	--	125,503
Net earnings	--	--	--	25,878	--	25,878
Exercise of stock options	114	1	950	--	--	951
Tax benefits related to exercise of stock options ..	--	--	421	--	--	421
	-----	-----	-----	-----	-----	-----
Balance at December 31, 1997	<u>24,905</u>	<u>\$249</u>	<u>\$ 99,381</u>	<u>\$53,123</u>	<u>\$ --</u>	<u>\$152,753</u>

The accompanying notes are an integral part of these statements.

Renters Choice, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,

(IN THOUSANDS OF DOLLARS)

	1997	1996	1995
Cash flows from operating activities			
Net earnings	\$ 25,878	\$ 18,026	\$ 10,712
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation of rental merchandise	57,223	42,978	29,640
Depreciation of property assets	5,601	3,680	2,130
Amortization of intangibles	5,412	4,891	3,109
Deferred income taxes	(341)	4,961	1,406
Other	--	24	(91)
Changes in operating assets and liabilities, net of effects of acquisitions			
Rental merchandise	(64,346)	(64,927)	(39,220)
Accounts receivable - trade	182	(602)	--
Prepaid expenses and other assets	1,252	524	(2,636)
Accounts payable - trade	(5,112)	10,745	(28)
Accrued liabilities	3,033	(939)	183
Net cash provided by operating activities	28,782	19,361	5,205
Cash flows from investing activities			
Purchase of property assets	(10,446)	(8,187)	(3,473)
Proceeds from sale of property assets	376	303	414
Acquisitions of businesses	(30,491)	(28,367)	(21,680)
Net cash used in investing activities	(40,561)	(36,251)	(24,739)
Cash flows from financing activities			
Proceeds from public stock offerings	--	--	77,907
Exercise of stock options	951	696	10
Distributions to stockholders	--	--	(1,493)
Proceeds from debt	80,656	37,733	33,083
Repayments of debt	(71,004)	(72,278)	(49,843)
Repayments of note payable to stockholder	--	--	(6,250)
Sale of notes receivable	--	21,338	--
Net cash provided by (used in) financing activities	10,603	(12,511)	53,414
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,176)	(29,401)	33,880
Cash and cash equivalents at beginning of year	5,920	35,321	1,441
Cash and cash equivalents at end of year	\$ 4,744	\$ 5,920	\$ 35,321

The accompanying notes are an integral part of these statements.

Renters Choice, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Year ended December 31,

(IN THOUSANDS OF DOLLARS)

	1997	1996	1995
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	\$ 1,962	\$ 929	\$ 1,711
Income taxes	\$ 13,983	\$ 8,426	\$ 7,764

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES

In conjunction with the businesses acquired, liabilities were assumed as follows:

	1997	1996	1995
Fair value of assets acquired	\$ 30,491	\$ 57,223	\$ 68,285
Stock and options issued	--	(9,515)	--
Cash paid	(30,491)	(28,367)	(21,680)
 Liabilities assumed	 \$ --	 \$ 19,341	 \$ 46,605
	<u>=====</u>	<u>=====</u>	<u>=====</u>

The accompanying notes are an integral part of these statements.

Renters Choice, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF ACCOUNTING POLICIES AND NATURE OF OPERATIONS

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

PRINCIPLES OF CONSOLIDATION AND NATURE OF OPERATIONS

The accompanying financial statements include the accounts of Renters Choice, Inc. (Renters Choice) and its franchise subsidiaries ColorTyme, Inc. (ColorTyme) (collectively, the Company). All significant intercompany accounts and transactions have been eliminated. Renters Choice leases household durable goods to customers on a rent-to-own basis. At December 31, 1997, the Company operated 504 stores which were located throughout the United States and the Commonwealth of Puerto Rico (sixteen stores).

ColorTyme is a nationwide franchisor of television, stereo and furniture rental centers. ColorTyme's primary source of revenues is the sale of rental equipment to its franchisees, who, in turn, offer the equipment to the general public for rent or purchase under a rent-to-own program. The balance of ColorTyme's revenues are generated primarily from royalties based on the franchisee's monthly gross revenues. At December 31, 1997, there were approximately 262 franchised rental centers operating in 37 states.

SEGMENT DISCLOSURES

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). SFAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Company will be required to adopt SFAS 131 in 1998. The Company anticipates that only its rent-to-own and franchise operations will be required to be separately disclosed under the reporting guidelines of SFAS 131.

RENTAL MERCHANDISE

Rental merchandise is carried at the lower of cost or net realizable value. Depreciation is provided using the income forecasting method which is intended to match as closely as practicable the recognition of depreciation expense with the consumption of the rental merchandise. The consumption of rental merchandise occurs during periods of rental and directly coincides with the receipt of rental revenue over the rental-purchase agreement period, generally 18 to 24 months. Under the income forecasting method, merchandise held for rent is not depreciated, and merchandise on rent is depreciated in the proportion of rents received to total rents provided in the rental contract, which is an activity based method similar to the units of production method.

CASH EQUIVALENTS

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE A - SUMMARY OF ACCOUNTING POLICIES AND NATURE OF OPERATIONS - Continued

RENTAL REVENUE AND FEES

Merchandise is rented to customers pursuant to rental-purchase agreements which provide for weekly or monthly rental terms with nonrefundable rental payments. Generally, the customer has the right to acquire title either through a purchase option or through payment of all required rentals. Rental revenue and fees are recognized over the rental term. No revenue is accrued because the customer can cancel the rental contract at any time and the Company cannot enforce collection for nonpayment of rents. A provision is made for estimated losses of rental merchandise damaged or not returned by customers.

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

PROPERTY ASSETS AND RELATED DEPRECIATION

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

INTANGIBLE ASSETS AND AMORTIZATION

Intangible assets are stated at cost less accumulated amortization calculated by the straight-line method.

ACCOUNTING FOR IMPAIRMENT OF LONG-LIVED ASSETS

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

INCOME TAXES

Effective January 1, 1995, the Company terminated its S corporation status and became a C corporation and, therefore, is subject to Federal income taxes. The Company provides deferred taxes for temporary differences between the tax and financial reporting bases of assets and liabilities at the rate expected to be in effect when taxes become payable.

EARNINGS PER SHARE AND STOCK SPLITS

Effective for the fourth quarter of 1997, the Company adopted Statement of Financial Accounting Standard No. 128, "Earnings Per Share" (SFAS 128), which requires the computation of basic and diluted earnings per share. The provisions of SFAS 128 have been applied retroactively to all periods presented herein. Basic earnings per share are based upon the weighted average number of common shares outstanding during each period presented. Diluted earnings per share are based upon the weighted average number of common shares outstanding during the period, plus the assumed exercise of stock options at the beginning of the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE A - SUMMARY OF ACCOUNTING POLICIES AND NATURE OF OPERATIONS - Continued

In June 1995, the Company effected a 3-for-2 split of its common stock through the distribution of one-half additional share of common stock as a dividend with respect to each outstanding share of common stock.

On September 11, 1995, the Board of Directors approved a 2-for-1 stock split, to be effected as a 100% stock dividend for shareholders of record as of September 29, 1995.

All share and per share data has been retroactively restated to reflect these transactions.

ADVERTISING COSTS

Costs incurred for producing and communicating advertising are expensed when incurred. Advertising expense was \$13.7 million, \$10.6 million and \$6.4 million in 1997, 1996 and 1995, respectively.

STOCK-BASED COMPENSATION

Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire that stock.

USE OF ESTIMATES

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

RECLASSIFICATIONS

Certain reclassifications have been made to conform to the 1997 presentation.

NOTE B - ACQUISITIONS

During 1997, the Company acquired the assets of 76 stores in eighteen separate transactions for approximately \$30.5 million in cash.

On May 15, 1996 the Company acquired all the outstanding common stock of ColorTyme for \$14.5 million, including acquisition costs, comprised of cash of \$4.7 million and 343,175 shares of the Company's common stock and 314,000 options for the Company's common stock valued at \$3.0 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE B - ACQUISITIONS - Continued

Immediately following the purchase of ColorTyme by the Company, ColorTyme sold its loan portfolio (with certain recourse provisions) to a third party for approximately \$21.7 million. No gain or loss was recognized on the sale. ColorTyme simultaneously paid off notes payable owed to a finance company of approximately \$13.2 million.

The Company acquired the assets of an additional eighty-eight stores in twenty-three transactions during 1996, for approximately \$25.6 million in cash and \$1.8 million in notes.

In April 1995, the Company acquired 72 stores from Crown Leasing Corporation and certain of its affiliates (Crown) for a cash purchase price of approximately \$20.6 million.

In September 1995, the Company completed the acquisition of 135 rent-to-own stores through the purchase of the common stock of Pro Rental, doing business as Magic Rent-to-Own and Kelway Rent-to-Own. The total purchase price was approximately \$38.4 million, which was paid in cash and notes.

All acquisitions have been accounted for as purchases and the operating results of the acquired stores have been included in the financial statements of the Company since their acquisition.

The following unaudited pro forma information combines the results of operations as if the acquisitions had been consummated as of the beginning of each of the years presented, after including the impact of adjustments for amortization of intangibles and interest expense on acquisition borrowings:

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)	1997 -----	1996 -----
Revenue	\$ 339,809	\$ 291,555
Net earnings	\$ 25,866	\$ 18,833
Basic earnings per common share	\$ 1.04	\$ 0.76
Diluted earnings per common share	\$ 1.03	\$ 0.75

The pro forma financial information is presented for informational purposes only and is not necessarily indicative of operating results that would have occurred had the acquisition been consummated as of the above dates, nor are they necessarily indicative of future operating results.

NOTE C - RENTAL MERCHANDISE

(IN THOUSANDS OF DOLLARS)	1997 -----	1996 -----
ON RENT		
Cost	\$142,408	\$109,663
Less accumulated depreciation	53,401	38,043
	-----	-----
	\$ 89,007	\$ 71,620
	=====	=====
HELD FOR RENT		
Cost	\$ 29,975	\$ 27,805
Less accumulated depreciation	6,223	4,315
	-----	-----
	\$ 23,752	\$ 23,490
	=====	=====

NOTE D - PROPERTY ASSETS

(IN THOUSANDS OF DOLLARS)	1997	1996
	-----	-----
Furniture and equipment	\$ 13,115	\$ 9,259
Delivery vehicles	2,608	2,711
Leasehold improvements	14,499	8,542
Construction in progress	547	236
	-----	-----
	30,769	20,748
Accumulated depreciation	(13,069)	(8,032)
	-----	-----
	\$ 17,700	\$ 12,716
	=====	=====

NOTE E - INTANGIBLE ASSETS

(IN THOUSANDS OF DOLLARS)	AMORTIZATION PERIOD	1997	1996
	-----	-----	-----
Customer rental agreements	18 months	\$ 1,773	\$ 2,537
Noncompete agreements	2 - 5 years	3,652	2,892
Consulting agreement	4 years	--	2,918
Franchise network	10 years	3,000	3,000
Goodwill	20 years	61,228	43,933
		-----	-----
		69,653	55,280
Less accumulated amortization		8,470	8,087
		-----	-----
		\$61,183	\$47,193
		=====	=====

Customer rental agreements represent the projected cash flows less servicing costs from open customer contracts of acquired stores at acquisition date and are amortized over the average stated term of the customer contract, 18 months. Noncompete agreements and the consulting agreement are amortized over the life of the respective agreements.

NOTE F - REVOLVING CREDIT AGREEMENT

On November 27, 1996, the Company entered into a \$90 million three-year revolving credit agreement with a group of banks. Borrowings under the facility bear interest at a rate equal to a designated prime rate (8.50% at December 31, 1997) or 1.10% to 1.65% over LIBOR (5.75% at December 31, 1997) at the Company's option. Borrowings are collateralized by a lien on substantially all of the Company's assets. A commitment fee equal to .30% to .50% of the unused portion of the term loan facility is payable quarterly. The weighted average interest rate under this facility was 7.0% and 6.7% for the years ended December 31, 1997 and 1996, respectively. The credit facility includes certain net worth and fixed charge coverage requirements, as well as covenants which restrict additional indebtedness and the disposition of assets not in the ordinary course of business. At December 31, 1997, the Company has \$64.5 million available under the agreement.

NOTE G - ACCRUED LIABILITIES

(IN THOUSANDS OF DOLLARS)	1997	1996
-----	----	----
Taxes other than income	\$ 3,700	\$ 2,872
Income taxes payable	1,762	--
Accrued litigation costs	4,038	4,114
Accrued insurance costs	3,033	1,859
Accrued compensation and other	4,475	4,079
	-----	-----
	\$17,008	\$12,924
	=====	=====

NOTE H - OTHER DEBT

(IN THOUSANDS OF DOLLARS)	1997	1996
Obligation payable under noncompete agreement, due in 24 monthly installments of \$125 commencing April 1, 1996, with interest imputed at 5.32%	\$ --	\$ 1,826
Obligation payable under consulting agreement, in 96 monthly installments of \$33.3 commencing May 1, 1993, with interest imputed at 5.32% - 1,545.....	1/M	1,545
Obligations under noncompete agreements, due in 60 monthly installments of \$32.5 commencing September 1, 1995 with interest imputed at 8.75%	892	1,187
	-----	-----
	\$ 892	\$ 4,558
	=====	=====

The following are scheduled maturities of debt at December 31, 1997

YEAR ENDING DECEMBER 31, -----	
1998	\$ 289
1999	351
2000	252

	\$ 892
	=====

NOTE I - INCOME TAXES

The components of the income tax provision are as follows:

(IN THOUSANDS OF DOLLARS)	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Current			
Federal	\$ 15,028	\$ 5,262	\$3,837
State	1,911	1,297	1,227
Foreign	1,572	1,556	1,314
Total current	18,511	8,115	6,378
Deferred			
Federal	(351)	3,866	1,238
State	10	1,095	168
Total deferred	(341)	4,961	1,406
Total	\$ 18,170	\$13,076	\$7,784

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

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Tax at statutory rate	35.0%	34.0%	34.0%
State income taxes, net of federal benefit	4.6	5.1	4.9
Effect of foreign operations, net of foreign tax credits	0.4	0.5	1.0
Goodwill amortization	1.1	1.8	.7
Other, net2	0.6	1.5
Total	41.3%	42.0%	42.1%

Deferred tax assets and liabilities consist of the following:

	DECEMBER 31,	
	1997	1996
Deferred tax assets		
Net operating loss carryforwards		
Federal	\$ 4,202	\$ 4,595
State	2,614	3,103
Accrued expenses	4,267	1,957
Intangible assets	1,079	835
Property assets	783	166
Alternative minimum tax carryforward	463	463
Other	124	676
	13,532	11,795
Less valuation allowance	2,930	3,418
	10,602	8,377
Deferred tax liability		
Rental merchandise	4,123	2,239
Net deferred tax asset	\$ 6,479	\$ 6,138

NOTE I - INCOME TAXES - Continued

The Company has Federal net operating loss carryforwards of approximately \$10.8 million at December 31, 1997 which were acquired in connection with purchased companies. The use of Federal carryforwards which expire between 2005 and 2010 are limited to approximately \$3.5 million per year. Because of uncertainties with respect to allocation of future taxable income to the various states, a valuation allowance has been provided against these carryforwards. If utilized, the tax benefit will reduce goodwill.

NOTE J - COMMITMENTS AND CONTINGENCIES

The Company leases its office and store facilities and certain delivery vehicles. Rental expense was \$22.0 million, \$15.7 million and \$9.4 million for 1997, 1996 and 1995, respectively. Future minimum rental payments under operating leases with remaining noncancellable lease terms in excess of one year at December 31, 1997 are as follows:

YEAR ENDING DECEMBER 31, -----	(IN THOUSANDS OF DOLLARS) -----
1998	\$ 15,026
1999	12,592
2000	9,699
2001	6,797
2002	2,833
Thereafter	1,235

	\$ 48,182
	=====

The Company has agreed to indemnify its original stockholders against any additional income tax liabilities incurred by them attributable to the Company's operations during taxable periods in which the Company was an S Corporation.

The Company is one of the defendants in a class action lawsuit which alleges that certain rent-to-own contracts entered into between Crown and the plaintiffs included fees and expenses that violated the New Jersey Consumer Fraud Act and the New Jersey Retail Installment Sales Act. The plaintiffs have obtained summary judgment against Crown, reserving damages for trial. Crown and its controlling shareholders have agreed to indemnify the Company against any losses it may incur relating to the litigation under the terms of the Asset Purchase Agreement between Crown and the Company. Although the Company believes it has taken appropriate steps to defend itself, the ultimate outcome of this lawsuit cannot presently be determined.

At December 31, 1997, the Company was a defendant in another class action lawsuit in New Jersey alleging violations of the New Jersey Consumer Fraud Act, Retail Installment Sales Act and usury laws, among other things. The litigation sought treble the amount of damages, if any, incurred by the plaintiff class, punitive damages, interest, attorneys fees and certain injunctive relief. The Company removed the case to federal court on January 21, 1998, and was then advised by the plaintiffs' attorney that the plaintiff no longer wished to serve as class representative. Papers were filed seeking in January 1998 seeking court approval for the withdrawal of the complaint. Management believes that it is probable that plaintiffs' attorney will file a similar complaint on behalf of a new class representative. The ultimate outcome of this lawsuit cannot presently be determined.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE J - COMMITMENTS AND CONTINGENCIES - Continued

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

NOTE K - STOCK BASED COMPENSATION

In November 1994, the Company established a long-term incentive plan (the Plan) for the benefit of certain key employees and directors. Under the plan, up to 2,000,000 shares of the Company's shares are reserved for issuance under stock options, stock appreciation rights or restricted stock grants. Options granted to employees under the plan become exercisable over a period of one to five years from the date of grant and may be exercised up to a maximum of 10 years from date of grant. Options granted to directors are exercisable immediately. In 1995, the Company granted a stock award to an employee for 62,500 shares of common stock subject to forfeiture on termination of employment in certain circumstances. At the date of grant, the fair value of such shares was \$960,938. Compensation charged to earnings was \$320,000 and \$63,000 in 1996 and 1995, respectively. Upon termination of employment in 1996, 37,500 shares were forfeited in a negotiated settlement with the Company. There have been no grants of stock appreciation rights and all options had been granted with fixed prices. At December 31, 1997, there were 443,125 shares reserved for issuance under the Plan.

The Company has adopted only the disclosure provisions of SFAS 123 for employee stock options and continues to apply APB 25 for stock options granted under the Plan. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. Compensation costs for all other stock-based compensation is accounted for under SFAS 123. If the Company had elected to recognize compensation expense based upon the fair value at the grant date for options under the Plan consistent with the methodology prescribed by SFAS 123, the Company's 1997, 1996 and 1995 net earnings and earnings per share would be reduced to the pro forma amounts indicated as follows:

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)	1997	1996	1995
	-----	-----	-----
Net earnings			
As reported	\$ 25,878	\$ 18,026	\$ 10,712
Pro forma	\$ 23,967	\$ 16,469	\$ 10,494
Basic earnings per common share			
As reported	\$ 1.04	\$ 0.73	\$ 0.52
Pro forma	\$ 0.96	\$ 0.67	\$ 0.51
Diluted earnings per common share			
As reported	\$ 1.03	\$ 0.72	\$ 0.52
Pro forma	\$ 0.95	\$ 0.66	\$ 0.51

Renters Choice, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE K - STOCK BASED COMPENSATION - Continued

The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: expected volatility of 50 percent; risk-free interest rates ranging from 5.75 to 6.92 percent; no dividend yield; and expected lives of seven years.

Additional information with respect to options outstanding under the Plan at December 31, 1997, and changes for each of the three years in the period then ended was as follows:

	1997		1996		1995	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	1,142,050	\$15.74	906,000	\$ 7.10	--	\$ --
Granted	859,000	16.54	695,000	22.22	1,204,500	8.75
Exercised	(113,925)	8.39	(109,700)	7.45	(3,000)	3.34
Forfeited	(562,875)	17.13	(349,250)	13.81	(295,500)	8.00
	<u>1,324,250</u>	<u>\$16.39</u>	<u>1,142,050</u>	<u>\$15.74</u>	<u>906,000</u>	<u>\$ 9.02</u>
Options exercisable at end of year.....	282,375	\$14.53	127,800	\$ 9.64	24,000	\$ 3.34
Weighted average fair value per share of options granted during 1997, 1996 and 1995, all of which were granted at market	--	\$ 9.93	--	\$13.35	--	\$ 5.25

Renters Choice, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE K - STOCK BASED COMPENSATION - Continued

Information about stock options outstanding at December 31, 1997 is summarized as follows:

OPTIONS OUTSTANDING			
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE
\$3.34 to \$6.67	293,625	7.35 years	\$ 6.47
\$6.68 to \$18.50	523,125	8.76 years	\$ 14.70
\$18.51 to \$26.75	507,500	9.05 years	\$ 23.88
	1,324,250		
	=====		
OPTIONS EXERCISABLE			
RANGE OF EXERCISE PRICES	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE	
\$3.34 to \$6.67	94,125	\$ 6.03	
\$6.68 to \$18.50	126,000	\$ 14.83	
\$18.51 to \$26.75	62,250	\$ 26.75	
	282,375		
	=====		

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents and debt. For variable rate debt that reprices frequently and entails no significant change in credit risk, fair values are based on the carrying values. The fair values of other debt 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 carrying amount of cash and cash equivalents and debt approximates fair value at December 31, 1996 and 1997.

Renters Choice, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE M - EARNINGS PER SHARE

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

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	1997		
	NET EARNINGS	SHARES	PER SHARE AMOUNT
Basic earnings per common share	\$25,878	24,844	\$1.04
Effect of dilutive stock options	--	350	
Diluted earnings per common share	<u>\$25,878</u>	<u>25,194</u>	\$1.03
	1996		
	NET EARNINGS	SHARES	PER SHARE AMOUNT
Basic earnings per common share	\$18,026	24,656	\$0.73
Effect of dilutive stock options	--	409	
Diluted earnings per common share	<u>\$18,026</u>	<u>25,065</u>	\$0.72
	1995		
	NET EARNINGS	SHARES	PER SHARE AMOUNT
Basic earnings per common share	\$10,712	20,583	\$0.52
Effect of dilutive stock options	--	211	
Diluted earnings per common share	<u>\$10,712</u>	<u>20,794</u>	\$0.52

Renters Choice, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE N - UNAUDITED QUARTERLY DATA

Summarized quarterly financial data for 1997 and 1996 is as follows:

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA) 1ST QUARTER 2ND QUARTER 3RD QUARTER 4TH QUARTER

Year ended December 31, 1997

Revenue	\$74,587	\$80,803	\$83,864	\$92,288
Operating profit	9,639	11,341	11,766	13,192
Net earnings	5,412	6,357	6,724	7,385
Basic earnings per share	0.22	0.25	0.27	0.30
Diluted earnings per share	\$ 0.22	\$ 0.25	\$ 0.27	\$ 0.29

1ST QUARTER 2ND QUARTER 3RD QUARTER 4TH QUARTER

Year ended December 31, 1996

Revenue	\$49,002	\$57,756	\$60,025	71,182
Operating profit	6,344	7,558	7,957	9,183
Net earnings	3,617	4,369	4,729	5,311
Basic earnings per share	0.15	0.18	0.19	0.21
Diluted earnings per share	\$ 0.15	\$ 0.17	\$ 0.19	\$ 0.21

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated February 12, 1998, accompanying the consolidated financial statements included in the Annual Report of Renters Choice, Inc. on Form 10-K for the year ended December 31, 1997. We hereby consent to the incorporation by reference of said report in the registration statement of Renters Choice, Inc. on Form S-8 (File No. 33-98800, effective October 31, 1995).

GRANT THORNTON, L.L.P

Dallas, Texas
March 18, 1998

THE FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF EARNINGS FOUND ON PAGES F-3 AND F-4 OF THE COMPANY'S FORM 10-K FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1997.

1,000

	12-MOS	
DEC-31-1997		
DEC-31-1997		
		4,744
	0	
	2,952	
	113	
	23,752	
	0	
		30,769
	13,069	
	208,868	
	0	
		0
	0	
		0
		249
		152,504
208,868		
		51,510
	331,541	
		47,206
	266,887	
	18,716	
	0	
	1,890	
	44,048	
	18,170	
25,878		
	0	
	0	
		0
	25,878	
	1.04	
	1.03	

RENTAL MERCHANDISE, HELD FOR RENT.

BALANCE SHEET IS UNCLASSIFIED.

ADDITIONAL PAID IN CAPITAL AND RETAINED EARNINGS.

STORE AND FRANCHISE MERCHANDISE SALES.

STORE AND FRANCHISE COST OF MERCHANDISE SOLD.

GENERAL AND ADMINISTRATIVE EXPENSE AND AMORTIZATION OF INTANGIBLES.