

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1996

Commission File Number 0-25370

RENTERS CHOICE, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State of other jurisdiction of
incorporation or organization)

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

13800 Montfort, Suite 300
Dallas, Texas 75240
(214) 701-0489
(Address, including zip code, and telephone
number, including area code, of registrant's
principal executive offices)

NONE
(Former name, former address and former
fiscal year, if changed since last report)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 1, 1996:

CLASS	OUTSTANDING
Common stock, \$.01 par value per share	24,815,410

RENTERS CHOICE, INC. AND SUBSIDIARY

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RENTERS CHOICE, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	June 30, 1996 ----- Unaudited	December 31, 1995 -----
ASSETS		
Cash and cash equivalents	\$ 6,985,140	\$ 35,321,338
Rental merchandise, net		
On rent	57,245,497	49,700,354
Held for rent	17,957,672	14,539,645
Accounts receivable, net	2,418,114	--
Income taxes receivable	970,610	1,440,223
Deferred income taxes	10,626,581	6,976,576

Prepaid expenses and other assets	1,068,787	2,391,220
Intangible assets, net	29,366,845	29,549,275
Property assets, net	10,139,903	7,375,667
	-----	-----
	\$ 136,779,149	\$ 147,294,298
	=====	=====
LIABILITIES		
Accounts payable - trade	\$ 4,074,584	\$ 3,288,069
Accrued liabilities	6,260,812	4,213,624
Income taxes payable	4,345,999	--
Taxes other than income	2,641,497	2,458,984
Deferred income taxes	350,000	--
Other debt	6,393,590	40,849,605
Reserve for loans sold with recourse	1,016,605	--
	-----	-----
	25,083,087	50,810,282
COMMITMENTS AND CONTINGENCIES	--	--
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; 5,000,000 shares authorized; none issue	--	--
Common stock, \$.01 par value; 50,000,000 shares authorized; 24,814,260 and 24,378,108 shares issued and outstanding in 1996 and 1995, respectively	248,120	243,781
Additional paid-in capital	94,991,127	87,919,305
Unamortized value of stock award	(747,890)	(897,890)
Retained earnings	17,204,705	9,218,820
	-----	-----
	111,696,062	96,484,016
	\$ 136,779,149	\$ 147,294,298
	=====	=====

The accompanying notes are an integral part of these statements.

RENTERS CHOICE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EARNINGS

	SIX MONTHS ENDED JUNE 30,	
	1996	1995
	----- Unaudited -----	
STORE REVENUE		
Rentals and fees	\$ 93,428,734	\$47,432,591
Merchandise sales	5,763,938	2,271,160
Other	361,607	268,392
FRANCHISE REVENUE		
Franchise merchandise sales	6,498,404	--
Royalty income and fees	705,279	
	-----	-----
TOTAL REVENUE	106,757,962	49,972,143
OPERATING EXPENSES		
Direct store expenses		
Depreciation of rental merchandise	20,562,611	10,998,761
Cost of merchandise sold	4,383,884	1,470,953
Salaries and other expenses	54,695,439	24,741,798
Franchise operation expenses		
Cost of franchise merchandise sales	6,201,945	--
	-----	-----
	85,843,879	37,211,512
General and administrative expenses	4,725,082	2,649,115
Amortization of intangibles	2,287,100	1,324,025
	-----	-----
TOTAL OPERATING EXPENSES	92,856,061	41,184,652
	-----	-----
OPERATING PROFIT	13,901,901	8,787,491
INTEREST EXPENSE, NET	22,814	447,421
	-----	-----
EARNINGS BEFORE INCOME TAXES	13,879,087	8,340,070
INCOME TAX EXPENSE	5,893,202	3,725,920
	-----	-----
NET EARNINGS	\$ 7,985,885	\$ 4,614,150
	=====	=====
Weighted average shares outstanding	24,971,287	19,342,088
	=====	=====
EARNINGS PER SHARE	\$ 0.32	\$ 0.24
	=====	=====

The accompanying notes are an integral part of these statements.

RENTERS CHOICE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EARNINGS

	THREE MONTHS ENDED JUNE 30,	
	1996	1995
	----- Unaudited -----	
STORE REVENUE		
Rentals and fees	\$ 47,863,382	\$27,547,335
Merchandise sales	2,509,485	1,195,648
Other	179,671	183,735
FRANCHISE REVENUE		
Franchise merchandise sales	6,498,404	--
Royalty income and fees	705,279	
	-----	-----
TOTAL REVENUE	57,756,221	28,926,718
OPERATING EXPENSES		
Direct store expenses		
Depreciation of rental merchandise	10,407,964	6,634,957
Cost of merchandise sold	1,982,072	739,754
Salaries and other expenses	27,794,656	14,392,717
Franchise operation expenses		
Cost of franchise merchandise sales	6,201,945	
	-----	-----
	46,386,637	21,767,428
General and administrative expenses	2,666,436	1,591,336
Amortization of intangibles	1,145,345	575,496
	-----	-----
TOTAL OPERATING EXPENSES	50,198,418	23,934,260
	-----	-----
OPERATING PROFIT	7,557,803	4,992,458
INTEREST (INCOME) EXPENSE, NET	(49,828)	283,973
	-----	-----
EARNINGS BEFORE INCOME TAXES	7,607,631	4,708,485
INCOME TAX EXPENSE	3,238,642	2,081,694
	-----	-----
NET EARNINGS	\$ 4,368,989	\$ 2,626,791
	=====	=====
Weighted average shares outstanding	25,170,392	20,686,514
	=====	=====
EARNINGS PER SHARE	\$ 0.17	\$ 0.13
	=====	=====

The accompanying notes are an integral part of these statements.

RENTERS CHOICE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED JUNE 30,	
	1996	1995
	Unaudited	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 7,985,885	\$ 4,614,150
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation of rental merchandise	20,562,611	10,998,761
Depreciation of property assets	1,415,455	633,208
Amortization of intangibles	2,287,100	1,324,025
Other	150,000	--
Changes in operating assets and liabilities		
Rental merchandise	(30,161,300)	(15,942,835)
Income taxes receivable	1,440,223	--
Prepaid expenses and other assets	1,697,556	(319,005)
Accounts payable - trade	(2,228,583)	2,440,949
Accrued liabilities	(1,110,403)	1,403,814
Income taxes	3,367,427	(250,762)
Taxes other than income	182,513	(12,745)
Reserve for loans held with recourse	(123,615)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,464,869	4,889,560
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property assets	(4,093,228)	(1,892,180)
Proceeds from sale of property assets	419,920	42,947
Acquisitions of businesses, net of cash acquired of \$2,132,930 in 1996	(4,863,535)	(21,022,782)
NET CASH USED IN INVESTING ACTIVITIES	(8,536,843)	(22,872,015)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (expenses) from public offerings	--	23,396,209
Proceeds from exercise of options	542,080	10,000
Distributions to stockholders	--	(1,493,340)
Proceeds from debt	531,844	17,986,989
Repayments of debt	(47,676,443)	(16,693,124)
Repayments of note to stockholder	--	(6,250,000)
Repayment of notes receivable	21,338,295	
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(25,264,224)	16,956,734
NET DECREASE IN CASH AND CASH EQUIVALENTS	(28,336,198)	(1,025,721)
Cash and cash equivalents at beginning of period	35,321,338	1,441,001
Cash and cash equivalents at end of period	\$ 6,985,140	\$ 415,280

The accompanying notes are an integral part of these statements.

RENTERS CHOICE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- The interim financial statements of Renters Choice, Inc. and Subsidiary (the "Company") included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995. In the opinion of management, the accompanying unaudited interim financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary to present fairly the Company's results of operations and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.
- On May 15, 1996 the Company acquired all the outstanding common stock of ColorTyme, Inc. ("ColorTyme") pursuant to a merger (the "Merger") of a wholly owned subsidiary of the Company with ColorTyme. The total Merger consideration consisted of cash of \$4,665,751 paid to shareholders and 343,175 shares of the Company's common stock, valued at \$19.04 per share. The acquisition was accounted for as a purchase, and accordingly, the operating results of ColorTyme have been included in the operating results of the Company since May 1, 1996.

The following summary, prepared on a pro forma basis, combines the results of operations as if ColorTyme had been acquired as of the beginning of each of the six month and three month periods ending June 30, 1996 and 1995, after including the impact of purchase accounting adjustments and the additional shares issued as consideration.

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	1996	1995	1996	1995
Revenue	\$120,952,000	\$73,015,000	\$61,559,000	\$40,209,000
Net earnings	\$ 8,444,000	\$ 4,684,000	\$ 4,710,000	\$ 2,786,000
Earnings per common share	\$ 0.34	\$ 0.24	\$ 0.18	\$ 0.13

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. The assets purchased, liabilities assumed and equity consideration were recorded by the Company as follows:

ASSETS ACQUIRED	
Rental merchandise	\$ 748,717
Accounts receivable	23,756,408
Income taxes receivable	970,610
Deferred income taxes	3,650,000
Prepaid expenses and other assets ..	375,128
Intangible assets	708,389
Property assets	446,784

	\$30,656,036

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RENTERS CHOICE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

- Continued.

LIABILITIES ASSUMED	
Accounts payable - trade	\$ 3,015,098
Accrued liabilities	3,157,591
Income taxes payable	978,572
Deferred income taxes	350,000
Other debt	12,688,583
Reserve for loans sold with recourse ..	1,140,219

	21,330,063
EQUITY CONSIDERATION	
Common stock	3,462
Additional paid-in capital	6,530,620
	6,534,082

	\$27,864,145
CASH PURCHASE PRICE	\$ 2,791,891
	=====

Immediately following the purchase of ColorTyme by the Company, ColorTyme sold its franchise loan portfolio (with certain recourse provisions) to a third party for an aggregate purchase price of approximately \$21.7 million. At June 30, 1996, ColorTyme's provision for future possible losses related to the sale of the loan portfolio is \$1,016,605. ColorTyme simultaneously paid off related notes payable owed to Chrysler First

Commercial Corporation for \$13.2 million. No gain or loss was recognized on the sale.

The Company acquired the assets of an additional five stores in two transactions during the three months ended June 30, 1996 for approximately \$2.1 million. The transactions were accounted for using the purchase method of accounting.

The assets acquired were recorded by the Company as follows:

ASSETS ACQUIRED	
Rental merchandise	\$ 615,762
Intangible assets	1,396,281
Property assets	59,600
CASH PURCHASE PRICE	\$2,071,643
	=====

3. The Company has a credit agreement with its current lender for \$40 million. This agreement consists of a \$10 million revolving credit facility and a \$30 million term loan facility. Borrowings under the term loan facility bear interest at a rate equal to the National prime rate as published in the WALL STREET JOURNAL

(8-1/4% per annum at June 30, 1996) and borrowings under the revolving credit facility bear interest at such designated prime rate, in each case as adjusted monthly. All borrowings are secured by a lien on substantially all of the Company's assets. Borrowings under the revolving credit facility are due on April 30, 1997. Any term loan borrowings will be funded in individual notes amortized over five-year periods payable in equal monthly

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RENTERS CHOICE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

3. Continued.

installments (including interest). The commitment on the term facility expires April 30, 1997, and bears no commitment fee. The credit agreement includes certain cash flow and net worth requirements, as well as covenants which limit the ability of the Company to incur additional indebtedness, grant liens, transfer assets out of the ordinary course of business or engage in merger transactions. At June 30, 1996, there were no outstanding borrowings under either of these facilities.

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RENTERS CHOICE, INC. AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In April 1995, the Company acquired 72 stores located in 18 states from Crown Leasing Corporation and certain of its affiliates (the "Crown Acquisition") and two other stores in a separate transaction. In August 1995, the Company acquired 135 stores located in 10 states by purchasing the issued and outstanding stock of Pro Rental, Inc., 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" and, together with the Crown Acquisition, the "1995 Acquisitions"). In May 1996, the Company acquired all the issued and outstanding stock of ColorTyme, a franchisor of 313 rent-to-own stores, pursuant to the Merger. Prior to the Merger, ColorTyme operated six company owned stores, all of which were purchased by the Company subsequent to the Merger. The Company acquired an additional five stores in two separate transactions in June 1996 (together with the ColorTyme Acquisition, the "1996 Acquisitions"). The 1995 and 1996 Acquisitions were accounted for as purchases and, accordingly, the operating results of the acquired stores and franchisor have been included in the operating results of the Company since the respective dates of acquisition. Primarily as a result of the impact of the 1995 and 1996 Acquisitions on the results of operations, comparisons of the operating results for the three month and six month periods ended June 30, 1996 and 1995 may not be meaningful or indicative of future results.

COMPARISON OF SIX MONTHS ENDED JUNE 30, 1996 AND 1995

Total revenue increased by \$56.8 million, or 113.6%, to \$106.8 million for 1996 from \$50 million for 1995. The increase in total revenue was primarily attributable to the inclusion of the 209 stores purchased in 1995, and the 1996 Acquisitions. Total revenue exclusive of the 209 stores, and the 1996 Acquisitions increased by \$4.2 million, or 9.7% to \$47.7 million for 1996 from \$43.5 million in 1995. This improvement was primarily attributable to an increase in both the number of items on rent and in revenue earned per item on rent.

Depreciation of rental merchandise increased by \$9.6 million, or 87.3%, to \$20.6 million for 1996 from \$11.0 million for 1995. Depreciation of rental merchandise expressed as a percent of rental revenue decreased from 23.2% in 1995 to 22.0% in 1996. The decrease was primarily attributable to higher rental rates on rental merchandise purchased after the 1995 Acquisitions.

Salaries and other expenses expressed as a percentage of total store revenue increased to 54.9% for 1996 from 49.5% for 1995. This increase is attributable to increase in salaries for employees of acquired stores immediately following the acquisitions while store revenues have increased gradually. Additionally, the Company increased its advertising efforts during the first six months of 1996 in the markets related to the 209 stores acquired

in 1995. Occupancy costs also increased as a percent of total revenue primarily because of the relocation of certain stores acquired in the 1995 acquisitions to stores that are larger in square footage. Revenues from these larger stores increase gradually while the additional occupancy costs are incurred immediately. The average relocated store is approximately 4,000 square feet. General and administrative expenses expressed as a percent of total revenue decreased to 4.4% for 1996 from 5.3% for 1995. The decrease is primarily attributable to increased economies of scale resulting from the 1995 Acquisitions.

Operating profit increased by \$5.1 million, or 58.0%, to \$13.9 million for 1996 from \$8.8 million for 1995. This improvement was primarily attributable to an increase in both the number of items on rent and in revenue earned per item on rent, both in stores acquired before 1995 and in stores acquired in the 1995 Acquisitions.

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RENTERS CHOICE, INC. AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS - Continued

Net earnings increased by \$3.4 million, or 73.9%, to \$8.0 million in 1996 from \$4.6 million in 1995. The improvement was a result of the increase in operating profit described above.

COMPARISON OF THREE MONTHS ENDED JUNE 30, 1996 AND 1995

Total revenue increased by \$28.9 million, or 100.0%, to \$57.8 million for 1996 from \$28.9 million for 1995. The increase in total revenue was primarily attributable to the inclusion of the 209 stores purchased in 1995, and the 1996 Acquisitions. Total revenue exclusive of the 209 stores, and the 1996 Acquisitions increased by \$1.5 million, or 6.7% to \$24.0 million for 1996 from \$22.5 million in 1995. This improvement was primarily attributable to an increase in both the number of items on rent and in revenue earned per item on rent.

Depreciation of rental merchandise increased by \$3.8 million, or 57.6%, to \$10.4 million for 1996 from \$6.6 million for 1995. Depreciation of rental merchandise expressed as a percent of rental revenue decreased to 21.7% in 1996 from 24.1% in 1995. The decrease was primarily attributable to higher rental rates on rental merchandise purchased after the 1995 Acquisitions.

Salaries and other expenses expressed as a percentage of total store revenue increased to 55.0% for 1996 from 49.8% for the comparative 1995 quarter. This increase is attributable to increase in salaries for employees of acquired stores immediately following the acquisitions while store revenues have increased gradually. Additionally, the Company increased its advertising efforts during the quarter ended June 30, 1996 in the markets related to the 209 stores acquired in 1995. Occupancy costs also increased as a percent of total revenue primarily because of the relocation of certain stores acquired in the 1995 acquisitions to stores that are larger in square footage. Revenues from these larger stores increase gradually while the additional costs are incurred immediately. The average relocated store is approximately 4,000 square feet. General and administrative expenses expressed as a percent of total revenue decreased to 4.6% for 1996 from 5.5% for 1995. The decrease is primarily attributable to increased economies of scale resulting from the 1995 Acquisitions.

Operating profit increased by \$2.6 million, or 52.0%, to \$7.6 million for 1996 from \$5.0 million for 1995. This improvement was primarily attributable to an increase in both the number of items on rent and in revenue earned per item on rent, both in stores acquired before 1995 and in stores acquired in the 1995 Acquisitions.

Net earnings increased by \$1.8 million, or 69.2%, to \$4.4 million in 1996 from \$2.6 million in 1995. The improvement was a result of the increase in operating profit described above.

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 or charged-off or is no longer suitable for rent. During the year ended December 31, 1995, the Company acquired 209 stores for an aggregate purchase price of \$59 million, of which \$21.7 million was paid in cash. During the six months ended June 30, 1996, the Company acquired an additional five stores and ColorTyme for a net cash purchase price of \$4.9 million. The Company purchased \$36.9 million and \$18.7 million of rental merchandise during the six month periods ended June 30, 1996 and 1995, respectively.

For the six months ended June 30, 1996, cash provided by operating activities increased by \$600,000 to \$5.5 million in 1996 from \$4.9 million in 1995, primarily due to increased earnings, timing of the payment of various operating expenses offset by increased rental merchandise purchases. Cash used in investing activities decreased by \$14.4 million to \$8.5 million in 1996 from \$22.9 in 1995, primarily relating to the Crown Acquisition in April 1995. Cash used in financing activities was \$25.3 million for the six months ended June 30,

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RENTERS CHOICE, INC. AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS - Continued

1996, 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 franchise loan portfolio. Cash provided by financing activities was \$17.0 million for the six months ended June 30, 1995, which relates primarily to the proceeds from the initial public offering in January 1995 offset by repayment of the note to a stockholder.

The Company increased its credit agreement with its current lender from \$25 million to \$40 million in the first quarter of 1996. This agreement consists of a \$10 million revolving credit facility and a \$30 million term loan facility. Borrowings under the term loan facility bear interest at a rate equal to the National prime rate as published in the WALL STREET JOURNAL (8-1/4% per annum at June 30, 1996) and borrowings under the revolving credit facility bear interest at such designated prime rate, in each case as adjusted monthly. All borrowings are secured by a lien on substantially all of the Company's assets. Borrowings under the revolving credit facility are due on April 30, 1997. Any term loan borrowings will be funded in individual notes amortized over five-year periods payable in equal monthly installments (including interest). The commitment on the term facility expires April 30, 1997, and bears no commitment fee. The credit agreement includes certain cash flow and net worth requirements, as well as covenants which limit the ability of the Company to incur additional indebtedness, grant liens, transfer assets out of the ordinary course of business or engage in merger transactions. On June 30, 1996, there were no outstanding borrowings under either of these facilities.

In connection with the stores acquired in 1993, monthly payments of \$33,333 are due under a consulting agreement through April 1, 2001, and monthly payments of \$125,000 are due under a non-competition agreement from February 1996 through January 1998. If the settlement agreement described under the caption "Part II. Item 1. Legal Proceedings - IN RE: DEF INVESTMENTS, INC." is executed, the Company will be released from its obligation to make payments under such consulting and non-competition agreements, in exchange for a cash payment of \$4.75 million (the "Settlement Amount"). Although management cannot at this time estimate when it will be required to pay the Settlement Amount, if ever, management believes that the Company's borrowing capacity under its credit facility and cash flow from operations will be sufficient to fund the payment.

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

The Company intends to increase the number of stores it operates through acquisitions and new store openings. In particular, the Company's goal is to increase the number of stores it operates by approximately 50-60 stores in each of the next few years. The Company currently expects to open ten to fifteen new stores during the last half of 1996. The Company estimates that the average investment with respect to new stores is approximately \$350,000 per store, of which rental merchandise comprises approximately 75% to 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. Additionally, 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.

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RENTERS CHOICE, INC. AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

Management believes that cash flow from operations and the previously described credit facilities will be adequate to fund the operations and expansion plans of the Company during 1996. 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-term 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.

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PART II. OTHER INFORMATION

RENTERS CHOICE, INC. AND SUBSIDIARY

ITEM 1. LEGAL PROCEEDINGS.

From time to time the Company is a party to various legal proceedings arising in the ordinary course of its business. Except as described below, the Company is not currently a party to any material 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.

The Complaint seeks (i) to avoid the transfer of certain assets purchased in 1993 by a predecessor of the Company from DEF and certain of its subsidiaries pursuant to the 1993 Acquisition and to obtain an order that such assets be turned over to the Trustee, (ii) to nullify the Hardestys' consulting and noncompetition agreements, pursuant to the terms of which the Company paid \$2.0 million to the Hardestys on the closing date of the 1993 Acquisition, has paid them an additional \$900,000 since the closing date and is obligated to pay them approximately \$5.3 million in varying amounts through April 1, 2001, (iii) to require the Company to make all future payments under the consulting and noncompetition agreements to the Trustee for the benefit of the DEF bankruptcy estate, and (iv) to set aside all payments already made by the Company to the Hardestys under the consulting and noncompetition agreements, and to grant judgment against the Hardestys for the amount of all such payments.

On March 8, 1996, the Company reached an agreement with the Trustee and the Hardestys to settle the lawsuit. The terms of the settlement provide that the Company will be released from the fraudulent transfer claim and the future obligation to pay \$5.3 million under the consulting and noncompetition agreements with the Hardestys in exchange for a cash payment of \$4.75 million to the Trustee. The agreement, which, as of August 12, 1996, has not yet been reduced to writing and is subject to approval by the Bankruptcy Court after notice and hearing, contemplates the nonrefundable payment by the Company of \$50,000 upon execution of the written settlement agreement in exchange for the Trustee's dismissal of the Complaint against the Company without prejudice. As to the balance of the settlement amount, \$300,000 is attributable to the Trustee's claims against the Company based upon payments already made to the Hardestys, and \$4.4 million is attributable to future obligations under the noncompetition and consulting agreements.

As part of the overall settlement, the Company will receive a full release from the fraudulent transfer claim by the Trustee on behalf of DEF, all of its subsidiaries which have filed Chapter 7 bankruptcy cases and their respective creditors. The settlement is also conditioned on the Bankruptcy Court issuing protective orders 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.

The pending class action against DEF and other companies including, at this point, the Company (the "Miller lawsuit") will not be dismissed entirely under the settlement agreement. While the claims against the Hardestys will be dismissed, the claims against the Company will not be. Nevertheless, the plaintiffs have agreed that they must first pursue collection of any judgment obtained against the Company through enforcement of the indemnity agreement between the Company and Transamerica Commercial Finance Corporation, I ("Transamerica"). The plaintiff class has further agreed that it cannot collect or enforce any judgment obtained against the Company in the Miller lawsuit until it has exhausted collection through the indemnity agreement. Finally, the settlement calls for the plaintiff class to release and covenant not to assert any claims it may have against the Company except those contained in its current pleading in the Miller lawsuit.

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PART II. OTHER INFORMATION

RENTERS CHOICE, INC. AND SUBSIDIARY - Continued

Management believes that the execution of the settlement agreement, in the form in which it is currently proposed, will not have a material adverse effect on the Company's results of operations. Management cannot predict when the settlement agreement will be executed and approved by the Bankruptcy Court, and there can be no assurance that the settlement agreement will be entered into at all. If the settlement agreement is not executed, the Trustee would be able to proceed against the Company in the fraudulent transfer claim.

HINTON ET AL. V. COLORTYME, INC.

In May 1994, certain Wisconsin residents filed suit against ColorTyme alleging that Colortyme had entered into contracts with them which were violative of the Wisconsin Consumer Act (the "Wisconsin Act"). Specifically, the plaintiffs allege 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. Plaintiffs are seeking damages in excess of \$2.0 million.

The plaintiffs recently provided ColorTyme with a proposed second amended complaint seeking to add the Company as an additional defendant and adding certain additional related claims. The plaintiffs also recently have proposed a class definition. Management expects that there will be motion practice in the near future to define the extent of the class and to determine whether the Company may be added as a party. No trial date has been set.

Although management cannot predict the outcome of the case, management does not expect the ultimate resolution of the case to have a material adverse effect on the Company's consolidated results of operations.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

CURRENT REPORTS ON FORM 8-K

Current Report on Form 8-K dated May 15, 1996, filed May 30, 1996.
Current Report on Form 8-K/A dated May 15, 1996, filed July 26, 1996.

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
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3.1(7)	- Amended and Restated Certificate of Incorporation of the Company
3.2(8)	- Amended and Restated Bylaws of the Company
4.1(9)	- Form of Certificate evidencing Common Stock
10.1(10)*	- 1994 Renters Choice, Inc. Long-Term Incentive Plan
10.2(11)	- Amended and Restated Loan Agreement dated as of April 13, 1995 between INTRUST Bank, N.A. and Renters Choice, Inc.
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10.6(15)	- Consulting Agreement dated as of April 20, 1995 between Renters Choice, Inc. and Jeffrey W. Smith
10.7(16)	- Noncompetition Agreement dated as of August 27, 1995 between Renters Choice, Inc. and Starla J. Flake
10.8(17)	- Noncompetition Agreement dated as of August 27, 1995 between Renters Choice, Inc. and Bruce S. Johnson
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10.9(18)	- Noncompetition Agreement dated as of August 27, 1995 between Renters Choice, Inc. and Rance D. Richter
10.10(19)	- Promissory Note dated August 27, 1995 executed by the Company and payable to the order of Starla J. Flake
10.11(20)	- Promissory Note dated August 27, 1995 executed by the Company and payable to the order of Bruce S. Johnson
10.12(21)	- Promissory Note dated August 27, 1995 executed by the Company and payable to the order of Rance D. Richter
10.13(22)	- Option Agreement dated August 27, 1995 between the Company and Terry N. Worrell
10.14(23)	- 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(24)	- Promissory Note dated September 29, 1995 executed by the Company and payable to Terry N. Worrell
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- 10.21(29)* - Employment Agreement dated September 11, 1995 by and between Renters Choice, Inc. and David D. Real
- 10.22(30) - Portfolio Acquisition Agreement dated May 15, 1996, by and among Renters Choice, Inc., ColorTyme Financial Services, Inc., and STI Credit Corporation.
- 11.1 - Computation of Earnings per share
- 27 - Financial Data Schedule

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- (1) Incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K dated May 4, 1995
- (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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- (5) Incorporated herein by reference to Exhibit 2.7 to the registrant's Annual Report on Form 10K for the year ended December 31, 1995.

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- (6) Incorporated herein by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K dated May 15, 1996.
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(30) Incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated May 15, 1996.

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SIGNATURES

Pursuant to the requirements 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/ DAVID D. REAL
David D. Real
SENIOR VICE PRESIDENT-FINANCE
AND CHIEF FINANCIAL OFFICER

Date: August 13, 1996

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SECOND AMENDMENT TO AMENDED AND RESTATED LOAN AGREEMENT

THIS SECOND AMENDMENT is executed this 30 day of April, 1996, by and between RENTERS CHOICE, INC. ("Borrower"), and INTRUST BANK, N.A. ("Bank") and amends that certain Amended and Restated Loan Agreement dated April 13, 1995, as amended by that certain First Amendment to Amended and Restated Loan Agreement dated October 19, 1995. (The Amended and Restated Loan Agreement, as amended by the First Amendment and as amended herein, are hereinafter referred to as the "Loan Agreement".)

1. Section 1.5 is hereby amended and restated in its entirety as follows:

Section 1.5. TERM GUIDANCE FACILITY. Bank hereby extends its commitment to lend to Borrower an amount not to exceed a total principal amount of THIRTY MILLION AND NO/100 DOLLARS (\$30,000,000) (the "Term Guidance Facility") from the date hereof until April 30, 1997. Each advance under this commitment will be evidenced by a promissory note or promissory notes, substantially in the form of the promissory note attached to the Amended and Restated Loan Agreement as Appendix II (the "Term Guidance Note", or if more than one, the "Term Guidance Notes.")
 2. Section 1.6 is hereby amended and restated in its entirety as follows:

The Term Guidance Notes shall be repaid, together with interest, in accordance with the terms of this Agreement and the Term Guidance Notes. Each of the Term Guidance Notes shall be amortized into equal monthly installments over a period of five (5) years and shall bear interest at the Index rate, adjusted the first Business Day of each month. Interest shall be calculated from the date of each advance until such advance has been repaid in full. Borrower may make prepayments of principal and interest at any time and from time to time without penalty.
 3. Section 4.2 is hereby deleted.
 4. The first sentence of Section 4.8.a. is hereby amended and restated in its entirety as follows:

Borrower shall maintain a minimum tangible net worth of \$50,000,000.
 5. The Loan Documents remain in full force and effect, and Borrower hereby ratifies and affirms the terms and conditions set forth therein.
 6. Borrower acknowledges, recognizes, covenants and agrees that as of the date of this Second Amendment, neither the Facility nor the Term Guidance Facility is subject to any claim, counterclaim, demand, cause of action or right of offset of any kind, that the Facility and the Term Guidance Notes will be repaid and prepaid, together with interest, in accordance with the Loan Agreement and the other Loan Documents.
- 21-
7. Borrower further represents and warrants that as of the date of the execution and delivery of this Second Amendment by Borrower, Borrower is not in default under any of the terms and obligations of the Loan Documents or under any of its other obligations to Lender.

THIS SECOND AMENDMENT, TOGETHER WITH THE LOAN AGREEMENT AND THE OTHER LOAN DOCUMENTS AND ANY OTHER DOCUMENT OR INSTRUMENT EXECUTED IN CONNECTION HERewith AND THEREWITH ARE THE FINAL EXPRESSION OF THE AGREEMENT BETWEEN LENDER AND BORROWER AND MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR OR CONTEMPORANEOUS ORAL AGREEMENT BETWEEN US. LENDER _____ AND BORROWER J.E. TALLEY HEREBY ACKNOWLEDGE AND AFFIRM THAT NO SUCH UNWRITTEN, ORAL AGREEMENTS EXIST. EACH PARTY HERETO ACKNOWLEDGES THAT SUFFICIENT SPACE HAS BEEN PROVIDED HEREIN, AND IN THE OTHER LOAN DOCUMENTS, FOR THE PLACEMENT OF NONSTANDARD TERMS.

8. Except as expressly set forth herein, the terms of the Loan Agreement remain the same.

DATED as if the date and year first written above.

BORROWER:

RENTERS CHOICE, INC.

By /s/ J. ERNEST TALLEY
J. Ernest Talley,
Chairman of the Board

APPROVED:

INTRUST Bank, N.A.

By /s/ W. RANDALL SUMMERS
W. Randall Summers, Vice President

RENTERS CHOICE, INC. AND SUBSIDIARY
 COMPUTATION OF EARNINGS PER COMMON SHARE

	JUNE 30, 1996	
	----- THREE MONTHS ENDED -----	----- SIX MONTHS ENDED -----
PRIMARY EARNINGS PER SHARE		
Net earnings	\$ 4,368,989	\$ 7,985,885
	=====	=====
Weighted average number of common shares outstanding	24,643,124	24,510,616
Net effect of dilutive stock options based on the treasury stock method using average market price		
	527,268	460,671
	-----	-----
Weighted average number of common and common equivalent shares outstanding	25,170,392	24,971,287
	=====	=====
PRIMARY EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	\$ 0.17	\$ 0.32
	=====	=====
FULLY DILUTED EARNINGS PER SHARE		
Net earnings	\$ 4,368,989	\$ 7,985,885
	=====	=====
Weighted average number of common shares outstanding	24,643,124	24,510,616
Net effect of dilutive stock options based on the treasury stock method using the greater of the average or ending market price		
	558,507	500,513
	-----	-----
Weighted average number of common and common equivalent shares outstanding	25,201,631	25,011,129
	=====	=====
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE ASSUMING FULL DILUTION	\$ 0.17	\$ 0.32
	=====	=====

THE FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS FOUND ON PAGES 1 AND 2 OF THE COMPANY'S FORM 10-Q FOR THE SIX MONTHS ENDED JUNE 30, 1996.

	1,000	
	6-MOS	
DEC-31-1996		
JUN-30-1996		
	6,985	
	0	
	0	
	0	
	17,958	
	0	
	15,957	
	5,817	
	136,779	
0		0
0		0
	0	
	248	
136,779	111,448	
	12,262	
106,758		10,586
	85,844	
	7,012	
	0	
	23	
	13,879	
	5,893	
7,986		
	0	
	0	
	0	0
	7,986	
	0.32	
	0.32	

RENTAL MERCHANDISE, HELD FOR RENT.

BALANCE SHEET IS UNCLASSIFIED.

ADDITIONAL PAID IN CAPITAL, UNAMORTIZED VALUE OF STOCK AWARD, AND RETAINED EARNINGS.

STORE AND FRANCHISE MERCHANDISE SALES.

STORE AND FRANCHISE COST OF MERCHANDISE SOLD.

GENERAL AND ADMINISTRATIVE EXPENSE AND AMORTIZATION OF INTANGIBLES.