RENT A CENTER INC DE
Form 10-Q
April 25, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2014
or

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

For the transition period from to
Commission File Number: 0-25370
Rent-A-Center, Inc.
(Exact name of registrant as specified in its charter)

Delaware	45-0491516
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5501 Headquarters Drive
Plano, Texas 75024
(Address, including zip code of registrant's principal executive offices)
Registrant's telephone number, including area code: 972-801-1100

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 ý NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ý NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 21, 2014:

Class	Outstanding
Common stock, $.01 par value per share	52,795,549

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Item 1. Consolidated Financial Statements.
RENT-A-CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Three Months Ended March 31,	
	2014	2013
(In thousands, except per share data)	Unaudited	
Revenues		
Store		
Rentals and fees	$694,168	$673,604
Merchandise sales	108,061	113,573
Installment sales	18,356	17,127
Other	4,258	4,760
Total store revenues	824,843	809,064
Franchise		
Merchandise sales	7,324	8,833
Royalty income and fees	1,579	1,384
Total revenues	833,746	819,281
Cost of revenues		
Store		
Cost of rentals and fees	177,870	167,919
Cost of merchandise sold	79,617	86,299
Cost of installment sales	6,382	5,969
Total cost of store revenues	263,869	260,187
Franchise cost of merchandise sold	7,000	8,416
Total cost of revenues	270,869	268,603
Gross profit	562,877	550,678
Operating expenses		
Salaries and other expenses	457,630	432,191
General and administrative expenses	44,737	38,813
Amortization and write-down of intangibles	747	890
	503,114	471,894
Operating profit	59,763	78,784
Finance charges from refinancing	1,946	—
Interest expense	11,401	8,001
Interest income	(236)	(293)
Earnings before income taxes	46,652	71,076
Income tax expense	17,795	24,943
NET EARNINGS	$28,857	$46,133
Basic earnings per common share	$0.55	$0.80
Diluted earnings per common share	$0.54	$0.79
Cash dividends declared per common share	$0.23	$0.21

See accompanying notes to consolidated financial statements

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
	2014	2013
(In thousands)	Unaudited	
Net earnings	$28,857	$46,133
Other comprehensive income (loss):		
Foreign currency translation adjustments	(97)	1,623
Total other comprehensive income (loss)	(97)	1,623
COMPREHENSIVE INCOME	$28,760	$47,756

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and par value data)	March 31, 2014	December 31, 2013
	Unaudited	
ASSETS		
Cash and cash equivalents	$81,012	$42,274
Receivables, net of allowance for doubtful accounts of $3,610 and $3,700 in 2014 in 2013, respectively	57,871	58,686
Prepaid expenses and other assets	80,739	78,471
Rental merchandise, net		
On rent	892,341	914,618
Held for rent	203,272	210,450
Merchandise held for installment sale	3,730	4,038
Property assets, net of accumulated depreciation of $449,638 and $433,935 in 2014 and 2013, respectively	339,801	336,498
Goodwill, net	1,364,081	1,364,549
Other intangible assets, net	8,216	8,969
	$3,031,063	$3,018,553
LIABILITIES		
Accounts payable – trade	$122,534	$120,166
Accrued liabilities	372,394	315,235
Deferred income taxes	298,957	323,326
Senior debt	325,000	366,275
Senior notes	550,000	550,000
	1,668,885	1,675,002
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value; 250,000,000 shares authorized; 109,158,738 and 109,108,218 shares issued in 2014 and 2013, respectively	1,091	1,091
Additional paid-in capital	804,205	802,124
Retained earnings	1,904,645	1,888,002
Treasury stock at cost, 56,369,752 shares in 2014 and 2013	(1,347,677)	(1,347,677)
Accumulated other comprehensive income (loss)	(86)	11
	1,362,178	1,343,551
	$3,031,063	$3,018,553

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	2014	2013
(In thousands)	Unaudited	
Cash flows from operating activities		
Net earnings	$28,857	$46,133
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation of rental merchandise	169,843	160,983
Bad debt expense	3,664	2,897
Stock-based compensation expense	1,472	2,129
Depreciation of property assets	19,139	18,473
Loss on sale or disposal of property assets	1,487	1,367
Amortization of intangibles	747	715
Amortization of financing fees	870	691
Finance charges from refinancing	1,946	—
Deferred income taxes	(24,370)	969
Excess tax benefit related to stock awards	(20)	(1,136)
Changes in operating assets and liabilities, net of effects of acquisitions		
Rental merchandise	(135,407)	(187,583)
Receivables	(2,849)	(135)
Prepaid expenses and other assets	(4,609)	6,635
Accounts payable – trade	2,368	32,997
Accrued liabilities	56,922	28,329
Net cash provided by operating activities	120,060	113,464
Cash flows from investing activities		
Purchase of property assets	(23,108)	(19,637)
Proceeds from sale of property assets	7	8
Acquisitions of businesses	(5,369)	(2,079)
Net cash used in investing activities	(28,470)	(21,708)
Cash flows from financing activities		
Purchase of treasury stock	—	(17,419)
Exercise of stock options	632	3,702
Excess tax benefit related to stock awards	20	1,136
Proceeds from debt	176,580	95,225
Repayments of debt	(217,855)	(141,440)
Dividends paid	(12,147)	(12,187)
Net cash used in financing activities	(52,770)	(70,983)
Effect of exchange rate changes on cash	(82)	394
NET INCREASE IN CASH AND CASH EQUIVALENTS	38,738	21,167
Cash and cash equivalents at beginning of period	42,274	61,087
Cash and cash equivalents at end of period	$81,012	$82,254

Noncash Financing Activities:

During March 2014, we incurred $225.0 million of term loans and $100.0 million of revolving debt when we refinanced $187.5 million of existing term loans and $140.0 million of existing revolving debt as discussed further in Note 3. The difference of $2.5 million was repaid in cash and is included in repayments of debt in the statement

above.
See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies and Nature of Operations.
The interim consolidated financial statements of Rent-A-Center, Inc. included herein have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the SEC's rules and regulations, although we believe the disclosures are adequate to make the information presented not misleading. We suggest these financial statements be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2013. In our opinion, the accompanying unaudited interim financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary to present fairly our 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.
Principles of Consolidation and Nature of Operations. These financial statements include the accounts of Rent-A-Center, Inc., and its direct and indirect subsidiaries. All intercompany accounts and transactions have been eliminated. Unless the context indicates otherwise, references to "Rent-A-Center" refer only to Rent-A-Center, Inc., the parent, and references to "we," "us" and "our" refer to the consolidated business operations of Rent-A-Center and any or all of its direct and indirect subsidiaries. We report four operating segments: Core U.S., Acceptance Now, Mexico (formerly reported as International, see Note 8 to the consolidated financial statements) and Franchising.
Our Core U.S. segment consists of company-owned rent-to-own stores in the United States, Canada and Puerto Rico that lease household durable goods to customers on a rent-to-own basis. Our stores in Canada operate under the name "Rent-A-Centre." We also offer merchandise on an installment sales basis in certain of our stores under the names "Get It Now" and "Home Choice."
Our Acceptance Now segment generally offers the rent-to-own transaction to consumers who do not qualify for financing from the traditional retailer of household durable goods through kiosks located within such retailers' locations.
Our Mexico segment consists of our company-owned rent-to-own stores in Mexico that lease household durable goods to customers on a rent-to-own basis.
Rent-A-Center Franchising International, Inc., an indirect wholly owned subsidiary of Rent-A-Center, is a franchisor of rent-to-own stores. Our Franchising segment's primary source of revenue is the sale of rental merchandise to its franchisees, who in turn offer the merchandise to the general public for rent or purchase under a rent-to-own transaction. The balance of our Franchising segment's revenue is generated primarily from royalties based on franchisees' monthly gross revenues.
Rental Merchandise. Rental merchandise is carried at cost, net of accumulated depreciation. Depreciation for merchandise is generally provided using the income forecasting method, which is intended to match as closely as practicable the recognition of depreciation expense with the consumption of the rental merchandise, and assumes no salvage value. The consumption of rental merchandise occurs during periods of rental and directly coincides with the receipt of rental revenue over the rental purchase agreement period. 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. We depreciate merchandise that is held for rent for at least 180 consecutive days using the straight-line method over a period generally not to exceed 18 months.
Rental merchandise which is damaged and inoperable is expensed when such impairment occurs. If a customer does not return the merchandise or make payment, the remaining book value of the rental merchandise associated with delinquent accounts is generally charged off on or before the 90th day following the time the account became past due in the Core U.S. and International segments, and on or before the 150th day in the Acceptance Now segment. We maintain a reserve for these expected expenses. In addition, any minor repairs made to rental merchandise are expensed at the time of the repair.
Correction of Immaterial Errors

During the fourth quarter of 2013, we identified errors in accounting for our estimates for rental merchandise reserves and for the allowance for doubtful accounts, resulting in an immaterial overstatement of on rent merchandise and understatements of held for rent merchandise and receivables which affected periods beginning prior to 2011 through December 31, 2013. In accordance with Staff Accounting Bulletin (SAB) No. 99, Materiality, and SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, management evaluated the materiality of the errors from qualitative and quantitative perspectives, and concluded the errors were immaterial to the prior periods. The errors resulted in an understatement of salaries and other expenses of $0.5 million for the three-month period ended March 31, 2013. The understatement of salaries and other expenses discussed above, adjusted for the related income tax impact, resulted in an overstatement of net earnings of $0.3 million for the three-month period ended March 31, 2013. Due to the immaterial nature of the error correction, we revised our historical financial statements based on the amounts discussed above for 2013 herein.

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Use of Estimates. In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent losses and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. In applying accounting principles, we must often make individual estimates and assumptions regarding expected outcomes or uncertainties. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

New Accounting Pronouncements. In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, an amendment to FASB Accounting Standards Codification Topic 740, Income Taxes. This update clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. We adopted this standard prospectively effective January 1, 2014, and it did not have a material impact on our consolidated statement of earnings, financial condition, statement of cash flows or earnings per share.

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or other standards setting bodies that we adopt as of the specified effective date. Unless otherwise discussed, we believe the impact of any other recently issued standards that are not yet effective are either not applicable to us at this time or will not have a material impact on our consolidated financial statements upon adoption.

2. Intangible Assets and Acquisitions.

Amortizable intangible assets consist of the following (in thousands):

		March 31, 2014		December 31, 2013	
	Avg. Life (years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-compete agreements	3	$6,337	$6,123	$6,337	$6,102
Customer relationships	2	74,785	72,475	74,799	71,899
Vendor relationships	11	7,538	1,846	7,538	1,704
Total		$88,660	$80,444	$88,674	$79,705

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

	Estimated Amortization Expense
2014	$1,957
2015	1,493
2016	636
2017	568
2018	445
Thereafter	3,117
Total	$8,216

At March 31, 2014, the amount of goodwill allocated to the Core U.S. and Acceptance Now segments was approximately $1,309.7 million and $54.4 million, respectively. At December 31, 2013, the amount of goodwill allocated to the Core U.S. and Acceptance Now segments was approximately $1,310.1 million and $54.4 million, respectively.

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

A summary of the changes in recorded goodwill follows (in thousands):

	Three Months Ended March 31, 2014	Year Ended December 31, 2013
Balance as of January 1,	$1,364,549	$1,344,665
Additions from acquisitions	—	28,282
Goodwill impairments and write-offs related to stores sold or closed	—	(9,038)
Post purchase price allocation adjustments	(468)	640
Balance as of the end of the period	$1,364,081	$1,364,549

3. Senior Debt.

On March 19, 2014, we entered into a Credit Agreement (the "Credit Agreement") among the Company, the several lenders from time to time parties to the Credit Agreement, Bank of America, N.A., BBVA Compass Bank, Wells Fargo Bank, National Association and SunTrust Bank, as syndication agents, and JPMorgan Chase Bank, N.A., as administrative agent. The Credit Agreement represents a refinancing of our senior secured debt outstanding under our prior credit agreement, the Fourth Amended and Restated Credit Agreement, dated as of May 28, 2003, as amended and restated as of July 14, 2011, and as amended by the First Amendment dated as of April 13, 2012, among the Company, the several banks and other financial institutions or entities from time to time parties thereto, and JPMorgan Chase Bank, N.A., as administrative agent (as amended, the "Prior Credit Agreement"). The Credit Agreement provides for a new $900 million senior credit facility consisting of $225 million in term loans (the "Term Loans") and a $675 million revolving credit facility (the "Revolving Facility"). The Term Loans are scheduled to mature on March 19, 2021, and the Revolving Facility has a scheduled maturity of March 19, 2019.

Also on March 19, 2014, we borrowed $225 million in Term Loans and $100 million under the Revolving Facility and utilized the proceeds to repay our prior senior secured debt outstanding under the Prior Credit Agreement. The Term Loans will be repayable in consecutive quarterly installments commencing on June 30, 2014, with each installment to be paid in an aggregate principal amount equal to 0.25% of the aggregate principal amount of the Term Loans, with a final installment equal to the remaining principal balance of the Term Loans due on March 19, 2021.

The amounts outstanding under the Term Loans and Revolving Facility at March 31, 2014, were $225.0 million and $100.0 million, respectively. Under the Prior Credit Agreement the amounts outstanding under the term loan and revolving credit facility at December 31, 2013, were $187.5 million and $160.5 million, respectively.

The full amount of the Revolving Facility may be used for the issuance of letters of credit, of which $104.7 million had been so utilized as of March 31, 2014, and at which date $470.3 million was available.

Borrowings under the Revolving Facility bear interest at varying rates equal to either the Eurodollar rate plus 1.50% to 2.75%, or the ABR rate plus 0.50% to 1.75%, at our election. The margins on the Eurodollar rate and on the ABR rate for borrowings under the Revolving Facility, which were 2.25% and 1.25%, respectively, at March 31, 2014, may fluctuate based upon an increase or decrease in our consolidated total leverage ratio as defined by a pricing grid included in the Credit Agreement. The margins on the Eurodollar rate and on the ABR rate for Term Loans are 3.00% and 2.00%, respectively, but may also fluctuate in the event the all-in pricing for any subsequent incremental Term Loan exceeds the all-in pricing for prior Term Loans by more than 0.50% per annum. A commitment fee equal to 0.30% to 0.50% of the unused portion of the Revolving Facility is payable quarterly, and fluctuates dependent upon an increase or decrease in our consolidated total leverage ratio. The commitment fee at March 31, 2014, is equal to 0.45% of the unused portion of the Revolving Facility.

Our borrowings under the Credit Agreement are, subject to certain exceptions, secured by a security interest in substantially all of our tangible and intangible assets, including intellectual property, and are also secured by a pledge of the capital stock of our U.S. subsidiaries.

The Credit Agreement also permits us to increase the amount of the Term Loans and/or the Revolving Facility from time to time on up to three occasions, in an aggregate amount of no more than $250 million, provided that we are not in default at the time and have obtained the consent of the administrative agent and the lenders providing such increase.

Subject to a number of exceptions, the Credit Agreement contains, without limitation, covenants that generally limits our ability and the ability of our subsidiaries to:

- incur additional debt;
- repurchase capital stock, 6.625% notes and 4.75% notes and/or pay cash dividends (subject to a restricted payments basket under which approximately $80 million is available);

- incur liens or other encumbrances;
- merge, consolidate or sell substantially all property or business;
- sell, lease or otherwise transfer assets (other than in the ordinary course of business);
- make investments or acquisitions (unless they meet financial tests and other requirements); or
- enter into an unrelated line of business.

The Credit Agreement requires us to comply with several financial covenants, including: (i) a consolidated total leverage ratio of no greater than 4.50:1 from the quarter ended March 31, 2014, to the quarter ended September 30, 2015, 4.25:1 from the quarter ended December 31, 2015, to the quarter ended September 30, 2016, and 4.00:1 thereafter; (ii) a consolidated senior secured leverage ratio of no greater than 2.75:1; and (iii) a consolidated fixed charge coverage ratio of no less than 1.50:1 from the quarter ended March 31, 2014, to December 31, 2015, and 1.75:1 thereafter. The table below shows the required and actual ratios under the Credit Agreement calculated as of March 31, 2014:

	Required Ratio		Actual Ratio
Consolidated total leverage ratio	No greater than	4.50:1	2.59:1
Consolidated senior secured leverage ratio	No greater than	2.75:1	0.85:1
Consolidated fixed charge coverage ratio	No less than	1.50:1	1.96:1

These financial covenants, as well as the related components of their computation, are defined in the Credit Agreement, which is included as an exhibit to our Current Report on Form 8-K dated as of March 19, 2014. In accordance with the Credit Agreement, the consolidated total leverage ratio was calculated by dividing the consolidated funded debt outstanding at March 31, 2014 ($819.0 million) by consolidated EBITDA for the 12-month period ending March 31, 2014 ($315.7 million). For purposes of the covenant calculations, (i) “consolidated funded debt” is defined as outstanding indebtedness less cash in excess of $25.0 million, and (ii) “consolidated EBITDA” is generally defined as consolidated net income (a) plus the sum of income taxes, interest expense, depreciation and amortization expense, extraordinary non-cash expenses or losses, and other non-cash charges, and (b) minus the sum of interest income, extraordinary income or gains, other non-cash income, and cash payments with respect to extraordinary non-cash expenses or losses recorded in prior fiscal quarters. Consolidated EBITDA is a non-GAAP financial measure that is presented not as a measure of operating results, but rather as a measure used to determine covenant compliance under our senior credit facilities.

The consolidated senior secured leverage ratio was calculated pursuant to the Credit Agreement by dividing the consolidated senior secured debt outstanding at March 31, 2014 ($269.0 million) by consolidated EBITDA for the 12-month period ending March 31, 2014 ($315.7 million). For purposes of the covenant calculation, “consolidated senior secured debt” is generally defined as the aggregate principal amount of consolidated funded debt that is then secured by liens on property or assets of the Company or its subsidiaries.

The consolidated fixed charge coverage ratio was calculated pursuant to the Credit Agreement by dividing consolidated EBITDA for the 12-month period ending March 31, 2014, and to the extent reducing consolidated net earnings for such period, consolidated lease expense ($558.8 million), by consolidated fixed charges for the 12-month period ending March 31, 2014 ($285.4 million). For purposes of the covenant calculation, “consolidated fixed charges” is defined as the sum of consolidated interest expense and consolidated lease expense.

Events of default under the Credit Agreement include customary events, such as a cross-acceleration provision in the event that we default on other debt. In addition, an event of default under the Credit Agreement would occur if a change of control occurs. This is defined to include situations where a third party becomes the beneficial owner of 35% or more of our voting stock or certain changes in the composition of Rent-A-Center’s Board of Directors occur. An event of default would also occur if one or more judgments were entered against us of $50.0 million or more and such judgments were not satisfied or bonded pending appeal within 30 days after entry.

We utilize our revolving credit facility for the issuance of letters of credit, as well as to manage normal fluctuations in operational cash flow caused by the timing of cash receipts. In that regard, we may from time to time draw funds under the revolving credit facility for general corporate purposes. Amounts are drawn as needed due to the timing of cash flows and are generally paid down as cash is generated by our operating activities.

In addition to the senior credit facilities discussed above, we maintain a $20.0 million unsecured, revolving line of credit with INTRUST Bank, N.A. to facilitate cash management. The outstanding balance of this line of credit was $0 and $18.3 million at March 31, 2014, and December 31, 2013, respectively.

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

4. Subsidiary Guarantors – Senior Notes.

Senior Notes Due 2020. On November 2, 2010, we issued $300.0 million in senior unsecured notes due November 2020, bearing interest at 6.625%, pursuant to an indenture dated November 2, 2010, among Rent-A-Center, Inc., its subsidiary guarantors and The Bank of New York Mellon Trust Company, as trustee. A portion of the proceeds of this offering were used to repay approximately $200.0 million of outstanding term debt under our Prior Credit Agreement. The remaining net proceeds were used to repurchase shares of our common stock.

Senior Notes Due 2021. On May 2, 2013, we issued $250.0 million in senior unsecured notes due May 2021, bearing interest at 4.75%, pursuant to an indenture dated May 2, 2013, among Rent-A-Center, Inc., its subsidiary guarantors and The Bank of New York Mellon Trust Company, as trustee. A portion of the proceeds of this offering were used to repurchase shares of our common stock under a $200.0 million accelerated stock buyback program. The remaining net proceeds were used to repay outstanding revolving debt under our Prior Credit Agreement.

The indentures governing the 6.625% notes and the 4.75% notes are substantially similar. Each indenture contains covenants that limit our ability to:

- incur additional debt;
- sell assets or our subsidiaries;
- grant liens to third parties;
- pay cash dividends or repurchase stock (subject to a restricted payment basket under which approximately $80 million is available); and
- engage in a merger or sell substantially all of our assets.

Events of default under each indenture include customary events, such as a cross-acceleration provision in the event that we default in the payment of other debt due at maturity or upon acceleration for default in an amount exceeding $50.0 million, as well as in the event a judgment is entered against us in excess of $50.0 million that is not discharged, bonded or insured.

The 6.625% notes may be redeemed on or after November 15, 2015, at our option, in whole or in part, at a premium declining from 103.313%. The 6.625% notes may be redeemed on or after November 15, 2018, at our option, in whole or in part, at par. The 6.625% notes also require that upon the occurrence of a change of control (as defined in the 2010 indenture), the holders of the notes have the right to require us to repurchase the notes at a price equal to 101% of the original aggregate principal amount, together with accrued and unpaid interest, if any, to the date of repurchase.

The 4.75% notes may be redeemed on or after May 1, 2016, at our option, in whole or in part, at a premium declining from 103.563%. The 4.75% notes may be redeemed on or after May 1, 2019, at our option, in whole or in part, at par. The 4.75% notes also require that upon the occurrence of a change of control (as defined in the 2013 indenture), the holders of the notes have the right to require us to repurchase the notes at a price equal to 101% of the original aggregate principal amount, together with accrued and unpaid interest, if any, to the date of repurchase.

Any mandatory repurchase of the 6.625% notes and/or the 4.75% notes would trigger an event of default under our Credit Agreement. We are not required to maintain any financial ratios under either of the indentures.

Rent-A-Center and its subsidiary guarantors have fully, jointly and severally, and unconditionally guaranteed the obligations of Rent-A-Center with respect to the 6.625% notes and the 4.75% notes. Rent-A-Center has no independent assets or operations, and each subsidiary guarantor is 100% owned directly or indirectly by Rent-A-Center. The only direct or indirect subsidiaries of Rent-A-Center that are not guarantors are minor subsidiaries. There are no restrictions on the ability of any of the subsidiary guarantors to transfer funds to Rent-A-Center in the form of loans, advances or dividends, except as provided by applicable law.

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

5. Income Taxes.

We are subject to federal, state, local and foreign income taxes. Along with our U.S. subsidiaries, we file a U.S. federal consolidated income tax return. We are no longer subject to U.S. federal, state, foreign and local income tax examinations by tax authorities for years before 2010. The appeals process with the Internal Revenue Service (IRS) Office of Appeals for the years 2001 through 2007 has been completed. We reached agreement on all issues except one issue with respect to the 2003 tax year, an issue which occurs in 2004 through 2007 taxable years as well. This matter was heard by the United States Tax Court at trial during November 2011. A favorable decision was issued by the Court on January 14, 2014, and is subject to appeal by the IRS. Our 2010 U.S. federal income tax return has been selected for a limited scope audit and we are also under examination in various states. We do not anticipate that adjustments, if any, regarding the 2003 through 2007 disputed issue, the 2010 federal exam or the various state examinations will result in a material change to our consolidated statement of earnings, financial condition, statement of cash flows or earnings per share.

We provide for uncertain tax positions and related interest and adjust our unrecognized tax benefits and accrued interest in the normal course of our business. At March 31, 2014, our unrecognized tax benefits were decreased by approximately $0.3 million from December 31, 2013.

We intend to reinvest substantially all of the unremitted earnings of our non-U.S. subsidiaries and postpone their remittance indefinitely. Accordingly, no provision for U.S. income taxes for these non-U.S. subsidiaries was recorded in the accompanying consolidated statements of earnings.

6. Fair Value.

We use a three-tier fair value hierarchy, which classifies the inputs used in measuring fair values, in determining the fair value of our non-financial assets and non-financial liabilities, which consist primarily of goodwill. These tiers include: Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. There were no changes in the methods and assumptions used in measuring fair value during the period.

At March 31, 2014, our financial instruments include cash and cash equivalents, receivables, payables, senior debt and senior notes. The carrying amount of cash and cash equivalents, receivables and payables approximates fair value at March 31, 2014, and December 31, 2013, because of the short maturities of these instruments. Our senior debt is variable rate debt that re-prices frequently and entails no significant change in credit risk and, as a result, fair value approximates carrying value. The fair value of our senior notes is based on Level 1 inputs. At March 31, 2014, the fair value of our 6.625% senior notes was $310.5 million, which was approximately $10.5 million above their carrying value of $300.0 million. At December 31, 2013, the fair value of our 6.625% senior notes was $316.7 million, which was approximately $16.7 million above their carrying value of $300.0 million. At March 31, 2014, the fair value of our 4.75% senior notes was $233.4 million, which was approximately $16.6 million below their carrying value of $250.0 million. At December 31, 2013, the fair value of our 4.75% senior notes was $234.7 million, which was approximately $15.3 million below their carrying value of $250.0 million

7. Stock Repurchase Plan.

Under our current common stock repurchase program, our Board of Directors has authorized the purchase, from time to time, in the open market and privately negotiated transactions, of up to an aggregate of $1.25 billion of Rent-A-Center common stock. We have repurchased a total of 36,994,653 shares of Rent-A-Center common stock for an aggregate purchase price of $994.8 million as of March 31, 2014, and December 31, 2013, respectively, under our common stock repurchase program. No shares were repurchased in the first quarter of 2014.

RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

8. Segment Information.
The operating segments reported below are the segments for which separate financial information is available and for which segment results are evaluated by the chief operating decision makers. Our operating segments are organized based on factors including, but not limited to, type of business transactions, geographic location and store ownership. All operating segments offer merchandise from four basic product categories: consumer electronics, appliances, computers, furniture and accessories. On January 1, 2014, the Company realigned its reporting structure to include its 18 Canadian stores in the Core U.S. segment, which were previously reported in the International segment. These stores now report into the Core U.S. segment, and the chief operating decision makers no longer analyze their operating results as a part of the International segment. The accompanying prior-year disclosures have been revised to reflect this change, and we now refer to the segment formerly reported as "International" as "Mexico" since only that country's results are reported therein. Reportable segments and their respective operations are defined as follows.
Our Core U.S. segment primarily operates rent-to-own stores in the United States, Canada and Puerto Rico whose customers enter into weekly, semi-monthly or monthly rental purchase agreements, which renew automatically upon receipt of each payment. We retain the title to the merchandise during the term of the rental purchase agreement and ownership passes to the customer if the customer has continuously renewed the rental purchase agreement through the end of the term or exercises a specified early purchase option. This segment also includes the 45 stores operating in two states that utilize a retail model which generates installment credit sales through a retail sale transaction. Segment assets include cash, receivables, rental merchandise, property assets, goodwill and other intangible assets.
Our Acceptance Now segment operates kiosks within various traditional retailers’ locations where we generally offer the rent-to-own transaction to consumers who do not qualify for financing from the traditional retailer. The transaction offered is generally similar to that of the Core U.S. segment; however, the majority of the customers in this segment enter into monthly rather than weekly agreements. Segment assets include cash, rental merchandise, property assets, goodwill and other intangible assets.
Our Mexico segment consists of our company-owned rent-to-own stores in Mexico, and the nature of this segment’s operations and assets are the same as our Core U.S. segment.
The stores in our Franchising segment use Rent-A-Center’s, ColorTyme’s or RimTyme’s trade names, service marks, trademarks and logos, and operate under distinctive operating procedures and standards. Franchising’s primary source of revenue is the sale of rental merchandise to its franchisees who, in turn, offer the merchandise to the general public for rent or purchase under a rent-to-own program. As franchisor, Franchising receives royalties of 2.0% to 6.0% of the franchisees’ monthly gross revenue and initial fees for new locations. Segment assets include cash, receivables and property assets.
We incur costs at our corporate headquarters that benefit our Core U.S., Acceptance Now and Mexico operating segments. Accordingly, we allocate such costs among these segments based on segment revenue to determine segment operating profit. Likewise, certain corporate assets used to support these operating segments, including the land and building in which the corporate headquarters are located and related property assets, cash and prepaid expenses are also allocated to these operating segments based on segment revenue. Because our Franchising segment has maintained a separate, independent corporate office, no additional corporate costs or assets have been allocated to that segment.
Segment information for the three months ended March 31, 2014 and 2013 is as follows (in thousands):

	Three Months Ended March 31, 2014				
	Core U.S.	Acceptance Now	Mexico	Franchising	Total
Revenue	$634,763	$174,207	$15,873	$8,903	$833,746
Gross profit	456,589	92,907	11,478	1,903	562,877
Operating profit (loss)	43,857	21,577	(6,277)	606	59,763
Depreciation of property assets	16,037	1,424	1,643	35	19,139
Amortization and write-down of intangibles	605	142	—	—	747

Capital expenditures	18,036	2,784	2,288	—	23,108

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RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Three Months Ended March 31, 2013				
	Core U.S.	Acceptance Now	Mexico	Franchising	Total
Revenue	$672,408	$127,163	$9,493	$10,217	$819,281
Gross profit	475,072	67,107	6,698	1,801	550,678
Operating profit (loss)	67,078	15,650	(4,647)	703	78,784
Depreciation of property assets	16,174	1,089	1,190	20	18,473
Amortization and write-down of intangibles	747	143	—	—	890
Capital expenditures	15,052	1,940	2,645	—	19,637

Segment information – selected balance sheet data (in thousands):

	March 31, 2014				
	Core U.S.	Acceptance Now	Mexico	Franchising	Total
Rental merchandise, net					
On rent	$580,767	$293,048	$18,526	$—	$892,341
Held for rent	185,664	6,852	10,756	—	203,272
Total assets	2,565,076	391,844	71,612	2,531	3,031,063

	December 31, 2013				
	Core U.S.	Acceptance Now	Mexico	Franchising	Total