RENT A CENTER INC DE
Form 10-Q
May 01, 2015

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, 2015
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 27, 2015:

Class	Outstanding
Common stock, $.01 par value per share	53,027,749

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

	Three Months Ended March 31,	
	2015	2014
(In thousands, except per share data)	Unaudited	
Revenues		Revised
Store		
Rentals and fees	$711,450	$691,187
Merchandise sales	136,280	108,061
Installment sales	18,253	18,060
Other	5,431	4,258
Total store revenues	871,414	821,566
Franchise		
Merchandise sales	4,387	5,328
Royalty income and fees	1,838	1,579
Total revenues	877,639	828,473
Cost of revenues		
Store		
Cost of rentals and fees	185,118	175,216
Cost of merchandise sold	117,722	79,617
Cost of installment sales	6,157	6,086
Total cost of store revenues	308,997	260,919
Franchise cost of merchandise sold	4,049	5,004
Total cost of revenues	313,046	265,923
Gross profit	564,593	562,550
Operating expenses		
Store expenses		
Labor	220,974	225,938
Other store expenses	224,175	215,158
General and administrative expenses	42,691	42,110
Depreciation, amortization and write-down of intangibles	19,764	19,886
Other charges	391	—
	507,995	503,092
Operating profit	56,598	59,458
Finance charges from refinancing	—	4,213
Interest expense	12,578	11,401
Interest income	(190)	(236)
Earnings before income taxes	44,210	44,080
Income tax expense	16,912	16,814
NET EARNINGS	$27,298	$27,266
Basic earnings per common share	$0.51	$0.52
Diluted earnings per common share	$0.51	$0.51
Cash dividends declared per common share	$0.24	$0.23

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
	2015	2014
(In thousands)	Unaudited	
		Revised
Net earnings	$27,298	$27,266
Other comprehensive loss:		
Foreign currency translation adjustments	(777)	(97)
Total other comprehensive loss	(777)	(97)
COMPREHENSIVE INCOME	$26,521	$27,169

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2015	December 31, 2014
(In thousands, except share and par value data)	Unaudited	
ASSETS		
Cash and cash equivalents	$93,115	$46,126
Receivables, net of allowance for doubtful accounts of $3,588 and $4,023 in 2015 and 2014, respectively	61,939	65,492
Prepaid expenses and other assets	78,025	206,150
Rental merchandise, net		
On rent	950,890	960,414
Held for rent	266,872	277,442
Merchandise held for installment sale	4,730	4,855
Property assets, net of accumulated depreciation of $455,445 and $440,586 in 2015 and 2014, respectively	327,477	332,726
Goodwill, net	1,376,249	1,370,459
Other intangible assets, net	9,253	7,533
	$3,168,550	$3,271,197
LIABILITIES		
Accounts payable – trade	$145,935	$141,878
Accrued liabilities	409,602	351,812
Deferred income taxes	308,828	345,299
Senior debt	348,750	492,813
Senior notes	550,000	550,000
	1,763,115	1,881,802
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS’ EQUITY		
Common stock, $.01 par value; 250,000,000 shares authorized; 109,396,953 and 109,353,001 shares issued in 2015 and 2014, respectively	1,094	1,094
Additional paid-in capital	815,453	813,178
Retained earnings	1,941,987	1,927,445
Treasury stock at cost, 56,369,752 shares in 2015 and 2014	(1,347,677)	(1,347,677)
Accumulated other comprehensive loss	(5,422)	(4,645)
	1,405,435	1,389,395
	$3,168,550	$3,271,197

See accompanying notes to consolidated financial statements.

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RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2015	2014
(In thousands)	Unaudited	
		Revised
Cash flows from operating activities		
Net earnings	$27,298	$27,266
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation of rental merchandise	179,668	169,489
Bad debt expense	3,712	3,664
Stock-based compensation expense	2,163	1,472
Depreciation of property assets	18,849	19,139
Loss on sale or disposal of property assets	232	1,487
Amortization of intangibles	886	747
Amortization of financing fees	770	870
Deferred income taxes	(36,471)	(25,350)
Excess tax benefit related to stock awards	(31)	(20)
Changes in operating assets and liabilities, net of effects of acquisitions		
Rental merchandise	(156,158)	(136,199)
Receivables	(159)	(2,735)
Prepaid expenses and other assets	127,249	(397)
Accounts payable – trade	4,057	3,377
Accrued liabilities	55,973	57,250
Net cash provided by operating activities	228,038	120,060
Cash flows from investing activities		
Purchase of property assets	(14,245)	(23,108)
Proceeds from sale of property assets	648	7
Acquisitions of businesses	(10,659)	(5,369)
Net cash used in investing activities	(24,256)	(28,470)
Cash flows from financing activities		
Exercise of stock options	522	632
Excess tax benefit related to stock awards	31	20
Proceeds from debt	158,250	176,580
Repayments of debt	(302,312)	(217,855)
Dividends paid	(12,742)	(12,147)
Net cash used in financing activities	(156,251)	(52,770)
Effect of exchange rate changes on cash	(542)	(82)
Net increase in cash and cash equivalents	46,989	38,738
Cash and cash equivalents at beginning of period	46,126	42,274
Cash and cash equivalents at end of period	$93,115	$81,012

See accompanying notes to consolidated financial statements.

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1. Basis of Presentation.
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 ("GAAP") 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, 2014. 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.
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 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 through kiosks located within such retailers’ locations. Those kiosks can be staffed by an Acceptance Now employee (staffed locations) or employ a virtual solution where customers initiate the rent-to-own transaction online in the retailers' locations using our tablet computer and our virtual solution (direct 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. Our stores in Mexico operate under the name “RAC - La mejor forma de comprar,” which translates as RAC - A better way to buy.
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.
New Accounting Pronouncements. In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, Presentation of Financial Statements (Topic 205) and Property Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for identifying a discontinued operation. Under ASU 2014-08, the definition of a discontinued operation is limited to the disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. Rent-A-Center adopted this ASU on January 1, 2015, and it did not have a significant impact on our financial position, results of operations or cash flows.
In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which clarifies existing accounting literature relating to how and when a company recognizes revenue. Under ASU 2014-09, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. ASU 2014-09 will be effective for Rent-A-Center beginning January 1, 2017, and early adoption is not permitted. The ASU allows adoption with either retrospective application to each prior period presented, or retrospective application with the cumulative effect recognized as of the date of initial application. We are currently in the process of determining what impact, if any, the adoption of this ASU will have on our financial position, results of operations and cash flows, and

we are evaluating the transition alternatives.

On April 7, 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. ASU 2015-03 will be effective for Rent-A-Center for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The new guidance will be applied on a retrospective basis. Based on balances at March 31, 2015, the impact on our consolidated balance sheet would be a reduction in prepaid expenses and other assets of approximately $15.0 million, a reduction in senior debt of approximately $7.4 million and a reduction in senior notes of approximately $7.6 million.

From time to time, new accounting pronouncements are issued by the 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

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

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. Correction of Immaterial Errors

During the fourth quarter of 2014, we identified errors in accounting for revenues, cost of revenues and other store expenses resulting in an immaterial correction of errors in our previously issued consolidated financial statements. Each of these errors affected periods beginning prior to 2012 through December 31, 2014. 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 that the errors did not, individually or in the aggregate, result in a material misstatement of our previously issued consolidated financial statements. Due to the immaterial nature of the error corrections, the comparable 2014 amounts in the accompanying financial statements have been revised herein as discussed below.

The errors discussed above, adjusted for the related income tax expense impact, resulted in an overstatement of net earnings of $1.6 million for the three-month period ended March 31, 2014 as detailed in the table below:

	Three Months Ended March 31, 2014			
(In thousands, except per share data)	Previously Reported	Adjustment		As Revised
Rentals and fees	$694,168	$(2,981	)	$691,187
Installment sales	18,356	(296	)	18,060
Franchise merchandise sales	7,324	(1,996	)	5,328
Total revenues	833,746	(5,273	)	828,473
Cost of rentals and fees	177,870	(2,654	)	175,216
Cost of installment sales	6,382	(296	)	6,086
Franchise cost of merchandise sold	7,000	(1,996	)	5,004
Total cost of revenues	270,869	(4,946	)	265,923
Gross profit	562,877	(327	)	562,550
Store labor	225,678	260		225,938
Other store expenses	215,440	(282	)	215,158
Operating profit	59,763	(305	)	59,458
Finance charges from refinancing	1,946	2,267		4,213
Earnings before income taxes	46,652	(2,572	)	44,080
Income tax expense	17,795	(981	)	16,814
Net earnings	28,857	(1,591	)	27,266
Basic earnings per common share	$0.55	$(0.03	)	$0.52
Diluted earnings per common share	$0.54	$(0.03	)	$0.51

The errors discussed above also resulted in changes to previously reported amounts in our consolidated statements of cash flows. The previously reported changes in operating assets and liabilities in the reconciliation of net income to cash provided by operating activities have been revised as detailed in the table below. These errors had no impact on net cash provided by operating activities:

	Three Months Ended March 31, 2014		
(In thousands, except per share data)	Previously Reported	Adjustment	As Revised
Net earnings	$28,857	$(1,591)	$27,266
Depreciation of rental merchandise	169,843	(354)	169,489
Finance charges from refinancing	1,946	(1,946)	—
Deferred income taxes	(24,370)	(980)	(25,350)
Rental merchandise	(135,407)	(792)	(136,199)
Receivables	(2,849)	114	(2,735)
Prepaid expenses and other assets	(4,609)	4,212	(397)
Accounts payable - trade	2,368	1,009	3,377
Accrued liabilities	56,922	328	57,250
Net cash provided by operating activities	120,060	—	120,060

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 provided a $900.0 million senior credit facility consisting of $225.0 million in term loans (the "Term Loans") and a $675.0 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 $225.0 million in Term Loans and $100.0 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 are payable in consecutive quarterly installments each in an aggregate principal amount of $562,500, 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, 2015, were $222.8 million and $120.0 million, respectively. The amounts outstanding under the Term Loan and Revolving Facility at December 31, 2014, were $223.3 million and $255.0 million, respectively.

The full amount of the Revolving Facility may be used for the issuance of letters of credit, of which $104.4 million had been so utilized as of March 31, 2015, and at which date $450.6 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 prime rate plus 0.50% to 1.75% (ABR), at our election. The margins on the Eurodollar loans and on the ABR loans for borrowings under the Revolving Facility, which were 2.50% and 1.50%, respectively, at March 31, 2015, 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 loans and on the ABR loans 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, 2015, is equal to 0.50% of the unused portion of the Revolving Facility.

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

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 $250.0 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 $85.2 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, 2015:

	Required Ratio		Actual Ratio
Consolidated total leverage ratio	No greater than	4.50:1	2.92:1
Consolidated senior secured leverage ratio	No greater than	2.75:1	0.97:1
Consolidated fixed charge coverage ratio	No less than	1.50:1	1.82:1

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 actual consolidated total leverage ratio was calculated by dividing the consolidated funded debt outstanding at March 31, 2015 ($830.6 million) by consolidated EBITDA for the 12-month period ending March 31, 2015 ($284.5 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 actual consolidated senior secured leverage ratio was calculated pursuant to the Credit Agreement by dividing the consolidated senior secured debt outstanding at March 31, 2015 ($274.6 million) by consolidated EBITDA for the 12-month period ending March 31, 2015 ($284.5 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 actual consolidated fixed charge coverage ratio was calculated pursuant to the Credit Agreement by dividing the sum of consolidated EBITDA and consolidated lease expense for the 12-month period ending March 31, 2015 ($526.4 million), by consolidated fixed charges for the 12-month period ending March 31, 2015 ($290.0 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 the case 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

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

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 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 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 $6.0 million and $14.5 million at March 31, 2015, and December 31, 2014, respectively.

The table below shows the scheduled maturity dates of our outstanding debt at March 31, 2015:

	Term Loan	Revolving Facility	INTRUST Line of Credit	Total
Year Ending December 31,	(In thousands)			
2015	$1,687	$—	$6,000	$7,687
2016	2,250	—	—	2,250
2017	2,250	—	—	2,250
2018	2,250	—	—	2,250
2019	2,250	120,000	—	122,250
Thereafter	212,063	—	—	212,063
	$222,750	$120,000	$6,000	$348,750

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 $85.2 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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.

5. 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, 2015, 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, 2015, and December 31, 2014, 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 and was as follows at March 31, 2015, and December 31, 2014, (in thousands):

	March 31, 2015			December 31, 2014		
	Carrying Value	Fair Value	Difference	Carrying Value	Fair Value	Difference
6.625% senior notes	$300,000	$282,750	$(17,250)	$300,000	$284,250	$(15,750)
4.75% senior notes	250,000	212,500	(37,500)	250,000	214,375	(35,625)
Total	$550,000	$495,250	$(54,750)	$550,000	$498,625	$(51,375)

6. Other Charges.

Store Consolidation Plan. During the second quarter of 2014, we closed 150 Core U.S. stores and merged those accounts into existing Core U.S. stores as part of a multi-year program designed to transform and modernize our operations company-wide in order to improve profitability in the Core U.S. segment. The decision to close these stores was based on management's analysis and evaluation of the markets in which we operate, including our market share, operating results, competitive positioning and growth potential for the affected stores. The store closures resulted in pre-tax restructuring charges of $0.1 million for the three-months ended March 31, 2015, for early lease terminations. We did not record a liability for future lease obligations on these properties as the fair value of the liability at the cease-use date was reduced to zero by estimated sublease rentals that could be obtained for the properties. Accordingly, future lease obligations of approximately $1.4 million that remain as of March 31, 2015, will either be expensed monthly or recognized in full upon negotiation of early termination and are scheduled to be paid out through 2016.

Mexico Store Closures. During 2014, management identified 8 stores in Mexico for closure. Those stores were closed during the first quarter of 2015, resulting in pre-tax restructuring charges of $0.3 million for disposal of fixed assets and leasehold improvements and decommissioning the stores.

RENT-A-CENTER, INC. AND SUBSIDIARIES
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7. 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.

Segment information for the three months ended March 31, 2015 and 2014 is as follows (in thousands):

	Three Months Ended March 31,	
	2015	2014
Revenues		Revised
Core U.S.	$629,203	$636,475
Acceptance Now	224,277	169,234
Mexico	17,934	15,857
Franchising	6,225	6,907
Total revenues	$877,639	$828,473

	Three Months Ended March 31,	
	2015	2014
Gross profit		Revised
Core U.S.	$441,140	$456,795
Acceptance Now	109,164	92,390
Mexico	12,113	11,462
Franchising	2,176	1,903
Total gross profit	$564,593	$562,550

	Three Months Ended March 31,	
	2015	2014
Operating profit (loss)		Revised
Core U.S.	$67,573	$73,462
Acceptance Now	34,532	29,522
Mexico	(3,454)	(5,917)
Franchising	1,216	606
Total segment operating profit	99,867	97,673
Corporate	(43,269)	(38,215)
Total operating profit	$56,598	$59,458

	Three Months Ended March 31,	
	2015	2014
Depreciation, amortization and write-down of intangibles		Revised
Core U.S.	$12,675	$13,840
Acceptance Now	753	647
Mexico	1,474	1,595
Franchising	49	35
Total segments	14,951	16,117
Corporate	4,813	3,769
Total depreciation, amortization and write-down of intangibles	$19,764	$19,886

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	Three Months Ended March 31,	
	2015	2014
Capital expenditures		Revised
Core U.S.	$814	$10,304
Acceptance Now	283	662
Mexico	108	2,095
Total segments	1,205	13,061
Corporate	13,040	10,047
Total capital expenditures	$14,245	$23,108

Segment information - Selected balance sheet data (in thousands):

	March 31, 2015	December 31, 2014
On rent rental merchandise, net		
Core U.S.	$577,269	$593,945
Acceptance Now	352,306	345,703
Mexico	21,315	20,766
Total on rent rental merchandise, net	$950,890	$960,414

	March 31, 2015	December 31, 2014
Idle rental merchandise, net		
Core U.S.	$254,827	$264,211
Acceptance Now	6,262	4,897
Mexico	5,783	8,334
Total idle rental merchandise, net	$266,872	$277,442

	March 31, 2015	December 31, 2014
Assets by segment		
Core U.S.	$2,529,100	$2,519,770
Acceptance Now	428,208	420,660
Mexico	53,666	59,841
Franchising	2,966	2,604
Total segments	3,013,940	3,002,875
Corporate	154,610	268,322
Total assets	$3,168,550	$3,271,197

8. Stock-Based Compensation.

We recognized $2.2 million and $1.5 million in pre-tax compensation expense related to stock options and restricted stock units during the three-month periods ended March 31, 2015 and 2014, respectively. During the three months ended March 31, 2015, we granted approximately 369,000 stock options, 419,000 performance-based restricted stock units and 163,000 time-vesting restricted stock units. The stock options granted were valued using a Black-Scholes pricing model with the following assumptions: an expected volatility of 31.66% to 40.68%, a risk-free interest rate of 1.14% to 1.76%, an expected dividend yield of 2.6% to 3.3% and an expected life of 3.50 to 9.25 years. The weighted-average exercise price of the options granted during the three months ended March 31, 2015, was $31.21 and the weighted-average grant-date fair value was $7.59. Performance-based restricted stock units are valued using a Monte Carlo simulation. Time-vesting restricted stock units are valued using the closing price on the trading day immediately preceding the day of the grant, adjusted for any provisions affecting fair value, such as the lack of dividends or dividend equivalents during the vesting period. The weighted-average grant date fair value of the restricted stock units granted during the three months ended March 31, 2015, was $27.85.

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

9. Contingencies.
From time to time, we, along with our subsidiaries, are party to various legal proceedings arising in the ordinary course of business. We reserve for loss contingencies that are both probable and reasonably estimable. We regularly monitor developments related to these legal proceedings, and review the adequacy of our legal reserves on a quarterly basis. We do not expect these losses to have a material impact on our consolidated financial statements if and when such losses are incurred.
We are subject to unclaimed property audits by states in the ordinary course of business. A comprehensive multi-state unclaimed property audit is currently in progress. The property subject to review in this audit process includes unclaimed wages, vendor payments and customer refunds. State escheat laws generally require entities to report and remit abandoned and unclaimed property to the state. Failure to timely report and remit the property can result in assessments that could include interest and penalties, in addition to the payment of the escheat liability itself. We routinely remit escheat payments to states in compliance with applicable escheat laws. Management believes it is too early to determine the ultimate outcome of this audit, as our remediation efforts are still in process.
Our subsidiary, ColorTyme Finance, Inc. (“ColorTyme Finance”), is a party to an agreement with Citibank, N.A., pursuant to which Citibank provides up to $27.0 million in aggregate financing to qualifying franchisees of Franchising. Under the Citibank agreement, upon an event of default by the franchisee under agreements governing this financing and upon the occurrence of certain other events, Citibank can assign the loans and the collateral securing such loans to ColorTyme Finance, with ColorTyme Finance paying or causing to be paid the outstanding debt to Citibank and then succeeding to the rights of Citibank under the debt agreements, including the right to foreclose on the collateral. Rent-A-Center and ColorTyme Finance guarantee the obligations of the franchise borrowers under the Citibank facility. An additional $20.0 million of financing is provided by Texas Capital Bank, National Association under an agreement similar to the Citibank financing, which is guaranteed by Rent-A-Center East, Inc., a subsidiary of Rent-A-Center. The maximum guarantee obligations under these agreements, excluding the effects of any amounts that could be recovered under collateralization provisions, is $47.0 million, of which $16.2 million was outstanding as of March 31, 2015.

10. Earnings Per Common Share.
Basic and diluted earnings per common share were calculated as follows (in thousands, except per share data):

	Three Months Ended March 31, 2015		
	Net Earnings	Weighted Average Shares	Per Share
Basic earnings per common share	$27,298	53,033	$0.51
Effect of dilutive stock awards	—	344	
Diluted earnings per common share	$27,298	53,377	$0.51

	Three Months Ended March 31, 2014		
	Net Earnings	Weighted Average Shares	Per Share
Basic earnings per common share	$27,266	52,795	$0.52
Effect of dilutive stock awards	—	225	
Diluted earnings per common share	$27,266		