

RENT A CENTER INC DE
Form 10-Q
November 09, 2015

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

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

For the quarterly period ended September 30, 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 (I.R.S. Employer
incorporation or organization) 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

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 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 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 2, 2015:

Class	Outstanding
Common stock, \$.01 par value per share	53,068,172

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(In thousands, except per share data)	Unaudited	Revised	Unaudited	Revised
Revenues				
Store				
Rentals and fees	\$683,343	\$675,342	\$2,098,918	\$2,048,278
Merchandise sales	80,932	58,477	300,498	226,148
Installment sales	17,786	17,822	54,200	53,653
Other	4,475	6,384	14,631	14,376
Total store revenues	786,536	758,025	2,468,247	2,342,455
Franchise				
Merchandise sales	2,456	4,477	10,022	13,645
Royalty income and fees	2,613	1,861	6,318	5,162
Total revenues	791,605	764,363	2,484,587	2,361,262
Cost of revenues				
Store				
Cost of rentals and fees	178,094	174,041	548,618	523,857
Cost of merchandise sold	82,043	47,569	282,128	174,299
Cost of installment sales	5,854	5,867	18,125	18,028
Total cost of store revenues	265,991	227,477	848,871	716,184
Other charges and (credits)	34,698	(7,072)	34,698	(7,072)
Franchise cost of merchandise sold	2,304	4,200	9,284	12,818
Total cost of revenues	302,993	224,605	892,853	721,930
Gross profit	488,612	539,758	1,591,734	1,639,332
Operating expenses				
Store expenses				
Labor	209,904	218,623	643,412	666,830
Other store expenses	201,638	208,424	631,415	629,350
General and administrative expenses	39,590	39,130	127,463	124,832
Depreciation, amortization and write-down of intangibles	19,979	19,918	60,140	60,432
Other charges	10,936	7,743	16,440	12,120
	482,047	493,838	1,478,870	1,493,564
Operating profit	6,565	45,920	112,864	145,768
Finance charges from refinancing	—	—	—	4,213
Interest expense	12,490	11,981	37,211	35,178
Interest income	(153)	(200)	(525)	(681)
Earnings (loss) before income taxes	(5,772)	34,139	76,178	107,058
Income tax expense (benefit)	(1,680)	8,214	29,825	36,186
NET EARNINGS (LOSS)	\$(4,092)	\$25,925	\$46,353	\$70,872
Basic earnings (loss) per common share	\$(0.08)	\$0.49	\$0.87	\$1.34
Diluted earnings (loss) per common share	\$(0.08)	\$0.49	\$0.87	\$1.34
Cash dividends declared per common share	\$0.24	\$0.23	\$0.72	\$0.69

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015 Unaudited	2014 Revised	2015 Unaudited	2014 Revised
Net earnings (loss)	\$ (4,092	) \$ 25,925	\$ 46,353	\$ 70,872
Other comprehensive loss:				
Foreign currency translation adjustments	(1,926	) (1,372	) (3,308	) (1,201
Total other comprehensive loss	(1,926	) (1,372	) (3,308	) (1,201
COMPREHENSIVE INCOME (LOSS)	\$ (6,018	) \$ 24,553	\$ 43,045	\$ 69,671

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2015	December 31, 2014
(In thousands, except share and par value data)	Unaudited	
ASSETS		
Cash and cash equivalents	\$60,072	\$46,126
Receivables, net of allowance for doubtful accounts of \$3,308 and \$4,023 in 2015 and 2014, respectively	63,252	65,492
Prepaid expenses and other assets	75,538	206,150
Rental merchandise, net		
On rent	849,234	960,414
Held for rent	272,225	277,442
Merchandise held for installment sale	4,485	4,855
Property assets, net of accumulated depreciation of \$468,507 and \$440,586 in 2015 and 2014, respectively	331,331	332,726
Goodwill, net	1,374,621	1,370,459
Other intangible assets, net	8,198	7,533
	\$3,038,956	\$3,271,197
LIABILITIES		
Accounts payable – trade	\$112,949	\$141,878
Accrued liabilities	367,478	351,812
Deferred income taxes	241,866	345,299
Senior debt	371,625	492,813
Senior notes	542,740	550,000
	1,636,658	1,881,802
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, \$.01 par value; 250,000,000 shares authorized; 109,436,174 and 109,353,001 shares issued in 2015 and 2014, respectively	1,094	1,094
Additional paid-in capital	821,310	813,178
Retained earnings	1,935,524	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	(7,953	) (4,645
	1,402,298	1,389,395
	\$3,038,956	\$3,271,197

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Nine Months Ended September 30,	
	2015 Unaudited	2014 Revised
Cash flows from operating activities		
Net earnings	\$46,353	\$70,872
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation of rental merchandise	541,603	508,178
Bad debt expense	10,850	10,827
Stock-based compensation expense	6,948	5,377
Depreciation of property assets	56,855	58,824
Loss on sale or disposal of property assets	9,672	7,740
Amortization of intangibles	2,605	2,203
Amortization of financing fees	2,339	2,601
Deferred income taxes	(103,433)	(65,330)
Excess tax benefit related to stock awards	(84)	(240)
Changes in operating assets and liabilities, net of effects of acquisitions		
Rental merchandise	(428,099)	(539,350)
Receivables	(8,610)	(20,345)
Prepaid expenses and other assets	128,212	(6,805)
Accounts payable – trade	(28,929)	23,227
Accrued liabilities	13,013	5,484
Net cash provided by operating activities	249,295	63,263
Cash flows from investing activities		
Purchase of property assets	(61,125)	(61,733)
Proceeds from sale of stores	12,165	6,012
Acquisitions of businesses	(19,063)	(12,497)
Net cash used in investing activities	(68,023)	(68,218)
Cash flows from financing activities		
Exercise of stock options	1,394	2,417
Excess tax benefit related to stock awards	84	240
Proceeds from debt	390,535	568,880
Repayments of debt	(518,983)	(510,020)
Dividends paid	(38,251)	(36,479)
Net cash (used in) provided by financing activities	(165,221)	25,038
Effect of exchange rate changes on cash	(2,105)	(399)
Net increase in cash and cash equivalents	13,946	19,684
Cash and cash equivalents at beginning of period	46,126	42,274
Cash and cash equivalents at end of period	\$60,072	\$61,958

See accompanying notes to consolidated financial statements.

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

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. 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. On July 9, 2015, the FASB approved a one-year deferral of the effective date. The adoption of ASU 2014-09 will be required for Rent-A-Center beginning January 1, 2018, with early adoption permitted as of the original effective date. 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 adoption date and 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 required 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. Adoption will be effective for Rent-A-Center beginning January 1, 2016, and we are currently in the process of determining the impact of the adoption of this ASU on our consolidated balance sheet. There will be no impact to our results of operations or cash flows.

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

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 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 understatement of net earnings of \$0.6 million for the three-month period ended September 30, 2014 and an overstatement of net earnings of \$0.8 million for the nine-month period ended September 30, 2014, as detailed in the table below:

(In thousands, except per share data)	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Previously Reported	Adjustment	As Revised	Previously Reported	Adjustment	As Revised
Rentals and fees	\$678,190	\$(2,848)	\$675,342	\$2,056,492	\$(8,214)	\$2,048,278
Installment sales	18,089	(267)	17,822	54,499	(846)	53,653
Franchise merchandise sales	6,524	(2,047)	4,477	19,811	(6,166)	13,645
Total revenues	769,525	(5,162)	764,363	2,376,488	(15,226)	2,361,262
Cost of rentals and fees	177,208	(3,167)	174,041	532,590	(8,733)	523,857
Cost of installment sales	6,134	(267)	5,867	18,874	(846)	18,028
Franchise cost of merchandise sold	6,247	(2,047)	4,200	18,984	(6,166)	12,818
Total cost of revenues	230,086	(5,481)	224,605	737,675	(15,745)	721,930
Gross profit	539,439	319	539,758	1,638,813	519	1,639,332
Store labor	218,523	100	218,623	666,284	546	666,830
Other store expenses	209,302	(878)	208,424	630,400	(1,050)	629,350
Operating profit	44,823	1,097	45,920	144,745	1,023	145,768
Finance charges from refinancing	—	—	—	1,946	2,267	4,213
Earnings before income taxes	33,042	1,097	34,139	108,302	(1,244)	107,058
Income tax expense	7,736	478	8,214	36,606	(420)	36,186
Net earnings	25,306	619	25,925	71,696	(824)	70,872
Basic earnings per common share	\$0.48	\$0.01	\$0.49	\$1.36	\$(0.02)	\$1.34
Diluted earnings per common share	\$0.48	\$0.01	\$0.49	\$1.35	\$(0.01)	\$1.34

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

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:

(In thousands, except per share data)	Nine Months Ended September 30, 2014		
	Previously Reported	Adjustment	As Revised
Net earnings	\$71,696	\$(824)	) \$70,872
Depreciation of rental merchandise	509,596	(1,418)	) 508,178
Finance charges from refinancing	1,946	(1,946)) —
Deferred income taxes	(64,912)	) (418)	) (65,330)
Rental merchandise	(515,166)	) (24,184)	) (539,350)
Receivables	(20,307)	) (38)	) (20,345)
Prepaid expenses and other assets	(11,017)	) 4,212	(6,805)
Accounts payable - trade	(3,407)	) 26,634	23,227
Accrued liabilities	7,502	(2,018)	) 5,484
Net cash provided by operating activities	63,263	—	63,263

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 September 30, 2015, were \$221.6 million and \$150.0 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 \$92.3 million had been so utilized as of September 30, 2015, and at which date \$432.7 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 September 30, 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 September 30, 2015, is equal

to 0.50% of the unused portion of the Revolving Facility.

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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 limit 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 \$60.9 million is available at September 30, 2015);
- 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 September 30, 2015:

	Required Ratio		Actual Ratio
Consolidated total leverage ratio	No greater than	4.50:1	2.93:1
Consolidated senior secured leverage ratio	No greater than	2.75:1	1.12:1
Consolidated fixed charge coverage ratio	No less than	1.50:1	1.86:1

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 September 30, 2015 (\$879.3 million) by consolidated EBITDA for the 12-month period ending September 30, 2015 (\$300.0 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 September 30, 2015 (\$336.6 million) by consolidated EBITDA for the 12-month period ending September 30, 2015 (\$300.0 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 September 30, 2015 (\$542.6 million), by consolidated fixed charges for the 12-month period ending September 30, 2015 (\$291.7 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 \$0.0 million and \$14.5 million at September 30, 2015, and December 31, 2014, respectively, and generally renews on August 21 of each year.

The table below shows the scheduled maturity dates of our outstanding debt at September 30, 2015:

	Term Loan	Revolving Facility	INTRUST Line of Credit	Total
Year Ending December 31,	(In thousands)			
2015	\$562	\$—	\$—	\$562
2016	2,250	—	—	2,250
2017	2,250	—	—	2,250
2018	2,250	—	—	2,250
2019	2,250	150,000	—	152,250
Thereafter	212,063	—	—	212,063
	\$221,625	\$150,000	\$—	\$371,625

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. The principal amount of the 6.625% notes outstanding as of September 30, 2015 and December 31, 2014 were \$292.7 million and \$300.0 million, respectively. During the third quarter of 2015, we repurchased \$7.3 million of these bonds in the open market at a price of 99.5 plus accrued interest.

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 payments basket under which approximately \$68.2 million is available at September 30, 2015); 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

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

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.

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 September 30, 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 September 30, 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 September 30, 2015, and December 31, 2014, (in thousands):

	September 30, 2015			December 31, 2014		
	Carrying Value	Fair Value	Difference	Carrying Value	Fair Value	Difference
6.625% senior notes	\$292,740	\$285,773	\$(6,967)	\$300,000	\$284,250	\$(15,750)
4.75% senior notes	250,000	213,125	(36,875)	250,000	214,375	(35,625)
Total	\$542,740	\$498,898	\$(43,842)	\$550,000	\$498,625	\$(51,375)

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

6. Other Charges and (Credits) - Cost of Revenues.

Write-down of Rental Merchandise. During the quarter ended September 30, 2015, we projected that we would not recover the carrying value of certain smartphones. We recorded a \$34.7 million impairment charge, included in cost of revenues in the accompanying statement of operations. This charge resulted in a reduction of on rent and held for rent merchandise of \$10.3 million and \$24.4 million, respectively, at September 30, 2015.

Vendor Settlement Credit. We participated in an anti-trust class-action suit as an entity that indirectly purchased liquid-crystal displays from certain manufacturers during the period from 1999 to 2006. We received net proceeds pursuant to a negotiated settlement of this matter based on the number of LCD units purchased during that time period. The settlement proceeds are reported as a reduction to cost of goods sold in the consolidated statements of earnings in the amount of \$7.1 million for the three- and nine-month periods ended September 30, 2014, and a receivable in that amount is included in prepaid expenses and other assets at September 30, 2014, in the consolidated balance sheets.

7. Other Charges - Operating Expenses.

Sale of Stores. During the third quarter, we incurred pre-tax losses of \$4.9 million on the sale of 22 Core U.S. stores to a franchisee and \$0.3 million on the sale of 14 Core U.S. stores in Canada. We also incurred pre-tax losses of \$0.3 million and \$0.9 million for the three- and nine-month periods ended September 30, 2015, respectively, on the sale of 6 stores during the second quarter and three stores during the third quarter.

Core U.S. Store Consolidation Plans. During the third quarter of 2015, we closed 65 Core U.S. stores and merged those accounts into existing Core U.S. stores, resulting in a pre-tax restructuring charge of \$4.3 million. This charge included approximately \$1.2 million of accelerated depreciation expense for fixed assets, leasehold improvements and write-off of merchandise inventory, \$2.7 million in early lease termination costs and \$0.3 million of other operating costs to decommission the stores.

During the second quarter of 2014, we closed 150 Core U.S. stores and merged those accounts into existing Core U.S. stores, resulting in a pre-tax restructuring charge of \$0.4 million and \$4.8 million during the three- and nine-month periods ended September 30, 2014. This included approximately \$3.2 million of accelerated depreciation expense for fixed assets, leasehold improvements and write-off of merchandise inventory, \$1.3 million in early lease termination costs and \$0.3 million of other operating costs to decommission the stores.

Mexico Store Consolidation Plan. During 2015, we closed 34 stores in Mexico and merged those accounts into existing Mexico stores. These store closures resulted in pre-tax restructuring charges of \$0 and \$3.1 million in the Mexico segment for the three- and nine-month periods ended September 30, 2015, for disposal of fixed assets and leasehold improvements and other charges to decommission the stores.

Sourcing and Distribution Network Startup Costs. As part of our transformational sourcing and distribution initiative, we entered into an agreement with a third-party logistics partner. As a result, we incurred one-time costs to set up new warehousing facilities and distribution routes in the second quarter and we incurred other charges in the third quarter to close existing warehouse space and terminate employees. The pre-tax charges for these items were approximately \$1.2 million and \$2.8 million for the three- and nine-month periods ended September 30, 2015, respectively, reflected in the Core U.S. segment.

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.

As discussed in Note S to the consolidated financial statements included in our Annual Report on Form 10-K, beginning with the fourth quarter of 2014, we no longer allocate corporate costs and assets to our reportable segments. In the following tables, previously reported 2014 amounts have been revised to present corporate amounts separate

from the reportable segments.

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RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Segment information for the three months ended September 30, 2015 and 2014 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues		Revised		Revised
Core U.S.	\$575,356	\$583,616	\$1,798,055	\$1,814,144
Acceptance Now	196,652	155,278	621,393	475,665
Mexico	14,528	19,131	48,799	52,646
Franchising	5,069	6,338	16,340	18,807
Total revenues	\$791,605	\$764,363	\$2,484,587	\$2,361,262
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Gross profit		Revised		Revised
Core U.S.	\$374,214	\$431,689	\$1,236,964	\$1,320,975
Acceptance Now	102,133	92,378	315,193	274,637
Mexico	9,500	13,553	32,521	37,731
Franchising	2,765	2,138	7,056	5,989
Total gross profit	\$488,612	\$539,758	\$1,591,734	\$1,639,332
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating profit		Revised		Revised
Core U.S.	\$15,700	\$63,448	\$149,971	\$197,103
Acceptance Now	28,901	29,938	95,129	86,715
Mexico	(2,359)	(4,529)	(12,992)	(16,928)
Franchising	1,797	1,168	4,004	2,191
Total segment operating profit	44,039	90,025	236,112	269,081
Corporate	(37,474)	(44,105)	(123,248)	(123,313)
Total operating profit	\$6,565	\$45,920	\$112,864	\$145,768
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Depreciation, amortization and write-down of intangibles		Revised		Revised
Core U.S.	\$11,818	\$13,671	\$37,577	\$42,007
Acceptance Now	836	697	2,388	2,020
Mexico	1,165	1,714	4,051	5,042
Franchising	45	49	140	135
Total segments	13,864	16,131	44,156	49,204
Corporate	6,115	3,787	15,984	11,228
Total depreciation, amortization and write-down of intangibles	\$19,979	\$19,918	\$60,140	\$60,432

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Capital expenditures		Revised		Revised
Core U.S.	\$6,148	\$5,637	\$12,397	\$23,328
Acceptance Now	921	448	1,749	2,531
Mexico	16	438	134	3,926
Total segments	7,085	6,523	14,280	29,785
Corporate	11,171	13,760	46,845	31,948
Total capital expenditures	\$18,256	\$20,283	\$61,125	\$61,733

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

	September 30, 2015	December 31, 2014
On rent rental merchandise, net		
Core U.S.	\$496,524	\$593,945
Acceptance Now	334,167	345,703
Mexico	18,543	20,766
Total on rent rental merchandise, net	\$849,234	\$960,414
Held for rent rental merchandise, net		
Core U.S.	\$260,563	\$264,211
Acceptance Now	6,354	4,897
Mexico	5,308	8,334
Total held for rent rental merchandise, net	\$272,225	\$277,442
Assets by segment	September 30, 2015	December 31, 2014
Core U.S.	\$2,404,391	\$2,519,770
Acceptance Now	410,892	420,660
Mexico	39,923	59,841
Franchising	1,840	2,604
Total segments	2,857,046	3,002,875
Corporate	181,910	268,322
Total assets	\$3,038,956	\$3,271,197

9. Stock-Based Compensation.

We recognized \$2.0 million and \$1.9 million in pre-tax compensation expense related to stock options and restricted stock units during the three-month periods ended September 30, 2015 and 2014, respectively, and \$6.9 million and \$5.4 million during the nine-month periods ended September 30, 2015 and 2014, respectively. During the nine months ended September 30, 2015, we granted approximately 653,000 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 30.55% to 40.68%, a risk-free interest rate of 0.98% to 1.87%, an expected dividend yield of 2.6% to 3.5% and an expected life of 3.50 to 9.25 years. The weighted-average exercise price of the options granted during the nine months ended September 30, 2015, was \$29.75 and the weighted-average grant-date fair value was \$6.74. 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

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 nine months ended September 30, 2015, was \$27.85.

10. 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 \$13.2 million was outstanding as of September 30, 2015.

11. Earnings (Loss) Per Common Share.

Basic and diluted earnings (loss) per common share were calculated as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net earnings (loss)	\$ (4,092	) \$ 25,925	\$ 46,353	\$ 70,872
Denominator:				
Weighted-average shares outstanding	53,060	52,864	53,044	52,828
Effect of dilutive stock awards	273	250	313	241
Weighted-average dilutive shares	53,333	53,114	53,357	53,069
Basic earnings (loss) per share	\$ (0.08	) \$ 0.49	\$ 0.87	\$ 1.34
Diluted earnings (loss) per share	\$ (0.08	) \$ 0.49	\$ 0.87	\$ 1.34

Diluted loss per share for the three months ended September 30, 2015, did not include the effect of dilutive stock awards because the result would have been anti-dilutive.

For the three-month periods ended September 30, 2015 and 2014, the number of anti-dilutive stock awards that were outstanding but not included in the computation of diluted earnings per common share were 2,676,685 and 2,507,547,

respectively.

For the nine-month periods ended September 30, 2015 and 2014, the number of anti-dilutive stock awards that were outstanding but not included in the computation of diluted earnings per common share were 2,302,669 and 2,513,948, respectively.

Item 1A. Risk Factors

Except for the risk factor set forth below, there have been no changes to the risk factors disclosed in Item 1A of Part 1, "Risk Factors," in our Form 10-K for the year ended December 31, 2014.

Goodwill represents a substantial amount of our total assets.

At September 30, 2015, goodwill totaled \$1.4 billion, or about 45% of our total assets. We assess goodwill for impairment annually on October 1, or more frequently if events or circumstances indicate that impairment may have occurred. A sustained decline in our market capitalization is one of many factors considered in the analyses we conduct to assess the impairment of goodwill. Following our recent third quarter earnings release, our market capitalization decreased by approximately 30% and is currently approximately \$1.0 billion. If we determine that the value of our goodwill is impaired, we would be required to recognize a non-cash charge to operating earnings for goodwill impairment. Any material non-cash charges to account for goodwill impairments would negatively affect our financial condition and results of operations. See "Recent Development" and "Critical Accounting Estimates, Uncertainties or Assessments in Our Financial Statements" in Item 2. Management's Discussion and Analysis, below.

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

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “seeks” or words of similar meaning, or future or conditional verbs, such as “will,” “should,” “could,” “may,” “aims,” “intends to,” “projects.” A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. You should not place undue reliance on forward-looking statements, which speak only as of the date of this report. These forward-looking statements are all based on currently available operating, financial and competitive information and are subject to various risks and uncertainties. Our actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, the risks and uncertainties discussed under “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results. Any or all of the forward-looking statements contained in this report and any other public statement made by us, including by our management, may turn out to be incorrect. We are including this cautionary note to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for forward-looking statements. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, changes in assumptions or otherwise. Factors that could cause or contribute to these differences include, but are not limited to:

- the general strength of the economy and other economic conditions affecting consumer preferences and spending;
- potential non-cash charges to account for goodwill impairment;
- factors affecting the disposable income available to our current and potential customers;
- changes in the unemployment rate;
- difficulties encountered in improving the financial and operational performance of our business segments;
- failure to manage our store labor and other store expenses;
- our ability to identify, develop and successfully execute strategic initiatives;
- our ability to successfully implement our new store information management system;
- our ability to successfully market smartphones and related services to our customers;
- our ability to develop and successfully implement virtual or e-commerce capabilities;
- failure to achieve the anticipated profitability enhancements from the changes to the 90 day option pricing program;
- disruptions in our supply chain;
- limitations of, or disruptions in, our distribution network;
- rapid inflation or deflation in prices of our products;
- our ability to execute and the effectiveness of a store consolidation, including our ability to retain the revenue from customer accounts merged into another store location as a result of a store consolidation;
- our available cash flow;
- our ability to identify and successfully market products and services that appeal to our customer demographic;
- consumer preferences and perceptions of our brands;
- uncertainties regarding the ability to open new locations;
- our ability to acquire additional stores or customer accounts on favorable terms;
- our ability to control costs and increase profitability;
- our ability to retain the revenue associated with acquired customer accounts and enhance the performance of acquired stores;
- our ability to enter into new and collect on our rental or lease purchase agreements;
- the passage of legislation adversely affecting the rent-to-own industry;

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our compliance with applicable statutes or regulations governing our transactions;

changes in interest rates;

adverse changes in the economic conditions of the industries, countries or markets that we serve;

information technology and data security costs;

the impact of any breaches in data security or other disturbances to our information technology and other networks and our ability to protect the integrity and security of individually identifiable data of our customers and employees;

changes in our stock price, the number of shares of common stock that we may or may not repurchase, and future dividends, if any;

changes in estimates relating to self-insurance liabilities and income tax and litigation reserves;

changes in our effective tax rate;

fluctuations in foreign currency exchange rates;

our ability to maintain an effective system of internal controls;

the resolution of our litigation; and

the other risks detailed from time to time in our reports to the Securities and Exchange Commission.

Additional important factors that could cause our actual results to differ materially from our expectations are discussed under the section “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014, and elsewhere in this Quarterly Report on Form 10-Q. You should not unduly rely on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by law, we are not obligated to publicly release any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

Our Business

We are a rent-to-own industry leader, focused on improving the quality of life for our customers by providing them the opportunity to obtain ownership of high-quality durable products, such as consumer electronics, appliances, computers, tablets, smartphones, furniture and accessories, under flexible rental purchase agreements with no long-term obligation. We were incorporated in Delaware in 1986.

Our Growth Strategy

We are in the midst of a multi-year program designed to transform and modernize our operations in order to improve the profitability of the Core U.S. segment while continuing to grow our Acceptance Now segment. This program is focused on building new competencies and capabilities through a variety of operational and infrastructure initiatives such as introducing a new labor model in our Core U.S. rent-to-own stores; formulating a customer-focused, value-based pricing strategy; developing a new sourcing and distribution model; and implementing new technology into our Acceptance Now locations.

Flexible Labor Model. Historically, we have utilized a fixed labor model in our Core U.S. rent-to-own stores, generally using five employees who perform all tasks including sales, customer verification, collections, merchandise receiving and delivery and setup. This fixed labor model includes regularly scheduled overtime, and does not allow us to scale our costs to match the revenue cycles. We are implementing a flexible labor model utilizing part-time employees so that we can provide better customer service during peak operating hours and gain cost savings by reducing or eliminating overtime hours. We began general deployment across the network starting in the second quarter of 2015, and the new model has been introduced in approximately 2,100 Core U.S. locations. Based on historical attrition rates, we estimate that virtually all Core U.S. rent-to-own stores will have transitioned to the new model by early 2016. The flexible labor model is expected to have a positive impact on Core U.S. operating profit.

Pricing and Promotions. We continue to transition from our historical cost-based pricing model to a data driven, market-responsive model in the Core U.S. segment.

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Sourcing and Distribution. Since the Company's inception, the stores in our Core U.S. segment have relied on rental merchandise shipped from the manufacturer or distributor directly to the store and have not utilized centralized warehousing and distribution. This operating model allowed us to expand our store base rapidly with lower costs to enter new markets, but also limited our product options, reduced our ability to leverage our expenses, created longer lead times and embedded additional costs. Now that the store base has matured and we have achieved substantial market penetration, we have created new direct supplier partnerships, implemented a new system to manage distribution operations, implemented a network of distribution centers through a third-party logistics partnership and automated replenishment processes from distribution centers to stores. The use of distribution centers will allow us to take greater advantage of discounted bulk purchasing and will expand the number of potential manufacturers and suppliers, which will allow us to offer our customers a wider selection of products while generating greater margins, better flexibility and improved store service levels.

Acceptance Now. In 2014, we developed a virtual solution that decreased the time to process rental purchase agreements, streamlined the sales process and enhanced the customer's experience. This technology was implemented in 650 of our staffed Acceptance Now locations in 2014. In 2015, we are deploying this technology in all new staffed Acceptance Now locations as well as in certain existing staffed Acceptance Now locations as market conditions warrant. This technology will also be used in our Acceptance Now Direct locations, where the retailer does not have enough credit-constrained customers to justify creating a staffed location.

We have deployed our online approval engine to 15 key retail partner websites, and we have implemented the cascade/approval waterfall or retail partner point-of-sale integration to over 437 existing locations. Since we took advantage of the opportunity to grow these channels in the first half of the year, we now plan to have approximately 500 direct locations by the end of 2015.

Smartphones. In 2014, we launched a nationwide roll-out of smartphones, a new product category, to our Core U.S. stores. Our smartphone offering, which features rentals of many of the most popular phones, can be packaged with the flexibility and convenience of a no contract voice, text and data plan. For the three months ended September 30, 2015, smartphones were approximately 9% of our Core U.S. total store revenue.

Technology Investments. Included in our multi-year transformation program are significant investments in new technologies that will enable the strategic programs described above, as well as other initiatives. We have developed and implemented applications and systems to support our new distribution network, such as a warehouse management system and enhancements to our automated replenishment system. As described above, we have developed new technology for the Acceptance Now transaction. We are also in the process of implementing our new store information management system and processes that extend and improve capabilities for store sales and operations. This system is operational in 8.5% of our Core U.S. stores at September 30, 2015, with general deployment starting in early 2016 to minimize impact on our fourth quarter holiday season.

Results of Operations

The following discussion focuses on our results of operations and issues related to our liquidity and capital resources. This discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

The following results of operations narrative and tables reflect the revisions to prior year balances due to immaterial error corrections discussed in Note 2 to the consolidated financial statements.

Overview

During the nine months ended September 30, 2015, we continued our efforts under our multi-year program to transform and modernize our operations company-wide.

We invested in new technology to support our rapidly growing Acceptance Now business. In the third quarter, we doubled the penetration of online approval via retailer websites as well as the technology to support the seamless application process. Each of these technologies is available in about a third of our staffed locations. The Acceptance Now location count increased 15 percent in the third quarter. For the nine months ended September 30, 2015, we added a net 66 staffed locations, while introducing 219 direct locations and converting four staffed locations to direct

locations.

The Acceptance Now segment had same store revenue growth of 30.1% for the nine months ended September 30, 2015, driven by the continued maturation of the business, increased staffed and direct locations and the introduction of 90 day option pricing. Our Acceptance Now segment provided approximately 25.0% of our consolidated revenue and 40.3% of our consolidated segment operating profit for the nine months ended September 30, 2015.

During the third quarter, we determined that it was necessary to adjust our smartphone inventory primarily through the write-down of older generation phones, and via the acceleration of secondary market dispositions of excess phone inventory. Upon standing up the category a year ago, we purchased inventory to support new and older technology, and older generation phones fell short

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of our expectations while newer generation phones exceeded our expectations, resulting in excess phones. In connection with this decision, the Company has recorded a \$34.7 million pre-tax inventory write-down in cost of sales in the Core U.S. segment for the third quarter to account for these actions. Management is currently refining its approach to this profitable product category based upon our initial year of experience.

Improved profitability trends in the Core U.S. segment, including a \$40 million reduction of operating expenses through the third quarter, reflects the progress of our strategic initiatives under our multi-year program. The upfront work associated with our new flexible labor model and our sourcing and distribution initiative is substantially complete. The flexible labor model has been introduced in approximately 2,100 Core U.S. locations and had a positive impact on financial results for the current quarter and year-to-date period. All five planned distribution centers were fully operational in July. We incurred and expensed contractual start-up costs of \$1.7 million in the second quarter that will benefit us over the term of the contract with our third-party logistics partner. We also incurred costs in the third quarter related to the closure of an existing warehouse resulting in a charge of \$1.0 million.

Core U.S. revenues decreased by \$8.3 million in the nine-month period ended September 30, 2015, compared to the comparable period in 2014, primarily due to the continued rationalization of our Core U.S. store base. In the third quarter of 2015, we consolidated 68 stores and sold 22 stores to a franchisee. In the second quarter of 2014, we completed the 150 store consolidation. Same store sales decreased 0.2% and increased 0.7% in the Core U.S. segment for the three- and nine-month periods ended September 30, 2015, respectively, primarily due to the new smartphone product category and higher merchandise sales.

We closed 34 of our Mexico stores as a part of our operating initiatives to improve the financial performance of that segment, and operating losses have improved sequentially.

Cash flow from operations was \$249.3 million for the nine months ended September 30, 2015. We paid down debt by \$128.4 million, we used \$61.1 million for capital expenditures, we used \$38.3 million for payment of dividends, we paid \$19.1 million in cash to acquire businesses and received \$12.2 million from the sale of stores, ending the nine-month period with \$60.1 million of cash and cash equivalents.

Recent Development

We have initiated the annual assessment of goodwill for impairment as described below in "Critical Accounting Estimates, Uncertainties or Assessments in Our Financial Statements." A sustained decline in our market capitalization is one of many factors considered in the analyses we conduct to assess the impairment of goodwill. Following our recent third quarter earnings release, our market capitalization decreased by approximately 30% and is currently approximately \$1.0 billion. As a result, there is a risk that a non-cash charge will be recorded in the fourth quarter of 2015 to account for goodwill impairment. See "Critical Accounting Estimates, Uncertainties or Assessments in Our Financial Statements" for further discussion on valuation of goodwill.

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(Dollar amounts in thousands)	Three Months Ended September 30,				Change	Nine Months Ended September 30,				Change
	2015	2014	\$	%		2015	2014	\$	%	
Revenues		Revised				Revised				
Store										
Rentals and fees	\$683,343	\$675,342	\$8,001	1.2	%	\$2,098,918	\$2,048,278	\$50,640	2.5	%
Merchandise sales	80,932	58,477	22,455	38.4	%	300,498	226,148	74,350	32.9	%
Installment sales	17,786	17,822	(36)	(0.2)	%	54,200	53,653	547	1.0	%
Other	4,475	6,384	(1,909)	(29.9)	%	14,631	14,376	255	1.8	%
Total store revenue	786,536	758,025	28,511	3.8	%	2,468,247	2,342,455	125,792	5.4	%
Franchise										
Merchandise sales	2,456	4,477	(2,021)	(45.1)	%	10,022	13,645	(3,623)	(26.6)	%
Royalty income and fees	2,613	1,861	752	40.4	%	6,318	5,162	1,156	22.4	%
Total revenues	791,605	764,363	27,242	3.6	%	2,484,587	2,361,262	123,325	5.2	%
Cost of revenues										
Store										
Cost of rentals and fees	178,094	174,041	4,053	2.3	%	548,618	523,857	24,761	4.7	%
Cost of merchandise sold	82,043	47,569	34,474	72.5	%	282,128	174,299	107,829	61.9	%
Cost of installment sales	5,854	5,867	(13)	(0.2)	%	18,125	18,028	97	0.5	%
Total cost of store revenues	265,991	227,477	38,514	16.9	%	848,871	716,184	132,687	18.5	%
Other charges and (credits)	34,698	(7,072)	41,770	(590.6)	%	34,698	(7,072)	41,770	(590.6)	%
Franchise cost of merchandise sold	2,304	4,200	(1,896)	(45.1)	%	9,284	12,818	(3,534)	(27.6)	%
Total cost of revenues	302,993	224,605	78,388	34.9	%	892,853	721,930	170,923	23.7	%
Gross profit	488,612	539,758	(51,146)	(9.5)	%	1,591,734	1,639,332	(47,598)	(2.9)	%
Operating expenses										
Store expenses										
Labor	209,904	218,623	(8,719)	(4.0)	%	643,412	666,830	(23,418)	(3.5)	%
Other store expenses	201,638	208,424	(6,786)	(3.3)	%	631,415	629,350	2,065	0.3	%
General and administrative	39,590	39,130	460	1.2	%	127,463	124,832	2,631	2.1	%
Depreciation, amortization and write-down of intangibles	19,979	19,918	61	0.3	%	60,140	60,432	(292)	(0.5)	%
Other charges	10,936	7,743	3,193	41.2		16,440	12,120	4,320	35.6	
Total operating expenses	482,047	493,838	(11,791)	(2.4)	%	1,478,870	1,493,564	(14,694)	(1.0)	%

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Operating profit	6,565	45,920	(39,355)	(85.7)%	112,864	145,768	(32,904)	(22.6)%
Finance charges from refinancing	—	—	—	—	—	4,213	(4,213)	(100.0)%
Interest, net	12,337	11,781	556	4.7 %	36,686	34,497	2,189	6.3 %
Earnings (loss) before income taxes	(5,772)	34,139	(39,911)	(116.9)%	76,178	107,058	(30,880)	(28.8)%
Income tax expense (benefit)	(1,680)	8,214	(9,894)	(120.5)%	29,825	36,186	(6,361)	(17.6)%
Net earnings (loss)	\$(4,092)	\$25,925	\$(30,017)	(115.8)%	\$46,353	\$70,872	\$(24,519)	(34.6)%

Three Months Ended September 30, 2015, compared to Three Months Ended September 30, 2014

Store Revenue. Total store revenue increased by \$28.5 million, or 3.8%, to \$786.5 million for the three months ended September 30, 2015, from \$758.0 million for the three months ended September 30, 2014. This was primarily due to an increase of approximately \$41.4 million in the Acceptance Now segment as discussed in the segment performance section below. This increase was partially offset by decreases of \$8.3 million and \$4.6 million in the Core U.S. and Mexico segments, respectively, driven by store closures in those segments.

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Same store revenue generally represents revenue earned in 3,469 locations that were operated by us for 13 months or more. Same store revenues increased by \$31.3 million, or 5.2%, to \$634.9 million for the three months ended September 30, 2015, as compared to \$603.6 million in 2014. The increase in same store revenues was primarily attributable to growth in the Acceptance Now segment. Same store revenues are reported on a constant currency basis beginning in 2015.

Cost of Rentals and Fees. Cost of rentals and fees consists of depreciation of rental merchandise. Cost of rentals and fees for the three months ended September 30, 2015, increased by \$4.1 million, or 2.3%, to \$178.1 million, as compared to \$174.0 million in 2014. This increase in cost of rentals and fees was primarily attributable to growth in rentals and fees revenue in the Acceptance Now segment. Cost of rentals and fees expressed as a percentage of rentals and fees revenue increased to 26.1% for the three months ended September 30, 2015, as compared to 25.8% in 2014, driven by increased revenue in the Acceptance Now segment, which has higher costs of rental merchandise.

Cost of Merchandise Sold. Cost of merchandise sold increased by \$34.5 million, or 72.5%, to \$82.0 million for the three months ended September 30, 2015, from \$47.6 million in 2014, comprised of a \$23.0 million increase in the Acceptance Now segment and a \$11.1 million increase in the Core U.S. segment. The gross margin percent of merchandise sales decreased to 1.4% for the three months ended September 30, 2015, from 18.7% in 2014. Gross profit as a percent of total revenue was negatively impacted by lower gross profit margin on merchandise sales and a higher mix of merchandise sales, primarily due to increased usage of the 90 day option pricing in the Acceptance Now segment and sales of smartphones in the Core U.S. segment.

Other Charges and (Credits). During the three months ended September 30, 2015, a charge of \$34.7 million was recognized for the write-down of smartphones as discussed above, compared to a \$7.2 million vendor settlement credit in the comparable period of the prior year, both in the Core U.S. segment.

Gross Profit. Gross profit decreased by \$51.1 million, or 9.5%, to \$488.6 million for the three months ended September 30, 2015, from \$539.8 million in 2014, including decreases of \$57.5 million and \$4.1 million in the Core U.S. and Mexico segments, respectively, offset by a \$9.8 million increase in the Acceptance Now segment, primarily due to the impact of the smartphone write-down and vendor settlement credit discussed above. Gross profit as a percentage of total revenue decreased to 61.7% for the three months ended September 30, 2015, as compared to 70.6% in 2014. Excluding the other charges and credits, gross profit was \$523.3 million, or 66.1% of revenue for the three months ended September 30, 2015, compared to \$532.7 million, or 69.7% of revenue for the comparable period of 2014, primarily due to the lower margins in the Acceptance Now segment, discussed further in the segment performance section below.

Store Labor. Store labor decreased by \$8.7 million, or 4.0%, to \$209.9 million, for the three months ended September 30, 2015, as compared to \$218.6 million in 2014. Labor in the Core U.S. segment decreased \$11.7 million, partially offset by a \$4.9 million increase in the Acceptance Now segment as discussed in the segment performance sections below. Store labor expressed as a percentage of total store revenue was 26.7% for the three months ended September 30, 2015, as compared to 28.8% in 2014.

Other Store Expenses. Other store expenses decreased by \$6.8 million, or 3.3%, to \$201.6 million for the three months ended September 30, 2015, as compared to \$208.4 million in 2014. Other store expenses expressed as a percentage of total store revenue were 25.6% for the three months ended September 30, 2015, compared to 27.5% in 2014 as discussed in the segment performance sections below.

General and Administrative Expenses. General and administrative expenses increased by \$0.5 million, or 1.2%, to \$39.6 million for the three months ended September 30, 2015, as compared to \$39.1 million in 2014. General and administrative expenses expressed as a percentage of total revenue decreased to 5.0% for the three months ended September 30, 2015, from 5.1% in 2014.

Other Charges. Other charges increased by \$3.2 million, or 41.2%, to \$10.9 million for the three months ended September 30, 2015, as compared to \$7.7 million in 2014. During the three months ended September 30, 2015, we recognized a \$5.5 million loss on the sale of Core U.S. stores, a \$4.3 million restructuring charge for the closure of Core U.S. stores and a \$1.2 million charge for the closure of warehouse space, compared to a \$4.6 million impairment

charge related to internally-developed software, a \$2.8 million restructuring charge for severance and other-payroll related costs and a \$0.4 million restructuring charge for the closure of Core U.S. stores in the comparable period of the prior year.

Operating Profit. Operating profit decreased by \$39.4 million, or 85.7%, to \$6.6 million for the three months ended September 30, 2015, as compared to \$45.9 million in 2014 due to decreases of \$47.7 million and \$1.0 million in the Core U.S. and Acceptance Now segments, respectively, partially offset by a \$2.2 million increase in our Mexico segment and improvement at the corporate level. Operating profit as a percentage of total revenue decreased to 0.8% for the three months ended September 30, 2015, from 6.0% in 2014. Excluding the other charges and credits, operating profit was \$52.2 million, or 6.6% of revenue for the three months ended September 30, 2015, compared to \$46.6 million, or 6.1% of revenue for the comparable period of 2014. These changes were primarily due to improvements in operating expenses in the Core U.S. segment and at the corporate level due to a decrease in spending on transformation initiatives, partially offset by the decrease in gross profit as discussed above and the increased labor and other store expenses associated with the growth of our Acceptance Now segment.

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Nine Months Ended September 30, 2015, compared to Nine Months Ended September 30, 2014

Store Revenue. Total store revenue increased by \$125.8 million, or 5.4%, to \$2,468.2 million for the nine months ended September 30, 2015, from \$2,342.5 million for the nine months ended September 30, 2014. This was primarily due to increases of approximately \$145.7 million in the Acceptance Now segment, partially offset by a decreases of approximately \$16.1 million and \$3.8 million in the Core U.S. and Mexico segments, respectively, as discussed in the segment performance sections below.

Same store revenue generally represents revenue earned in 3,836 locations that were operated by us for 13 months or more. Same store revenues increased by \$133.0 million, or 7.0%, to \$2,041.9 million for the nine months ended September 30, 2015, as compared to \$1,908.9 million in 2014. The increase in same store revenues was attributable primarily to growth in the Acceptance Now segment. Same store revenues are reported on a constant currency basis beginning in 2015.

Cost of Rentals and Fees. Cost of rentals and fees consists of depreciation of rental merchandise. Cost of rentals and fees for the nine months ended September 30, 2015, increased by \$24.8 million, or 4.7%, to \$548.6 million, as compared to \$523.9 million in 2014. This increase in cost of rentals and fees was primarily attributable to growth in rentals and fees revenue in the Acceptance Now segment. Cost of rentals and fees expressed as a percentage of rentals and fees revenue increased to 26.1% for the nine months ended September 30, 2015, as compared to 25.6% in 2014, driven by increased revenue in the Acceptance Now segment, which has higher costs of rental merchandise.

Cost of Merchandise Sold. Cost of merchandise sold increased by \$107.8 million, or 61.9%, to \$282.1 million for the nine months ended September 30, 2015, from \$174.3 million in 2014, comprised of a \$75.2 million increase in the Acceptance Now segment, a \$30.4 million increase in the Core U.S. segment and a \$2.2 million increase in the Mexico segment. The gross margin percent of merchandise sales decreased to 6.1% for the nine months ended September 30, 2015, from 22.9% in 2014. Gross profit as a percent of total revenue was negatively impacted by lower gross profit margin on merchandise sales and a higher mix of merchandise sales, primarily due to increased usage of the 90 day option pricing in the Acceptance Now segment and sales of smartphones in the Core U.S. segment.

Other Charges and (Credits). During the three months ended September 30, 2015, a charge of \$34.7 million was recognized for the write-down of smartphones as discussed above, compared to a \$7.2 million vendor settlement credit in the comparable period of the prior year, both in the Core U.S. segment.

Gross Profit. Gross profit decreased by \$47.6 million, or 2.9%, to \$1,591.7 million for the nine months ended September 30, 2015, from \$1,639.3 million in 2014, including decreases of \$84.0 million and \$5.2 million in the Core U.S. and Mexico segments and a \$40.6 million increase in the Acceptance Now segment, primarily due to the impact of the smartphone write-down and vendor settlement credit discussed above. Gross profit as a percentage of total revenue decreased to 64.1% for the nine months ended September 30, 2015, as compared to 69.4% in 2014. Excluding the other charges and credits, gross profit would have been \$1,626.4 million, or 65.5% of revenue for the nine months ended September 30, 2015, compared to \$1,632.3 million, or 69.1% of revenue for the comparable period of 2014, primarily due to the lower margins in the Acceptance Now segment, discussed further in the segment performance section below.

Store Labor. Store labor decreased by \$23.4 million, or 3.5%, to \$643.4 million, for the nine months ended September 30, 2015, as compared to \$666.8 million in 2014. Labor in the Core U.S. segment decreased \$34.5 million, partially offset by a \$14.3 million increase in the Acceptance Now segment as discussed in the segment performance sections below. Store labor expressed as a percentage of total store revenue was 26.1% for the nine months ended September 30, 2015, as compared to 28.5% in 2014 due primarily to the labor savings in the Core U.S. segment.

Other Store Expenses. Other store expenses increased by \$2.1 million, or 0.3%, to \$631.4 million for the nine months ended September 30, 2015, as compared to \$629.4 million in 2014. This change was primarily attributable to a \$16.6 million increase in store expenses associated with the growth of our Acceptance Now segment, partially offset by decreases of \$6.6 million and \$5.9 million in the Core U.S. segments, respectively, driven by a lower store count year over year. Other store expenses expressed as a percentage of total store revenue were 25.6% for the nine months ended September 30, 2015, compared to 26.9% in 2014.

General and Administrative Expenses. General and administrative expenses increased by \$2.6 million, or 2.1%, to \$127.5 million for the nine months ended September 30, 2015, as compared to \$124.8 million in 2014. General and administrative expenses expressed as a percentage of total revenue decreased to 5.1% for the nine months ended September 30, 2015, from 5.3% in 2014.

Other Charges. Other charges increased by \$4.3 million, or 35.6%, to \$16.4 million for the nine months ended September 30, 2015, as compared to \$12.1 million in 2014. During the nine months ended September 30, 2015, we recognized losses of \$6.1 million on the sale of Core U.S. stores, a \$4.3 million restructuring charge for the closure of Core U.S. stores, a \$3.1 million restructuring charge for the closure of Mexico stores and charges of \$2.8 million of start-up and warehouse closure expenses related to our sourcing and distribution initiative, compared to a \$4.8 million restructuring charge for the closure of Core U.S. stores, a \$4.6 million impairment charge related to internally-developed software and a \$2.8 million restructuring charge for severance and other-payroll related costs in 2014.

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Operating Profit. Operating profit decreased by \$32.9 million, or 22.6%, to \$112.9 million for the nine months ended September 30, 2015, as compared to \$145.8 million in 2014 due to a decrease of \$47.1 million in the Core U.S. segment, partially offset by increases of \$8.4 million and \$3.9 million in the Acceptance Now and Mexico segments, respectively. Operating profit as a percentage of total revenue decreased to 4.5% for the nine-month period ended September 30, 2015, compared to 6.2% in 2014. Excluding the other charges and credits, operating profit was \$164.0 million, or 6.6% of revenue for the nine months ended September 30, 2015, compared to \$150.8 million, or 6.4% of revenue for the comparable period of 2014. The improvements in operating expenses in the Core U.S. segment and at the corporate level segment were offset by decrease in gross profit discussed above and the increased labor and other store expenses associated with the growth of our Acceptance Now segment.

Segment Performance

Core U.S. segment.

(Dollar amounts in thousands)	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2015	2014	\$	%	2015	2014	\$	%
		Revised				Revised		
Revenues	\$575,356	\$583,616	\$(8,260)	(1.4)%	\$1,798,055	\$1,814,144	\$(16,089)	(0.9)%
Gross profit	374,214	431,689	(57,475)	(13.3)%	1,236,964	1,320,975	(84,011)	(6.4)%
Operating profit	15,700	63,448	(47,748)	(75.3)%	149,971	197,103	(47,132)	(23.9)%
Change in same store revenue				(0.2)%				0.7%
Stores in same store revenue calculation				2,268				2,506

Revenues. The decreases in revenues for the three- and nine-month periods ended September 30, 2015, were driven by decreases in rentals and fees revenue compared to 2014, partially offset by increases in merchandise sales. The impact of the increases in same store revenue in the year-to-date period was offset by the continued rationalization of our Core U.S. store base. Same store revenue generally represents revenue earned in stores that were operated by us for 13 months or more.

Gross Profit. Gross profit decreased for the three- and nine- month periods ended September 30, 2015, as compared to 2014, primarily due to a \$34.7 million write-down of smartphones in the third quarter of 2015 and a decrease in store revenue as discussed above, while the third quarter of 2014 included a vendor settlement credit of \$7.2 million. Gross profit as a percentage of total segment revenue decreased to 65.0% and 68.8% for the three- and nine- month periods ended September 30, 2015, respectively, from 74.0% and 72.8% for the respective periods in 2014, primarily due to the net impact of the merchandise write-down and vendor settlement credit. Margins were further impacted by a lower gross profit margin on merchandise sales and a higher mix of merchandise sales primarily due to smartphones.

Operating Profit. Operating profit as a percentage of segment revenue decreased to 2.7% and 8.3% for the three- and nine-month periods ended September 30, 2015, respectively, from 10.9% for both periods in 2014, primarily due to the decreased gross profit discussed above. Labor, as a percent of store revenue, was positively impacted by lower store count, labor hour reductions that occurred in the third quarter of 2014, lower workers compensation costs and the flexible labor overtime initiative. Other store expenses, as a percent of store revenue, were positively impacted by a lower store count, lower gas prices, lower training costs for smartphones and lower insurance, partially offset by higher product service cost and losses from smartphones. Charge-offs in our Core U.S. rent-to-own stores due to customer stolen merchandise, expressed as a percentage of Core U.S. rent-to-own revenues, were approximately 3.4% and 3.3% for the three- and nine-month periods ended September 30, 2015, respectively, compared to 3.4% and 2.9% for the comparable periods in 2014. For the nine-month period, Smartphone losses contributed to this increase, but these losses have improved sequentially due to phone locking programs, and we expect this trend to continue.

Charge-offs in our Core U.S. rent-to-own stores due to other merchandise losses, expressed as a percentage of Core

U.S. rent-to-own revenues, were approximately 2.1% and 1.9% for the three- and nine-month periods ended September 30, 2015, respectively, as compared to 1.5% and 1.3% for the respective periods in 2014. Other merchandise losses include unrepairable and missing merchandise, and loss/damage waiver claims.

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Acceptance Now segment.

(Dollar amounts in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014	Change		2015	2014	Change	
		Revised				Revised		
Revenues	\$196,652	\$155,278	\$41,374	26.6 %	\$621,393	\$475,665	\$145,728	30.6 %
Gross profit	102,133	92,378	9,755	10.6 %	315,193	274,637	40,556	14.8 %
Operating profit	28,901	29,938	(1,037)	(3.5)%	95,129	86,715	8,414	9.7 %
Change in same store revenue				24.5 %				30.1 %
Stores in same store revenue calculation				1,121				1,192

Revenues. The increase in revenues in 2015 over 2014 was driven by same store revenue growth, the introduction of 90 day option pricing and the increased number of locations. This segment contributed approximately 24.8% and 25.0% of consolidated revenues in the three- and nine- month periods ended September 30, 2015, respectively, compared to approximately 20.3% and 20.1% of revenues for the respective periods in 2014.

Gross profit. Gross profit increased as a result of increased revenues in this segment. Gross profit as a percentage of revenues was 51.9% and 50.7% for the three- and nine- month periods ended September 30, 2015, respectively, as compared to 59.5% and 57.7% for the respective periods in 2014. The gross margin percentage was negatively impacted by lower gross profit margin on merchandise sales and a higher mix of merchandise sales primarily due to increased usage of the 90 day option pricing.

Operating profit. Operating profit for the three- and nine- month periods ended September 30, 2015, decreased due to higher labor and other store expenses due to the increased store count, which offset the increase in gross profit discussed above. This segment contributed approximately 65.6% and 40.3% of segment operating profit in the three- and nine- month periods ended September 30, 2015, respectively, compared to approximately 33.3% and 32.2% of segment operating profit for the respective periods in 2014. Excluding the impact of the write-off of smartphones in 2015 and the vendor settlement credit in 2014 in the Core U.S. segment, the Acceptance Now segment contributed approximately 33.7% and 34.2% of segment operating profit during the respective periods in 2015. Operating profit as a percentage of total revenue was 14.7% and 15.3% for the three- and nine- month periods ended September 30, 2015, respectively, compared to 19.3% and 18.2% for the respective periods in 2014, due primarily to the lower gross profit percentage as discussed above and increased store costs. Charge-offs in our Acceptance Now locations due to customer stolen merchandise, expressed as a percentage of revenues, were approximately 8.2% and 7.9% for the three-month and nine-month periods ended September 30, 2015, as compared to 6.9% and 7.1% for the respective periods in 2014. The ratio of agreement charge-offs to total agreements in this segment is comparable to the Core U.S. segment but the percentage of revenue is higher, primarily due to the higher cost of rental merchandise in this segment. Charge-offs in our Acceptance Now locations due to other merchandise losses, expressed as a percentage of revenues, were approximately 0.6% and 0.8% for the three- and nine-month periods ended September 30, 2015, respectively, as compared to 1.0% for both the respective periods in 2014. Other merchandise losses include unrepairable merchandise and loss/damage waiver claims.

Mexico segment.

(Dollar amounts in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014	Change		2015	2014	Change	
		Revised				Revised		
Revenues	\$14,528	\$19,131	\$(4,603)	(24.1)%	\$48,799	\$52,646	\$(3,847)	(7.3)%

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Gross profit	9,500	13,553	(4,053)	(29.9)%	32,521	37,731	(5,210)	(13.8)%
Operating loss	(2,359)	(4,529)	2,170	47.9 %	(12,992)	(16,928)	3,936	23.3 %
Change in same store revenue				5.1 %				11.2 %
Stores in same store revenue calculation				80				138

Revenues. The reported revenues for the three- and nine- month periods ended September 30, 2015, were reduced by approximately \$3.6 million and \$8.8 million, respectively, due to exchange rate fluctuations compared to 2014. Revenue was positively impacted

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by the growth in same store revenue, but negatively impacted by the store closures in the second quarter of 2015. Same store revenues are reported on a constant currency basis beginning in 2015.

Gross Profit. Gross profit as a percentage of total revenues was 65.4% and 66.6% for the three- and nine- month periods ended September 30, 2015, respectively, compared to 70.8% and 71.7% for the respective periods in 2014.

Operating Loss. Operating losses for the three- and nine- month periods ended September 30, 2015, were reduced by approximately \$0.6 million and \$2.4 million, respectively, due to exchange rate fluctuations compared to 2014.

Operating loss as a percentage of total revenue decreased to 16.2% and 26.6% for the three- and nine- month periods ended September 30, 2015, respectively, from 23.7% and 32.2% for the respective periods in 2014. Operating losses included charges of \$3.1 million for the nine-month period ended September 30, 2015, related to store closures in the second quarter. Excluding these store closure charges, operating loss as a percentage of total revenues would have been 16.2% and 20.4% for the three- and nine- month periods ended September 30, 2015, respectively, improving as a result of operating initiatives designed to improve financial performance of our operations.

Franchising segment.

(Dollar amounts in thousands)	Three Months Ended				Nine Months Ended				
	September 30,		Change		September 30,		Change		
	2015	2014	\$	%	2015	2014	\$	%	
		Revised				Revised			
Revenues	\$5,069	\$6,338	\$(1,269)	(20.0)%	\$16,340	\$18,807	\$(2,467)	(13.1)%	
Gross profit	2,765	2,138	627	29.3%	7,056	5,989	1,067	17.8%	
Operating profit	1,797	1,168	629	53.9%	4,004	2,191	1,813	82.7%	

Revenues. Merchandise sales decreased approximately \$2.0 million and \$3.6 million for the three- and nine-month periods ended September 30, 2015, respectively, from the respective periods in 2014, partially offset by an increase of approximately \$0.8 million and \$1.2 million in royalty income and fees for the respective periods.

Gross Profit. Gross profit as a percentage of revenues increased to 54.5% and 43.2% for the three- and nine-month periods ended September 30, 2015, respectively, from 33.7% and 31.8% for the respective periods in 2014, primarily due to an increase in royalty revenue as a percentage of total revenue, resulting primarily from the increased royalty fee percentage paid by Rent-A-Center franchisees and growth in the franchisee revenue base.

Operating Profit. Operating profit as a percentage of total revenue increased to 35.5% and 24.5% for the three- and nine-month periods ended September 30, 2015, compared to 18.4% and 11.6%, respectively, for 2014, due to a decrease in general and administrative expenses and the increase in gross profit discussed above.

Liquidity and Capital Resources

Overview. For the nine months ended September 30, 2015, we had \$249.3 million of net cash provided by operating activities. We received a \$112.5 million income tax refund which was used to pay down debt. We used cash in the amount of \$61.1 million for capital expenditures, we used \$38.3 million for payment of dividends, we paid \$19.1 million in cash to acquire businesses and received \$12.2 million from the sale of stores, ending the nine-month period with \$60.1 million of cash and cash equivalents.

Analysis of Cash Flow. Cash provided by operating activities increased \$186.0 million to \$249.3 million for the nine months ended September 30, 2015, from \$63.3 million in 2014. This was primarily attributable to the receipt in 2015 of a \$112.5 million income tax refund and increased sales of merchandise due to the increased usage of the 90 day option, partially offset by increased merchandise purchases to implement our sourcing and distribution initiative. Cash used in investing activities decreased approximately \$0.2 million to \$68.0 million for the nine months ended September 30, 2015, from \$68.2 million in 2014, due primarily to an increase in cash paid for the acquisition of businesses, offset by an increase in cash proceeds from the sale of assets.

Net cash used in financing activities was \$165.2 million for the nine months ended September 30, 2015, compared to \$25.0 million provided by financing activities in 2014, a change of \$190.3 million. Our net reduction in debt was \$128.4 million for the nine months ended September 30, 2015, as compared to a net increase in debt of \$58.9 million

for the comparable period in 2014, primarily due to the use of the income tax refund to pay down debt.

Liquidity Requirements. Our primary liquidity requirements are for rental merchandise purchases, implementation of our growth strategies, capital expenditures and debt service. Our primary sources of liquidity have been cash provided by operations and borrowings. In the future, to provide any additional funds necessary for the continued operations and expansion of our business, we may incur from time to time additional short-term or long-term bank indebtedness and may issue, in public or private transactions,

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equity and debt securities. The availability and attractiveness of any outside sources of financing will depend on a number of factors, some of which relate to our financial condition and performance, and some of which are beyond our control, such as prevailing interest rates and general financing and economic conditions. There can be no assurance that additional financing will be available, or if available, that it will be on terms we find acceptable. We believe the cash flow generated from operations, together with amounts available under our Credit Agreement, will be sufficient to fund our liquidity requirements as discussed above during the next 12 months. Our revolving credit facilities, including our \$20.0 million line of credit at INTRUST Bank, provide us with revolving loans in an aggregate principal amount not exceeding \$695.0 million, of which \$439.2 million was available at November 2, 2015, at which date we had \$52.8 million in cash. To the extent we have available cash that is not necessary to fund the items listed above, we may declare and pay dividends on our common stock, make additional payments to service our existing debt or repurchase additional shares of our common stock. While our operating cash flow has been strong and we expect this strength to continue, our liquidity could be negatively impacted if we do not remain as profitable as we expect.

A change in control would result in an event of default under our senior credit facilities which would allow our lenders to accelerate the indebtedness owed to them. In addition, if a change in control occurs, we may be required to offer to repurchase all of our outstanding senior unsecured notes at 101% of their principal amount, plus accrued interest to the date of repurchase. Our senior credit facilities limit our ability to repurchase the senior unsecured notes, including in the event of a change in control. In the event a change in control occurs, we cannot be sure we would have enough funds to immediately pay our accelerated senior credit facilities and senior note obligations or that we would be able to obtain financing to do so on favorable terms, if at all.

Deferred Taxes. Certain federal tax legislation enacted during the period 2009 to 2013 permitted bonus first-year depreciation deductions ranging from 50% to 100% of the adjusted basis of qualified property placed in service during such years. The depreciation benefits associated with these tax acts are now reversing and had a negative effect of \$127.0 million on our 2014 cash flow. On December 18, 2014, President Obama signed into law the Tax Increase Prevention Act of 2014, which extended the bonus depreciation through December 2014. Most, if not all, of the 2014 tax liability had been paid by December 15, 2014, resulting in a refund of \$112.5 million which was received in the first quarter of 2015. We estimate that the remaining tax deferral associated with these acts approximates \$169.6 million at December 31, 2014, of which approximately 74.0%, or \$125.5 million will reverse in 2015, and the remainder will reverse between 2016 and 2017.

We have not provided for deferred income taxes on undistributed earnings of non-U.S. subsidiaries because of our intention to indefinitely reinvest these earnings outside the U.S. The determination of the amount of the unrecognized deferred income tax liability related to the undistributed earnings is not practicable; however, unrecognized foreign income tax credits would be available to reduce a portion of this liability.

Merchandise Losses. Merchandise losses consist of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Customer stolen merchandise	\$38,076	\$33,875	\$116,462	\$95,079
Other merchandise losses ⁽¹⁾	13,090	10,096	38,141	28,948
Total merchandise losses	\$51,166	\$43,971	\$154,603	\$124,027

⁽¹⁾ Other merchandise losses include unrepairable and missing merchandise, and loss/damage waiver claims.

Capital Expenditures. We make capital expenditures in order to maintain our existing operations as well as for new capital assets in new and acquired stores, and investment in information technology. We spent \$61.1 million and \$61.7 million on capital expenditures during the nine-month periods ended September 30, 2015 and 2014, respectively, and expect to spend between \$70 million and \$80 million in 2015.

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Acquisitions and New Location Openings. During the first nine months of 2015, we acquired locations and accounts for an aggregate purchase price of approximately \$20.5 million in 19 different transactions.

The table below summarizes the location activity for the nine-month period ended September 30, 2015.

	Nine Months Ended September 30, 2015					
	Core U.S.	Acceptance Now Staffed	Acceptance Now Direct	Mexico	Franchising	Total
Locations at beginning of period	2,824	1,406	—	177	187	4,594
New location openings	—	131	219	—	8	358
Acquired locations remaining open	5	—	—	—	—	5
Conversions	(22)	(4)	4	—	22	—
Closed locations						
Merged with existing locations	81	65	—	34	—	180
Sold or closed with no surviving location	29	—	—	—	10	39
Locations at end of period	2,697	1,468	223	143	207	4,738
Acquired locations closed and accounts merged with existing locations	28	—	—	—	—	28
Total approximate purchase price of acquired stores (in thousands)	\$20,500	\$—	\$—	\$—	\$—	\$20,500

Senior Debt. As discussed in Note 3 to the consolidated financial statements, the \$900.0 million Credit Agreement consists of \$225.0 million, seven-year Term Loans and a \$675.0 million, five-year Revolving Facility.

The full amount of the Revolving Facility may be used for the issuance of letters of credit, of which \$94.7 million had been so utilized as of November 2, 2015, at which date \$150.0 million was outstanding and \$430.3 million was available. The Term Loans are scheduled to mature on March 19, 2021, and the Revolving Facility has a scheduled maturity of March 19, 2019. The weighted average Eurodollar rate on our outstanding debt was 0.51% at November 2, 2015.

Senior Notes. See descriptions of our senior notes in Note 4 to the consolidated financial statements.

Dividends. Our ability to pay cash dividends is limited to the amount of the restricted payments baskets under our Senior Debt and Senior Notes. The restricted payments baskets are reduced by the full amount of a net loss recorded on a GAAP basis for any quarter. Accordingly, any non-cash charges recorded to account for goodwill or any other impairment would reduce the restricted payments basket which could limit our ability to pay cash dividends. See Notes 3 and 4 to the Consolidated Financial Statements included earlier in this Quarterly Report on Form 10-Q.

Store Leases. We lease space for substantially all of our Core U.S. and Mexico stores and certain support facilities under operating leases expiring at various times through 2023. Most of our store leases are five year leases and contain renewal options for additional periods ranging from three to five years at rental rates adjusted according to agreed-upon formulas.

Franchising Guarantees. 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 \$13.2 million was outstanding as of September 30, 2015.

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Contractual Cash Commitments. The table below summarizes debt, lease and other minimum cash obligations outstanding as of September 30, 2015:

Contractual Cash Obligations	Payments Due by Period				
	Total	2015	2016-2017	2018-2019	Thereafter
	(In thousands)				
Senior Term Debt	\$221,625 ⁽¹⁾	\$562	\$4,500	\$4,500	\$212,063
Revolving Facility	150,000 ⁽²⁾	—	—	150,000	—
INTRUST Line of Credit	—	—	—	—	—
6.625% Senior Notes ⁽³⁾	399,407	9,697	38,788	38,788	312,134
4.75% Senior Notes ⁽⁴⁾	321,250	5,937	23,750	23,750	267,813
Operating Leases	511,177	46,174	298,714	142,240	24,049
Total ⁽⁵⁾	\$1,603,459	\$62,370	\$365,752	\$359,278	\$816,059

Amount referenced does not include interest payments. Our senior term debt bears interest at varying rates equal to (1) the Eurodollar rate (not less than 0.75%) plus 3.00% or the prime rate plus 2.00% at our election. The Eurodollar rate on our senior term debt at September 30, 2015, was 0.75%.

Amount referenced does not include interest payments. Our Revolving Facility bears interest at varying rates equal to (2) to the Eurodollar rate plus 1.50% to 2.75% or the prime rate plus 0.50% to 1.75% at our election. The weighted average Eurodollar rate on our Revolving Facility at September 30, 2015, was 0.16%.

(3) Includes interest payments of \$9.7 million on each of May 15 and November 15 of each year.

(4) Includes interest payments of \$5.9 million on each of May 1 and November 1 of each year.

As of September 30, 2015, we have \$24.9 million in uncertain tax positions. Because of the uncertainty of the (5) amounts to be ultimately paid as well as the timing of such payments, uncertain tax positions are not reflected in the contractual obligations table.

Seasonality. Our revenue mix is moderately seasonal, with the first quarter of each fiscal year generally providing higher merchandise sales than any other quarter during a fiscal year, primarily related to federal income tax refunds. Generally, our customers will more frequently exercise the early purchase option on their existing rental purchase agreements or purchase pre-leased merchandise off the showroom floor during the first quarter of each fiscal year. Furthermore, we tend to experience slower growth in the number of rental purchase agreements in the third quarter of each fiscal year when compared to other quarters throughout the year. We expect these trends to continue in the future.

Critical Accounting Estimates, Uncertainties or Assessments in Our Financial Statements

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent losses and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. In applying accounting principles, we must often make individual estimates and assumptions regarding expected outcomes or uncertainties. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. We believe the valuation of goodwill is an area in which the degree of judgment and complexity in determining amounts recorded in our consolidated financial statements make this accounting policy critical.

Valuation of Goodwill. We perform an assessment of goodwill for impairment at the reporting unit level annually on October 1, or between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Factors which could necessitate an interim impairment assessment include a sustained decline in our market capitalization, prolonged negative industry or economic trends and significant underperformance relative to expected historical or projected future operating results.

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Our reporting units are generally our reportable operating segments identified in Note 8 to the consolidated financial statements. Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions that we believe are reasonable but inherently uncertain, and actual results may differ from those estimates. These estimates and assumptions include, but are not limited to, future cash flows based on revenue growth rates and operating margins, and future economic and market conditions approximated by a discount rate derived from our weighted average cost of capital. Factors that could affect our ability to achieve the expected growth rates or operating margins include the general strength of the economy and other economic conditions that affect consumer preferences and spending, factors that affect the disposable income of our current and potential customers and our ability to execute on our multi-year program designed to transform and modernize our operations, including the flexible labor and sourcing and distribution initiatives. Factors that could affect our weighted average cost of capital include changes in interest rates and changes in our effective tax rate.

If the carrying value of the reporting unit exceeds fair value, we perform a second analysis to measure the fair value of all assets and liabilities within the reporting unit, and if the carrying value of goodwill exceeds its implied fair value, goodwill is considered impaired. The amount of the impairment is the difference between the carrying value of goodwill and the estimated fair value, which is calculated as if the reporting unit had just been acquired and accounted for as a business combination. At December 31, 2014, the amount of goodwill allocated to the Core U.S. and Acceptance Now segments was \$1,310.1 million and \$54.4 million, respectively. The fair value of the Core U.S. segment exceeded its carrying value by over 6%. The fair value of the Acceptance Now segment significantly exceeded its carrying value (by over 100%). If we fail to achieve the estimated revenue growth rates or operating margins, the fair value of a reporting unit could decrease below its carrying value, resulting in an impairment of goodwill that could have a material impact on our financial statements. Based on the results of our 2014 annual assessment, we concluded that no impairment of goodwill existed at December 31, 2014. During the nine months ended September 30, 2015, we did not identify any events or changes in circumstances that more likely than not would have reduced the fair value of a reporting unit below its carrying amount.

The excess amount of estimated fair value over carrying value for the Core U.S. segment would be impacted by the following (each taken individually and in the absence of off-setting actions by management):

• A hypothetical 100 basis point incremental decrease over five years in the revenue growth assumption in our model would cause a decrease of 1.4% in the excess amount of estimated fair value over carrying value.

• A hypothetical 10 basis point incremental decrease in the operating margin improvement assumption in our model would cause a decrease of 1.7% in the excess amount of estimated fair value over carrying value.

• A hypothetical 10 basis point incremental increase in the assumed weighted average cost of capital in our model would cause a decrease of 1.4% in the excess amount of estimated fair value over carrying value.

Effect of New Accounting Pronouncements

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. On July 9, 2015, the FASB approved a one-year deferral of the effective date. The adoption of ASU 2014-09 will be required for Rent-A-Center beginning January 1, 2018, with early adoption permitted as of the original effective date. 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 adoption date and 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 required 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. Adoption will be effective for Rent-A-Center beginning January 1, 2016, and we are currently in the process of determining the impact of the adoption of this ASU on our consolidated balance sheet. There will be no impact to our results of operations or cash flows.

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 are not

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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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Sensitivity

As of September 30, 2015, we had \$292.7 million in senior notes outstanding at a fixed interest rate of 6.625%, and \$250.0 million in senior notes outstanding at a fixed interest rate of 4.75%. We also had \$221.6 million outstanding in Term Loans, \$150.0 million outstanding on our Revolving Facility and \$0 outstanding on our INTRUST line of credit, each at interest rates indexed to the Eurodollar rate or the prime rate. The fair value of the 6.625% senior notes, based on the closing price at September 30, 2015, was \$285.8 million. The fair value of the 4.75% senior notes, based on the closing price at September 30, 2015, was \$213.1 million. Carrying value approximates fair value for all other indebtedness.

Market Risk

Market risk is the potential change in an instrument's value caused by fluctuations in interest rates. Our primary market risk exposure is fluctuations in interest rates. Monitoring and managing this risk is a continual process carried out by our senior management. We manage our market risk based on an ongoing assessment of trends in interest rates and economic developments, giving consideration to possible effects on both total return and reported earnings. As a result of such assessment, we may enter into swap contracts or other interest rate protection agreements from time to time to mitigate this risk.

Interest Rate Risk

We have outstanding debt with variable interest rates indexed to prime or Eurodollar rates that exposes us to the risk of increased interest costs if interest rates rise. As of September 30, 2015, we have not entered into any interest rate swap agreements. Based on our overall interest rate exposure at September 30, 2015, a hypothetical 1.0% increase or decrease in interest rates would have the effect of causing a \$2.5 million additional pre-tax charge or credit to our statement of earnings.

Foreign Currency Translation

We are exposed to market risk from foreign exchange rate fluctuations of the Mexican peso and Canadian dollar to the U.S. dollar as the financial position and operating results of our stores in those countries are translated into U.S. dollars for consolidation. Resulting translation adjustments are recorded as a separate component of stockholders' equity.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures. In accordance with Rule 13a-15(b) under the Securities Exchange Act of 1934, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is (1) recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that, as of September 30, 2015, our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective.

Changes in internal controls. For the quarter ended September 30, 2015, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – Other Information

Item 6. Exhibits.

The exhibits required to be furnished pursuant to Item 6 of Form 10-Q are listed in the Exhibit Index filed herewith, which Exhibit Index is incorporated herein by reference.

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SIGNATURES

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

Rent-A-Center, Inc.

By /s/ Guy J. Constant
Guy J. Constant
Executive Vice President - Finance,
Chief Financial Officer and Treasurer

Date: November 9, 2015

INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Certificate of Incorporation of Rent-A-Center, Inc., as amended (Incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K dated as of December 31, 2002.)
3.2	Certificate of Amendment to the Certificate of Incorporation of Rent-A-Center, Inc., dated May 19, 2004 (Incorporated herein by reference to Exhibit 3.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)
3.3	Amended and Restated Bylaws of Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K dated as of September 28, 2011.)
4.1	Form of Certificate evidencing Common Stock (Incorporated herein by reference to Exhibit 4.1 to the registrant's Registration Statement on Form S-4/A filed on January 13, 1999.)
4.2	Indenture, dated as of November 2, 2010, by and among Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York Mellon Trust Company, N.A., as Trustee (Incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K dated as of November 2, 2010.)
4.3	Registration Rights Agreement relating to the 6.625% Senior Notes due 2020, dated as of November 2, 2010, among Rent-A-Center, Inc., the subsidiary guarantors party thereto and J.P. Morgan Securities LLC, as representative for the initial purchasers named therein (Incorporated herein by reference to Exhibit 4.2 to the registrant's Current Report on Form 8-K dated as of November 2, 2010.)
4.4	Indenture, dated as of May 2, 2013, by and among Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York Mellon Trust Company, N.A., as Trustee (Incorporated herein by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K dated as of May 2, 2013.)
4.5	Registration Rights Agreement relating to the 4.75% Senior Notes due 2021, dated as of May 2, 2013, among Rent-A-Center, Inc., the subsidiary guarantors party thereto and J.P. Morgan Securities LLC, as representative for the initial purchasers named therein (Incorporated herein by reference to Exhibit 4.2 to the registrant's Current Report on Form 8-K dated as of May 2, 2013.)
10.1†	Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.)
10.2	Guarantee and Collateral Agreement, dated March 19, 2014, by and among Rent-A-Center, Inc., its subsidiaries named as guarantors therein and JPMorgan Chase Bank, N.A. as Administrative Agent (Incorporated herein by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K dated March 19, 2014.)
10.3	Franchisee Financing Agreement, dated April 30, 2002, but effective as of June 28, 2002, by and between Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 10.14 to the registrant's Quarterly Report on Form 10-Q

for the quarter ended June 30, 2002.)

- 10.4 Supplemental Letter Agreement to Franchisee Financing Agreement, dated May 26, 2003, by and between Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 10.23 to the registrant's Registration Statement on Form S-4 filed July 11, 2003.)
- 10.5 First Amendment to Franchisee Financing Agreement, dated August 30, 2005, by and among Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center East, Inc. (Incorporated herein by reference to Exhibit 10.7 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.)
- 10.6 Franchise Financing Agreement, dated as of August 2, 2010, between ColorTyme Finance, Inc. and Citibank, N.A. (Incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated as of August 2, 2010.)
- 10.7 Unconditional Guaranty of Rent-A-Center, Inc., dated as of August 2, 2010, executed by Rent-A-Center, Inc. in favor of Citibank, N.A. (Incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated as of August 2, 2010.)

INDEX TO EXHIBITS

- 10.8 Unconditional Guaranty of Rent-A-Center, Inc., dated as of August 2, 2010, executed by ColorTyme Finance, Inc. in favor of Citibank, N.A. (Incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated as of August 2, 2010.)
- 10.9† Form of Stock Option Agreement issuable to Directors pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.20 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2004.)
- 10.10† Form of Stock Option Agreement issuable to management pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.21 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2004.)
- 10.11† Summary of Director Compensation (Incorporated herein by reference to Exhibit 10.11 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2014.)
- 10.12† Form of Stock Compensation Agreement issuable to management pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.15 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.)
- 10.13† Form of Long-Term Incentive Cash Award issuable to management pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.16 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.)
- 10.14† Form of Loyalty and Confidentiality Agreement entered into with management (Incorporated herein by reference to Exhibit 10.14 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013.)
- 10.15† Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.17 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.)
- 10.16† Form of Stock Option Agreement issuable to management pursuant to the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.18 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.)
- 10.17† Form of Stock Compensation Agreement issuable to management pursuant to the Rent-A-Center, Inc. 2006 Equity Incentive Plan (Incorporated herein by reference to Exhibit 10.19 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
- 10.18† Form of Long-Term Incentive Cash Award issuable to management pursuant to the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.20 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
- 10.19† Rent-A-Center, Inc. 2006 Equity Incentive Plan and Amendment (Incorporated herein by reference to Exhibit 4.5 to the registrant's Registration Statement on Form S-8 filed with the SEC on January 4, 2007.)

- 10.20† Form of Stock Option Agreement issuable to management pursuant to the Rent-A-Center, Inc. 2006 Equity Incentive Plan (Incorporated herein by reference to Exhibit 10.22 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
- 10.21† Form of Stock Compensation Agreement issuable to management pursuant to the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.23 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
- 10.22† Form of Stock Option Agreement issuable to Directors pursuant to the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.24 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
- 10.23† Form of Deferred Stock Unit Award Agreement issuable to Directors pursuant to the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.23 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2010.)
- 10.24† Form of Executive Transition Agreement entered into with management (Incorporated herein by reference to Exhibit 10.24 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013.)
- 10.25† Non-Qualified Stock Option Agreement, dated October 2, 2006, between Rent-A-Center, Inc. and Mark E. Speese (Incorporated herein by reference to Exhibit 10.23 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.)

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- 10.26† Rent-A-Center, Inc. Non-Qualified Deferred Compensation Plan (Incorporated herein by reference to Exhibit 10.28 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.)
- 10.27† Rent-A-Center, Inc. 401-K Plan (Incorporated herein by reference to Exhibit 10.30 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2008.)
- 10.28 Credit Agreement, dated as of March 19, 2014, among Rent-A-Center, Inc., the several lenders from time to time parties thereto, Bank of America, N.A., BBVA Compass Bank, Wells Fargo Bank, N.A. and Suntrust Bank, as syndication agents, and JPMorgan Chase Bank, N.A., as administrative agent (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated as of March 19, 2014.)
- 10.29† Rent-A-Center East, Inc. Retirement Savings Plan for Puerto Rico Employees (Incorporated herein by reference to Exhibit 99.1 to the registrant's Registration Statement on Form S-8 filed January 28, 2011.)
- 10.30 First Amendment to Franchisee Financing Agreement between ColorTyme Finance, Inc. and Citibank, N.A., dated as of July 25, 2012 (Incorporated herein by reference to Exhibit 10.32 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.)
- 10.31 Master Confirmation Agreement, dated as of May 2, 2013, between Rent-A-Center, Inc. and Goldman Sachs & Co. (Incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated as of May 2, 2013.)
- 10.32 Second Amendment to Franchisee Financing Agreement between ColorTyme Finance, Inc. and Citibank, N.A., dated as of August 30, 2013 (Incorporated herein by reference to Exhibit 10.34 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013.)
- 10.33 Third Amendment to Franchisee Financing Agreement between ColorTyme Finance, Inc. and Citibank, N.A., dated as of May 1, 2014 (Incorporated herein by reference to Exhibit 10.33 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014.)
- 10.34 Waiver and Fourth Amendment to Franchisee Financing Agreement between ColorTyme Finance, Inc. and Citibank, N.A., dated as of September 1, 2014 (Incorporated herein by reference to Exhibit 10.34 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014.)
- 16.1 Letter from Grant Thornton LLP to the Securities Exchange Commission dated December 19, 2012 (Incorporated herein by reference to Exhibit 16.1 to the registrant's Current Report on Form 8-K dated as of December 13, 2012.)
- 16.2 Letter from Grant Thornton LLP to the Securities Exchange Commission dated February 25, 2013 (Incorporated herein by reference to Exhibit 16.1 to the registrant's Current Report on Form 8-K dated as of February 25, 2013.)
- 18.1 Preferability letter regarding change in accounting principle (Incorporated herein by reference to Exhibit 18.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014.)

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- 21.1 Subsidiaries of Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 21.1 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2014.)
- 31.1* Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by Robert D. Davis
- 31.2* Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by Guy J. Constant
- 32.1* Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Robert D. Davis
- 32.2* Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Guy J. Constant
- 101.INS* XBRL Instance Document
- 101.SCH* XBRL Taxonomy Extension Schema Document
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document

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101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

† Management contract or compensatory plan or arrangement.

* Filed herewith.

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