

RENT A CENTER INC DE
Form 10-Q
October 28, 2010

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**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, 2010**
- 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

*(State or other jurisdiction of
incorporation or organization)*

45-0491516

*(I.R.S. Employer
Identification No.)*

5501 Headquarters Drive

Plano, Texas 75024

*(Address, including zip code of registrant's
principal executive offices)*

Registrant's telephone number, including area code: 972-801-1100

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

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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 Smaller reporting
(Do not check if a 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 October 25, 2010:

Class	Outstanding
Common stock, \$.01 par value per share	64,167,534

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The accompanying notes are an integral part of these statements.

Table of Contents**Rent-A-Center, Inc. and Subsidiaries****Item 1. Financial statements.****Consolidated statements of earnings**

(In thousands, except per share data) (unaudited)	Three months ended September 30,	
	2010	2009
Revenues		
Store		
Rentals and fees	\$ 576,019	\$ 576,124
Merchandise sales	44,352	59,085
Installment sales	15,599	12,983
Other	20,413	15,236
Franchise		
Merchandise sales	6,975	6,663
Royalty income and fees	1,222	1,160
	664,580	671,251
Operating expenses		
Direct store expenses		
Cost of rentals and fees	127,573	130,183
Cost of merchandise sold	34,807	42,940
Cost of installment sales	5,507	4,511
Salaries and other expenses	389,295	389,573
Franchise cost of merchandise sold	6,680	6,378
	563,862	573,585
General and administrative expenses	30,796	32,714
Amortization and write-down of intangibles	529	585
	595,187	606,884
Total operating expenses	595,187	606,884
Operating profit	69,393	64,367
Interest expense	6,085	4,866
Interest income	(282)	(153)
	63,590	59,654
Earnings before income taxes	63,590	59,654
Income tax expense	23,093	22,814

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NET EARNINGS	\$ 40,497	\$ 36,840
Basic earnings per common share	\$ 0.62	\$ 0.56
Diluted earnings per common share	\$ 0.62	\$ 0.55
Cash dividends per common share	\$ 0.06	\$

See accompanying notes to consolidated financial statements.

Table of Contents**Rent-A-Center, Inc. and Subsidiaries
Consolidated statements of earnings**

(In thousands, except per share data) (unaudited)	Nine months ended September 30,	
	2010	2009
Revenues		
Store		
Rentals and fees	\$ 1,746,390	\$ 1,763,199
Merchandise sales	176,780	211,826
Installment sales	45,239	37,699
Other	60,272	41,818
Franchise		
Merchandise sales	22,155	20,872
Royalty income and fees	3,706	3,629
	2,054,542	2,079,043
Operating expenses		
Direct store expenses		
Cost of rentals and fees	387,505	398,278
Cost of merchandise sold	129,221	150,704
Cost of installment sales	15,936	13,201
Salaries and other expenses	1,161,887	1,175,991
Franchise cost of merchandise sold	21,202	19,987
	1,715,751	1,758,161
General and administrative expenses	94,744	101,581
Amortization and write-down of intangibles	3,120	2,428
Litigation expense (credit)		(4,869)
Total operating expenses	1,813,615	1,857,301
Operating profit	240,927	221,742
Interest expense	18,219	22,143
Interest income	(606)	(689)
Earnings before income taxes	223,314	200,288
Income tax expense	83,526	76,127
NET EARNINGS	\$ 139,788	\$ 124,161

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Basic earnings per common share	\$	2.13	\$	1.88
Diluted earnings per common share	\$	2.11	\$	1.86
Cash dividends per common share	\$	0.06	\$	

See accompanying notes to consolidated financial statements.

Table of Contents**Rent-A-Center, Inc. and Subsidiaries
Consolidated balance sheets**

	September 30, 2010	December 31, 2009
(In thousands, except share and par value data)	(unaudited)	
ASSETS		
Cash and cash equivalents	\$ 80,775	\$ 101,803
Receivables, net of allowance for doubtful accounts of \$9,588 in 2010 and \$9,753 in 2009	67,625	63,439
Prepaid expenses and other assets	47,836	50,680
Rental merchandise, net		
On rent	544,308	589,066
Held for rent	172,784	160,932
Merchandise held for installment sale	4,106	4,069
Property assets, net	214,136	204,551
Goodwill, net	1,268,187	1,268,684
Other intangible assets, net	458	773
	\$ 2,400,215	\$ 2,443,997
LIABILITIES		
Accounts payable trade	\$ 87,841	\$ 97,159
Accrued liabilities	233,553	265,051
Deferred income taxes	129,823	123,115
Senior debt	596,084	711,158
	1,047,301	1,196,483
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Common stock, \$.01 par value; 250,000,000 shares authorized; 105,586,261 and 104,910,759 shares issued in 2010 and 2009, respectively	1,056	1,049
Additional paid-in capital	701,667	686,592
Retained earnings	1,513,158	1,377,332
Treasury stock, 41,441,451 and 39,259,949 shares at cost in 2010 and 2009, respectively	(865,623)	(819,754)
Cumulative translation adjustment	2,656	2,295

1,352,914 1,247,514

\$ 2,400,215 \$ 2,443,997

See accompanying notes to consolidated financial statements.

Table of Contents**Rent-A-Center, Inc. and Subsidiaries
Consolidated statements of cash flows**

(In thousands) (unaudited)	Nine months ended September 30,	
	2010	2009
Cash flows from operating activities		
Net earnings	\$ 139,788	\$ 124,161
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation of rental merchandise	378,335	390,126
Bad debt expense	12,084	10,387
Stock-based compensation expense	3,125	2,920
Depreciation of property assets	47,152	50,187
Loss on sale or disposal of property assets	3,099	6,686
Amortization of intangibles	567	1,043
Amortization of financing fees	1,544	1,664
Deferred income taxes	6,708	31,869
Tax benefit related to stock option exercises	(2,342)	(208)
Changes in operating assets and liabilities, net of effects of acquisitions		
Rental merchandise	(344,636)	(293,258)
Receivables	(16,270)	(18,460)
Prepaid expenses and other assets	1,202	3,060
Accounts payable trade	(9,318)	3,255
Accrued liabilities	(28,385)	(15,583)
Net cash provided by operating activities	192,653	297,849
Cash flows from investing activities		
Purchase of property assets	(57,373)	(53,644)
Proceeds from sale of property assets	89	2,147
Acquisitions of businesses, net of cash acquired	(3,112)	(7,025)
Net cash used in investing activities	(60,396)	(58,522)
Cash flows from financing activities		
Purchase of treasury stock	(45,869)	
Exercise of stock options	9,703	1,276
Tax benefit related to stock option exercises	2,342	208
Payments on capital leases	(800)	(1,781)
Proceeds from debt	55,870	68,385
Repayments of debt	(170,944)	(131,017)
Repurchase of subordinated notes		(225,375)
Dividends paid	(3,949)	

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Net cash used in financing activities	(153,647)	(288,304)
Effect of exchange rate changes on cash	362	1,500
NET DECREASE IN CASH AND CASH EQUIVALENTS	(21,028)	(47,477)
Cash and cash equivalents at beginning of period	101,803	87,382
Cash and cash equivalents at end of period	\$ 80,775	\$ 39,905

See accompanying notes to consolidated financial statements.

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Rent-A-Center, Inc. and Subsidiaries
Notes to consolidated financial statements

1. Significant Accounting Policies and Nature of Operations.

The interim financial statements of Rent-A-Center, Inc. included herein have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the SEC s rules and regulations, although we believe the disclosures are adequate to make the information presented not misleading. We suggest that 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, 2009. In our opinion, the accompanying unaudited interim financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary to present fairly our results of operations and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

Principles of Consolidation and Nature of Operations. These financial statements include the accounts of Rent-A-Center, Inc. and its direct and indirect subsidiaries. All intercompany accounts and transactions have been eliminated. Unless the context indicates otherwise, references to Rent-A-Center refer only to Rent-A-Center, Inc., the parent, and references to we, us and our refer to the consolidated business operations of Rent-A-Center and all of its direct and indirect subsidiaries.

Our primary operating segment consists of leasing 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. At September 30, 2010, we operated 3,001 company-owned stores nationwide and in Canada and Puerto Rico, including 41 retail installment sales stores under the names Get It Now and Home Choice, and 18 rent-to-own stores in Canada under the names Rent-A-Centre and Better Living.

We also operate kiosk locations under the trade name RAC Acceptance which offer the rent-to-own transaction to consumers who do not qualify for financing from the traditional retailer. These kiosks are located within such retailer s store locations. At September 30, 2010, we operated 151 RAC Acceptance locations.

We also offer an array of financial services in certain of our existing stores under the names RAC Financial Services and Cash AdvantEdge. The financial services we offer include, but are not limited to, short term secured and unsecured loans, debit cards, check cashing and money transfer services. As of September 30, 2010, we offered financial services in 326 of our existing stores in 14 states.

On October 25, 2010, we announced that in connection with our analysis of available growth initiatives, we are exploring strategic alternatives with respect to our financial services business, which may or may not include a sale or divestiture of such business. We do not intend to disclose developments with respect to the strategic alternatives for our financial services business unless and until a final decision is made and further disclosure is required. We do not anticipate these strategic alternatives to result in a material adverse change to our financial condition or results of operations.

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Rent-A-Center, Inc. and Subsidiaries
Notes to consolidated financial statements (continued)

ColorTyme, Inc., an indirect wholly-owned subsidiary of Rent-A-Center, is a nationwide franchisor of rent-to-own stores. At September 30, 2010, ColorTyme had 206 franchised stores operating in 34 states. ColorTyme's primary source of revenue is the sale of rental merchandise to its franchisees, who in turn offer the merchandise to the general public for rent or purchase under a rent-to-own program. The balance of ColorTyme's revenue is generated primarily from royalties based on franchisees' monthly gross revenues.

New Accounting Pronouncements. In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (ASU 2009-17), which changes various aspects of accounting for and disclosures of interests in variable interest entities. ASU 2009-17 is effective for interim and annual periods beginning after November 15, 2009. The adoption of ASU 2009-17 had no effect on our consolidated statement of earnings, financial condition, statement of cash flows or earnings per share.

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

2. Intangible Assets and Acquisitions.

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