

GeoMet, Inc.  
Form 10-Q  
August 13, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended June 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 001-32960

## GeoMet, Inc.

(Exact name of registrant as specified in its charter)

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

**76-0662382**  
(I.R.S. Employer  
Identification Number)

**1221 McKinney Street, Suite 3840**

**Houston, Texas 77010**

**(713) 659-3855**

(Address of principal executive offices and telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

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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, a non-accelerated filer, or a smaller reporting company. See the 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 company

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

As of August 11, 2015, 40,513,373 shares of the registrant's common stock, par value \$0.001 per share, were outstanding.

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Table of Contents**Part I. FINANCIAL INFORMATION****Item 1. Financial Statements****GEOMET, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

|  | June 30, 2015        | December 31, 2014    |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| Current Assets:  |                      |                      |
| Cash and cash equivalents  | \$ 21,594,220        | \$ 22,894,405        |
| Other current assets   | 10,832               | 148,302              |
| Total current assets   | 21,605,052           | 23,042,707           |
| <b>TOTAL ASSETS</b>  | <b>\$ 21,605,052</b> | <b>\$ 23,042,707</b> |
| <b>LIABILITIES, MEZZANINE AND STOCKHOLDERS DEFICIT</b>   |                      |                      |
| Current Liabilities:   |                      |                      |
| Accounts payable   | \$ 259,532           | \$ 152,258           |
| Accrued liabilities  |                      | 123,092              |
| Income tax payable   | 2,543                | 2,543                |
| Total current liabilities  | 262,075              | 277,893              |
| <b>TOTAL LIABILITIES</b>   | <b>262,075</b>       | <b>277,893</b>       |
| Commitments and contingencies (Note 13)  |                      |                      |
| Mezzanine equity:  |                      |                      |
| Series A Convertible Redeemable Preferred Stock, \$.001 par value net of offering costs of \$1,660,435; redemption amount \$72,170,150; 7,401,832 shares authorized, 7,217,015 and 6,786,334 shares were issued and outstanding at June 30, 2015 and December 31, 2014, respectively | 51,709,899           | 48,676,221           |
| Stockholders' Deficit:   |                      |                      |
| Preferred stock, \$.001 par value 2,598,168 shares authorized, none issued   |                      |                      |
| Common stock, \$.001 par value authorized 125,000,000 shares; 40,523,805 issued and 40,513,373 outstanding at June 30, 2015 and December 31, 2014  | 40,524               | 40,524               |
| Treasury stock, at cost 10,432 shares at June 30, 2015 and December 31, 2014   | (94,424)             | (94,424)             |
| Paid-in capital  | 179,240,658          | 182,275,243          |
| Retained deficit   | (209,553,680)        | (208,132,750)        |
| Total stockholders' deficit  | (30,366,922)         | (25,911,407)         |
| <b>TOTAL LIABILITIES, MEZZANINE AND STOCKHOLDERS DEFICIT</b>   | <b>\$ 21,605,052</b> | <b>\$ 23,042,707</b> |

See accompanying Notes to Consolidated Financial Statements (Unaudited).



Table of Contents**GEOMET, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

|  | Three Months Ended June 30, |               | Six Months Ended June 30, |               |
|--|-----------------------------|---------------|---------------------------|---------------|
|  | 2015                        | 2014          | 2015                      | 2014          |
| <b>Expenses:</b>   |                             |               |                           |               |
| Depreciation   | \$                          | \$            | \$                        | \$ 113,817    |
| General and administrative   | 700,146                     | 917,519       | 1,456,926                 | 1,947,123     |
| Lease termination costs  |                             | 427,722       |                           | 427,722       |
| Total operating expenses   | 700,146                     | 1,345,241     | 1,456,926                 | 2,488,662     |
| Operating loss   | (700,146)                   | (1,345,241)   | (1,456,926)               | (2,488,662)   |
| Other income (expense)   | 41,736                      | (1,669)       | 48,496                    | (20,203)      |
| Loss before income taxes from continuing operations  | (658,410)                   | (1,346,910)   | (1,408,430)               | (2,508,865)   |
| Income tax expense   | 6,250                       | 6,250         | 12,500                    | 12,500        |
| Loss from continuing operations  | (664,660)                   | (1,353,160)   | (1,420,930)               | (2,521,365)   |
| Discontinued operations, net of tax of \$0 for the three and six months ended June 30, 2015 and \$709,719 for the three and six months ended June 30, 2014 |                             | 60,327,228    |                           | 62,344,289    |
| Net (loss) income  | \$ (664,660)                | \$ 58,974,068 | \$ (1,420,930)            | \$ 59,822,924 |
| Accretion of Series A Convertible Redeemable Preferred Stock   | (994,269)                   | (705,165)     | (1,892,042)               | (1,349,909)   |
| Paid-in-kind dividends on Series A Convertible Redeemable Preferred Stock  | (590,368)                   | (552,915)     | (1,141,636)               | (1,152,790)   |
| Cash dividends paid on Series A Convertible Redeemable Preferred Stock   | (438)                       | (490)         | (907)                     | (1,058)       |
| Net (loss) income available to common stockholders   | \$ (2,249,735)              | \$ 57,715,498 | \$ (4,455,515)            | \$ 57,319,167 |
| <b>Net (loss) income per common share basic:</b>   |                             |               |                           |               |
| Net loss per common share from continuing operations   | \$ (0.06)                   | \$ (0.07)     | \$ (0.11)                 | \$ (0.13)     |
| Net income per common share from discontinued operations   |                             | 1.49          |                           | 1.54          |
| Net (loss) income per common share basic   | \$ (0.06)                   | \$ 1.42       | \$ (0.11)                 | \$ 1.41       |
| <b>Net (loss) income per common share diluted:</b>   |                             |               |                           |               |
| Net loss per common share from continuing operations   | \$ (0.06)                   | \$ (0.07)     | \$ (0.11)                 | \$ (0.13)     |
| Net income per common share from discontinued operations   |                             | 1.49          |                           | 1.54          |
| Net (loss) income per common share diluted   | \$ (0.06)                   | \$ 1.42       | \$ (0.11)                 | \$ 1.41       |
| <b>Weighted average number of common shares:</b>   |                             |               |                           |               |
| Basic  | 40,513,373                  | 40,515,020    | 40,513,373                | 40,514,561    |
| Diluted  | 40,513,373                  | 40,515,020    | 40,513,373                | 40,514,561    |

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See accompanying Notes to Consolidated Financial Statements (Unaudited).



Table of Contents**GEOMET, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****FOR THE SIX MONTHS ENDED JUNE 30,**

|   | <b>2015</b>    | <b>2014</b>    |
|---|----------------|----------------|
| Cash flows used in provided by operating activities:  |                |                |
| Loss from continuing operations   | \$ (1,420,930) | \$ (2,521,365) |
| Adjustments to reconcile loss from continuing operations to net cash flows used in continuing operating activities:       |                |                |
| Depreciation, depletion and amortization  |                | 113,817        |
| Stock-based compensation  |                | 20,575         |
| Changes in operating assets and liabilities:  |                |                |
| Other current assets  | 137,470        | 391,386        |
| Accounts payable  | 107,274        | (351,698)      |
| Other accrued liabilities   | (123,092)      | 3,020          |
| Net cash used in continuing operating activities  | (1,299,278)    | (2,344,265)    |
| Income from discontinued operations   |                | 62,344,289     |
| Adjustments to reconcile Income from discontinued operations to net cash flows used in discontinued operating activities: |                |                |
| Depreciation, depletion and amortization  |                | 715,892        |
| Amortization of debt issuance costs   |                | 218,357        |
| Unrealized losses from the change in market value of open derivative contracts  |                | (1,543,722)    |
| Gain on the sale of gas properties  |                | (61,824,007)   |
| Loss on sale of other assets  |                | 22,706         |
| Accretion expense   |                | 298,130        |
| Changes in operating assets and liabilities:  |                |                |
| Accounts receivable   |                | 1,719,550      |
| Other current assets  |                | 377,103        |
| Accounts payable  |                | (5,003,504)    |
| Income taxes payable  |                | 709,719        |
| Other accrued liabilities   |                | (2,710,824)    |
| Net cash used in discontinued operating activities  |                | (4,676,311)    |
| Net cash used in operating activities   | (1,299,278)    | (7,020,576)    |
| Cash flows provided by investing activities:  |                |                |
| Continuing operations:  |                |                |
| Proceeds from the sale of other assets  |                | 140,000        |
| Net cash provided by investing activities continuing operations   |                | 140,000        |
| Discontinued operations:  |                |                |
| Capital expenditures  |                | (108,597)      |
| Proceeds from the sale of gas properties  |                | 95,385,256     |
| Proceeds from sale of other assets  |                | 25,511         |
| Net cash provided by investing activities discontinued operations   |                | 95,302,170     |
| Net cash provided by investing activities   |                | 95,442,170     |
| Cash flows used in financing activities:  |                |                |
| Continuing operations:  |                |                |
| Dividends paid  | (907           | \$ 0.52        |

|                                   |         |                  |
|-----------------------------------|---------|------------------|
| Diluted earnings per common share | \$ 0.54 | \$ (0.03) \$0.51 |
|-----------------------------------|---------|------------------|

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

### 3. Senior Debt.

On March 19, 2014, we entered into a Credit Agreement (the "Credit Agreement") among the Company, the several lenders from time to time parties to the Credit Agreement, Bank of America, N.A., BBVA Compass Bank, Wells Fargo Bank, National Association and SunTrust Bank, as syndication agents, and JPMorgan Chase Bank, N.A., as administrative agent. The Credit Agreement represents a refinancing of our senior secured debt outstanding under our prior credit agreement, the Fourth Amended and Restated Credit Agreement, dated as of May 28, 2003, as amended and restated as of July 14, 2011, and as amended by the First Amendment dated as of April 13, 2012, among the Company, the several banks and other financial institutions or entities from time to time parties thereto, and JPMorgan Chase Bank, N.A., as administrative agent (as amended, the "Prior Credit Agreement"). The Credit Agreement provided a \$900.0 million senior credit facility consisting of \$225.0 million in term loans (the "Term Loans") and a \$675.0 million revolving credit facility (the "Revolving Facility"). The Term Loans are scheduled to mature on March 19, 2021, and the Revolving Facility has a scheduled maturity of March 19, 2019.

Also on March 19, 2014, we borrowed \$225.0 million in Term Loans and \$100.0 million under the Revolving Facility and utilized the proceeds to repay our prior senior secured debt outstanding under the Prior Credit Agreement. The Term Loans are payable in consecutive quarterly installments each in an aggregate principal amount of \$562,500, with a final installment equal to the remaining principal balance of the Term Loans due on March 19, 2021.

The amounts outstanding under the Term Loans and Revolving Facility at March 31, 2015, were \$222.8 million and \$120.0 million, respectively. The amounts outstanding under the Term Loan and Revolving Facility at December 31, 2014, were \$223.3 million and \$255.0 million, respectively.

The full amount of the Revolving Facility may be used for the issuance of letters of credit, of which \$104.4 million had been so utilized as of March 31, 2015, and at which date \$450.6 million was available.

Borrowings under the Revolving Facility bear interest at varying rates equal to either the Eurodollar rate plus 1.50% to 2.75%, or the prime rate plus 0.50% to 1.75% (ABR), at our election. The margins on the Eurodollar loans and on the ABR loans for borrowings under the Revolving Facility, which were 2.50% and 1.50%, respectively, at March 31, 2015, may fluctuate based upon an increase or decrease in our consolidated total leverage ratio as defined by a pricing grid included in the Credit Agreement. The margins on the Eurodollar loans and on the ABR loans for Term Loans are 3.00% and 2.00%, respectively, but may also fluctuate in the event the all-in pricing for any subsequent incremental Term Loan exceeds the all-in pricing for prior Term Loans by more than 0.50% per annum. A commitment fee equal to 0.30% to 0.50% of the unused portion of the Revolving Facility is payable quarterly, and fluctuates dependent upon an increase or decrease in our consolidated total leverage ratio. The commitment fee at March 31, 2015, is equal to 0.50% of the unused portion of the Revolving Facility.



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

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

The Credit Agreement also permits us to increase the amount of the Term Loans and/or the Revolving Facility from time to time on up to three occasions, in an aggregate amount of no more than \$250.0 million, provided that we are not in default at the time and have obtained the consent of the administrative agent and the lenders providing such increase.

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

- incur additional debt;
- repurchase capital stock, 6.625% notes and 4.75% notes and/or pay cash dividends (subject to a restricted payments basket under which approximately \$85.2 million is available);
- incur liens or other encumbrances;
- merge, consolidate or sell substantially all property or business;
- sell, lease or otherwise transfer assets (other than in the ordinary course of business);
- make investments or acquisitions (unless they meet financial tests and other requirements); or
- enter into an unrelated line of business.

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

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

These financial covenants, as well as the related components of their computation, are defined in the Credit Agreement, which is included as an exhibit to our Current Report on Form 8-K dated as of March 19, 2014. In accordance with the Credit Agreement, the actual consolidated total leverage ratio was calculated by dividing the consolidated funded debt outstanding at March 31, 2015 (\$830.6 million) by consolidated EBITDA for the 12-month period ending March 31, 2015 (\$284.5 million). For purposes of the covenant calculations, (i) “consolidated funded debt” is defined as outstanding indebtedness less cash in excess of \$25.0 million, and (ii) “consolidated EBITDA” is generally defined as consolidated net income (a) plus the sum of income taxes, interest expense, depreciation and amortization expense, extraordinary non-cash expenses or losses, and other non-cash charges, and (b) minus the sum of interest income, extraordinary income or gains, other non-cash income, and cash payments with respect to extraordinary non-cash expenses or losses recorded in prior fiscal quarters. Consolidated EBITDA is a non-GAAP financial measure that is presented not as a measure of operating results, but rather as a measure used to determine covenant compliance under our senior credit facilities.

The actual consolidated senior secured leverage ratio was calculated pursuant to the Credit Agreement by dividing the consolidated senior secured debt outstanding at March 31, 2015 (\$274.6 million) by consolidated EBITDA for the 12-month period ending March 31, 2015 (\$284.5 million). For purposes of the covenant calculation, “consolidated senior secured debt” is generally defined as the aggregate principal amount of consolidated funded debt that is then secured by liens on property or assets of the Company or its subsidiaries.

The actual consolidated fixed charge coverage ratio was calculated pursuant to the Credit Agreement by dividing the sum of consolidated EBITDA and consolidated lease expense for the 12-month period ending March 31, 2015 (\$526.4 million), by consolidated fixed charges for the 12-month period ending March 31, 2015 (\$290.0 million). For

purposes of the covenant calculation, “consolidated fixed charges” is defined as the sum of consolidated interest expense and consolidated lease expense.

Events of default under the Credit Agreement include customary events, such as a cross-acceleration provision in the event that we default on other debt. In addition, an event of default under the Credit Agreement would occur if a change of control occurs. This is defined to include the case where a third party becomes the beneficial owner of 35% or more of our voting stock or certain changes in the composition of Rent-A-Center’s Board of Directors occur. An event of default would also occur if

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

one or more judgments were entered against us of \$50.0 million or more and such judgments were not satisfied or bonded pending appeal within 30 days after entry.

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

In addition to the senior credit facilities discussed above, we maintain a \$20.0 million unsecured, revolving line of credit with INTRUST Bank, N.A. to facilitate cash management. The outstanding balance of this line of credit was \$6.0 million and \$14.5 million at March 31, 2015, and December 31, 2014, respectively.

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

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

#### 4. Subsidiary Guarantors – Senior Notes.

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

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

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

- incur additional debt;
- sell assets or our subsidiaries;
- grant liens to third parties;
- pay cash dividends or repurchase stock (subject to a restricted payment basket under which approximately \$85.2 million is available); and
- engage in a merger or sell substantially all of our assets.

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

The 6.625% notes may be redeemed on or after November 15, 2015, at our option, in whole or in part, at a premium declining from 103.313%. The 6.625% notes may be redeemed on or after November 15, 2018, at our option, in whole or in part, at par. The 6.625% notes also require that upon the occurrence of a change of control (as defined in the

2010 indenture), the holders of the notes have the right to require us to repurchase the notes at a price equal to 101% of the original aggregate principal amount, together with accrued and unpaid interest, if any, to the date of repurchase.



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

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

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

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

#### 5. Fair Value.

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

At March 31, 2015, our financial instruments include cash and cash equivalents, receivables, payables, senior debt and senior notes. The carrying amount of cash and cash equivalents, receivables and payables approximates fair value at March 31, 2015, and December 31, 2014, because of the short maturities of these instruments. Our senior debt is variable rate debt that re-prices frequently and entails no significant change in credit risk and, as a result, fair value approximates carrying value.

The fair value of our senior notes is based on Level 1 inputs and was as follows at March 31, 2015, and December 31, 2014, (in thousands):

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

#### 6. Other Charges.

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

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## 7. Segment Information.

The operating segments reported below are the segments for which separate financial information is available and for which segment results are evaluated by the chief operating decision makers. Our operating segments are organized based on factors including, but not limited to, type of business transactions, geographic location and store ownership. All operating segments offer merchandise from four basic product categories: consumer electronics, appliances, computers, furniture and accessories.

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

|  | Three Months Ended March 31,<br>2015 | 2014<br>Revised |
|--|--------------------------------------|-----------------|
| Revenues   |                                      |                 |
| Core U.S.  | \$629,203                            | \$636,475       |
| Acceptance Now   | 224,277                              | 169,234         |
| Mexico   | 17,934                               | 15,857          |
| Franchising  | 6,225                                | 6,907           |
| Total revenues   | \$877,639                            | \$828,473       |
|  | Three Months Ended March 31,<br>2015 | 2014<br>Revised |
| Gross profit   |                                      |                 |
| Core U.S.  | \$441,140                            | \$456,795       |
| Acceptance Now   | 109,164                              | 92,390          |
| Mexico   | 12,113                               | 11,462          |
| Franchising  | 2,176                                | 1,903           |
| Total gross profit   | \$564,593                            | \$562,550       |
|  | Three Months Ended March 31,<br>2015 | 2014<br>Revised |
| Operating profit (loss)  |                                      |                 |
| Core U.S.  | \$67,573                             | \$73,462        |
| Acceptance Now   | 34,532                               | 29,522          |
| Mexico   | (3,454                               | (5,917          |
| Franchising  | 1,216                                | 606             |
| Total segment operating profit                                 | 99,867                               | 97,673          |
| Corporate  | (43,269                              | (38,215         |
| Total operating profit   | \$56,598                             | \$59,458        |
|  | Three Months Ended March 31,<br>2015 | 2014<br>Revised |
| Depreciation, amortization and write-down of intangibles       |                                      |                 |
| Core U.S.  | \$12,675                             | \$13,840        |
| Acceptance Now   | 753                                  | 647             |
| Mexico   | 1,474                                | 1,595           |
| Franchising  | 49                                   | 35              |
| Total segments   | 14,951                               | 16,117          |
| Corporate  | 4,813                                | 3,769           |
| Total depreciation, amortization and write-down of intangibles | \$19,764                             | \$19,886        |

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

|   | Three Months Ended March 31, |                      |
|---|------------------------------|----------------------|
|   | 2015                         | 2014                 |
| Capital expenditures  |                              | Revised              |
| Core U.S.   | \$814                        | \$10,304             |
| Acceptance Now  | 283                          | 662                  |
| Mexico  | 108                          | 2,095                |
| Total segments  | 1,205                        | 13,061               |
| Corporate   | 13,040                       | 10,047               |
| Total capital expenditures  | \$14,245                     | \$23,108             |
| Segment information - Selected balance sheet data (in thousands): |                              |                      |
|   | March 31, 2015               | December 31,<br>2014 |
| On rent rental merchandise, net                                   |                              |                      |
| Core U.S.   | \$577,269                    | \$593,945            |
| Acceptance Now  | 352,306                      | 345,703              |
| Mexico  | 21,315                       | 20,766               |
| Total on rent rental merchandise, net                             | \$950,890                    | \$960,414            |
|   | March 31, 2015               | December 31,<br>2014 |
| Idle rental merchandise, net                                      |                              |                      |
| Core U.S.   | \$254,827                    | \$264,211            |
| Acceptance Now  | 6,262                        | 4,897                |
| Mexico  | 5,783                        | 8,334                |
| Total idle rental merchandise, net                                | \$266,872                    | \$277,442            |
|   | March 31, 2015               | December 31,<br>2014 |
| Assets by segment   |                              |                      |
| Core U.S.   | \$2,529,100                  | \$2,519,770          |
| Acceptance Now  | 428,208                      | 420,660              |
| Mexico  | 53,666                       | 59,841               |
| Franchising   | 2,966                        | 2,604                |
| Total segments  | 3,013,940                    | 3,002,875            |
| Corporate   | 154,610                      | 268,322              |
| Total assets  | \$3,168,550                  | \$3,271,197          |

## 8. Stock-Based Compensation.

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



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

9. Contingencies.

From time to time, we, along with our subsidiaries, are party to various legal proceedings arising in the ordinary course of business. We reserve for loss contingencies that are both probable and reasonably estimable. We regularly monitor developments related to these legal proceedings, and review the adequacy of our legal reserves on a quarterly basis. We do not expect these losses to have a material impact on our consolidated financial statements if and when such losses are incurred.

We are subject to unclaimed property audits by states in the ordinary course of business. A comprehensive multi-state unclaimed property audit is currently in progress. The property subject to review in this audit process includes unclaimed wages, vendor payments and customer refunds. State escheat laws generally require entities to report and remit abandoned and unclaimed property to the state. Failure to timely report and remit the property can result in assessments that could include interest and penalties, in addition to the payment of the escheat liability itself. We routinely remit escheat payments to states in compliance with applicable escheat laws. Management believes it is too early to determine the ultimate outcome of this audit, as our remediation efforts are still in process.

Our subsidiary, ColorTyme Finance, Inc. ("ColorTyme Finance"), is a party to an agreement with Citibank, N.A., pursuant to which Citibank provides up to \$27.0 million in aggregate financing to qualifying franchisees of Franchising. Under the Citibank agreement, upon an event of default by the franchisee under agreements governing this financing and upon the occurrence of certain other events, Citibank can assign the loans and the collateral securing such loans to ColorTyme Finance, with ColorTyme Finance paying or causing to be paid the outstanding debt to Citibank and then succeeding to the rights of Citibank under the debt agreements, including the right to foreclose on the collateral. Rent-A-Center and ColorTyme Finance guarantee the obligations of the franchise borrowers under the Citibank facility. An additional \$20.0 million of financing is provided by Texas Capital Bank, National Association under an agreement similar to the Citibank financing, which is guaranteed by Rent-A-Center East, Inc., a subsidiary of Rent-A-Center. The maximum guarantee obligations under these agreements, excluding the effects of any amounts that could be recovered under collateralization provisions, is \$47.0 million, of which \$16.2 million was outstanding as of March 31, 2015.

10. Earnings Per Common Share.

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

|                                   | Three Months Ended March 31, 2015 |                            |           |
|-----------------------------------|-----------------------------------|----------------------------|-----------|
|                                   | Net Earnings                      | Weighted<br>Average Shares | Per Share |
| Basic earnings per common share   | \$27,298                          | 53,033                     | \$0.51    |
| Effect of dilutive stock awards   | —                                 | 344                        |           |
| Diluted earnings per common share | \$27,298                          | 53,377                     | \$0.51    |
|                                   | Three Months Ended March 31, 2014 |                            |           |
|                                   | Net Earnings                      | Weighted<br>Average Shares | Per Share |
| Basic earnings per common share   | \$27,266                          | 52,795                     | \$0.52    |
| Effect of dilutive stock awards   | —                                 | 225                        |           |
| Diluted earnings per common share | \$27,266                          | 53,020                     | \$0.51    |

For the three-month periods ended March 31, 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 2,042,717 and 2,478,460, respectively.



RENT-A-CENTER, INC. AND SUBSIDIARIES

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,” “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;
- factors affecting the disposable income available to our current and potential customers;
- changes in the unemployment rate;
- difficulties encountered in improving the financial performance of our Core U.S. and Mexico segments;
- failure to manage our labor and benefit rates, advertising and marketing expenses, operating losses, charge-offs due to customer stolen merchandise, other store expenses or indirect spending;
- our ability to develop and successfully execute the competencies and capabilities that are the focus of our strategic initiatives, including those initiatives that are part of our multi-year program designed to transform and modernize our operations;
- 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;
- our ability to retain the revenue from customer accounts merged into another store location as a result of a store consolidation;
- our ability to execute and the effectiveness of a store consolidation;
- rapid inflation or deflation in prices of our products;
- 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 enhance the performance of acquired stores;
- our ability to retain the revenue associated with acquired customer accounts;
- 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;





RENT-A-CENTER, INC. AND SUBSIDIARIES

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;  
our ability to protect the integrity and security of individually identifiable data of our customers and employees;  
the impact of any breaches in data security or other disturbances to our information technology and other networks;  
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 (including tablets and 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. We also have other initiatives such as the introduction of the new smartphone product to improve revenues and profits for our Core U.S. stores.

**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 during off-peak hours. We will begin general deployment across the network starting in the second quarter of 2015 as attrition occurs. 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 need to price our products to remain competitive in the market, maintain a customer-centric focus and drive traffic. We tested new pricing strategies in 2014 that we are implementing in our Core U.S. rent-to-own stores in 2015 to meet these challenges. We are focusing on areas of immediate impact, while building a foundation for improvement, and will incorporate more structured and data-driven decision making to improve our Core U.S. marketing promotions, sales events and brand alignment.



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

**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 are creating new direct supplier partnerships, implementing a new system to manage distribution operations, implementing a network of distribution centers through a third-party logistics partnership and automating 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.

During the first quarter of 2015, we completed system integration with our third-party logistics provider, finished product sourcing for several categories and are ready to begin opening five new distribution centers in the U.S. We are on track to be fully operational in the second half of 2015.

**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 implementing 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 opened one Acceptance Now Direct location in the first quarter of 2015, with a plan for 1,250 direct locations by the end of the year.

**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 March 31, 2015, smartphones were over 8% 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 are developing and implementing 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 fully operational in ten stores at March 31, 2015, with general deployment starting mid-year.

### 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 table reflect the revisions to prior year balances due to immaterial error corrections discussed in Note 2 to the consolidated financial statements.

### Overview

During the three months ended March 31, 2015, we have continued efforts under our multi-year program designed to transform and modernize our operations company-wide, focusing on introducing a new labor model for our Core U.S. stores, developing a new supply chain, formulating a customer-focused value-based pricing strategy and implementing new technology into our Acceptance Now locations.

Same store sales were a positive 1.0% in the Core U.S. business for the first three months of 2015 over 2014, primarily due to the new smartphone product category and higher merchandise sales. However, revenues decreased by \$7.3 million in the first three months of 2015 over 2014 due to the 150-store consolidation completed in the second

quarter of 2014.

We continue to grow the Acceptance Now segment. We added 53 staffed locations and closed 27 staffed locations during the first three months of 2015. We also opened our first Acceptance Now Direct location this quarter. We had same store revenues of 34.1% in this segment driven by the continued maturation of the business and the introduction of 90 day option pricing. Our Acceptance Now segment provided approximately 25.6% of our consolidated revenue and 34.6% of our consolidated segment operating profit in the first three months of 2015.

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

Cash flow from operations was \$228.0 million. We received a \$112.5 million income tax refund which was used to pay down debt. Capital expenditures totaled \$14.2 million and we ended the quarter with \$93.1 million of cash and cash equivalents.

| (Dollar amounts in thousands)                            | Three Months Ended |           | Change   |        |    |
|--|--------------------|-----------|----------|--------|----|
|  | March 31,<br>2015  | 2014      |          |        |    |
| Revenues   |                    |           |          |        |    |
| Store  |                    |           |          |        |    |
| Rentals and fees   | \$711,450          | \$691,187 | \$20,263 | 2.9    | %  |
| Merchandise sales  | 136,280            | 108,061   | 28,219   | 26.1   | %  |
| Installment sales  | 18,253             | 18,060    | 193      | 1.1    | %  |
| Other  | 5,431              | 4,258     | 1,173    | 27.5   | %  |
| Total store revenue                                      | 871,414            | 821,566   | 49,848   | 6.1    | %  |
| Franchise  |                    |           |          |        |    |
| Merchandise sales  | 4,387              | 5,328     | (941)    | (17.7) | )% |
| Royalty income and fees                                  | 1,838              | 1,579     | 259      | 16.4   | %  |
| Total revenues   | 877,639            | 828,473   | 49,166   | 5.9    | %  |
| Cost of revenues   |                    |           |          |        |    |
| Store  |                    |           |          |        |    |
| Cost of rentals and fees                                 | 185,118            | 175,216   | 9,902    | 5.7    | %  |
| Cost of merchandise sold                                 | 117,722            | 79,617    | 38,105   | 47.9   | %  |
| Cost of installment sales                                | 6,157              | 6,086     | 71       | 1.2    | %  |
| Total cost of store revenues                             | 308,997            | 260,919   | 48,078   | 18.4   | %  |
| Franchise cost of merchandise sold                       | 4,049              | 5,004     | (955)    | (19.1) | )% |
| Total cost of revenues                                   | 313,046            | 265,923   | 47,123   | 17.7   | %  |
| Gross profit   | 564,593            | 562,550   | 2,043    | 0.4    | %  |
| Operating expenses                                       |                    |           |          |        |    |
| Store expenses   |                    |           |          |        |    |
| Labor  | 220,974            | 225,938   | (4,964)  | (2.2)  | )% |
| Other store expenses                                     | 224,175            | 215,158   | 9,017    | 4.2    | %  |
| General and administrative                               | 42,691             | 42,110    | 581      | 1.4    | %  |
| Depreciation, amortization and write-down of intangibles | 19,764             | 19,886    | (122)    | (0.6)  | )% |
| Other charges  | 391                | —         | 391      | —      |    |
| Total operating expenses                                 | 507,995            | 503,092   | 4,903    | 1.0    | %  |
| Operating profit   | 56,598             | 59,458    | (2,860)  | (4.8)  | )% |
| Finance charges from refinancing                         | —                  | 4,213     | (4,213)  | —      |    |
| Interest, net  | 12,388             | 11,165    | 1,223    | 11.0   | %  |
| Earnings before income taxes                             | 44,210             | 44,080    | 130      | 0.3    | %  |
| Income tax expense                                       | 16,912             | 16,814    | 98       | 0.6    | %  |
| Net earnings   | \$27,298           | \$27,266  | \$32     | 0.1    | %  |

Three Months Ended March 31, 2015, compared to Three Months Ended March 31, 2014

Store Revenue. Total store revenue increased by \$49.8 million, or 6.1%, to \$871.4 million for the three months ended March 31, 2015, from \$821.6 million for the three months ended March 31, 2014. This was primarily due to increases of approximately \$55.0 million in the Acceptance Now segment and approximately \$2.1 million in the Mexico segment, partially offset by a decrease of approximately \$7.3 million in the Core U.S. segment.

Same store revenue generally represents revenue earned in 3,651 locations that were operated by us for 13 months or more. Same store revenues increased by \$54.1 million, or 8.0%, to \$727.4 million for the three months ended March 31, 2015, as compared to \$673.3 million in 2014. The increase in same store revenues was attributable to growth in the Acceptance Now segment, with

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

smaller positive contributions from the Core U.S. and Mexico segments. 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 March 31, 2015, increased by \$9.9 million, or 5.7%, to \$185.1 million, as compared to \$175.2 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 26.0% for the three months ended March 31, 2015, as compared to 25.4% 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 \$38.1 million, or 47.9%, to \$117.7 million for the three months ended March 31, 2015, from \$79.6 million in 2014, comprised of a \$27.2 million increase in the Acceptance Now segment and a \$9.9 million increase in the Core U.S. segment. The gross margin percent of merchandise sales decreased to 13.6% for the three months ended March 31, 2015, from 26.3% 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 lower 90 day option pricing.

**Gross Profit.** Gross profit increased by \$2.0 million, or 0.4%, to \$564.6 million for the three months ended March 31, 2015, from \$562.6 million in 2014, primarily due to increased gross profit in the Acceptance Now segment, offset by a decrease in gross profit in the Core U.S. segment, discussed further in the segment performance section below.

Gross profit as a percentage of total revenue decreased to 64.3% for the three months ended March 31, 2015, as compared to 67.9% in 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 \$5.0 million, or 2.2%, to \$221.0 million, for the three months ended March 31, 2015, as compared to \$225.9 million in 2014. Labor in the Core U.S. segment decreased \$9.3 million due to the lower store count year over year and labor hour reductions that occurred in the third quarter of 2014, partially offset by a \$4.5 million increase in labor associated with the expansion in the Acceptance Now segment. Store labor expressed as a percentage of total store revenue was 25.4% for the three months ended March 31, 2015, as compared to 27.5% in 2014 due primarily to the labor savings in the Core U.S. segment.

**Other Store Expenses.** Other store expenses increased by \$9.0 million, or 4.2%, to \$224.2 million for the three months ended March 31, 2015, as compared to \$215.2 million in 2014. This increase was primarily attributable to increased expenses associated with the growth of our Acceptance Now segment and the investments we are making under our multi-year transformation program. Other store expenses expressed as a percentage of total store revenue were 25.7% for the three months ended March 31, 2015, compared to 26.2% in 2014.

**General and Administrative Expenses.** General and administrative expenses increased by \$0.6 million, or 1.4%, to \$42.7 million for the three months ended March 31, 2015, as compared to \$42.1 million in 2014. General and administrative expenses expressed as a percentage of total revenue decreased to 4.9% for the three months ended March 31, 2015, from 5.1% in 2014.

**Operating Profit.** Operating profit decreased by \$2.9 million, or 4.8%, to \$56.6 million for the three months ended March 31, 2015, as compared to \$59.5 million in 2014. Operating profit as a percentage of total revenue decreased to 6.4% for the three months ended March 31, 2015, from 7.2% in 2014. These changes were primarily due to the decrease in gross profit in the Core U.S. segment, increased labor and other store expenses associated with the growth of our Acceptance Now segment and the investments we are making under our multi-year transformation program, partially offset by increased gross profit in the Acceptance Now and Mexico segments and the reduction of labor expenses in the Core U.S. segment.

**Net Interest.** Net interest increased by \$1.2 million, or 11.0%, to \$12.4 million for the three months ended March 31, 2015, as compared to \$11.2 million in 2014, driven by increased debt and a higher rate on our senior credit facility.

**Income Tax Expense.** Income tax expense decreased by \$0.1 million, or 0.6%, to \$16.9 million for the three months ended March 31, 2015, as compared to \$16.8 million in 2014. The effective tax rate increased 0.11% to 38.25% for the three months ended March 31, 2015, from 38.14% for the comparable period in 2014.



Net Earnings and Earnings per Share. Net earnings of \$27.3 million and earnings per share of \$0.51 for the three months ended March 31, 2015, were flat to the comparable period in 2014.

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

## Segment Performance

## Core U.S. segment.

| (Dollar amounts in thousands)            | Three Months Ended |           | Change    |       |    |
|--|--------------------|-----------|-----------|-------|----|
|  | March 31,          |           |           |       |    |
|  | 2015               | 2014      | \$        | %     |    |
| Revenues                                 | \$629,203          | \$636,475 | \$(7,272) | (1.1) | )% |
| Gross profit                             | 441,140            | 456,795   | (15,655)  | (3.4) | )% |
| Operating profit                         | 67,573             | 73,462    | (5,889)   | (8.0) | )% |
| Change in same store revenue             |                    |           |           | 1.0   | %  |
| Stores in same store revenue calculation |                    |           |           | 2,426 |    |

Revenues. The decrease in revenues was driven by a \$13.0 million decrease in rentals and fees revenue for the three months ended March 31, 2015, compared to 2014, partially offset by a \$4.5 million increase in merchandise sales.

This decrease in revenue was primarily due to the 150 store consolidation completed in the second quarter of 2014. 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 months ended March 31, 2015, as compared to 2014, primarily due to decreased store revenue as discussed above. Gross profit as a percentage of total segment revenue decreased to 70.1% for the three months ended March 31, 2015, from 71.8% in 2014, due to 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 10.7% for the three months ended March 31, 2015, from 11.5% in 2014. In addition to the decreased gross profit discussed above, labor, as a percent of store revenue, was positively impacted by the lower store count year over year and labor hour reductions that occurred in the third quarter of 2014. Other store expenses, as a percent of store revenue, were negatively impacted by higher skip/stolen losses and higher product service cost from smartphones, offset by a lower store count and lower gas prices. Charge-offs in our Core U.S. rent-to-own stores due to skip/stolen losses, expressed as a percentage of revenues, were approximately 3.8% for the three months ended March 31, 2015, as compared to 2.8% for the comparable period in 2014, driven by smartphone losses.

## Acceptance Now segment.

| (Dollar amounts in thousands)            | Three Months Ended |           | Change   |       |   |
|--|--------------------|-----------|----------|-------|---|
|  | March 31,          |           |          |       |   |
|  | 2015               | 2014      | \$       | %     |   |
| Revenues                                 | \$224,277          | \$169,234 | \$55,043 | 32.5  | % |
| Gross profit                             | 109,164            | 92,390    | 16,774   | 18.2  | % |
| Operating profit                         | 34,532             | 29,522    | 5,010    | 17.0  | % |
| Change in same store revenue             |                    |           |          | 34.1  | % |
| Stores in same store revenue calculation |                    |           |          | 1,100 |   |

Revenues. The increase in revenues in the first three months of 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 25.6% of consolidated revenues and approximately 34.6% of segment operating profit in the three months ended March 31, 2015, compared to approximately 20.4% of revenue and 30.2% of segment operating profit for the comparable period in 2014.

Gross profit. Gross profit increased as a result of increased revenues in this segment. Gross profit as a percentage of revenues was 48.7% for the three months ended March 31, 2015, as compared to 54.6% for the comparable period in 2014. Gross margin was negatively impacted by lower gross profit margin on merchandise sales and a higher mix of merchandise sales primarily due to lower 90 day option pricing.

Operating profit. Operating profit as a percentage of total revenue was 15.4% for the three months ended March 31, 2015, compared to 17.4%, for the comparable period in 2014. The increased gross profit discussed above was partially offset by increased labor and other store expenses associated with the expansion in this segment. Charge-offs in our

Acceptance Now locations due to skip/stolen losses, expressed as a percentage of revenues, were approximately 7.7% for the three months ended March 31, 2015, respectively, as compared to 6.5% for the comparable periods in 2014. The ratio of agreement charge-offs to total agreements in

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

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.

Mexico segment.

| (Dollar amounts in thousands)            | Three Months Ended |          | Change  |      |   |
|--|--------------------|----------|---------|------|---|
|  | March 31, 2015     | 2014     | \$      | %    |   |
| Revenues                                 | \$17,934           | \$15,857 | \$2,077 | 13.1 | % |
| Gross profit                             | 12,113             | 11,462   | 651     | 5.7  | % |
| Operating loss                           | (3,454)            | (5,917)  | 2,463   | 41.6 | % |
| Change in same store revenue             |                    |          |         | 15.1 | % |
| Stores in same store revenue calculation |                    |          |         | 125  |   |

Revenues. The reported revenues for the three months ended March 31, 2015, were reduced by approximately \$2.3 million due to exchange rate fluctuations compared to 2014. Revenue growth was primarily due to the growth in same store revenue. Same store revenues are reported on a constant currency basis beginning in 2015.

Gross Profit. Gross profit increased primarily due to increased revenue as discussed above. Gross profit as a percentage of total revenues was 67.5% for the three months ended March 31, 2015, respectively, compared to 72.3% in 2014.

Operating Loss. Operating loss as a percentage of total revenue decreased to 19.3% for the three months ended March 31, 2015, from 37.3% for in 2014. This improvement was the initial result of operating initiatives designed to improve financial performance of our operations.

Franchising segment.

| (Dollar amounts in thousands) | Three Months Ended |         | Change  |       |   |
|-------------------------------|--------------------|---------|---------|-------|---|
|                               | March 31, 2015     | 2014    | \$      | %     |   |
| Revenues                      | \$6,225            | \$6,907 | \$(682) | (9.9) | % |
| Gross profit                  | 2,176              | 1,903   | 273     | 14.3  | % |
| Operating profit              | 1,216              | 606     | 610     | 100.7 | % |

Revenues. Merchandise sales decreased approximately \$0.9 million for the three months ended March 31, 2015, from the same period in 2014, partially offset by an increase of approximately \$0.3 million in royalty income and fees.

Gross Profit. Gross profit as a percentage of revenues increased to 35.0% for the three months ended March 31, 2015, from 27.6% for the comparable period 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.

Operating Profit. Operating profit as a percentage of total revenue increased to 19.5% for the three months ended March 31, 2015, compared to 8.8% for 2014, due to a decrease in general and administrative expenses and the increase in gross profit discussed above.

#### Liquidity and Capital Resources

Overview. During the three months ended March 31, 2015, we had \$228.0 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 \$14.2 million for capital expenditures and used \$12.7 million for payment of dividends, ending the three-month period with \$93.1 million of cash and cash equivalents.

Analysis of Cash Flow. Cash provided by operating activities increased \$108.0 million to \$228.0 million for the three months ended March 31, 2015, from \$120.1 million in 2014. This was primarily attributable to the receipt in 2015 of a \$112.5 million income tax refund.

Cash used in investing activities decreased approximately \$4.2 million to \$24.3 million for the three months ended March 31, 2015, from \$28.5 million in 2014, due primarily to a reduction in capital expenditures, partially offset by an increase in cash paid for the acquisition of businesses.



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

Net cash used in financing activities was \$156.3 million for the three months ended March 31, 2015, compared to \$52.8 million in 2014, a change of \$103.5 million. Our net reduction in debt was \$144.1 million for the three months ended March 31, 2015, as compared to \$41.3 million for the comparable period in 2014.

**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, 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 \$469.5 million was available at April 27, 2015, at which date we had \$81.6 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 restrict 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 ("TIPA") 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.** A reconciliation of merchandise, which includes purchases, follows (in thousands):

|  | Three Months Ended<br>March 31, 2015 | Three Months Ended<br>March 31, 2014<br>Revised |
|--|--------------------------------------|---|
| Beginning merchandise value                | \$1,242,711                          | \$1,128,236                                     |
| Merchandise additions through acquisitions | 3,544                                | 4,673   |

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|  |             |   |             |   |
|--|-------------|---|-------------|---|
| Purchases                                  | 349,051     |   | 265,227     |   |
| Depreciation of rental merchandise         | (179,668    | ) | (169,489    | ) |
| Cost of goods sold                         | (123,879    | ) | (85,703     | ) |
| Skips and stolens                          | (41,202     | ) | (31,139     | ) |
| Other merchandise deletions <sup>(1)</sup> | (28,065     | ) | (12,186     | ) |
| Ending merchandise value                   | \$1,222,492 |   | \$1,099,619 |   |

<sup>(1)</sup> Other merchandise deletions include loss/damage waiver claims and unrepairable and missing merchandise, as well as acquisition write-offs.

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

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 \$14.2 million and \$23.1 million on capital expenditures during the three-month periods ended March 31, 2015 and 2014, respectively, and expect to spend between \$70 million and \$80 million in 2015.

Acquisitions and New Location Openings. During the first three months of 2015, we acquired locations and accounts for approximately \$11.9 million in 6 different transactions.

The table below summarizes the location activity for the three-month period ended March 31, 2015.

|   | Three Months Ended March 31, 2015 |                           |                          |        |             |          |
|---|-----------------------------------|---------------------------|--------------------------|--------|-------------|----------|
|   | Core U.S.                         | Acceptance<br>Now Staffed | Acceptance<br>Now Direct | Mexico | Franchising | Total    |
| Locations at beginning of period                                      | 2,824                             | 1,406                     | —                        | 177    | 187         | 4,594    |
| New location openings   | —                                 | 53                        | 1                        | —      | 4           | 58       |
| Acquired locations remaining open                                     | 4                                 | —                         | —                        | —      | —           | 4        |
| Closed locations  |                                   |                           |                          |        |             |          |
| Merged with existing locations  | 4                                 | 27                        | —                        | 8      | —           | 39       |
| Sold or closed with no surviving location                             | 4                                 | —                         | —                        | —      | 7           | 11       |
| Locations at end of period  | 2,820                             | 1,432                     | 1                        | 169    | 184         | 4,606    |
| Acquired locations closed and accounts merged with existing locations | 15                                | —                         | —                        | —      | —           | 15       |
| Total approximate purchase price of acquired stores (in thousands)    | \$11,863                          | \$—                       | \$—                      | \$—    | \$—         | \$11,863 |

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 \$104.4 million had been so utilized as of April 27, 2015, at which date \$120.0 million was outstanding and \$450.6 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 0.54% at April 27, 2015.

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

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 ("Texas Capital Bank") under an agreement similar to the Citibank financing, which is guaranteed by Rent-A-Center East, Inc., a subsidiary of Rent-A-Center. The maximum guarantee obligations under these



agreements, excluding the effects of any amounts that could be recovered under collateralization provisions, is \$47.0 million, of which \$16.2 million was outstanding as of March 31, 2015.

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

Contractual Cash Commitments. The table below summarizes debt, lease and other minimum cash obligations outstanding as of March 31, 2015:

| Contractual Cash Obligations       | Payments Due by Period |                        |           |           |            |
|------------------------------------|------------------------|------------------------|-----------|-----------|------------|
|                                    | Total                  | 2015                   | 2016-2017 | 2018-2019 | Thereafter |
|                                    | (In thousands)         |                        |           |           |            |
| Senior Term Debt                   | \$222,750              | <sup>(1)</sup> \$1,687 | \$4,500   | \$4,500   | \$212,063  |
| Revolving Facility                 | 120,000                | <sup>(2)</sup> —       | —         | 120,000   | —          |
| INTRUST Line of Credit             | 6,000                  | 6,000                  | —         | —         | —          |
| 6.625% Senior Notes <sup>(3)</sup> | 419,250                | 19,875                 | 39,750    | 39,750    | 319,875    |
| 4.75% Senior Notes <sup>(4)</sup>  | 327,188                | 11,875                 | 23,750    | 23,750    | 267,813    |
| Operating Leases                   | 520,467                | 138,656                | 266,575   | 107,035   | 8,201      |
| Total <sup>(5)</sup>               | \$1,615,655            | \$178,093              | \$334,575 | \$295,035 | \$807,952  |

Amount referenced does not include interest payments. Our senior term debt bears interest at varying rates equal to <sup>(1)</sup> 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 March 31, 2015, was 0.75%.

Amount referenced does not include interest payments. Our Revolving Facility bears interest at varying rates equal to <sup>(2)</sup> 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 March 31, 2015, was 0.15%.

<sup>(3)</sup> Includes interest payments of \$9.9 million on each of May 15 and November 15 of each year.

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

As of March 31, 2015, we have \$14.5 million in uncertain tax positions. Because of the uncertainty of the amounts <sup>(5)</sup> 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.

#### 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. ASU 2014-09 will be effective for Rent-A-Center beginning January 1, 2017, and early adoption is not permitted. The ASU allows adoption with either retrospective application to each prior period presented, or retrospective application with the cumulative effect recognized as of the date of initial application. We are currently in the process of determining what impact, if any, the adoption of this ASU will have on our financial position, results of operations and cash flows, and we are evaluating the transition alternatives.

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

and other assets of approximately \$15.0 million, a reduction in senior debt of approximately \$7.4 million and a reduction in senior notes of approximately \$7.6 million.

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that we adopt as of the specified effective date. Unless otherwise discussed, we believe the impact of any other recently issued standards that 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.

RENT-A-CENTER, INC. AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Sensitivity

As of March 31, 2015, we had \$300.0 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 \$222.8 million outstanding in Term Loans, \$120.0 million outstanding on our Revolving Facility and \$6.0 million 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 March 31, 2015, was \$282.8 million. The fair value of the 4.75% senior notes, based on the closing price at March 31, 2015, was \$212.5 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 March 31, 2015, we have not entered into any interest rate swap agreements. Based on our overall interest rate exposure at March 31, 2015, a hypothetical 1.0% increase or decrease in interest rates would have the effect of causing a \$2.2 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 March 31, 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 March 31, 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.

RENT-A-CENTER, INC. AND SUBSIDIARIES

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: May 1, 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   |

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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.)



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- 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.)

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- 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

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† Management contract or compensatory plan or arrangement.

\* Filed herewith.