

RENT A CENTER INC DE
Form 10-K
February 29, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

or

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

Commission File No. 0-25370

Rent-A-Center, Inc.

(Exact name of registrant as specified in its charter)

Delaware

45-0491516

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer

Identification No.)

5501 Headquarters Drive

Plano, Texas 75024

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Exchange on Which Registered

Common Stock, par value \$0.01 per share

The Nasdaq Global Select Market, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

Aggregate market value of the 51,803,820 shares of Common Stock held by non-affiliates of the registrant at the closing sales price as reported on The Nasdaq Global Select Market, Inc. on June 30, \$1,468,638,297
2015

Number of shares of Common Stock outstanding as of the close of business on February 22, 2016: 53,091,850

Documents incorporated by reference:

Portions of the definitive proxy statement relating to the 2016 Annual Meeting of Stockholders of Rent-A-Center, Inc. are incorporated by reference into Part III of this report.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “seeks” or words of similar meaning, or future or conditional verbs, such as “will,” “should,” “could,” “may,” “aims,” “intends to,” “projects.” A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. You should not place undue reliance on forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. 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 “Risk Factors” and “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 Annual Report on Form 10-K 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 and operational performance of our business segments;
- failure to manage our store labor and other store expenses;
- our ability to identify, develop and successfully execute strategic initiatives;
- our ability to successfully implement our new store information management system and a new finance/HR enterprise system;
- our ability to successfully market smartphones and related services to our customers;
- our ability to develop and successfully implement virtual or e-commerce capabilities;
- failure to achieve the anticipated profitability enhancements from the changes to the 90 day option pricing program and the development of dedicated commercial sales capabilities;
- disruptions in our supply chain;
- limitations of, or disruptions in, our distribution network;
- rapid inflation or deflation in prices of our products;
- our ability to execute and the effectiveness of a store consolidation, including our ability to retain the revenue from customer accounts merged into another store location as a result of a store consolidation;
- our available cash flow;
- our ability to identify and successfully market products and services that appeal to our customer demographic;
- consumer preferences and perceptions of our brands;
- uncertainties regarding the ability to open new locations;
- our ability to acquire additional stores or customer accounts on favorable terms;
- our ability to control costs and increase profitability;
- our ability to retain the revenue associated with acquired customer accounts and enhance the performance of acquired stores;
- our ability to enter into new and collect on our rental or lease purchase agreements;

the passage of legislation or adoption of regulations adversely affecting the rent-to-own industry;

our compliance with applicable statutes or regulations governing our transactions;

changes in interest rates;

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

information technology and data security costs;

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

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

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

changes in our effective tax rate;

fluctuations in foreign currency exchange rates;

our ability to maintain an effective system of internal controls;

the resolution of our litigation; and

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

PART I

Item 1. Business.

History of Rent-A-Center

Unless the context indicates otherwise, references to “we,” “us” and “our” refer to the consolidated business operations of Rent-A-Center, Inc., the parent, and any or all of its direct and indirect subsidiaries. For any references in this document to Note A through Note T, refer to the Notes to Consolidated Financial Statements in Item 8.

We are one of the largest rent-to-own operators in North America, 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), smartphones, and furniture (including accessories), under flexible rental purchase agreements with no long-term obligation. We were incorporated in the State of Delaware in 1986, and our common stock is traded on the Nasdaq Global Select Market under the symbol "RCII."

Our principal executive offices are located at 5501 Headquarters Drive, Plano, Texas 75024. Our telephone number is (972) 801-1100 and our company website is www.rentacenter.com. We do not intend for information contained on our website to be part of this Annual Report on Form 10-K. We make available free of charge on or through our website our Annual Report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the “SEC”). Additionally, we provide electronic or paper copies of our filings free of charge upon request.

The Rental Purchase Transaction

The rental purchase transaction is a flexible alternative for consumers to obtain use and enjoyment of brand name merchandise with no long-term obligation. Key features of the rental purchase transaction include:

Brand name merchandise. We offer well-known brands such as LG, Samsung, Sony and Vizio home electronics; Frigidaire, General Electric, LG, Samsung and Whirlpool appliances; Acer, Apple, Asus, Samsung and Toshiba computers and/or tablets; LG and Samsung smartphones; and Ashley, Powell and Standard furniture.

Convenient payment options. Our customers make payments on a weekly, semi-monthly or monthly basis in our stores, kiosks, online or by telephone. We accept cash, credit or debit cards. Rental payments are generally made in advance and, together with applicable fees, constitute our primary revenue source. Approximately 83% and 91% of our rental purchase agreements are on a weekly term in our Core U.S. rent-to-own stores and our Mexico segment, respectively. Payments are made in advance on a monthly basis in our Acceptance Now segment.

No negative consequences. A customer may terminate a rental purchase agreement at any time without penalty.

No credit needed. Generally, we do not conduct a formal credit investigation of our customers. We verify a customer’s residence and sources of income. References provided by the customer are also contacted to verify certain information contained in the rental purchase order form.

Delivery & set-up included. We generally offer same-day or next-day delivery and installation of our merchandise at no additional cost to the customer in our rent-to-own stores. Our Acceptance Now locations rely on our third-party retail partners to deliver merchandise rented by the customer. Such third-party retail partners typically charge us a fee for delivery, which we pass on to the customer.

Product maintenance & replacement. We provide any required service or repair without additional charge, except for damage in excess of normal wear and tear. Repair services are provided through our network of service centers, the cost of which may be reimbursed by the vendor if the item is still under factory warranty. If the product cannot be repaired at the customer’s residence, we provide a temporary replacement while the product is being repaired. If the product cannot be repaired, we will replace it with a product of comparable quality, age and condition.

Lifetime reinstatement. If a customer is temporarily unable to make payments on a piece of rental merchandise and must return the merchandise, that customer generally may later re-rent the same piece of merchandise (or if unavailable, a substitute of comparable quality, age and condition) on the terms that existed at the time the merchandise was returned, and pick up payments where they left off without losing what they previously paid.

Flexible options to obtain ownership. Ownership of the merchandise generally transfers to the customer if the customer has continuously renewed the rental purchase agreement for a period of seven to 30 months, depending upon the product type, or exercises a specified early purchase option.

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 profitably 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. stores, formulating a customer-focused, value-based pricing strategy, developing a new sourcing and distribution model, implementing new technology into our Acceptance Now locations, and introducing e-commerce capabilities to our Core U.S. segment.

Flexible Labor Model

Historically, we 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. Because our stores are open for business six days per week, this fixed labor model included regularly scheduled overtime, and did not allow us to scale our costs to match the revenue cycles. In 2015, we rolled out a flexible labor model utilizing part-time delivery specialists so that in-store personnel can provide better customer service during peak operating hours, gain cost savings during off-peak hours and improve efficiency during seasonal fluctuations in the business. The introduction of the flexible labor model in 2015 has had a meaningful impact on our Core U.S. store labor expense.

Pricing and Promotions

We need to price our products to remain competitive in the market, maintain a customer-centric focus and drive traffic. We implemented new pricing strategies in our Core U.S. stores in 2015 to meet these challenges. We focused 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.

Sourcing and Distribution

Since the Company's inception, the stores in our Core U.S. segment relied on rental merchandise shipped from the manufacturer or distributor directly to the store and did not utilize 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, in 2015, we created new direct supplier partnerships, implemented a new system to manage distribution operations, implemented a network of distribution centers through a third-party logistics partnership and automated replenishment processes from distribution centers to stores. The use of distribution centers allows us to take greater advantage of discounted bulk purchasing and expand the number of potential manufacturers and suppliers, which allows us to offer our customers a wider selection of products while generating greater margins, better flexibility and improved store service levels.

Virtual 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 virtual solution was implemented in all of our manned Acceptance Now locations as of December 31, 2015. This platform is also being used in unmanned Acceptance Now Direct locations, or virtual kiosks, where the retailer does not have enough credit-constrained customers to justify creating a manned location.

E-Commerce

Like many industries, the rent-to-own industry is being transformed by the internet and virtual marketplace. To meet these evolving demands, we will introduce e-commerce capabilities to our Core U.S. segment in 2016. We believe that offering the rental purchase transaction online will allow us to access new customers who might not otherwise consider rent-to-own, as well as enable our existing customers to interact with Rent-A-Center more easily and conveniently. By pairing e-commerce together with our traditional brick-and mortar stores, we believe we will offer our customers an even more compelling value proposition.

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, to improve operations and support business growth. We developed and implemented applications and systems to support our new distribution network, such as a warehouse management system and enhancements to our automated replenishment system. As described above, we have developed a virtual solution for the Acceptance Now transaction. We are also in the process of implementing in the stores in our Core U.S. segment our new store information management system and processes that extend and improve capabilities for store sales and operations. We implemented our Enterprise corporate management system which integrates key corporate back-office systems, such as our financial reporting and inventory management systems, as well as collects and consolidates critical business data from all store operations. During 2016, we will begin the work on an integrated financial and human resources enterprise system with an implementation date in the first quarter of 2017.

Our Operating Segments

We report four operating segments: Core U.S., Acceptance Now, Mexico, and Franchising. Additional information regarding our operating segments is presented in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in Item 7 of this Annual Report on Form 10-K, and financial information regarding these segments and revenues by geographic area are provided in Note R to the consolidated financial statements contained in this Annual Report on Form 10-K. Substantially all of our revenues for the past three years originated in the United States.

Core U.S.

Our Core U.S. segment is our largest operating segment, comprising approximately 72% of our consolidated net revenues for the year ended December 31, 2015. Approximately 79% of our business in this segment is from repeat customers.

At December 31, 2015, we operated 2,672 company-owned stores in the United States, Canada and Puerto Rico, including 45 retail installment sales stores under the names “Get It Now” and “Home Choice.” We routinely evaluate the markets in which we operate and will close, sell or merge underperforming stores.

Acceptance Now

Through our Acceptance Now segment, we generally provide an on-site rent-to-own option at a third-party retailer’s location. In the event a retail purchase credit application is declined, the customer can be introduced to an in-store Acceptance Now representative who explains an alternative transaction for acquiring the use and ownership of the merchandise. Because we neither require nor perform a formal credit investigation for the approval of the rental purchase transaction, applicants who meet certain basic criteria are generally approved. We believe our Acceptance Now program is beneficial for both the retailer and the consumer. The retailer captures more sales because we buy the merchandise directly from them and future rental payments are generally made at the retailer’s location. We believe consumers also benefit from our Acceptance Now program because they are able to obtain the products they want and need without the necessity of credit. The gross margins in this segment are lower than the gross margins in our Core U.S. segment because we pay retail for the product. Through certain retail partners, we offer our customers the option to obtain ownership of the product at or slightly above the full retail price if they pay within 90 days. In some cases, the retailer provides us a rebate on the cost of the merchandise if the customer exercises this 90 day option.

Each Acceptance Now kiosk location typically consists of an area with a computer, desk and chairs. We occupy the space without charge by agreement with each retailer. Accordingly, capital expenditures with respect to a new Acceptance Now location are minimal, and any exit costs associated with the closure of an Acceptance Now location would also be immaterial on an individual basis. Our operating model is highly agile and dynamic because we can open and close locations quickly and efficiently.

We rely on our third-party retail partners to deliver merchandise rented by the customer. Such third-party retail partners typically charge us a fee for delivery, which we pass on to the customer. In the event the customer returns rented merchandise, we pick it up at no additional charge. Merchandise returned from an Acceptance Now kiosk location is offered for rent at one of our Core U.S. rent-to-own stores.

We intend to grow the Acceptance Now segment by increasing the number of our retail partners and the number of locations with our existing retail partners as well as expanding the number of locations using our virtual solution. As of December 31, 2015, we operated 1,444 staffed kiosk locations inside furniture and electronics retailers located in 40 states and Puerto Rico, and 532 virtual (direct) locations.

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Mexico

Our Mexico segment currently consists of our company-owned rent-to-own stores in Mexico. At December 31, 2015, we operated 143 stores in this segment. During 2015, we implemented operational initiatives that have decreased operating losses, and we believe the financial performance of our Mexico operations will continue to improve. We are optimistic that these initiatives will be successful. However, if we are unable to achieve an acceptable level of profitability in Mexico, we will consider all available alternatives for our operations in Mexico.

We are subject to the risks of doing business internationally as described under "Risk Factors."

Franchising

The stores in our Franchising segment use Rent-A-Center's, ColorTyme's or RimTyme's trade names, service marks, trademarks and logos, and operate under distinctive operating procedures and standards. Franchising's primary source of revenue is the sale of rental merchandise to its franchisees who, in turn, offer the merchandise to the general public for rent or purchase under a rent-to-own transaction.

At December 31, 2015, this segment franchised 227 stores in 31 states operating under the Rent-A-Center (149 stores), ColorTyme (40 stores) and RimTyme (38 stores) names. These rent-to-own stores primarily offer high quality durable products such as consumer electronics, appliances, computers, furniture and accessories, wheels and tires.

As franchisor, Franchising receives royalties of 2.0% to 6.0% of the franchisees' monthly gross revenue and, generally, an initial fee up to \$35,000 per new location.

The following table summarizes our locations allocated among these operating segments as of December 31:

	2015	2014	2013
Core U.S.	2,672	2,824	3,010
Acceptance Now Staffed	1,444	1,406	1,325
Acceptance Now Direct	532	—	—
Mexico	143	177	151
Franchising	227	187	179
Total locations	5,018	4,594	4,665

The following discussion applies generally to all of our operating segments, unless otherwise noted.

Rent-A-Center Operations

Store Expenses

Our expenses primarily relate to merchandise costs and the operations of our stores, including salaries and benefits for our employees, occupancy expense for our leased real estate, advertising expenses, lost, damaged, or stolen merchandise, fixed asset depreciation, and other expenses.

As a result of the investment in new stores and kiosk locations and their growth curves, our quarterly earnings are impacted by how many new locations we opened during a particular quarter and the quarters preceding it.

Product Selection

Our Core U.S. and Mexico stores generally offer merchandise from five basic product categories: consumer electronics, appliances, computers (including tablets), smartphones, and furniture (including accessories). Although we seek to maintain sufficient inventory in our stores to offer customers a wide variety of models, styles and brands, we generally limit merchandise to prescribed levels to maintain strict inventory controls. We seek to provide a wide variety of high quality merchandise to our customers, and we emphasize products from name-brand manufacturers. Customers may request either new merchandise or previously rented merchandise. Previously rented merchandise is generally offered at a similar weekly or monthly rental rate as is offered for new merchandise, but with an opportunity to obtain ownership of the merchandise after fewer rental payments.

Consumer electronic products offered by our stores include high definition televisions, home theater systems, video game consoles and stereos. Appliances include refrigerators, freezers, washing machines, dryers, and ranges. We offer desktop, laptop, tablet computers and smartphones. Our furniture products include dining room, living room and bedroom furniture featuring a

number of styles, materials and colors. Accessories include lamps and tables and are typically rented as part of a package of items, such as a complete room of furniture. Showroom displays enable customers to visualize how the product will look in their homes and provide a showcase for accessories.

The merchandise assortment may vary in our non-U.S. stores according to market characteristics and consumer demand unique to the particular country in which we are operating. For example, in Mexico, the appliances we offer are sourced locally, providing our customers in Mexico the look and feel to which they are accustomed in that product category.

Acceptance Now locations offer the merchandise available for sale at the applicable third-party retailer, primarily furniture and accessories, consumer electronics and appliances.

For the year ended December 31, 2015, furniture and accessories accounted for approximately 40% of our consolidated rentals and fees revenue, consumer electronic products for 26%, appliances for 18%, computers for 9% and smartphones for 7%.

Product Turnover

On average, in the Core U.S. segment, a rental term of 15 months or exercising an early purchase option is generally required to obtain ownership of new merchandise. Product turnover is the number of times a product is rented to a different customer. On average, a product is rented (turned over) to three customers before a customer acquires ownership. Merchandise returned in the Acceptance Now segment is moved to a Core U.S. store where it is offered for rent. Ownership is attained in approximately 25% of first-time rental purchase agreements in the Core U.S. segment. The average total life for each product in our Core U.S. segment is approximately 18 months, which includes the initial rental period, all re-rental periods and idle time in our system. To cover the higher operating expenses generated by product turnover and the key features of rental purchase transactions, rental purchase agreements require higher aggregate payments than are generally charged under other types of purchase plans, such as installment purchase or credit plans.

Collections

Store managers use our management information system to track collections on a daily basis. If a customer fails to make a rental payment when due, store personnel will attempt to contact the customer to obtain payment and reinstate the agreement, or will terminate the account and arrange to regain possession of the merchandise. We attempt to recover the rental items as soon as possible following termination or default of a rental purchase agreement, generally by the seventh day. Collection efforts are enhanced by the personal and job-related references required of customers, the personal nature of the relationships between our employees and customers, and the availability of lifetime reinstatement. Currently, we track past due amounts using a guideline of seven days in our Core U.S. segment and 30 days in the Acceptance Now segment. These metrics align with the majority of the rental purchase agreements in each segment, since payments are generally made weekly in the Core U.S. segment and monthly in the Acceptance Now segment.

If a customer does not return the merchandise or make payment, the remaining book value of the rental merchandise associated with delinquent accounts is generally charged off on or before the 90th day following the time the account became past due in the Core U.S. segment, on or before the 150th day in the Acceptance Now segment and on or before the 60th day in the Mexico segment.

Management

Our executive management team has extensive rent-to-own or similar retail experience and has demonstrated the ability to grow and manage our business through their operational leadership and strategic vision. In addition, our regional and district managers have long tenures with us, and we have a history of promoting management personnel from within. We believe this extensive industry and company experience will allow us to effectively execute our growth strategies.

Purchasing

Our centralized inventory management organization utilizes a combination of automated and manual merchandise planning, forecasting and replenishment processes to determine appropriate inventory levels to maintain in our third-party distribution centers and company-owned stores. Inventory levels are monitored on a daily basis, and

purchase orders are processed and sent to manufacturers and distributors on a weekly basis to replenish inventory housed in our third-party distribution centers. In 2015, we implemented a customized software solution that builds recommended store replenishment orders based on current store inventory levels, current store rental and return trends, seasonality, product needs, desired weeks of supply targets, and other key factors. Approved orders are then passed through an automated solution to our third party distribution center and furniture manufacturer and product ships to the stores. The replenishment system and associated processes allow us to retain tight control over our inventory, ensure assortment diversity in our stores and assists us in having the right products available at the right time.

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In our Core U.S. and Mexico segments, we purchase our rental merchandise from a variety of suppliers. In 2015, approximately 11% of our merchandise purchases were attributable to Ashley Furniture Industries. No other brand accounted for more than 10% of merchandise purchased during these periods. We do not generally enter into written contracts with our suppliers that obligate us to meet certain minimum purchasing levels. Although we expect to continue relationships with our existing suppliers, we believe there are numerous sources of products available, and we do not believe the success of our operations is dependent on any one or more of our present suppliers.

In our Acceptance Now segment, we purchase the merchandise selected by the customer from the applicable third-party retailer at the time such customer enters into a rental purchase agreement with us.

With respect to our Franchising segment, the franchise agreement requires the franchised stores to exclusively offer for rent or sale only those brands, types and models of products that Franchising has approved. The franchised stores are required to maintain an adequate mix of inventory that consists of approved products for rent as dictated by Franchising policy manuals. Franchising negotiates purchase arrangements with various suppliers it has approved, and franchisees purchase directly from those suppliers and from inventory housed in our third-party distribution centers.

Marketing

We promote our products and services through television and radio commercials, print advertisements, store telemarketing, digital display advertisements, direct email campaigns, social networks, paid and organic search, website and store signage, all of which are designed to increase our name recognition among our customers and potential customers. Our advertisements emphasize such features as product and name-brand selection, the opportunity to pay as you go without credit, long-term contracts or obligations, delivery and set-up at no additional cost, product repair and loaner services at no extra cost, lifetime reinstatement and multiple options to acquire ownership, including 90 day option pricing, an early purchase option or through a fixed number of payments. In addition, we promote the “RAC Worry-Free Guarantee®” to further highlight these aspects of the rent-to-own transaction. We believe that as the Rent-A-Center name gains familiarity and national recognition through our advertising efforts, we will continue to educate our customers and potential customers about the rent-to-own alternative to credit as well as solidify our reputation as a leading provider of high-quality, branded merchandise and services.

Franchising has established national advertising funds for the franchised stores, whereby Franchising has the right to collect up to 3% of the monthly gross revenue from each franchisee as contributions to the fund. Franchising directs the advertising programs of the fund, generally consisting of television and radio commercials and print advertisements. Franchising also has the right to require franchisees to expend up to 3% of their monthly gross revenue on local advertising.

Industry & Competition

According to the Association of Progressive Rental Organizations, the \$8.5 billion rent-to-own industry in the United States, Mexico and Canada consists of approximately 8,900 stores, serves approximately 4.8 million customers and approximately 83% of rent-to-own customers have household incomes between \$15,000 and \$50,000 per year. The rent-to-own industry provides customers the opportunity to obtain merchandise they might otherwise be unable to obtain due to insufficient cash resources or a lack of access to credit. We believe the number of consumers lacking access to credit is increasing. According to data released by the Fair Isaac Corporation on August 17, 2015, consumers in the “subprime” category (those with credit scores below 650) made up 32% of the United States population. The rent-to-own industry is experiencing rapid change with the emergence of virtual and kiosk-based operations, such as our Acceptance Now business. These new industry participants are disrupting traditional rent-to-own stores by attracting customers and making the rent-to-own transaction more acceptable to potential customers. In addition, banks and consumer finance companies are developing products and services designed to compete for the traditional rent-to-own customer.

These factors are increasingly contributing to an already highly competitive environment. Our stores and kiosks compete with other national, regional and local rent-to-own businesses, including on-line only competitors, as well as with rental stores that do not offer their customers a purchase option. With respect to customers desiring to purchase merchandise for cash or on credit, we also compete with retail stores, online competitors, and non-traditional lenders.

Competition is based primarily on convenience, store location, product selection and availability, customer service, rental rates and terms.

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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. 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, primarily due to federal income tax refunds. 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.

Trademarks

We own various trademarks and service marks, including Rent-A-Center® and RAC Worry-Free Guarantee® that are used in connection with our operations and have been registered with the United States Patent and Trademark Office. The duration of our trademarks is unlimited, subject to periodic renewal and continued use. In addition, we have obtained trademark registrations in Mexico, Canada and certain other foreign jurisdictions. We believe we hold the necessary rights for protection of the trademarks and service marks essential to our business. The products held for rent in our stores also bear trademarks and service marks held by their respective manufacturers.

Franchising licenses the use of the Rent-A-Center and ColorTyme trademarks and service marks to its franchisees under the franchise agreement. Franchising owns various trademarks and service marks, including ColorTyme® and RimTyme®, that are used in connection with its operations and have been registered with the United States Patent and Trademark office. The duration of these marks is unlimited, subject to periodic renewal and continued use.

Employees

As of February 22, 2016, we had approximately 24,300 employees.

Government Regulation

Core U.S. & Acceptance Now

State Regulation. Currently, 46 states, the District of Columbia and Puerto Rico have rental purchase statutes that recognize and regulate rental purchase transactions as separate and distinct from credit sales. We believe this existing legislation is generally favorable to us, as it defines and clarifies the various disclosures, procedures and transaction structures related to the rent-to-own business with which we must comply. With some variations in individual states, most related state legislation requires the lessor to make prescribed disclosures to customers about the rental purchase agreement and transaction, and provides time periods during which customers may reinstate agreements despite having failed to make a timely payment. Some state rental purchase laws prescribe grace periods for non-payment, prohibit or limit certain types of collection or other practices, and limit certain fees that may be charged. Ten states limit the total rental payments that can be charged to amounts ranging from 2.0 times to 2.4 times the disclosed cash price or the retail value of the rental product. Five states limit the cash price of merchandise to amounts ranging from 1.56 to 2.5 times our cost for each item.

Although Minnesota has a rental purchase statute, the rental purchase transaction is also treated as a credit sale subject to consumer lending restrictions pursuant to judicial decision. Therefore, we offer our customers in Minnesota an opportunity to purchase our merchandise through an installment sale transaction in our Home Choice stores. We operate 17 Home Choice stores in Minnesota.

North Carolina has no rental purchase legislation. However, the retail installment sales statute in North Carolina expressly provides that lease transactions which provide for more than a nominal purchase price at the end of the agreed rental period are not credit sales under the statute. We operate 102 rent-to-own stores, and 65 and 70 Acceptance Now Staffed and Acceptance Now Direct locations, respectively, in North Carolina.

Courts in Wisconsin and New Jersey, which do not have rental purchase statutes, have rendered decisions which classify rental purchase transactions as credit sales subject to consumer lending restrictions. Accordingly, in Wisconsin, we offer our customers an opportunity to purchase our merchandise through an installment sale transaction in our Get It Now stores. In New Jersey, we have modified our typical rental purchase agreements to provide disclosures, grace periods, and pricing that we believe comply with the retail installment sales act. We operate 28 Get It Now stores in Wisconsin and 48 Rent-A-Center stores in New Jersey.

There can be no assurance as to whether new or revised rental purchase laws will be enacted or whether, if enacted, the laws would not have a material and adverse effect on us.

Federal Regulation. To date, no comprehensive federal legislation has been enacted regulating or otherwise impacting the rental purchase transaction. The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) does not regulate leases with terms of 90 days or less. Because the rent-to-own transaction is for a term of week to week, or at most, month to month, and established federal law deems the term of a lease to be its minimum term regardless of extensions or renewals, if any, we believe the rent-to-own transaction is not covered by the Dodd-Frank Act.

From time to time, we have supported legislation introduced in Congress that would regulate the rental purchase transaction. While both beneficial and adverse legislation may be introduced in Congress in the future, any adverse federal legislation, if enacted, could have a material and adverse effect on us.

Mexico and Canada

No comprehensive legislation regulating the rent-to-own transaction has been enacted in Mexico or Canada. We use substantially the same rental purchase transaction in those countries as in the U.S. stores, but with such additional provisions as we believe may be necessary to comply with such country’s specific laws and customs.

Item 1A. Risk Factors.

You should carefully consider the risks described below before making an investment decision. We believe these are all the material risks currently facing our business. Our business, financial condition or results of operations could be materially adversely affected by these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. You should also refer to the other information included in this Annual Report on Form 10-K, including our consolidated financial statements and related notes.

Our success depends on the effective implementation and continued execution of our strategies.

Our Core U.S. store base is mature and our Acceptance Now business operates in an intensively competitive environment. We are in the midst of a multi-year program designed to address these dynamics by transforming and modernizing our operations in order to improve the profitability of the Core U.S. segment while continuing to grow profitably our Acceptance Now segment. These strategic initiatives are designed to create growth, improve our results of operations and drive long-term shareholder value, and include:

- a flexible labor model;
- a customer-focused, value-based pricing strategy;
- centralized sourcing and distribution; and
- developing, managing and improving the technology required to meet the evolving demands of our customers and compete in the rapidly changing rent-to-own industry.

There is no assurance that we will be able to implement and execute these strategic initiatives in accordance with our expectations. Higher costs or failure to achieve targeted results associated with the implementation of such new programs or initiatives could adversely affect our results of operations or negatively impact our ability to successfully execute future strategies, which may result in an adverse impact on our business and financial results.

We are highly dependent on the financial performance of our Core U.S. operating segment.

Our financial performance is highly dependent on our Core U.S. segment, which comprised approximately 72% of our consolidated net revenues for the year ended December 31, 2015. Any significant decrease in the financial performance of the Core U.S. segment may also have a material adverse impact on our ability to implement our growth strategies.

Failure to effectively manage our costs could have a material adverse effect on our profitability.

Certain elements of our cost structure are largely fixed in nature. Consumer spending remains uncertain, which makes it more challenging for us to maintain or increase our operating income in the Core U.S. segment. The competitiveness in our industry and increasing price transparency means that the focus on achieving efficient operations is greater than ever. As a result, we must continuously focus on managing our cost structure. Failure to manage our labor and benefit rates, advertising and marketing expenses, operating leases, charge-offs due to customer stolen merchandise, other store expenses or indirect spending could materially adversely affect our profitability. Our Acceptance Now segment depends on the success of our third-party retail partners and our continued relationship with them.

Our Acceptance Now segment revenues depend in part on the ability of unaffiliated third-party retailers to attract customers. The failure of our third-party retail partners to maintain quality and consistency in their operations and their ability to continue to provide products and services, or the loss of the relationship with any of these third-party retailers and an inability to replace them, could cause our Acceptance Now segment to lose customers, substantially decreasing the revenues and earnings of our Acceptance Now segment. This could adversely affect our financial results and slow our overall growth. In 2015, approximately 71% of the total revenue of the Acceptance Now segment originated at our Acceptance Now kiosks located in stores operated by six retail partners. We may be unable to continue growing the Acceptance Now segment if we are unable to find third-party retailers willing to partner with us or if we are unable to enter into agreements with third-party retailers acceptable to us.

The success of our business is dependent on factors affecting consumer spending that are not under our control. Consumer spending is affected by general economic conditions and other factors including levels of employment, disposable consumer income, prevailing interest rates, consumer debt and availability of credit, costs of fuel, inflation, recession and fears of recession, war and fears of war, pandemics, inclement weather, tax rates and rate increases, timing of receipt of tax refunds, consumer confidence in future economic conditions and political conditions, and consumer perceptions of personal well-being and security. Unfavorable changes in factors affecting discretionary spending could reduce demand for our products and services resulting in lower revenue and negatively impacting the business and its financial results.

If we are unable to compete effectively with the growing e-commerce sector, our business and results of operations may be materially adversely affected.

With the continued expansion of Internet use, as well as mobile computing devices and smart phones, competition from the e-commerce sector continues to grow. We have launched virtual capabilities within our Acceptance Now segment and have plans in 2016 to expand those capabilities to our Core U.S. segment. There can be no assurance we will be able to grow our e-commerce business in a profitable manner. Certain of our competitors, and a number of e-commerce retailers, have established e-commerce operations against which we compete for customers. It is possible that the increasing competition from the e-commerce sector may reduce our market share, gross margin, and operating margin, and may materially adversely affect our business and results of operations in other ways.

Disruptions in our supply chain and other factors affecting the distribution of our merchandise could adversely impact our business.

Any disruption in the operation of our distribution centers could result in our inability to meet our customers' expectations, higher costs, an inability to stock our stores or longer lead time associated with distributing merchandise. Any such disruption within our supply chain network, including damage or destruction to one of our five regional distribution centers, could result in decreased net sales, increased costs and reduced profits.

Our debt agreements impose restrictions on us which may limit or prohibit us from engaging in certain transactions. If a default were to occur, our lenders could accelerate the amounts of debt outstanding, and holders of our secured indebtedness could force us to sell our assets to satisfy all or a part of what is owed.

Covenants under our senior credit facilities and the indenture governing our outstanding senior unsecured notes restrict our ability to pay dividends and engage in various operational matters. In addition, covenants under our senior credit facilities require us to maintain specified financial ratios. Our ability to meet these financial ratios may be affected by events beyond our control. These restrictions could limit our ability to obtain future financing, make needed capital expenditures or other investments, repurchase our outstanding debt or equity, pay dividends, withstand a future downturn in our business or in the economy, dispose of operations, engage in mergers, acquire additional stores or otherwise conduct necessary corporate activities. Various transactions that we may view as important opportunities, are also subject to the consent of lenders under the senior credit facilities, which may be withheld or granted subject to conditions specified at the time that may affect the attractiveness or viability of the transaction. If a default were to occur, the lenders under our senior credit facilities could accelerate the amounts outstanding under the credit facilities. In addition, the lenders under these agreements could terminate their commitments to lend to us. If the lenders under these agreements accelerate the repayment of borrowings, we may not have sufficient liquid assets at that time to repay the amounts then outstanding under our indebtedness or be able to find additional alternative financing. Even if we could obtain additional alternative financing, the terms of the financing may not be favorable or acceptable to us.

The existing indebtedness under our senior credit facilities is secured by substantially all of our assets. Should a default or acceleration of this indebtedness occur, the holders of this indebtedness could sell the assets to satisfy all or a part of what is owed.

Our current insurance program may expose us to unexpected costs and negatively affect our financial performance. Our insurance coverage is subject to deductibles, self-insured retentions, limits of liability and similar provisions that we believe are prudent based on our operations. Because we self-insure a significant portion of expected losses under our workers' compensation, general liability, vehicle and group health insurance programs, unanticipated changes in any applicable actuarial assumptions and management estimates underlying our recorded liabilities for these losses, including potential increases in medical and indemnity costs, could result in materially different amounts of expense

than expected under these programs. This could have a material adverse effect on our financial condition and results of operations.

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Our operations in Mexico are subject to political or regulatory changes and significant changes in the economic environment and other concerns.

We opened our first store in Mexico in October 2010, and operated 143 stores in Mexico as of December 31, 2015. Changes in the business, regulatory or political climate in Mexico could adversely affect our operations there. Mexico is also subject to certain potential risks and uncertainties that are beyond our control, such as violence, social unrest, enforcement of property rights and public safety and security that could restrict or eliminate our ability to open new or operate some or all of our locations in Mexico, or significantly reduce customer traffic or demand. In addition, our assets, investments in, earnings from and dividends from our Mexican subsidiaries must be translated to U.S. dollars from the Mexican peso. Accordingly, we are exposed to risks associated with fluctuations of the exchange rate for the Mexican peso which may have an impact on our future costs or on future cash flows from our Mexico operations, and could adversely affect our financial performance.

Failure to improve our financial performance in Mexico could result in our taking actions that may change or impact our projected results in the future.

We are pursuing several operational initiatives designed to improve the financial performance of our operations in Mexico. If we are unable to achieve an acceptable level of profitability in Mexico, we will consider all available alternatives for our operations in Mexico, some of which may change or impact our projected results in the future. Our transactions are regulated by and subject to the requirements of various federal and state laws and regulations, which may require significant compliance costs and expose us to litigation. Any negative change in these laws or the passage of unfavorable new laws could require us to alter our business practices in a manner that may be materially adverse to us.

Currently, 46 states, the District of Columbia and Puerto Rico have passed laws that regulate rental purchase transactions as separate and distinct from credit sales. One additional state has a retail installment sales statute that excludes leases, including rent-to-own transactions, from its coverage if the lease provides for more than a nominal purchase price at the end of the rental period. The specific rental purchase laws generally require certain contractual and advertising disclosures. They also provide varying levels of substantive consumer protection, such as requiring a grace period for late fees and contract reinstatement rights in the event the rental purchase agreement is terminated. The rental purchase laws of ten states limit the total amount that may be charged over the life of a rental purchase agreement and the laws of five states limit the cash prices for which we may offer merchandise.

Similar to other consumer transactions, our rental purchase transaction is also governed by various federal and state consumer protection statutes. These consumer protection statutes, as well as the rental purchase statutes under which we operate, provide various consumer remedies, including monetary penalties, for violations. In our history, we have been the subject of litigation alleging that we have violated some of these statutory provisions.

Although there is currently no comprehensive federal legislation regulating rental purchase transactions, adverse federal legislation may be enacted in the future. From time to time, both favorable and adverse legislation seeking to regulate our business has been introduced in Congress. In addition, various legislatures in the states where we currently do business may adopt new legislation or amend existing legislation that could require us to alter our business practices in a manner that could have a material adverse effect on our business, financial condition and results of operations.

Our reputation, ability to do business and operating results may be impaired by improper conduct by any of our employees, agents or business partners.

Our operations in the U.S. and abroad are subject to certain laws generally prohibiting companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business, such as the U.S. Foreign Corrupt Practices Act, and similar anti-bribery laws in other jurisdictions. Our employees, contractors or agents may violate the policies and procedures we have implemented to ensure compliance with these laws. Any such improper actions could subject us to civil or criminal investigations in the U.S. and in other jurisdictions, could lead to substantial civil and criminal, monetary and non-monetary penalties, and related shareholder lawsuits, could cause us to incur significant legal fees, and could damage our reputation.

We may be subject to legal proceedings from time to time which seek material damages. The costs we incur in defending ourselves or associated with settling any of these proceedings, as well as a material final judgment or decree against us, could materially adversely affect our financial condition by requiring the payment of the settlement amount, a judgment or the posting of a bond.

In our history, we have defended class action lawsuits alleging various regulatory violations and have paid material amounts to settle such claims. Significant settlement amounts or final judgments could materially and adversely affect our liquidity and capital resources. The failure to pay any material judgment would be a default under our senior credit facilities and the indenture governing our outstanding senior unsecured notes.

Our operations are dependent on effective management information systems. Failure of these systems could negatively impact our business, financial condition and results of operations.

We utilize integrated management information systems. The efficient operation of our business is dependent on these systems to effectively manage our financial and operational data. The failure of our management information systems to perform as designed, loss of data or any interruption of our management information systems for a significant period of time could disrupt our business. If the management information systems sustain repeated failures, we may not be able to manage our store operations, which could have a material adverse effect on our business, financial condition and results of operations.

We are currently investing in new information technology systems and implementing modifications and upgrades to existing systems to support our growth plan. These investments include replacing legacy systems, making changes to existing systems, building redundancies, and acquiring new systems and hardware with updated functionality. We are taking appropriate actions to ensure the successful implementation of these initiatives, including the testing of new systems and the transfer of existing data, with minimal disruptions to the business. These efforts may take longer and may require greater financial and other resources than anticipated, may cause distraction of key personnel, may cause disruptions to our existing systems and our business, and may not provide the anticipated benefits. The disruption in our information technology systems, or our inability to improve, upgrade, integrate or expand our systems to meet our evolving business requirements, could impair our ability to achieve critical strategic initiatives and could materially adversely impact our business, financial condition and results of operations.

If we fail to protect the integrity and security of customer and employee information, we could be exposed to litigation or regulatory enforcement and our business could be adversely impacted.

We collect and store certain personal information provided to us by our customers and employees in the ordinary course of our business. Despite instituted safeguards for the protection of such information, we cannot be certain that all of our systems are entirely free from vulnerability to attack. Computer hackers may attempt to penetrate our network security and, if successful, misappropriate confidential customer or employee information. In addition, one of our employees, contractors or other third party with whom we do business may attempt to circumvent our security measures in order to obtain such information, or inadvertently cause a breach involving such information. Loss of customer or employee information could disrupt our operations, damage our reputation, and expose us to claims from customers, employees, regulators and other persons, any of which could have an adverse effect on our business, financial condition and results of operations. In addition, the costs associated with information security, such as increased investment in technology, the costs of compliance with privacy laws, and costs incurred to prevent or remediate information security breaches, could adversely impact our business.

A change of control could accelerate our obligation to pay our outstanding indebtedness, and we may not have sufficient liquid assets at that time to repay these amounts.

Under our senior credit facilities, an event of default would result if a third party became the beneficial owner of 35.0% or more of our voting stock or upon certain changes in the constitution of Rent-A-Center's Board of Directors. As of December 31, 2015, \$411.1 million was outstanding under our senior credit facilities.

Under the indenture governing our outstanding senior unsecured notes, in the event of a change in control, we may be required to offer to purchase all of our outstanding senior unsecured notes at 101% of their original aggregate principal amount, plus accrued interest to the date of repurchase. A change in control also would result in an event of default under our senior credit facilities, which would allow our lenders to accelerate indebtedness owed to them.

If a specified change in control occurs and the lenders under our debt instruments accelerate these obligations, we may not have sufficient liquid assets to repay amounts outstanding under these agreements.

Rent-A-Center's organizational documents and our debt instruments contain provisions that may prevent or deter another group from paying a premium over the market price to Rent-A-Center's stockholders to acquire its stock. Rent-A-Center's organizational documents contain provisions that classify its Board of Directors, authorize its Board of Directors to issue blank check preferred stock and establish advance notice requirements on its stockholders for director nominations and actions to be taken at meetings of the stockholders. In addition, as a Delaware corporation, Rent-A-Center is subject to Section 203 of the Delaware General Corporation Law relating to business combinations. Our senior credit facilities and the indentures governing our senior unsecured notes each contain various change of control provisions which, in the event of a change of control, would cause a default under those provisions. These provisions and arrangements could delay, deter or prevent a merger, consolidation, tender offer or other business combination or change of control involving us that could include a premium over the market price of Rent-A-Center's common stock that some or a majority of Rent-A-Center's stockholders might consider to be in their best interests. Rent-A-Center is a holding company and is dependent on the operations and funds of its subsidiaries.

Rent-A-Center is a holding company, with no revenue generating operations and no assets other than its ownership interests in its direct and indirect subsidiaries. Accordingly, Rent-A-Center is dependent on the cash flow generated by its direct and indirect operating subsidiaries and must rely on dividends or other intercompany transfers from its operating subsidiaries to generate the funds necessary to meet its obligations, including the obligations under the senior credit facilities. The ability of Rent-A-Center's subsidiaries to pay dividends or make other payments to it is subject to applicable state laws. Should one or more of Rent-A-Center's subsidiaries be unable to pay dividends or make distributions, its ability to meet its ongoing obligations could be materially and adversely impacted.

Our stock price is volatile, and you may not be able to recover your investment if our stock price declines.

The price of our common stock has been volatile and can be expected to be significantly affected by factors such as:

- our ability to meet market expectations with respect to the growth and profitability of each of our operating segments;
- quarterly variations in our results of operations, which may be impacted by, among other things, changes in same store sales or when and how many locations we acquire or open;
- quarterly variations in our competitors' results of operations;
- changes in earnings estimates or buy/sell recommendations by financial analysts; and
- the stock price performance of comparable companies.

In addition, the stock market as a whole historically has experienced price and volume fluctuations that have affected the market price of many specialty retailers in ways that may have been unrelated to these companies' operating performance.

Failure to achieve and maintain effective internal controls could have a material adverse effect on our business and stock price.

Effective internal controls are necessary for us to provide reliable financial reports. If we cannot provide reliable financial reports, our brand and operating results could be harmed. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

While we continue to evaluate and improve our internal controls, we cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our stock price.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

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. Store sizes average approximately 4,700 square feet. Approximately 75% of each store's space is generally used for showroom space and 25% for offices and storage space. Our Acceptance Now kiosks occupy space without charge in the retailer's location with no lease commitment.

We believe suitable store space generally is available for lease and we would be able to relocate any of our stores or support facilities without significant difficulty should we be unable to renew a particular lease. We also expect additional space is readily available at competitive rates to open new stores or support facilities, as necessary.

We own the land and building in Plano, Texas, in which our corporate headquarters is located. The land and improvements are pledged as collateral under our senior credit facilities.

Item 3. Legal Proceedings.

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.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock has been listed on the Nasdaq Global Select Market[®] and its predecessors under the symbol "RCII" since January 25, 1995, the date we commenced our initial public offering. The following table sets forth, for the periods indicated, the high and low sales price per share of our common stock as reported, and the quarterly cash dividend declared per share on our common stock.

2015	High	Low	Cash Dividends Declared
Fourth Quarter	\$26.26	\$14.69	\$0.24
Third Quarter	\$29.66	\$23.68	\$0.24
Second Quarter	\$33.59	\$25.13	\$0.24
First Quarter	\$37.23	\$26.47	\$0.24
2014	High	Low	Cash Dividends Declared
Fourth Quarter	\$37.49	\$28.00	\$0.24
Third Quarter	\$31.20	\$23.42	\$0.23
Second Quarter	\$30.49	\$25.67	\$0.23
First Quarter	\$33.77	\$23.65	\$0.23

As of February 22, 2016, there were approximately 37 record holders of our common stock.

Future decisions to pay cash dividends on our common stock continue to be at the discretion of our Board of Directors and will depend on a number of factors, including future earnings, capital requirements, contractual restrictions, financial condition, future prospects and any other factors our Board of Directors may deem relevant. Cash dividend payments are subject to certain restrictions in our debt agreements. Please see Note H and Note I to the consolidated financial statements for further discussion of such restrictions.

Under our current common stock repurchase program, our Board of Directors has authorized the purchase, from time to time, in the open market and privately negotiated transactions, up to an aggregate of \$1.25 billion of Rent-A-Center common stock. As of December 31, 2015, we had purchased a total of 36,994,653 shares of Rent-A-Center common stock for an aggregate purchase price of \$994.8 million under this common stock repurchase program. No shares were repurchased during 2015 and 2014.

Stock Performance Graph

The following chart represents a comparison of the five year total return of our common stock to the NASDAQ Composite Index and the S&P 1500 Specialty Retail Index. We selected the S&P 1500 Specialty Retail Index for comparison because we use this published industry index as the comparator group to measure our relative total shareholder return for purposes of determining vesting of performance stock units granted under our long-term incentive compensation program. The graph assumes \$100 was invested on December 31, 2010, and dividends, if any, were reinvested for all years ending December 31.

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Item 6. Selected Financial Data.

The selected financial data presented below for the five years ended December 31, 2015, have been derived from our audited consolidated financial statements. The historical financial data are qualified in their entirety by, and should be read in conjunction with, the consolidated financial statements and the notes thereto, the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other financial information included in this report.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share data)				
Consolidated Statements of Operations					
Revenues					
Store					
Rentals and fees	\$2,781,315	\$2,745,828	⁽⁵⁾ \$2,695,895	\$2,653,925	\$2,494,483
Merchandise sales	377,240	290,048	278,753	300,077	259,796
Installment sales	76,238	75,889	71,475	67,071	67,123
Other	19,158	19,949	18,133	16,391	17,925
Franchise					
Merchandise sales	15,577	19,236	24,556	32,893	29,792
Royalty income and fees	8,892	6,846	5,206	5,314	5,011
	3,278,420	3,157,796	3,094,018	3,075,671	2,874,130
Cost of revenues					
Store					
Cost of rentals and fees	728,706	704,595	676,674	642,387	572,874
Cost of merchandise sold	356,696	231,520	216,206	241,219	201,854
Cost of installment sales	25,677	26,084	24,541	23,287	23,340
Other charges and (credits)	34,698	⁽¹⁾ (6,836) ⁽⁶⁾ —	—	—
Franchise cost of merchandise sold	14,534	18,070	23,104	31,314	28,307
	1,160,311	973,433	940,525	938,207	826,375
Gross profit	2,118,109	2,184,363	2,153,493	2,137,464	2,047,755
Operating expenses					
Store expenses					
Labor	854,610	888,929	881,671	840,377	791,630
Other store expenses	833,914	842,254	789,212	764,770	744,767
General and administrative expenses	166,102	162,316	147,621	140,039	131,909
Depreciation, amortization and write-down of intangibles	80,720	83,168	86,912	79,249	69,889
Goodwill impairment charge	1,170,000	⁽²⁾ —	1,068	—	—
Other charges	20,651	⁽³⁾ 14,234	⁽⁷⁾ —	—	24,063
	3,125,997	1,990,901	1,906,484	1,824,435	1,762,258
Operating profit (loss)	(1,007,888	) 193,462	247,009	313,029	285,497
Finance charges from refinancing					
Interest expense, net	48,692	46,896	38,813	31,223	36,607
Earnings (loss) before income taxes	(1,056,580	) 142,353	208,196	281,806	248,890
	(189,952) ⁽⁴⁾ 45,931	79,439	101,788	89,169

Income tax expense
(benefit)

NET EARNINGS (LOSS)	\$(866,628)	\$96,422	\$128,757	\$180,018	\$159,721
Basic earnings (loss) per common share	\$(16.34)	\$1.82	\$2.35	\$3.06	\$2.61
Diluted earnings (loss) per common share	\$(16.34)	\$1.81	\$2.33	\$3.03	\$2.58
Cash dividends declared per common share	\$0.96	\$0.93	\$0.86	\$0.69	\$0.54

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Item 6. Selected Financial Data — Continued.

	December 31,										
	2015		2014		2013		2012		2011		
	(Dollar amounts in thousands)										
Consolidated Balance Sheet Data											
Rental merchandise, net	\$	1,136,472	\$	1,237,856	\$	1,124,198	\$	1,006,419	\$	942,526	
Intangible assets, net		213,899		1,377,992		1,373,518		1,352,888		1,350,855	
Total assets		1,987,008		3,271,197		3,018,175		2,859,085		2,795,241	
Total debt		968,373		1,042,813		916,275		687,500		740,675	
Total liabilities		1,516,526		1,881,802		1,682,306		1,403,228		1,446,564	
Stockholders' equity		470,482		1,389,395		1,335,869		1,455,857		1,348,677	
Operating Data (Unaudited)											
Core U.S. and Mexico stores open at end of period		2,815		3,001		3,161		3,098		3,074	
Acceptance Now Staffed locations open at end of period		1,444		1,406		1,325		966		750	
Acceptance Now Direct locations open at end of period		532		—		—		—		—	
Same store revenue growth (decrease) ⁽¹⁰⁾		5.7	%	1.2	%	(2.0)%	1.4	%	0.8	%
Franchise stores open at end of period		227		187		179		224		216	

(1) Includes a \$34.7 million write-down of smartphones.

(2) Includes a \$1,170.0 million goodwill impairment charge in the Core U.S. segment.

(3) As discussed further in Note L, includes a \$7.5 million loss on the sale of Core U.S. and Canada stores, a \$7.2 million charge related to the closure of Core U.S. and Mexico stores, \$2.8 million of charges for start-up and warehouse closure expenses related to our sourcing and distribution initiative, a \$2.0 million restructuring charge and \$1.1 million of losses for other store sales and closures.

(4) Includes \$6.0 million of discrete adjustments to income tax reserves.

(5) Includes a \$0.6 million reduction of revenue due to consumer refunds as a result of an operating system programming error.

(6) Includes a \$6.8 million credit due to the settlement of a lawsuit against the manufacturers of LCD screen displays. As discussed further in Note L, includes store closure charges of \$5.1 million, corporate restructuring charges of

(7) \$2.8 million, asset impairment charges of \$4.6 million and a \$1.8 million loss on the sale of stores in the Core U.S. segment.

(8) Includes the effects of a \$4.2 million financing expense related to the payment of debt origination costs and the write-off of unamortized financing costs.

(9) Includes the effects of a \$1.4 million restructuring charge in connection with the acquisition in November 2011 of 58 rent-to-own stores; a \$7.6 million restructuring charge related to the closure of eight Home Choice stores in Illinois and 24 RAC Limited locations within third-party grocery stores, as well as the closure of 26 core rent-to-own stores following the sale of all customer accounts at these locations and a \$4.9 million restructuring charge for lease terminations related to The Rental Store acquisition; includes the effects of a \$7.3 million impairment charge related to the discontinuation of the financial services business; includes the effects of a \$2.8

million litigation expense related to the settlement of various California claims, including wage and hour violations.

⁽¹⁰⁾ In 2011 and 2012, same store revenue growth for each period presented includes revenues only of stores open throughout the full period and the comparable prior period. Beginning in 2013, new or acquired stores were added to the same store revenue base in the 13th full month of operation.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

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

Overview

We continue to grow our Acceptance Now segment with consistent year-over-year growth in both revenue and same store sales, driven by introduction of the 90 day option pricing, the increased number of staffed locations and the launch of our virtual solution in 532 locations. Our online approval engine has increased the speed at which we process new rental applications while improving our ability to manage the risk associated with new customers. Acceptance Now contributed approximately 25.0% of our consolidated revenues in 2015.

During 2015, we have continued efforts under our multi-year transformation program, with a phased implementation of our flexible labor model in most of our Core U.S. stores, which has had a meaningful impact on our store labor expense. The introduction of part-time coworkers who are focused on merchandise delivery and pick-up allows other coworkers to maintain focus on sales and collections. Our sourcing and distribution model was also implemented in 2015 with five distribution centers operated by a third-party logistics provider, which has driven a decrease in our cost of rental merchandise.

Upon completing step one of our annual goodwill impairment test as of October 1, 2015, we determined the fair value of our Core U.S. segment was below its carrying value. We then performed step two of the impairment test for the Core U.S. segment and determined the carrying value of goodwill exceeded its implied fair value. Accordingly, in the fourth quarter of 2015, we recognized an impairment charge of \$1,170.0 million. The impairment is a non-cash charge and does not affect our liquidity or our debt covenants. The goodwill in our Acceptance Now segment was not impaired.

During the third quarter of 2015, we determined it was necessary to adjust our smartphone inventory primarily through the write-down of older generation phones and via the acceleration of secondary market dispositions of excess phone inventory. Upon introducing the category a year ago, we purchased inventory to support new and older technology, and older generation phones fell short of our expectations while newer generation phones exceeded our expectations, resulting in excess phones. In connection with this decision, we recorded a \$34.7 million inventory write-down in cost of sales in the Core U.S. segment to account for these actions.

Revenues in our Core U.S. segment decreased approximately \$43 million year over year despite positive trends in our same store sales year over year due to the roll-out of smartphones in July 2014. This is due to the continued rationalization of our Core U.S. store base where we closed, sold or converted 157 stores in 2015 and 202 stores in 2014.

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(Dollar amounts in thousands)	Year Ended December 31,			2015-2014 Change		2014-2013 Change			
	2015	2014	2013	\$	%	\$	%		
Revenues									
Store									
Rentals and fees	\$2,781,315	\$2,745,828	\$2,695,895	\$35,487	1.3	%	\$49,933	1.9	%
Merchandise sales	377,240	290,048	278,753	87,192	30.1	%	11,295	4.1	%
Installment sales	76,238	75,889	71,475	349	0.5	%	4,414	6.2	%
Other	19,158	19,949	18,133	(791)	(4.0)	%	1,816	10.0	%
Total store revenues	3,253,951	3,131,714	3,064,256	122,237	3.9	%	67,458	2.2	%
Franchise									
Merchandise sales	15,577	19,236	24,556	(3,659)	(19.0)	%	(5,320)	(21.7)	%
Royalty income and fees	8,892	6,846	5,206	2,046	29.9	%	1,640	31.5	%
Total revenues	3,278,420	3,157,796	3,094,018	120,624	3.8	%	63,778	2.1	%
Cost of revenues									
Store									
Cost of rentals and fees	728,706	704,595	676,674	24,111	3.4	%	27,921	4.1	%
Cost of merchandise sold	356,696	231,520	216,206	125,176	54.1	%	15,314	7.1	%
Cost of installment sales	25,677	26,084	24,541	(407)	(1.6)	%	1,543	6.3	%
Total cost of store revenues	1,111,079	962,199	917,421	148,880	15.5	%	44,778	4.9	%
Other charges and (credits)	34,698	(6,836)	—	41,534	(607.6)	%	(6,836)	—	
Franchise cost of merchandise sold	14,534	18,070	23,104	(3,536)	(19.6)	%	(5,034)	(21.8)	%
Total cost of revenues	1,160,311	973,433	940,525	186,878	19.2	%	32,908	3.5	%
Gross profit	2,118,109	2,184,363	2,153,493	(66,254)	(3.0)	%	30,870	1.4	%
Operating expenses									
Store expenses									
Labor	854,610	888,929	881,671	(34,319)	(3.9)	%	7,258	0.8	%
Other store expenses	833,914	842,254	789,212	(8,340)	(1.0)	%	53,042	6.7	%
General and administrative	166,102	162,316	147,621	3,786	2.3	%	14,695	10.0	%
Depreciation, amortization and write-down of intangibles	80,720	83,168	86,912	(2,448)	(2.9)	%	(3,744)	(4.3)	%
Goodwill impairment charge	1,170,000	—	1,068	1,170,000	—		(1,068)	(100.0)	
Other charges	20,651	14,234	—	6,417	45.1	%	14,234	—	
Total operating expenses	3,125,997	1,990,901	1,906,484	1,135,096	57.0	%	84,417	4.4	%
Operating profit (loss)	(1,007,888)	193,462	247,009	(1,201,350)	(621.0)	%	(53,547)	(21.7)	%
Finance charges from refinancing	—	4,213	—	(4,213)	(100.0)	%	4,213	—	
Interest, net	48,692	46,896	38,813	1,796	3.8	%	8,083	20.8	%
Earnings (loss) before income taxes	(1,056,580)	142,353	208,196	(1,198,933)	(842.2)	%	(65,843)	(31.6)	%
Income tax expense (benefit)	(189,952)	45,931	79,439	(235,883)	(513.6)	%	(33,508)	(42.2)	%
Net earnings (loss)	\$(866,628)	\$96,422	\$128,757	\$(963,050)	(998.8)	%	\$(32,335)	(25.1)	%

The table above is a reference for the discussion that follows.

Comparison of the Years Ended December 31, 2015 and 2014

Store Revenue. Total store revenue increased by \$122.2 million, or 3.9%, to \$3,254.0 million for the year ended December 31, 2015, from \$3,131.7 million for 2014. This was primarily due to an increase of approximately \$173.5 million in the Acceptance Now segment, partially offset by decreases of approximately \$42.8 million and \$8.4 million in the Core U.S. and Mexico segments, respectively, as discussed further in the segment performance section below.

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Same store revenue represents revenue earned in 4,105 locations that were operated by us for 13 months or more. Same store revenues increased by \$143.0 million, or 5.7%, to \$2,641.7 million for the year ended December 31, 2015, as compared to \$2,498.8 million in 2014. The increase in same store revenues was primarily attributable to growth in the Acceptance Now segment.

Cost of Rentals and Fees. Cost of rentals and fees consists of depreciation of rental merchandise. Cost of rentals and fees for the year ended December 31, 2015, increased by \$24.1 million, or 3.4%, to \$728.7 million, as compared to \$704.6 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 in 2015 as compared to 2014, partially offset by decreases in rentals and fees revenue in the Core U.S. and Mexico segments. The gross margin percent of rentals and fees decreased to 73.8% for the year ended December 31, 2015, as compared to 74.3% 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 represents the net book value of rental merchandise at time of sale. Cost of merchandise sold increased by \$125.2 million, or 54.1%, to \$356.7 million for the year ended December 31, 2015, from \$231.5 million in 2014. The gross margin percent of merchandise sales decreased to 5.4% for the year ended December 31, 2015, from 20.2% in 2014, driven by a lower gross profit margin on merchandise sales and a higher mix of merchandise sales, primarily due to increased usage of the 90 day cash option in the Acceptance Now segment and sales of smartphones in the Core U.S. segment.

Other Charges and (Credits). During 2015, we recognized a \$34.7 million charge for the write-down of smartphones as discussed above, compared to a \$6.8 million credit recognized in 2014 as a result of a class-action settlement with the manufacturers of LCD screen displays, which is discussed further in Note K to the consolidated financial statements.

Gross Profit. Gross profit decreased by \$66.3 million, or 3.0%, to \$2,118.1 million for the year ended December 31, 2015, from \$2,184.4 million in 2014, driven by decreases of \$108.4 million and \$8.7 million in the Core U.S. and Mexico segments, partially offset by a \$49.0 million increase in the Acceptance Now segment, as discussed further in the segment performance section below. Gross profit as a percentage of total revenue decreased to 64.6% in 2015 compared to 69.2% in 2014. Without the \$34.7 million smartphone write-down and the \$6.8 million vendor settlement credit discussed above, gross margin as a percentage of total revenue would have been 65.7% for the year ended December 31, 2015, a decrease of 3.3% from the prior year, primarily due to the lower margins in the Acceptance Now segment as discussed above.

Store Labor. Store labor includes all salaries and wages paid to store-level employees and district managers' salaries, together with payroll taxes and benefits. Store labor decreased by \$34.3 million, or 3.9%, to \$854.6 million for the year ended December 31, 2015, as compared to \$888.9 million in 2014. Store labor in the Core U.S. and Mexico segments decreased \$46.7 million and \$5.5 million, respectively, partially offset by an increase of \$17.9 million in the Acceptance Now segment. Store labor expressed as a percentage of total store revenue decreased to 26.3% for the year ended December 31, 2015, from 28.4% in 2014, as discussed further in the segment performance section below.

Other Store Expenses. Other store expenses include occupancy, charge-offs due to customer stolen merchandise, delivery, advertising, selling, insurance, travel and other store-level operating expenses. Other store expenses decreased by \$8.3 million, or 1.0%, to \$833.9 million for the year ended December 31, 2015, as compared to \$842.3 million in 2014. Other store expenses expressed as a percentage of total store revenue decreased to 25.6% for the year ended December 31, 2015, from 26.9% in 2014, as discussed further in the segment performance section below.

General and Administrative Expenses. General and administrative expenses include all corporate overhead expenses related to our headquarters such as salaries, payroll taxes and benefits, stock-based compensation, occupancy, administrative and other operating expenses, as well as salaries and labor costs for our regional directors, divisional vice presidents and executive vice presidents. General and administrative expenses increased by \$3.8 million, or 2.3%, to \$166.1 million for the year ended December 31, 2015, as compared to \$162.3 million in 2014. General and administrative expenses expressed as a percentage of total revenue were 5.1% for each of the years ended December 31, 2015 and 2014.

Goodwill Impairment Charge. During 2015, we recognized a \$1,170.0 goodwill impairment charge due to an impairment in the goodwill in the Core U.S. segment. Goodwill impairment charge is discussed further in Note E to the notes to the consolidated financial statements.

Other Charges. Other charges relating to store sales and consolidations, startup costs related to our new sourcing and distribution network and corporate restructuring increased by \$6.4 million, or 45.1%, to \$20.7 million in 2015, as compared to \$14.2 million in 2014. See Note L to the notes to the consolidated financial statements for additional detail regarding these other charges.

Operating Profit (Loss). Operating loss was \$1,007.9 million for the year ended December 31, 2015, as compared to an operating profit of \$193.5 million in 2014, a decrease of \$1,201.4 million. Operating loss as a percentage of total revenue was 30.7% for the year ended December 31, 2015, as compared to an operating profit of 6.1% for 2014, primarily due to the goodwill

impairment charge and other charges and credits discussed above. Excluding the \$1,225.3 million and \$7.4 million of other charges and credits in 2015 and 2014, respectively, discussed above, operating profit as a percentage of revenue would have been 6.6% and 6.4% in 2015 and 2014, respectively, discussed further in the segment performance section below.

Finance Charges from Refinancing. As discussed in Note H, we refinanced our senior credit facility during March 2014, and recognized a \$4.2 million charge to write off approximately \$2.3 million of new origination fees and \$1.9 million of unamortized financing costs from our previous credit agreement.

Income Tax Expense (Benefit). Our effective income tax rate was a benefit of 17.98% for 2015 as compared to an expense of 32.27% for 2014. The 2015 rate for income taxes is less than that of 2014 due primarily to the non-deductible portion of the goodwill write-down.

Net Earnings (Loss) and Earnings (Loss) per Share. Net loss was \$866.6 million for the year ended December 31, 2015 as compared to net earnings of \$96.4 million in 2014, a decrease of \$963.1 million

Comparison of the Years Ended December 31, 2014 and 2013

Store Revenue. Total store revenue increased by \$67.5 million, or 2.2%, to \$3,131.7 million for the year ended December 31, 2014, from \$3,064.3 million for 2013. This was primarily due to increases of approximately \$155.4 million in the Acceptance Now segment and approximately \$25.0 million in the Mexico segment, partially offset by a decrease of approximately \$113.0 million in the Core U.S. segment.

Same store revenue represents revenue earned in 4,150 locations that were operated by us for 13 months or more.

Same store revenues increased by \$29.5 million, or 1.2%, to \$2,580.0 million for the year ended December 31, 2014, as compared to \$2,550.5 million in 2013. The increase in same store revenues was attributable to growth in the Acceptance Now and Mexico segments, partially offset by a decrease in the Core U.S. segment.

Cost of Rentals and Fees. Cost of rentals and fees consists of depreciation of rental merchandise. Cost of rentals and fees for the year ended December 31, 2014, increased by \$27.9 million, or 4.1%, to \$704.6 million, as compared to \$676.7 million in 2013. This increase in cost of rentals and fees was primarily attributable to growth in rentals and fees revenue in the Acceptance Now and Mexico segments in 2014 as compared to 2013, partially offset by a decrease in rentals and fees revenue in the Core U.S. segment. The gross margin percent of rentals and fees decreased to 74.3% for the year ended December 31, 2014, as compared to 74.9% in 2013, driven by increased revenue in the Acceptance Now segment, which has higher costs of rental merchandise.

Cost of Merchandise Sold. Cost of merchandise sold represents the net book value of rental merchandise at time of sale. Cost of merchandise sold increased by \$15.3 million, or 7.1%, to \$231.5 million for the year ended December 31, 2014, from \$216.2 million in 2013. The gross margin percent of merchandise sales decreased to 20.4% for the year ended December 31, 2014, from 22.4% in 2013, driven primarily by a 90 day cash option in certain Acceptance Now locations that has lower margins than our rental purchase agreements.

Other Charges and (Credits). During 2014, we recorded a \$6.8 million credit as a result of a class-action settlement with the manufacturers of LCD screen displays.

Gross Profit. Gross profit increased by \$30.9 million, or 1.4%, to \$2,184.4 million for the year ended December 31, 2014, from \$2,153.5 million in 2013, primarily due to increased store revenue in the Acceptance Now segment and the \$6.8 million vendor settlement credit as discussed above. Gross profit as a percentage of total revenue decreased to 69.2% in 2014 compared to 69.6% in 2013. Without the \$6.8 million vendor settlement credit discussed above, gross margin as a percentage of total revenue would have been 69.0% for the year ended December 31, 2014, a decrease of 0.6% from the prior year, driven by increased revenue in the Acceptance Now segment, which has higher costs of rental merchandise, and a 90 day cash option in certain Acceptance Now locations that has lower margins than our rental purchase agreements.

Store Labor. Store labor includes all salaries and wages paid to store-level employees and district managers' salaries, together with payroll taxes and benefits. Store labor increased by \$7.3 million, or 0.8%, to \$888.9 million for the year ended December 31, 2014, as compared to \$881.7 million in 2013. This increase was primarily attributable to the growth of our Acceptance Now segment, partially offset by a reduction in labor costs due to store closures in the Core U.S. segment and the reduction of labor hours at the store level. Store labor expenses expressed as a percentage of total store revenue decreased to 28.4% for the year ended December 31, 2014, from 28.8% in 2013, driven by better leverage on Acceptance Now sales, the benefit of store closures and the reduction of labor hours at the store level.

Other Store Expenses. Other store expenses include occupancy, charge-offs due to customer stolen merchandise, delivery, advertising, selling, insurance, travel and other store-level operating expenses. Other store expenses increased by \$53.0 million,

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or 6.7%, to \$842.3 million for the year ended December 31, 2014, as compared to \$789.2 million in 2013. This was primarily attributable to increased expenses associated with the growth of our Acceptance Now segment, an increase in charge-offs due to customer stolen merchandise, and increased professional fees due to the investments we are making under our multi-year transformation program. Other store expenses expressed as a percentage of total store revenue increased to 26.8% for the year ended December 31, 2014, from 25.8% in 2013.

General and Administrative Expenses. General and administrative expenses include all corporate overhead expenses related to our headquarters such as salaries, payroll taxes and benefits, stock-based compensation, occupancy, administrative and other operating expenses, as well as salaries and labor costs for our regional directors, divisional vice presidents and executive vice presidents. General and administrative expenses increased by \$14.7 million, or 10.0%, to \$162.3 million for the year ended December 31, 2014, as compared to \$147.6 million in 2013. General and administrative expenses expressed as a percentage of total revenue increased to 5.1% for the year ended December 31, 2014, from 4.8% in 2013.

Other Charges. As discussed in Note L to the consolidated financial statements, we closed 150 stores in the Core U.S. segment, which resulted in a restructuring charge of \$5.1 million during the year ended December 31, 2014. This charge included approximately \$3.4 million of accelerated depreciation expense for fixed assets, leasehold improvements and write-off of merchandise inventory, \$1.3 million in early lease termination costs and \$0.4 million of other operating costs to decommission the stores. In addition, we eliminated certain departments and functions in our field support center during the year ended December 31, 2014, as a part of our multi-year transformation program. The changes resulted in restructuring charges of approximately \$2.8 million for severance and other payroll-related costs. During 2014, we incurred losses of \$1.8 million on the sale of Core U.S. stores.

During the third quarter of 2014, we recorded a \$4.6 million impairment charge related to internally-developed computer software that was placed into service in the fourth quarter of 2014. We determined that certain components developed for our new store management information system would not be utilized.

Operating Profit. Operating profit decreased by \$53.5 million, or 21.7%, to \$193.5 million for the year ended December 31, 2014, as compared to \$247.0 million in 2013. Operating profit as a percentage of total revenue decreased to 6.1% for the year ended December 31, 2014, from 8.0% for 2013, primarily due to the decrease in revenue and resulting decrease in gross profit in the Core U.S. segment, increased expenses associated with the growth of our Acceptance Now segment, an increase in charge-offs due to customer stolen merchandise and increased professional fees due to the investments we are making under our multi-year transformation program.

Finance Charges from Refinancing. As discussed in Note I, we refinanced our senior credit facility during March 2014, and recognized a \$4.2 million charge to write off approximately \$2.3 million of new origination fees and \$1.9 million of unamortized financing costs from our previous credit agreement.

Net Interest. Net interest expense increased \$8.1 million, or 20.8%, to \$46.9 million for the year ended December 31, 2014 as compared to \$38.8 million in 2013 due to increased interest on our senior credit facility due to the refinance discussed in Note I, and the full-year impact in 2014 of the issuance of \$250 million of senior notes in May of 2013.

Income Tax Expense. Our effective income tax rate was 32.3% and 38.2% for 2014 and 2013, respectively. The 2014 rate for income taxes is lower than 2013 due primarily to a greater amount of wage credits recognized in 2014 than in 2013, as well as adjustments to deferred tax balances.

Net Earnings and Earnings per Share. Net earnings decreased by \$32.3 million, or 25.1%, to \$96.4 million for the year ended December 31, 2014 as compared to \$128.8 million in 2013. This decrease was primarily attributable to a decline in operating profit in the Core U.S. segment and an increase in refinancing costs and interest expense, partially offset by increased operating profit in the Acceptance Now segment and a decrease in the effective income tax rate in 2014 as compared to 2013. Diluted earnings per share in 2014 were \$1.81 compared to \$2.33 in 2013, due to the decrease in net earnings discussed above.

Segment Performance

Core U.S. segment.

(Dollar amounts in thousands)	Year Ended December 31,			2015-2014 Change		2014-2013 Change	
	2015	2014	2013	\$	%	\$	%
Revenues	\$2,371,823	\$2,414,659	\$2,527,660	\$(42,836)	(1.8)%	\$(113,001)	(4.5)%
Gross profit	1,644,840	1,753,269	1,822,243	(108,429)	(6.2)%	(68,974)	(3.8)%
Operating profit (loss)	(959,447)	264,967	311,301	(1,224,414)	(462.1)%	(46,334)	(14.9)%
Change in same store revenue					0.1%		(4.0)%
Stores in same store revenue calculation					2,679		2,838

Revenues. Revenue decreased in 2015 compared to 2014, primarily driven by a \$57.6 million decrease in rentals and fees revenue, partially offset by a \$15.5 million increase in merchandise sales. The impact of the continued rationalization of our Core U.S. store base where we closed, sold or converted stores in the year-to-date period was partially offset by the increase in same store revenue. Same store revenue generally represents revenue earned in stores that were operated by us for 13 months or more.

Gross Profit. Gross profit decreased in 2015 from 2014, primarily due to a \$34.7 million write-down of smartphones in 2015, a decrease in store revenue as discussed above and decreased margins on merchandise sales, while 2014 included a vendor settlement credit of \$6.8 million. Gross profit as a percentage of total segment revenue decreased to 69.3% in 2015 from 72.6% in 2014. Without the \$34.7 million smartphone write-down and the \$6.8 million vendor settlement credit discussed above, gross profit as a percentage of total revenue would have been 70.8% in 2015 and 72.3% in 2014. Margins were impacted by a higher mix of merchandise sales, primarily due to smartphones.

Operating Profit. Operating loss as a percentage of total segment revenue was 40.5% in 2015 compared to operating profit of 11.0% for 2014, primarily due to the \$1,170.0 million write-down of goodwill, discussed further in Note E to the consolidated financial statements, and other charges of \$15.7 million, discussed further in Note L to the consolidated financial statements. Without the \$1,220.4 million of other charges discussed above, operating profit as a percentage of total revenue would have been 11.0% in both 2015 and 2014. Operating profit in 2015 was adversely impacted compared to 2014 by decreased gross profit as discussed above and an increase in other charges, but benefited from a \$46.7 million decrease in store labor as a result of improved labor productivity and our flexible labor initiative. Advertising expense as a percentage of Core U.S. store revenues for the years ended December 31, 2015 and 2014 was 4.1% and 3.9%, respectively. Excluding the other charges discussed above, operating expenses expressed as a percentage of total segment revenue decreased to 59.8% in 2015 from 61.4% in 2014 primarily due to the savings from our labor initiatives and lower store count. Charge-offs in our Core U.S. rent-to-own stores due to customer stolen merchandise, expressed as a percentage of revenues, were approximately 3.1% in both 2015 and 2014. Charge-offs in our Core U.S. rent-to-own stores due to other merchandise losses, expressed as a percentage of revenues, were approximately 2.0% and 1.4% in 2015 and 2014, respectively.

Acceptance Now segment.

(Dollar amounts in thousands)	Year Ended December 31,			2015-2014 Change		2014-2013 Change	
	2015	2014	2013	\$	%	\$	%
Revenues	\$818,325	\$644,853	\$489,425	\$173,472	26.9%	\$155,428	31.8%
Gross profit	420,980	372,012	290,647	48,968	13.2%	81,365	28.0%
Operating profit	123,971	112,918	89,075	11,053	9.8%	23,843	26.8%
Change in same store revenue					25.8%		25.5%
Stores in same store revenue calculation					1,286		1,171

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Revenues. The increase in revenues in 2015 was driven by the 25.8% growth in same store revenue, the introduction of 90 day option pricing and the increased number of locations. This segment contributed approximately 25.0% of consolidated revenues in 2015 as compared to 20.4% in 2014.

Gross profit. Gross profit increased primarily as a result of the increased revenue discussed above. Gross profit as a percentage of revenues was 51.4% in 2015 as compared to 57.7% in 2014. The gross margin percentage was negatively impacted by lower gross profit margin on merchandise sales and a higher mix of merchandise sales primarily due to increased usage of the 90 day option pricing. The higher cost of merchandise results in lower gross margins in this segment.

Operating profit. Operating profit was positively impacted by the growth in revenue and gross profit in this segment, partially offset by increases in store labor and other store expenses. Store labor and other store expenses have benefited from increased leverage in the business. Operating profit as a percentage of total segment revenue decreased to 15.1% in 2015 from 17.5% for 2014. Charge-offs due to customer stolen merchandise, expressed as a percentage of revenues, were approximately 8.5% in 2015 as compared to 7.8% in 2014. The ratio of agreement charge-offs to total agreements in this segment is comparable to the Core U.S. segment but the percentage of revenue is higher, primarily due to the higher cost of rental merchandise in this segment. Charge-offs due to other merchandise losses, expressed as a percentage of revenues, were approximately 0.6% and 1.2% in 2015 and 2014, respectively.

Mexico segment.

(Dollar amounts in thousands)	Year Ended December 31,			2015-2014 Change		2014-2013 Change			
	2015	2014	2013	\$	%	\$	%		
Revenues	\$63,803	\$72,202	\$47,171	\$(8,399)	(11.6)%	\$25,031	53.1	%	
Gross profit	42,354	51,070	33,945	(8,716)	(17.1)%	17,125	50.4	%	
Operating loss	(14,149)	(21,961)	(22,828)	7,812	(35.6)%	867	(3.8)	%	
Change in same store revenue					9.6	%	19.7	%	
Stores in same store revenue calculation					140		141		

Revenues. The reported revenues for 2015 were reduced by approximately \$11.9 million due to exchange rate fluctuations compared to 2014. On a constant currency basis, revenue increased approximately 4.8% over 2014 due primarily to the 9.6% growth in same store revenue, partially offset by the store closures during 2015.

Gross Profit. Gross profit decreased in 2015 primarily due to decreased revenue as discussed above. Gross profit as a percentage of total revenues decreased to 66.4% in 2015 from 70.7% in 2014 primarily due to lower margins on merchandise sales.

Operating Loss. The reported operating loss for 2015 was reduced by approximately \$2.8 million due to exchange rate fluctuations compared to 2014. Operating loss as a percentage of total segment revenue decreased to 22.2% in 2015 from 30.4% for 2014. Operating loss for 2015 includes charges of \$3.0 million related to store closures during 2015. Excluding these store closure charges, operating loss as a percentage of total revenues would have been 17.5% in 2015, improving as a result of exchange rate fluctuations, operating initiatives to improve profitability and the closure of underperforming stores.

Franchising segment.

(Dollar amounts in thousands)	Year Ended December 31,			2015-2014 Change		2014-2013 Change			
	2015	2014	2013	\$	%	\$	%		
Revenues	\$24,469	\$26,082	\$29,762	\$(1,613)	(6.2)%	\$(3,680)	(12.4)	%	
Gross profit	9,935	8,012	6,658	1,923	24.0	%	1,354	20.3	%
Operating profit	5,793	3,295	1,853	2,498	75.8	%	1,442	77.8	%

Revenues. Merchandise sales decreased by \$3.7 million, partially offset by a \$2.0 million increase in royalty revenue.

Gross Profit. Gross profit as a percentage of revenues increased to 40.6% in 2015 from 30.7% in 2014, primarily due to the increase in royalty revenue, which has no related cost of revenue.

Operating Profit. Operating profit as a percentage of total segment revenue increased to 23.7% in 2015 from 12.6% for 2014 primarily due to increased gross profit as discussed above.

Quarterly Results

The following table contains certain unaudited historical financial information for the quarters indicated:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands, except per share data)			
Year Ended December 31, 2015				
Revenues	\$877,639	\$815,343	\$791,605	\$793,833
Gross profit	564,593	538,529	488,612	526,375
Operating profit (loss)	56,598	49,701	6,565	(1,120,752)
Net earnings (loss)	27,298	23,147	(4,092)	(912,981)
Basic earnings (loss) per common share	\$0.51	\$0.44	\$(0.08)	\$(17.20)
Diluted earnings (loss) per common share	\$0.51	\$0.43	\$(0.08)	\$(17.20)
Cash dividends declared per common share	\$0.24	\$0.24	\$0.24	\$0.24
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands, except per share data)			
Year Ended December 31, 2014				
Revenues	\$828,473	\$768,426	\$764,363	\$796,534
Gross profit	562,550	537,024	539,758	545,031
Operating profit	59,458	40,390	45,920	47,694
Net earnings	27,266	17,681	25,925	25,550
Basic earnings per common share	\$0.52	\$0.33	\$0.49	\$0.48
Diluted earnings per common share	\$0.51	\$0.33	\$0.49	\$0.48
Cash dividends declared per common share	\$0.23	\$0.23	\$0.23	\$0.24
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(As a percentage of revenues)			
Year Ended December 31, 2015				
Revenues	100.0	%	100.0	%
Gross profit	64.3	%	66.0	%
Operating profit (loss)	6.4	%	6.1	%
Net earnings (loss)	3.1	%	2.8	%
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(As a percentage of revenues)			
Year Ended December 31, 2014				
Revenues	100.0	%	100.0	%
Gross profit	67.9		69.9	
Operating profit	7.2		5.3	
Net earnings	3.3		2.3	

Liquidity and Capital Resources

Overview. For the year ended December 31, 2015, we generated \$230.5 million in operating cash flow. In addition to funding operating expenses, we used \$80.9 million in cash for capital expenditures, \$74.4 million to reduce outstanding debt, \$51.0 million to pay cash dividends and \$25.2 million to acquire stores. We ended the year with \$60.4 million in cash and cash equivalents.

Analysis of Cash Flow. Net cash provided by operating activities increased by \$211.4 million to \$230.5 million in 2015 from \$19.1 million in 2014. This increase was primarily attributable to a decrease in rental merchandise purchases and the 2015 receipt of income taxes refunded due to the 2014 passage of favorable federal tax laws, including the extension of bonus depreciation.

Net cash used in investing activities decreased by \$6.6 million to \$90.1 million in 2015 from \$96.7 million in 2014. This decrease was primarily attributable to a decrease in both capital expenditures and acquisitions of businesses, partially offset by an increase in cash received for the sale of stores.

Net cash used in financing activities was \$123.9 million in 2015 compared to net cash provided by financing activities of \$82.9 million in 2014, an unfavorable change of \$206.7 million. This was driven primarily by a \$74.4 million net reduction in debt in 2015 as compared to a \$126.5 million net increase in debt 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 \$460.3 million was available at February 22, 2016, at which date we had \$89.4 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 reduce 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 2014 permitted bonus first-year depreciation deductions ranging from 50-100% 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 \$118 million on our 2015 cash flow. On December 18, 2015, the Protecting Americans from Tax Hikes Act of 2015 ("PATH") was signed into law. The PATH extended bonus depreciation through December 2019, resulting in an estimated benefit of \$100 million for us for 2015. Because the estimated 2015 tax liability had been paid by December 15, 2015, a refund of approximately \$80 million was requested from the IRS which will be received in early 2016. We estimate the remaining tax deferral associated with these tax acts approximates \$180 million at December 31, 2015, of which approximately 76.7%, or \$138 million will reverse in 2016, and the remainder will reverse between 2017 and 2018. We also estimate a benefit of \$100 million resulting from bonus depreciation in 2016 which will offset the above \$138 million reversal, resulting in a net impact to cash taxes of \$38 million.

The PATH also extended various credits expected to result in a benefit of \$3.7 million, which was included in the refund discussed above.

Merchandise Losses. Merchandise losses consist of the following:

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Customer stolen merchandise	\$154,781	\$137,107	\$105,225
Other merchandise losses ⁽¹⁾	52,003	41,770	33,816
Total merchandise losses	\$206,784	\$178,877	\$139,041

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

Capital Expenditures. We make capital expenditures in order to maintain our existing operations as well as for new capital assets in new and acquired stores, and investment in information technology. We spent \$80.9 million, \$83.8 million and \$108.4 million on capital expenditures in the years 2015, 2014 and 2013, respectively, and expect to spend between \$70 million and \$80 million in 2016.

Acquisitions and New Location Openings. See Note E to the consolidated financial statements for information about cash used to acquire locations and accounts. The table below summarizes the location activity for the years ended December 31, 2015, 2014 and 2013.

	Year Ended December 31, 2015					
	Core U.S.	Acceptance Now Staffed	Acceptance Now Direct	Mexico	Franchising	Total
Locations at beginning of period	2,824	1,406	—	177	187	4,594
New location openings	—	161	505	—	11	677
Acquired locations remaining open	5	—	—	—	—	5
Conversions	(40)	(29)	29	—	40	—
Closed locations						
Merged with existing locations	83	94	—	34	—	211
Sold or closed with no surviving location	34	—	2	—	11	47
Locations at end of period	2,672	1,444	532	143	227	5,018
Acquired locations closed and accounts merged with existing locations	34	—	—	—	—	34
Total approximate purchase price (in millions)	\$25.5	\$—	\$—	\$—	\$—	\$25.5

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	Year Ended December 31, 2014					
	Core U.S.	Acceptance Now Staffed	Acceptance Now Direct	Mexico	Franchising	Total
Locations at beginning of period	3,010	1,325	—	151	179	4,665
New location openings	10	209	—	31	30	280
Acquired locations remaining open	6	—	—	—	—	6
Closed locations						
Merged with existing locations	163	127	—	5	—	295
Sold or closed with no surviving location	39	1	—	—	22	62
Locations at end of period	2,824	1,406	—	177	187	4,594
Acquired locations closed and accounts merged with existing locations	13	—	—	—	—	13
Total approximate purchase price (in millions)	\$21.2	\$—	\$—	\$—	\$—	\$21.2
	Year Ended December 31, 2013					
	Core U.S.	Acceptance Now Staffed	Acceptance Now Direct	Mexico	Franchising	Total
Locations at beginning of period	3,008	966	—	90	224	4,288
New location openings	37	411	—	63	40	551
Acquired locations remaining open	47	—	—	—	—	47
Closed locations						
Merged with existing locations	46	44	—	2	—	92
Sold or closed with no surviving location	36	8	—	—	85	129
Locations at end of period	3,010	1,325	—	151	179	4,665
Acquired locations closed and accounts merged with existing locations	38	—	—	—	—	38
Total approximate purchase price (in millions)	\$41.2	\$—	\$—	\$—	\$—	\$41.2

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

The full amount of the Revolving Facility may be used for the issuance of letters of credit, of which \$94.7 million had been so utilized as of February 22, 2016, at which date \$140.0 million was outstanding and \$440.3 million was available. The Term Loans are scheduled to mature on March 19, 2021 and the Revolving Facility has a scheduled maturity of March 19, 2019. The weighted average Eurodollar rate on our outstanding debt was 0.61% at February 22, 2016.

Senior Notes. See descriptions of the senior notes in Note I 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

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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 \$9.3 million was outstanding as of December 31, 2015. Contractual Cash Commitments. The table below summarizes debt, lease and other minimum cash obligations outstanding as of December 31, 2015:

Contractual Cash Obligations	Payments Due by Period				
	Total (In thousands)	2016	2017-2018	2019-2020	Thereafter
Senior Term Debt	\$221,063 ⁽¹⁾	\$2,250	\$4,500	\$4,500	\$209,813
Revolving Credit Facility	190,000 ⁽²⁾	—	—	190,000	—
INTRUST Line of Credit	14,570	14,570	—	—	—
6.625% Senior Notes ⁽³⁾	389,710	19,394	38,788	331,528	—
4.75% Senior Notes ⁽⁴⁾	315,313	11,875	23,750	23,750	255,938
Operating Leases	516,505	174,120	239,445	95,758	7,182
Total ⁽⁵⁾	\$1,647,161	\$222,209	\$306,483	\$645,536	\$472,933

Amount referenced does not include interest payments. Our senior term debt bears interest at varying rates equal to ⁽¹⁾ the Eurodollar rate (not less than 0.75%) plus 3.00% or the prime rate plus 2.00% at our election. The Eurodollar rate on our senior term debt at December 31, 2015 was 0.75%.

Amount referenced does not include interest payments. Our revolving credit facility bears interest at varying rates ⁽²⁾ equal to the Eurodollar rate plus 1.50% to 2.75% or the prime rate plus 0.50% to 1.75% at our election. The weighted average Eurodollar rate on our revolving credit facility at December 31, 2015, was 0.38%.

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

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

As of December 31, 2015, we have \$27.1 million in uncertain tax positions. Because of the uncertainty of the ⁽⁵⁾ amounts to be ultimately paid as well as the timing of such payments, uncertain tax positions are not reflected in the contractual obligations table.

Seasonality. Our revenue mix is moderately seasonal, with the first quarter of each fiscal year generally providing higher merchandise sales than any other quarter during a fiscal year. 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, primarily related to federal income tax refunds. Furthermore, we tend to experience slower growth in the number of rental purchase agreements in the third quarter of each fiscal year when compared to other quarters throughout the year. We expect these trends to continue in the future.

Critical Accounting Estimates, Uncertainties or Assessments in Our Financial Statements

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

If we make changes to our reserves in accordance with the policies described below, our earnings would be impacted. Increases to our reserves would reduce earnings and, similarly, reductions to our reserves would increase our earnings. A pre-tax change of approximately \$0.8 million in our estimates would result in a corresponding \$0.01 change in our

diluted earnings per common share.

Self-Insurance Liabilities. We have self-insured retentions with respect to losses under our workers' compensation, general liability and vehicle liability insurance programs. We establish reserves for our liabilities associated with these losses by obtaining

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forecasts for the ultimate expected losses and estimating amounts needed to pay losses within our self-insured retentions.

We continually institute procedures to manage our loss exposure and increases in health care costs associated with our insurance claims through our risk management function, including a transitional duty program for injured workers, ongoing safety and accident prevention training, and various other programs designed to minimize losses and improve our loss experience in our store locations. We make assumptions on our liabilities within our self-insured retentions using actuarial loss forecasts, company-specific development factors, general industry loss development factors, and third-party claim administrator loss estimates which are based on known facts surrounding individual claims. These assumptions incorporate expected increases in health care costs. Periodically, we reevaluate our estimate of liability within our self-insured retentions. At that time, we evaluate the adequacy of our reserves by comparing amounts reserved on our balance sheet for anticipated losses to our updated actuarial loss forecasts and third-party claim administrator loss estimates, and make adjustments to our reserves as needed.

As of December 31, 2015, the amount reserved for losses within our self-insured retentions with respect to workers' compensation, general liability and vehicle liability insurance was \$115.4 million, as compared to \$117.5 million at December 31, 2014. However, if any of the factors that contribute to the overall cost of insurance claims were to change, the actual amount incurred for our self-insurance liabilities could be more or less than the amounts currently reserved.

Income Taxes. Our annual tax rate is affected by many factors, including the mix of our earnings, legislation and acquisitions, and is based on our income, statutory tax rates and tax planning opportunities available to us in the jurisdictions in which we operate. Tax laws are complex and subject to differing interpretations between the taxpayer and the taxing authorities. Significant judgment is required in determining our tax expense, evaluating our tax positions and evaluating uncertainties. Deferred income tax assets represent amounts available to reduce income taxes payable in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. We evaluate the recoverability of these future tax deductions and credits by assessing the future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income rely heavily on estimates. We use our historical experience and our short- and long-range business forecasts to provide insight and assist us in determining recoverability. We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon the ultimate settlement with the relevant tax authority. A number of years may elapse before a particular matter, for which we have recorded a liability, is audited and effectively settled. We review our tax positions quarterly and adjust our liability for unrecognized tax benefits in the period in which we determine the issue is effectively settled with the tax authorities, the statute of limitations expires for the relevant taxing authority to examine the tax position, or when more information becomes available.

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

Our reporting units are generally our reportable operating segments identified in Note R to the consolidated financial statements. Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions that we believe are reasonable but inherently uncertain, and actual results may differ from those estimates. These estimates and assumptions include, but are not limited to, future cash flows based on revenue growth rates and operating margins, and future economic and market conditions approximated by a discount rate derived from our weighted average cost of capital. Factors that could affect our ability to achieve the expected growth rates or operating margins include, but are not limited to, the general strength of the economy and other economic conditions that affect consumer preferences and spending, factors that affect the disposable income of our current and

potential customers and our ability to execute on our multi-year program designed to transform and modernize our operations, including the flexible labor and sourcing and distribution initiatives. Factors that could affect our weighted average cost of capital include changes in interest rates and changes in our effective tax rate.

We use a two-step approach to assess goodwill impairment. If the fair value of the reporting unit exceeds its carrying value, then the goodwill is not deemed impaired. If the carrying value of the reporting unit exceeds fair value, we perform a second analysis to measure the fair value of all assets and liabilities within the reporting unit, and if the carrying value of goodwill exceeds its implied fair value, goodwill is considered impaired. The amount of the impairment is the difference between the carrying value of goodwill and the implied fair value, which is calculated as if the reporting unit had just been acquired and accounted for as a business combination.

Step one of our annual goodwill impairment test as of October 1, 2015, was completed in December 2015. We determined the fair value of the Acceptance Now segment significantly exceeded its carrying value (by over 100%). We also determined the fair value of our Core U.S. segment was below its carrying value, primarily due to a sustained decline in in our market capitalization

that continued through the fourth quarter of 2015. Therefore, we conducted step two of the impairment test and determined the carrying value of the goodwill in our Core U.S. segment exceeded its implied fair value, resulting in an impairment charge of \$1,170.0 million.

At December 31, 2015, the amount of goodwill allocated to the Core U.S. and Acceptance Now segments was \$150.8 million and \$55.3 million, respectively. At December 31, 2014, the amount of goodwill allocated to the Core U.S. and Acceptance Now segments was \$1,316.1 million and \$54.4 million, respectively. If we fail to achieve the estimated revenue growth rates or operating margins, the fair value of a reporting unit could decrease below its carrying value, resulting in an impairment of goodwill that could have a material impact on our financial statements.

Based on an assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, we believe our consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of our company as of, and for, the periods presented in this Annual Report on Form 10-K. However, we do not suggest that other general risk factors, such as those discussed elsewhere in this report as well as changes in our growth objectives or performance of new or acquired locations, could not adversely impact our consolidated financial position, results of operations and cash flows in future periods.

Effect of New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which clarifies existing accounting literature relating to how and when a company recognizes revenue. Under ASU 2014-09, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. On July 9, 2015, the FASB approved a one-year deferral of the effective date. The adoption of ASU 2014-09 will be required for Rent-A-Center beginning January 1, 2018, with early adoption permitted as of the original effective date. The ASU allows adoption with either retrospective application to each prior period presented, or retrospective application with the cumulative effect recognized as of the date of initial application. We are currently in the process of determining what impact, if any, the adoption of this ASU will have on our financial position, results of operations and cash flows, and we are evaluating the adoption date and transition alternatives.

On April 7, 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. ASU 2015-03 will be required for Rent-A-Center for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Adoption will be effective for Rent-A-Center beginning January 1, 2016, and will be applied on a retrospective basis. We are currently in the process of determining the impact of the adoption of this ASU on our consolidated balance sheet. There will be no impact to our results of operations or cash flows.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Sensitivity

As of December 31, 2015, we had \$292.7 million in senior notes outstanding at a fixed interest rate of 6.625% and \$250.0 million in senior notes outstanding at a fixed rate of 4.75%. We also had \$221.1 million outstanding in term loans, \$190.0 million outstanding on our revolving credit facility and \$14.6 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 December 31, 2015, was \$248.1 million. The fair value of the 4.75% senior notes, based on the closing price at December 31, 2015, was \$183.1 million. Carrying value approximates fair value for all other indebtedness.

Market Risk

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

Interest Rate Risk

We have outstanding debt with variable interest rates indexed to prime or Eurodollar rates that exposes us to the risk of increased interest costs if interest rates rise. As of December 31, 2015, we have not entered into any interest rate swap agreements. Based on our overall interest rate exposure at December 31, 2015, a hypothetical 1.0% increase in interest rates would have the effect of causing a \$3.4 million additional pre-tax charge 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 8. Financial Statements and Supplementary Data.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Rent-A-Center, Inc.:

We have audited the accompanying consolidated balance sheets of Rent-A-Center, Inc. and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rent-A-Center, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Dallas, Texas

February 29, 2016

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Rent-A-Center, Inc.:

We have audited Rent-A-Center, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Rent-A-Center, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated February 29, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Dallas, Texas

February 29, 2016

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING

Management of the Company, including the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal control system was designed to provide reasonable assurance to management and the Company's Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. A system of internal control may become inadequate over time because of changes in conditions, or deterioration in the degree of compliance with the policies or procedures. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013). Based on this assessment, management has concluded that, as of December 31, 2015, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles based on such criteria.

KPMG LLP, the Company's independent registered public accounting firm, has issued an audit report on the effectiveness of the Company's internal control over financial reporting, which is included elsewhere in this Annual Report on Form 10-K.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended December 31,
2015 2014 2013
(In thousands, except per share data)

Revenues			
Store			
Rentals and fees	\$2,781,315	\$2,745,828	\$2,695,895
Merchandise sales	377,240	290,048	278,753
Installment sales	76,238	75,889	71,475
Other	19,158	19,949	18,133
Total store revenues	3,253,951	3,131,714	3,064,256
Franchise			
Merchandise sales	15,577	19,236	24,556
Royalty income and fees	8,892	6,846	5,206
Total revenues	3,278,420	3,157,796	3,094,018
Cost of revenues			
Store			
Cost of rentals and fees	728,706	704,595	676,674
Cost of merchandise sold	356,696	231,520	216,206
Cost of installment sales	25,677	26,084	24,541
Total cost of store revenues	1,111,079	962,199	917,421
Other charges and (credits)	34,698	(6,836)	—
Franchise cost of merchandise sold	14,534	18,070	23,104
Total cost of revenues	1,160,311	973,433	940,525
Gross profit	2,118,109	2,184,363	2,153,493
Operating expenses			
Store expenses			
Labor	854,610	888,929	881,671
Other store expenses	833,914	842,254	789,212
General and administrative expenses	166,102	162,316	147,621
Depreciation, amortization and write-down of intangibles	80,720	83,168	86,912
Goodwill impairment charge	1,170,000	—	1,068
Other charges	20,651	14,234	—
Total operating expenses	3,125,997	1,990,901	1,906,484
Operating profit (loss)	(1,007,888)	193,462	247,009
Finance charges from refinancing	—	4,213	—
Interest expense	49,326	47,843	39,628
Interest income	(634)	(947)	(815)
Earnings (loss) before income taxes	(1,056,580)	142,353	208,196
Income tax expense (benefit)	(189,952)	45,931	79,439
NET EARNINGS (LOSS)	\$(866,628)	\$96,422	\$128,757
Basic earnings (loss) per common share	\$(16.34)	\$1.82	\$2.35
Diluted earnings (loss) per common share	\$(16.34)	\$1.81	\$2.33
Cash dividends declared per common share	\$0.96	\$0.93	\$0.86

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Net earnings (loss)	\$(866,628)	\$96,422	\$128,757
Other comprehensive loss:			
Foreign currency translation adjustments	(6,399)	(4,656)	(2,017)
Total other comprehensive loss	(6,399)	(4,656)	(2,017)
COMPREHENSIVE INCOME (LOSS)	\$(873,027)	\$91,766	\$126,740

See accompanying notes to consolidated financial statements.

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RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2015	2014
	(In thousands, except share and par value data)	
ASSETS		
Cash and cash equivalents	\$60,363	\$46,126
Receivables, net of allowance for doubtful accounts of \$3,614 and \$4,023 in 2015 and 2014, respectively	69,320	65,492
Prepaid expenses and other assets	171,347	206,150
Rental merchandise, net		
On rent	907,625	960,414
Held for rent	228,847	277,442
Merchandise held for installment sale	4,668	4,855
Property assets, net of accumulated depreciation of \$482,448 and \$440,586 in 2015 and 2014, respectively	330,939	332,726
Goodwill	206,122	1,370,459
Other intangible assets, net	7,777	7,533
	\$1,987,008	\$3,271,197
LIABILITIES		
Accounts payable — trade	\$96,355	\$141,878
Accrued liabilities	332,553	351,812
Deferred income taxes	119,245	345,299
Senior debt	425,633	492,813
Senior notes	542,740	550,000
	1,516,526	1,881,802
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, \$.01 par value; 250,000,000 shares authorized; 109,441,911 and 109,353,001 shares issued in 2015 and 2014, respectively	1,094	1,094
Additional paid-in capital	818,339	813,178
Retained earnings	1,009,770	1,927,445
Treasury stock at cost, 56,369,752 shares in 2015 and 2014	(1,347,677)	(1,347,677)
Accumulated other comprehensive income (loss)	(11,044)	(4,645)
	470,482	1,389,395
	\$1,987,008	\$3,271,197

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Three Years Ended December 31, 2015

(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance at January 1, 2013	108,531	\$1,085	\$784,725	\$1,798,287	\$(1,130,268)	\$ 2,028	\$1,455,857
Net earnings	—	—	—	128,757	—	—	128,757
Other comprehensive loss	—	—	—	—	—	(2,017)	(2,017)
Purchase of treasury stock (5,874 shares)	—	—	(12)	—	(217,409)	—	(217,421)
Exercise of stock options	479	5	11,927	—	—	—	11,932
Vesting of restricted share units	98	1	—	—	—	—	1
Tax effect of stock awards vested and options exercised	—	—	(972)	—	—	—	(972)
Stock-based compensation	—	—	6,456	—	—	—	6,456
Dividends declared	—	—	—	(46,724)	—	—	(46,724)
Balance at December 31, 2013	109,108	1,091	802,124	1,880,320	(1,347,677)	11	1,335,869
Net earnings	—	—	—	96,422	—	—	96,422
Other comprehensive loss	—	—	—	—	—	(4,656)	(4,656)
Exercise of stock options	212	2	4,645	—	—	—	4,647
Vesting of restricted share units	33	1	—	—	—	—	1
Tax effect of stock awards vested and options exercised	—	—	(150)	—	—	—	(150)
Stock-based compensation	—	—	6,559	—	—	—	6,559
Dividends declared	—	—	—	(49,297)	—	—	(49,297)
Balance at December 31, 2014	109,353	1,094	813,178	1,927,445	(1,347,677)	(4,645)	1,389,395
Net loss	—	—	—	(866,628)	—	—	(866,628)
Other comprehensive loss	—	—	—	—	—	(6,399)	(6,399)
Exercise of stock options	66	—	1,485	—	—	—	1,485
Vesting of restricted share units	23	—	—	—	—	—	—

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Tax effect of stock awards exercised, vested and expired	—	—	(5,865)	—	—	—	(5,865)
Stock-based compensation	—	—	9,541	—	—	—	9,541
Dividends declared	—	—	—	(51,047)	—	—	(51,047)
Balance at December 31, 2015	109,442	\$1,094	\$818,339	\$1,009,770	\$(1,347,677)	\$(11,044)	\$470,482

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Cash flows from operating activities			
Net earnings (loss)	\$(866,628)	\$96,422	\$128,757
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities			
Depreciation of rental merchandise	718,100	685,115	652,161
Bad debt expense	15,260	15,509	14,589
Stock-based compensation expense	9,541	6,559	6,456
Depreciation of property assets	76,429	78,747	76,451
Loss on sale or disposal of property assets	11,897	10,363	1,499
Goodwill impairment charge	1,170,000	—	1,068
Amortization of intangibles	3,333	2,955	2,491
Amortization of financing fees	3,126	3,218	3,191
Deferred income taxes	(231,710)	26,796	24,020
Excess tax benefit related to stock awards	(86)	(331)	(406)
Changes in operating assets and liabilities, net of effects of acquisitions			
Rental merchandise	(622,149)	(796,672)	(767,680)
Receivables	(19,088)	(21,823)	(19,248)
Prepaid expenses and other assets	31,636	(130,690)	(9,798)
Accounts payable — trade	(45,523)	21,440	19,373
Accrued liabilities	(23,650)	21,505	1,418
Net cash provided by operating activities	230,488	19,113	134,342
Cash flows from investing activities			
Purchase of property assets	(80,870)	(83,785)	(108,367)
Proceeds from sale of property assets	15,964	14,474	19,973
Acquisitions of businesses	(25,170)	(27,354)	(41,236)
Net cash used in investing activities	(90,076)	(96,665)	(129,630)
Cash flows from financing activities			
Purchase of treasury stock	—	—	(217,421)
Exercise of stock options	1,485	4,647	11,932
Excess tax benefit related to stock awards	86	331	406
Proceeds from debt	531,180	772,860	908,145
Repayments of debt	(605,620)	(646,323)	(679,370)
Dividends paid	(51,011)	(48,663)	(46,809)
Net cash provided by (used in) financing activities	(123,880)	82,852	(23,117)
Effect of exchange rate changes on cash	(2,295)	(1,448)	(408)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,237	3,852	(18,813)
Cash and cash equivalents at beginning of year	46,126	42,274	61,087
Cash and cash equivalents at end of year	\$60,363	\$46,126	\$42,274
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	\$49,386	\$48,064	\$36,897
	\$128,083	\$146,250	\$52,255

Income taxes (excludes \$116,337, \$3,372 and \$2,426 of income taxes refunded in 2015, 2014 and 2013, respectively)

Noncash Financing Activities:

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

See accompanying notes to consolidated financial statements.

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

Note A — Nature of Operations and Summary of Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation and Nature of Operations

These financial statements include the accounts of Rent-A-Center, Inc., and its direct and indirect subsidiaries. All intercompany accounts and transactions have been eliminated. Unless the context indicates otherwise, references to "Rent-A-Center" refer only to Rent-A-Center, Inc., the parent, and references to "we," "us" and "our" refer to the consolidated business operations of Rent-A-Center and any or all of its direct and indirect subsidiaries. We report four operating segments: Core U.S., Acceptance Now, Mexico (formerly reported as International, see Note R to the consolidated financial statements) and Franchising.

Our Core U.S. segment consists of company-owned rent-to-own stores in the United States, Canada and Puerto Rico that lease household durable goods to customers on a rent-to-own basis. Our stores in Canada operate under the name "Rent-A-Centre." We also offer merchandise on an installment sales basis in certain of our stores under the names "Get It Now" and "Home Choice." At December 31, 2015, we operated 2,672 company-owned stores nationwide and in Canada and Puerto Rico, including 45 retail installment sales stores.

Our Acceptance Now segment generally offers the rent-to-own transaction to consumers who do not qualify for financing from the traditional retailer through kiosks located within such retailer's locations. At December 31, 2015, we operated 1,444 Acceptance Now Staffed locations and 532 Acceptance Now Direct locations.

Our Mexico segment consists of our company-owned rent-to-own stores in Mexico that lease household durable goods to customers on a rent-to-own basis. At December 31, 2015, we operated 143 stores in Mexico.

Rent-A-Center Franchising International, Inc., an indirect wholly-owned subsidiary of Rent-A-Center, is a franchisor of rent-to-own stores. At December 31, 2015, Franchising had 227 franchised stores operating in 31 states. Our Franchising segment's primary source of revenue is the sale of rental merchandise to its franchisees, who in turn offer the merchandise to the general public for rent or purchase under a rent-to-own transaction. The balance of our Franchising segment's revenue is generated primarily from royalties based on franchisees' monthly gross revenues.

Rental Merchandise

Rental merchandise is carried at cost, net of accumulated depreciation. Depreciation for merchandise is generally provided using the income forecasting method, which is intended to match as closely as practicable the recognition of depreciation expense with the consumption of the rental merchandise, and assumes no salvage value. The consumption of rental merchandise occurs during periods of rental and directly coincides with the receipt of rental revenue over the rental purchase agreement period. Under the income forecasting method, merchandise held for rent is not depreciated and merchandise on rent is depreciated in the proportion of rents received to total rents provided in the rental contract, which is an activity-based method similar to the units of production method. We depreciate merchandise (including computers, tablets and smartphones) that is held for rent for at least 180 consecutive days using the straight-line method over a period generally not to exceed 18 months.

Rental merchandise which is damaged and inoperable is expensed when such impairment occurs. If a customer does not return the merchandise or make payment, the remaining book value of the rental merchandise associated with delinquent accounts is generally charged off on or before the 90th day following the time the account became past due in the Core U.S. segment, on or before the 150th day in the Acceptance Now segment and on or before the 60th day in the Mexico segment. We maintain a reserve for these expected expenses. In addition, any minor repairs made to rental merchandise are expensed at the time of the repair.

Cash Equivalents

Cash equivalents include all highly liquid investments with an original maturity of three months or less. We maintain cash and cash equivalents at several financial institutions, which at times may not be federally insured or may exceed federally insured limits. We have not experienced any losses in such accounts and believe we are not exposed to any significant credit risks on such accounts.

Revenues

Merchandise is rented to customers pursuant to rental purchase agreements which provide for weekly, semi-monthly or monthly rental terms with non-refundable rental payments. Generally, the customer has the right to acquire title either through a purchase option or through payment of all required rentals. Rental revenue and fees are recognized over the rental term and merchandise sales revenue is recognized when the customer exercises the purchase option and pays the cash price due. Cash

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

received prior to the period in which it should be recognized is deferred and recognized according to the rental term. Revenue is accrued for uncollected amounts due based on historical collection experience. However, the total amount of the rental purchase agreement is not accrued because the customer can terminate the rental agreement at any time and we cannot enforce collection for non-payment of future rents.

Revenues from the sale of merchandise in our retail installment stores are recognized when the installment note is signed, the customer has taken possession of the merchandise and collectability is reasonably assured.

Revenues from the sale of rental merchandise are recognized upon shipment of the merchandise to the franchisee. Franchise royalty income and fee revenue is recognized upon completion of substantially all services and satisfaction of all material conditions required under the terms of the franchise agreement. Some franchisees purchase directly from a supplier but request reimbursement through ColorTyme Finance, Inc. and we recognize revenue for the commission we earn on these transactions.

Receivables and Allowance for Doubtful Accounts

The installment notes receivable associated with the sale of merchandise at our Get It Now and Home Choice stores generally consists of the sales price of the merchandise purchased and any additional fees for services the customer has chosen, less the customer's down payment. No interest is accrued and interest income is recognized each time a customer makes a payment, generally on a monthly basis.

We have established an allowance for doubtful accounts for our installment notes receivable. Our policy for determining the allowance is based on historical loss experience, as well as the results of management's review and analysis of the payment and collection of the installment notes receivable within the previous year. We believe our allowance is adequate to absorb any known or probable losses. Our policy is to charge off installment notes receivable that are 120 days or more past due. Charge-offs are applied as a reduction to the allowance for doubtful accounts and any recoveries of previously charged off balances are applied as an increase to the allowance for doubtful accounts. The majority of Franchising's trade and notes receivable relate to amounts due from franchisees. Credit is extended based on an evaluation of a franchisee's financial condition and collateral is generally not required. Trade receivables are due within 30 days and are stated at amounts due from franchisees net of an allowance for doubtful accounts. Accounts that are outstanding longer than the contractual payment terms are considered past due. Franchising determines its allowance by considering a number of factors, including the length of time receivables are past due, Franchising's previous loss history, the franchisee's current ability to pay its obligation to Franchising, and the condition of the general economy and the industry as a whole. Franchising writes off trade receivables that are 120 days or more past due and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Property Assets and Related Depreciation

Furniture, equipment and vehicles are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the respective assets (generally five years) by the straight-line method. Our building is depreciated over 40 years. Leasehold improvements are amortized over the useful life of the asset or the initial term of the applicable leases by the straight-line method, whichever is shorter.

We have incurred costs to develop computer software for internal use. We capitalize the costs incurred during the application development stage, which includes designing the software configuration and interfaces, coding, installation, and testing. Costs incurred during the preliminary stages along with post-implementation stages of internally developed software are expensed as incurred. Internally developed software costs, once placed in service, are amortized over various periods up to ten years.

We incur repair and maintenance expenses on our vehicles and equipment. These amounts are recognized when incurred, unless such repairs significantly extend the life of the asset, in which case we amortize the cost of the repairs for the remaining life of the asset utilizing the straight-line method.

Goodwill and Other Intangible Assets

We record goodwill when the consideration paid for an acquisition exceeds the fair value of the identifiable net tangible and identifiable intangible assets acquired. Goodwill is not subject to amortization but must be periodically

evaluated for impairment. Impairment occurs when the carrying value of goodwill is not recoverable from future cash flows. We perform an assessment of goodwill for impairment at the reporting unit level annually as of October 1, or when events or circumstances indicate that impairment may have occurred. Our reporting units are generally our reportable operating segments. Factors which could necessitate an interim impairment assessment include a sustained decline in our stock price, prolonged negative industry or economic trends and significant underperformance relative to expected historical or projected future operating results.

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

We determine the fair value of each reporting unit using methodologies which include the present value of estimated future cash flows and comparisons of multiples of enterprise values to earnings before interest, taxes, depreciation and amortization. The analysis is based upon available information regarding expected future cash flows and discount rates. Discount rates are based upon our cost of capital. We use a two-step approach to assess goodwill impairment. If the fair value of the reporting unit exceeds its carrying value, then the goodwill is not deemed impaired. If the carrying value of the reporting unit exceeds fair value, we perform a second analysis to measure the fair value of all assets and liabilities within the reporting unit, and if the carrying value of goodwill exceeds its implied fair value, goodwill is considered impaired. The amount of the impairment is the difference between the carrying value of goodwill and the implied fair value, which is calculated as if the reporting unit had just been acquired and accounted for as a business combination.

Acquired customer relationships are amortized utilizing the straight-line method over a 21 month period, non-compete agreements are amortized using the straight-line method over the contractual life of the agreements, vendor relationships are amortized using the straight-line method over a 7 or 15 year period, other intangible assets are amortized using the straight-line method over the life of the asset.

Accounting for Impairment of Long-Lived Assets

We evaluate all long-lived assets, including intangible assets, excluding goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Impairment is recognized when the carrying amounts of such assets cannot be recovered by the undiscounted net cash flows they will generate.

Self-Insurance Liabilities

We have self-insured retentions with respect to losses under our workers' compensation, general liability, vehicle liability and health insurance programs. We establish reserves for our liabilities associated with these losses by obtaining forecasts for the ultimate expected losses and estimating amounts needed to pay losses within our self-insured retentions. We make assumptions on our liabilities within our self-insured retentions using actuarial loss forecasts, company-specific development factors, general industry loss development factors, and third-party claim administrator loss estimates which are based on known facts surrounding individual claims. These assumptions incorporate expected increases in health care costs. Periodically, we reevaluate our estimate of liability within our self-insured retentions. At that time, we evaluate the adequacy of our reserves by comparing amounts reserved on our balance sheet for anticipated losses to our updated actuarial loss forecasts and third-party claim administrator loss estimates, and make adjustments to our reserves as needed.

Foreign Currency Translation

The functional currency of our foreign operations is the applicable local currency. Assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange on the last day of the reporting period. Revenues and expenses are generally translated at a daily exchange rate and equity transactions are translated using the actual rate on the day of the transaction.

Other Comprehensive Income

Other comprehensive income is comprised exclusively of our foreign currency translation adjustment.

Income Taxes

We record deferred taxes for temporary differences between the tax and financial reporting bases of assets and liabilities at the enacted tax rate expected to be in effect when taxes become payable. Income tax accounting requires management to make estimates and apply judgments to events that will be recognized in one period under rules that apply to financial reporting in a different period in our tax returns. In particular, judgment is required when estimating the value of future tax deductions, tax credits and net operating loss carryforwards (NOLs), as represented by deferred tax assets. We evaluate the recoverability of these future tax deductions and credits by assessing the future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income rely heavily on estimates. We use our historical experience and our short- and long-range business forecasts to provide insight and assist us in determining recoverability. When it is determined the recovery of all or a portion of a deferred tax asset is not likely, a valuation

allowance is established. We include NOLs in the calculation of deferred tax assets. NOLs are utilized to the extent allowable due to the provisions of the Internal Revenue Code of 1986, as amended, and relevant state statutes. We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized

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

upon the ultimate settlement with the relevant tax authority. A number of years may elapse before a particular matter, for which we have recorded a liability, is audited and effectively settled. We review our tax positions quarterly and adjust our liability for unrecognized tax benefits in the period in which we determine the issue is effectively settled with the tax authorities, the statute of limitations expires for the relevant taxing authority to examine the tax position, or when more information becomes available. We classify interest accrued related to unrecognized tax benefits as interest expense.

Sales Taxes

We apply the net basis for sales taxes imposed on our goods and services in our consolidated statements of earnings. We are required by the applicable governmental authorities to collect and remit sales taxes. Accordingly, such amounts are charged to the customer, collected and remitted directly to the appropriate jurisdictional entity.

Earnings (Loss) Per Common Share

Basic earnings (loss) per common share are based upon the weighted average number of common shares outstanding during each period presented. Diluted earnings (loss) per common share are based upon the weighted average number of common shares outstanding during the period, plus, if dilutive, the assumed exercise of stock options at the beginning of the year, or for the period outstanding during the year for current year issuances.

Advertising Costs

Costs incurred for producing and communicating advertising are expensed when incurred. Advertising expense was \$96.2 million, \$94.8 million and \$92.6 million, for the years ended December 31, 2015, 2014 and 2013, respectively.

Stock-Based Compensation

We maintain long-term incentive plans for the benefit of certain employees and directors, which are described more fully in Note M. We recognize share-based payment awards to our employees and directors at the estimated fair value on the grant date. Determining the fair value of any share-based award requires information about several variables that include, but are not limited to, expected stock volatility over the terms of the award, expected dividend yields and the predicted employee exercise behavior. We base expected life on historical exercise and post-vesting employment-termination experience, and expected volatility on historical realized volatility trends. In addition, all stock-based compensation expense is recorded net of an estimated forfeiture rate. The forfeiture rate is based upon historical activity and is analyzed at least annually as actual forfeitures occur. Compensation costs are recognized net of estimated forfeitures over the requisite service period on a straight-line basis. We issue new shares to settle stock awards. Stock options are valued using a Black-Scholes pricing model. Time-vesting restricted stock units are valued using the closing price on the Nasdaq Global Select Market on the day before the grant date, adjusted for any provisions affecting fair value, such as the lack of dividends or dividend equivalents during the vesting period. Performance-based restricted stock units will vest in accordance with a total shareholder return formula, and are valued by a third-party valuation firm using Monte Carlo simulations.

Stock-based compensation expense is reported within general and administrative expenses in the consolidated statements of earnings.

Reclassifications

Certain reclassifications have been made to the reported amounts for the prior periods to conform to the current period presentation. These reclassifications had no impact on net earnings or earnings per share in any period.

Use of Estimates

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

New Accounting Pronouncements

In 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

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

revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. On July 9, 2015, the FASB approved a one-year deferral of the effective date. The adoption of ASU 2014-09 will be required for Rent-A-Center beginning January 1, 2018, with early adoption permitted as of the original effective date. The ASU allows adoption with either retrospective application to each prior period presented, or retrospective application with the cumulative effect recognized as of the date of initial application. We are currently in the process of determining what impact, if any, the adoption of this ASU will have on our financial position, results of operations and cash flows, and we are evaluating the adoption date and transition alternatives.

On April 7, 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. ASU 2015-03 will be required for Rent-A-Center for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Adoption will be effective for Rent-A-Center beginning January 1, 2016, and will be applied on a retrospective basis. We are currently in the process of determining the impact of the adoption of this ASU on our consolidated balance sheet. There will be no impact to our results of operations or cash flows.

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that we adopt as of the specified effective date. Unless otherwise discussed, we believe the impact of any other recently issued standards that are not 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.

Note B — Receivables and Allowance for Doubtful Accounts

Receivables consist of the following:

	December 31,	
	2015	2014
	(In thousands)	
Installment sales receivable	\$57,010	\$56,516
Trade and notes receivables	15,924	12,999
Total	72,934	69,515
Less allowance for doubtful accounts	(3,614)	(4,023)
Net receivables	\$69,320	\$65,492

The allowance for doubtful accounts related to installment sales receivable was \$3.4 million and \$3.5 million, and the allowance for doubtful accounts related to trade and notes receivable was \$0.2 million and \$0.5 million at December 31, 2015 and 2014, respectively.

Changes in our allowance for doubtful accounts are as follows:

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Beginning Balance	\$4,023	\$3,700	\$2,920
Bad debt expense	15,260	15,509	14,589
Accounts written off	(16,317)	(15,718)	(14,271)
Recoveries	648	532	462
Ending Balance	\$3,614	\$4,023	\$3,700

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

Note C — Rental Merchandise

	December 31, 2015	2014
	(In thousands)	
On rent		
Cost	\$1,527,384	\$1,565,421
Less accumulated depreciation	(619,759)	(605,007)
Net book value, on rent	\$907,625	\$960,414
Held for rent		
Cost	\$297,956	\$343,747
Less accumulated depreciation	(69,109)	(66,305)
Net book value, held for rent	\$228,847	\$277,442

Note D — Property Assets

	December 31, 2015	2014
	(In thousands)	
Furniture and equipment	\$409,076	\$359,982
Transportation equipment	11,807	11,451
Building and leasehold improvements	294,221	314,343
Land and land improvements	6,747	6,853
Construction in progress	91,536	80,683
	813,387	773,312
Less accumulated depreciation	(482,448)	(440,586)
	\$330,939	\$332,726

We had \$70.3 million and \$73.4 million of capitalized software costs included in construction in progress at December 31, 2015, and 2014 respectively. For the years ended December 31, 2015, 2014 and 2013, we placed in service internally developed software of approximately \$22.9 million, \$51.6 million and \$4.6 million, respectively.

Note E — Intangible Assets and Acquisitions

Goodwill Impairment Charge

In December 2015, we completed step one of our annual goodwill impairment test as of October 1, 2015. We determined the fair value of our Acceptance Now segment significantly exceeded its carrying value (by over 100%), but the fair value of our Core U.S. segment was below its carrying value. We then performed step two of the impairment test for the Core U.S. segment and determined the carrying value of goodwill exceeded its implied fair value. Accordingly, in the fourth quarter of 2015 we recognized an impairment charge of \$1,170.0 million. Based on the results of our 2014 annual goodwill impairment assessment, we concluded no impairment of goodwill existed at December 31, 2014. During 2013, we recorded a goodwill impairment charge of \$1.1 million in our Core U.S. segment as a result of the sustained underperformance of certain stores located in Canada.

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

Intangible Assets

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

	Avg. Life (years)	December 31, 2015		December 31, 2014	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-compete agreements	3	\$6,746	\$5,724	\$5,585	\$5,435
Customer relationships	2	78,887	76,830	76,299	74,182
Vendor relationships	11	7,538	2,840	7,538	2,272
Total		\$93,171	\$85,394	\$89,422	\$81,889

Aggregate amortization expense (in thousands):

Year Ended December 31, 2015	\$3,333
Year Ended December 31, 2014	\$2,955
Year Ended December 31, 2013	\$2,491

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

	Estimated Amortization Expense
2016	\$ 2,638
2017	1,089
2018	678
2019	678
2020	465
Thereafter	2,229
	\$ 7,777

At December 31, 2015, the amount of goodwill allocated to the Core U.S. and Acceptance Now segments was approximately \$150.8 million and \$55.3 million, respectively. At December 31, 2014, the amount of goodwill allocated to the Core U.S. and Acceptance Now segments was approximately \$1,316.1 million and \$54.4 million, respectively.

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

	Year Ended December 31,	
	2015	2014
Beginning Balance	\$1,370,459	\$1,364,549
Additions from acquisitions	12,942	14,562
Goodwill impairments and write-offs related to stores sold or closed	(1,177,581)	(8,458)
Post purchase price allocation adjustments	302	(194)
Ending Balance	\$206,122	\$1,370,459

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

Acquisitions

The following table provides information concerning the acquisitions made during the years ended December 31, 2015, 2014 and 2013.

	Year Ended December 31,		
	2015	2014	2013
	(Dollar amounts in thousands)		
Number of stores acquired remaining open	5	6	47
Number of stores acquired that were merged with existing stores	34	13	38
Number of transactions	24	26	47
Total purchase price	\$25,488	\$26,653	\$44,229
Amounts allocated to:			
Goodwill	\$12,942	\$14,562	\$28,282
Non-compete agreements	1,166	—	235
Customer relationships	2,625	1,525	2,959
Rental merchandise	8,755	9,731	11,843
Property and other assets	—	835	910

Purchase prices are determined by evaluating the average monthly rental income of the acquired stores and applying a multiple to the total for rent-to-own store acquisitions. All acquisitions have been accounted for as asset purchases, and the operating results of the acquired stores and accounts have been included in the financial statements since their date of acquisition.

The weighted average amortization period was approximately 21 months for intangible assets added during the year ended December 31, 2015. Additions to goodwill due to acquisitions in 2015 were tax deductible.

Note F — Accrued Liabilities

	December 31,	
	2015	2014
	(In thousands)	
Accrued insurance costs	\$121,844	\$125,067
Deferred revenue	60,535	58,880
Accrued compensation	42,940	55,354
Taxes other than income	20,081	20,632
Accrued dividends	12,773	12,737
Deferred compensation	10,489	9,653
Deferred rent	6,882	9,585
Accrued interest payable	5,781	5,766
Accrued other	51,228	54,138
	\$332,553	\$351,812

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note G — Income Taxes

A reconciliation of the federal statutory rate of 35% to actual follows:

	Year Ended December 31,					
	2015		2014		2013	
Tax at statutory rate	35.0	%	35.0	%	35.0	%
Goodwill impairment	(18.8)%	—	%	—	%
State income taxes, net of federal benefit	2.8	%	1.8	%	2.6	%
Effect of foreign operations, net of foreign tax credits	(0.9	)%	0.3	%	0.4	%
Effect of current and prior year credits	0.4	%	(2.0)%	—	%
Adjustments to deferred taxes	—	%	(2.4)%	—	%
Other, net	(0.5	)%	(0.4	)%	0.2	%
Total	18.0	%	32.3	%	38.2	%

The components of income tax expense (benefit) are as follows:

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Current expense (benefit)			
Federal	\$29,668	\$14,943	\$45,784
State	(6,432	)	4,032
Foreign	2,574	1,673	5,659
Total current	25,810	20,648	57,331
Deferred expense (benefit)			
Federal	(175,842	)	24,556
State	(39,331)	(90
Foreign	(589)	817
Total deferred	(215,762)	25,283
Total	\$(189,952)	\$45,931
			\$79,439

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred tax assets (liabilities) consist of the following:

	December 31,	
	2015	2014
	(In thousands)	
Deferred tax assets		
State net operating loss carryforwards	\$ 16,032	\$ 16,937
Foreign net operating loss carryforwards	20,396	18,182
Accrued liabilities	62,115	72,058
Intangible assets	56,609	—
Property assets	3,308	—
Other assets including credits	5,413	6,993
Foreign tax credit carryforwards	13,576	12,306
	177,449	126,476
Valuation allowance	(31,829)	(24,709)
Deferred tax liabilities		
Rental merchandise	(263,158)	(285,371)
Property assets	—	(2,222)
Intangible assets	—	(157,527)
	(263,158)	(445,120)
Net deferred taxes	\$(117,538)	\$(343,353)

At December 31, 2015, there are approximately \$355.9 million of state NOL carryforwards expiring between 2016 and 2033, offset by a valuation allowance of \$16.1 million. Of the total remaining state NOL carryforwards, approximately 17.0% represent acquired NOLs. Utilization of these NOLs is subject to applicable annual limitations for U.S. state tax purposes. At December 31, 2015, the Mexico NOL carryforwards were approximately \$60.4 million, which expire between 2020 and 2025, and are offset with a full valuation allowance. The Puerto Rico NOL is \$5.8 million and it will expire in 2025. In addition, at December 31, 2015, we also had approximately \$13.6 million in foreign tax credit (“FTC”) carryforwards expiring between 2020 and 2025, offset by a valuation allowance of \$5.7 million. We establish a valuation allowance to the extent we consider it more likely than not that the deferred tax assets attributable to our NOLs, FTCs or other deferred tax assets will not be recovered.

We are subject to federal, state, local and foreign income taxes. Along with our U.S. subsidiaries, we file a U.S. federal consolidated income tax return. With few exceptions, we are no longer subject to U.S. federal, state, foreign and local income tax examinations by tax authorities for years before 2012. We are currently under examination in various states. We do not anticipate that adjustments as a result of these audits, if any, will result in a material change to our consolidated statement of earnings, financial condition, statement of cash flows or earnings per share.

A reconciliation of the beginning and ending amount of unrecognized tax benefits follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Balance at beginning of year	\$ 13,376	\$ 13,173	\$ 10,167
Additions based on tax positions related to current year	1,508	425	50
Additions for tax positions of prior years	20,684	2,400	3,742
Reductions for tax positions of prior years	(8,354)	(2,225)	(786)
Settlements	(50)	(397)	—
Balance at end of year	\$ 27,164	\$ 13,376	\$ 13,173

Included in the balance of unrecognized tax benefits at December 31, 2015, is \$24.4 million, net of federal benefit, which, if ultimately recognized, will affect our annual effective tax rate.

As of December 31, 2015, we have accrued approximately \$1.9 million for the payment of interest for uncertain tax positions. During the year ended December 31, 2015, we recorded \$786,000 of interest income primarily related to the

reversal of accrued interest for a matter settled during the year in our favor, partially offset by interest expense of approximately \$654,000 for remaining uncertain tax positions, both of which are excluded from the reconciliation of unrecognized tax benefits presented above.

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

Note H — Senior Debt

On March 19, 2014, we entered into a Credit Agreement (the "Credit Agreement") among the Company, the several lenders from time to time parties to the Credit Agreement, Bank of America, N.A., BBVA Compass Bank, Wells Fargo Bank, National Association and SunTrust Bank, as syndication agents, and JPMorgan Chase Bank, N.A., as administrative agent. The Credit Agreement represents a refinancing of our senior secured debt outstanding under our prior credit agreement, the Fourth Amended and Restated Credit Agreement, dated as of May 28, 2003, as amended and restated as of July 14, 2011, and as amended by the First Amendment dated as of April 13, 2012, among the Company, the several banks and other financial institutions or entities from time to time parties thereto, and JPMorgan Chase Bank, N.A., as administrative agent (as amended, the "Prior Credit Agreement"). The Credit Agreement provides for a new \$900.0 million senior credit facility consisting of \$225 million in term loans (the "Term Loans") and a \$675 million revolving credit facility (the "Revolving Facility").

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. We are also required to pay down the Term Loans each year by an amount equal to 50% of annual excess cash flow, as defined in the Credit Agreement. This percentage requirement decreases to 25% if the Consolidated Total Leverage Ratio (as defined in the Credit Agreement) is between 3.0:1 and 2.5:1, and to 0% if the Consolidated Total Leverage Ratio is less than 2.5:1. We anticipate making a mandatory excess cash flow prepayment in the first quarter of 2016 with respect to our results for the year ended December 31, 2015, of approximately \$25.0 - \$30.0 million. No mandatory excess cash flow prepayment was made with respect to the year ended December 31, 2014. We are further required to pay down the Term Loans with proceeds from certain asset sales or borrowings as defined in the Credit Agreement.

The debt facilities as of December 31, 2015 and 2014 are as follows:

	Facility Maturity	December 31, 2015			December 31, 2014		
		Maximum Facility (In thousands)	Amount Outstanding	Amount Available	Maximum Facility	Amount Outstanding	Amount Available
Senior Debt:							
Term Loan	March 19, 2021	\$225,000	\$221,063	\$—	\$225,000	\$223,313	\$—
Revolving Facility	March 19, 2019	675,000	190,000	390,300	675,000	255,000	315,600
		900,000	411,063	390,300	900,000	478,313	315,600
Other Indebtedness:							
Line of credit	August 21, 2016	20,000	14,570	5,430	20,000	14,500	5,500
Total		\$920,000	\$425,633	\$395,730	\$920,000	\$492,813	\$321,100

The full amount of the revolving credit facility may be used for the issuance of letters of credit. At December 31, 2015 and 2014, the amounts available under the revolving credit facility were reduced by approximately \$94.7 million and \$104.4 million, respectively, for our outstanding letters of credit.

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 2.25% and 1.25%, respectively, at December 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 December 31, 2015, is equal to 0.45% of the unused portion of the Revolving Facility.

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

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

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 when total leverage is greater than 2.5:1 (subject to an exception for cash dividends in an amount not to exceed \$20 million annually);
- 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 4.25:1 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 1.75:1. The table below shows the required and actual ratios under the Credit Agreement calculated as of December 31, 2015:

	Required Ratio		Actual Ratio
Consolidated total leverage ratio	No greater than	4.25:1	3.13:1
Consolidated senior secured leverage ratio	No greater than	2.75:1	1.26:1
Consolidated fixed charge coverage ratio	No less than	1.75:1	1.87:1

These financial covenants, as well as the related components of their computation, are defined in the Credit Agreement, which is included as an exhibit to our Current Report on Form 8-K dated as of March 19, 2014. In accordance with the Credit Agreement, the consolidated total leverage ratio was calculated by dividing the consolidated funded debt outstanding at December 31, 2015 (\$933.0 million) by consolidated EBITDA for the 12-month period ending December 31, 2015 (\$298.2 million). For purposes of the covenant calculations, (i) “consolidated funded debt” is defined as outstanding indebtedness less cash in excess of \$25.0 million, and (ii) “consolidated EBITDA” is generally defined as consolidated net income (a) plus the sum of income taxes, interest expense, depreciation and amortization expense, extraordinary non-cash expenses or losses, and other non-cash charges, and (b) minus the sum of interest income, extraordinary income or gains, other non-cash income, and cash payments with respect to extraordinary non-cash expenses or losses recorded in prior fiscal quarters. Consolidated EBITDA is a non-GAAP financial measure that is presented not as a measure of operating results, but rather as a measure used to determine covenant compliance under our senior credit facilities.

The consolidated senior secured leverage ratio was calculated pursuant to the Credit Agreement by dividing the consolidated senior secured debt outstanding at December 31, 2015 (\$375.7 million) by consolidated EBITDA for the 12-month period ending December 31, 2015 (\$298.2 million). For purposes of the covenant calculation, “consolidated senior secured debt” is generally defined as the aggregate principal amount of consolidated funded debt that is then secured by liens on property or assets of the Company or its subsidiaries.

The consolidated fixed charge coverage ratio was calculated pursuant to the Credit Agreement by dividing the sum of consolidated EBITDA and consolidated lease expense for the 12-month period ending December 31, 2015 (\$537.4 million), by consolidated fixed charges for the 12-month period ending December 31, 2015 (\$287.9 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 our senior credit facilities 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 Rent-A-Center's Board of Directors occur. An event of default would also occur if one or more judgments were entered against us of \$50.0 million or more and such judgments were not satisfied or bonded pending appeal within 30 days after entry.

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

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

In addition to the senior debt discussed above, we maintain a \$20.0 million unsecured, revolving line of credit with INTRUST Bank, N.A. to facilitate cash management. The line of credit generally renews on August 21 of each year. Borrowings under the line of credit bear interest at the greater of a variable rate or 2.00%.

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

	Term Loan	Revolving Facility	INTRUST Line of Credit	Total
Year Ending December 31,	(In thousands)			
2016	\$2,250	\$—	\$14,570	\$16,820
2017	2,250	—	—	2,250
2018	2,250	—	—	2,250
2019	2,250	190,000	—	192,250
2020	2,250	—	—	2,250
Thereafter	209,813	—	—	209,813
	\$221,063	\$190,000	\$14,570	\$425,633

Note I — Subsidiary Guarantors – Senior Notes

On November 2, 2010, we issued \$300.0 million in senior unsecured notes due November 2020, bearing interest at 6.625%, pursuant to an indenture dated November 2, 2010, among Rent-A-Center, Inc., its subsidiary guarantors and The Bank of New York Mellon Trust Company, as trustee. A portion of the proceeds of this offering were used to repay approximately \$200.0 million of outstanding term debt under our Prior Credit Agreement. The remaining net proceeds were used to repurchase shares of our common stock. The principal amount of the 6.625% notes outstanding as of December 31, 2015 and 2014 were \$292.7 million and \$300.0 million, respectively. During 2015, we repurchased \$7.3 million of these bonds in the open market at a price of 99.5% plus accrued interest.

On May 2, 2013, we issued \$250.0 million in senior unsecured notes due May 2021, bearing interest at 4.750%, 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 principal amount of the 4.750% notes outstanding as of December 31, 2015 and 2014 was \$250.0 million.

The indenture governing the 6.625% notes and the 4.750% 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 when total leverage is greater than 2.5:1 (subject to an exception for cash dividends in an amount not to exceed \$20 million annually); 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

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

The 4.75% notes may be redeemed on or after May 1, 2016, at our option, in whole or in part, at a premium declining from 103.563%. The 4.75% notes may be redeemed on or after May 1, 2019, at our option, in whole or in part, at par. The 4.750% 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 senior credit facilities. 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.

Note J — Commitments and Contingencies

Leases

We lease space for substantially all of our Core U.S. and Mexico stores, certain support facilities and the majority of our delivery vehicles under operating leases expiring at various times through 2023. Certain of the store leases contain escalation clauses for increased taxes and operating expenses. Rental expense was \$239.2 million, \$244.3 million and \$240.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Future minimum rental payments under operating leases with remaining lease terms in excess of one year at December 31, 2015 are as follows:

Year Ending December 31,	Operating Leases (In thousands)
2016	\$ 174,120
2017	139,674
2018	99,771
2019	63,583
2020	32,175
Thereafter	7,182
	\$ 516,505

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.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 \$9.3 million was outstanding as of December 31, 2015.

Note K — Other Charges and Credits

Write-down of Rental Merchandise. During 2015, we projected that we would not recover the carrying value of certain smartphones. We recorded a \$34.7 million impairment charge, included in cost of revenues in the accompanying statement of operations.

Vendor Settlement Credit. We participated in an anti-trust class-action suit as an entity that indirectly purchased liquid-crystal displays from certain manufacturers during the period from 1999 to 2006. We received net proceeds of approximately \$6.8 million pursuant to a negotiated settlement of this matter based on the number of LCD units purchased during that time period. The settlement proceeds are reported as a reduction to cost of goods sold in the consolidated statements of earnings for the year ended December 31, 2014.

Note L — Other Charges

Sale of Stores. During 2015, we incurred losses of \$7.2 million on the sale of 40 Core U.S. stores to a franchisee and \$0.3 million on the sale of 14 Core U.S. stores in Canada. We also incurred losses on the sale and closure of other Core U.S. stores of \$1.1 million and \$1.8 million in 2015 and 2014, respectively.

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

During 2014, we closed 150 Core U.S. stores and merged those accounts into existing Core U.S. stores, resulting in a restructuring charge of \$4.9 million. This included approximately \$3.2 million of accelerated depreciation expense for fixed assets, leasehold improvements and write-off of merchandise inventory, \$1.3 million in early lease termination costs and \$0.4 million of other operating costs to decommission the stores.

Mexico Store Consolidation Plan. During 2015, we closed 34 stores in Mexico and merged those accounts into existing Mexico stores. These store closures resulted in a pre-tax restructuring charge of \$3.0 million in the Mexico segment for disposal of fixed assets and leasehold improvements and other charges to decommission the stores.

Sourcing and Distribution Network Startup Costs. As part of our transformational sourcing and distribution initiative, we entered into an agreement with a third-party logistics partner. As a result, we incurred one-time costs to set up new warehousing facilities and distribution routes and we incurred other charges to close existing warehouse space and terminate employees. The charges for these items were approximately \$2.8 million for the year ended December 31, 2015, reflected in the Core U.S. segment.

Corporate Restructuring. During 2015 and 2014, we eliminated certain departments and functions in our field support center as a part of our efforts to transform and modernize our operations company-wide. This resulted in restructuring charges for severance and other payroll-related costs of approximately \$2.0 million and \$2.8 million for the years ended December 31, 2015 and 2014, respectively.

Impairment Charge. During 2014, we recorded a \$4.6 million impairment charge related to internally-developed computer software that was placed into service in 2014. We determined that certain components developed for our new store management information system would not be utilized.

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Note M — Stock-Based Compensation

We maintain long-term incentive plans for the benefit of certain employees and directors. Our plans consist of the Rent-A-Center, Inc. Amended and Restated Long-Term Incentive Plan (the “Prior Plan”), the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (the “2006 Plan”), and the Rent-A-Center, Inc. 2006 Equity Incentive Plan (the “Equity Incentive Plan”), which are collectively known as the “Plans.”

The 2006 Plan authorizes the issuance of 7,000,000 shares of Rent-A-Center’s common stock that may be issued pursuant to awards granted under the 2006 Plan, of which no more than 3,500,000 shares may be issued in the form of restricted stock, deferred stock or similar forms of stock awards which have value without regard to future appreciation in value of or dividends declared on the underlying shares of common stock. In applying these limitations, the following shares will be deemed not to have been issued: (1) shares covered by the unexercised portion of an option that terminates, expires, or is canceled or settled in cash, and (2) shares that are forfeited or subject to awards that are forfeited, canceled, terminated or settled in cash. At December 31, 2015 and 2014, there were 1,762,142 and 1,955,950 shares, respectively, allocated to equity awards outstanding in the 2006 Plan.

We acquired the Equity Incentive Plan (formerly known as the Rent-Way, Inc. 2006 Equity Incentive Plan) in conjunction with our acquisition of Rent-Way in 2006. There were 2,468,461 shares of our common stock reserved for issuance under the Equity Incentive Plan. There were 1,587,693 and 1,269,197 shares allocated to equity awards outstanding in the Equity Incentive Plan at December 31, 2015 and 2014, respectively.

Under the Prior Plan, 14,562,865 shares of Rent-A-Center’s common stock were reserved for issuance under stock options, stock appreciation rights or restricted stock grants. There were no grants of stock appreciation rights and all equity awards were granted with fixed prices. At December 31, 2015 and 2014, there were 21,175 and 48,349 shares, respectively, allocated to equity awards outstanding under the Prior Plan. The Prior Plan was terminated on May 19, 2006, upon the approval by our stockholders of the 2006 Plan.

Options granted to our employees generally become exercisable over a period of 1 to 4 years from the date of grant and may be exercised up to a maximum of 10 years from the date of grant. Options granted to directors were immediately exercisable.

We grant restricted stock units to certain employees that vest after a three-year service requirement has been met. We recognize expense for these awards using the straight-line method over the requisite service period based on the number of awards expected to vest. We also grant performance-based restricted stock units that vest between 0% and 200% depending on our stock performance against an index using a total shareholder return formula established at the date of grant for the subsequent three-year period. We record expense for these awards over the requisite service period, net of the expected forfeiture rate, since the employee must maintain employment to vest in the award.

Stock-based compensation expense for the years ended December 31, 2015, 2014 and 2013 is as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Stock options	\$4,030	\$5,044	\$3,944
Restricted share units	5,511	1,515	2,512
Total stock-based compensation expense	9,541	6,559	6,456
Tax benefit recognized in the statements of earnings	1,715	2,117	2,464
Stock-based compensation expense, net of tax	\$7,826	\$4,442	\$3,992

We issue new shares of stock to satisfy option exercises and the vesting of restricted stock units.

The fair value of unvested options that we expect to result in compensation expense was approximately \$6.9 million with a weighted average number of years to vesting of 2.57 at December 31, 2015.

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Information with respect to stock option activity related to the Plans follows:

	Equity Awards Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (In thousands)
Balance outstanding at January 1, 2015	2,625,964	\$ 30.63		
Granted	717,265	29.23		
Exercised	(65,366)	22.72		
Forfeited	(254,447)	31.10		
Expired	(149,050)	32.35		
Balance outstanding at December 31, 2015	2,874,366	\$ 30.33	6.82	\$ 17
Exercisable at December 31, 2015	1,325,966	\$ 30.18	5.06	\$ 17

The intrinsic value of options exercised during the years ended December 31, 2015, 2014 and 2013 was \$0.5 million, \$1.9 million and \$5.8 million, respectively, resulting in tax benefits of \$0.1 million, \$0.3 million and \$0.4 million, respectively, which are reflected as an outflow from operating activities and an inflow from financing activities in the consolidated statements of cash flows.

The weighted average fair values of the options granted under the Plans were calculated using the Black-Scholes method. The weighted average grant date fair value and weighted average assumptions used in the option pricing models are as follows:

	Year Ended December 31,					
	2015		2014		2013	
Weighted average grant date fair value	\$6.34		\$6.49		\$9.27	
Weighted average risk free interest rate	1.42	%	1.54	%	0.88	%
Weighted average expected dividend yield	3.32	%	3.28	%	2.34	%
Weighted average expected volatility	33.28	%	34.77	%	37.88	%
Weighted average expected life (in years)	5.05		5.00		4.43	

Information with respect to non-vested restricted stock unit activity follows:

	Restricted Awards Outstanding	Weighted Average Grant Date Fair Value
Balance outstanding at January 1, 2015	635,573	\$ 28.53
Granted	582,020	27.85
Vested	(56,421)	35.78
Forfeited	(293,417)	31.29
Balance outstanding at December 31, 2015	867,755	\$ 26.67

Restricted stock units are valued using the closing price reported by the Nasdaq Global Select Market on the trading day immediately preceding the day of the grant. Unrecognized compensation expense for unvested restricted stock units at December 31, 2015, was approximately \$8.7 million expected to be recognized over a weighted average period of 1.77 years.

Note N — Deferred Compensation Plan

The Rent-A-Center, Inc. Deferred Compensation Plan (the “Deferred Compensation Plan”) is an unfunded, nonqualified deferred compensation plan for a select group of our key management personnel and highly compensated employees . The Deferred Compensation Plan first became available to eligible employees in July 2007, with deferral elections taking effect as of August 3, 2007.

The Deferred Compensation Plan allows participants to defer up to 50% of their base compensation and up to 100% of any bonus compensation. Participants may invest the amounts deferred in measurement funds that are the same funds offered as the

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

investment options in the Rent-A-Center, Inc. 401(k) Retirement Savings Plan. We may make discretionary contributions to the Deferred Compensation Plan, which are subject to a three-year graded vesting schedule based on the participant's years of service with us. We are obligated to pay the deferred compensation amounts in the future in accordance with the terms of the Deferred Compensation Plan. Assets and associated liabilities of the Deferred Compensation Plan are included in prepaid and other assets and accrued liabilities in our consolidated balance sheets. For the years ended December 31, 2015, 2014 and 2013, we made matching cash contributions of \$0.4 million, \$0.3 million and \$0.4 million, respectively, which represents 50% of the employees' contributions to the Deferred Compensation Plan up to an amount not to exceed 4% of each employee's respective compensation. No other discretionary contributions were made for the years ended December 31, 2015, 2014 and 2013. The deferred compensation plan liability was approximately \$10.5 million and \$9.7 million as of December 31, 2015 and 2014, respectively.

Note O — 401(k) Plan

We sponsor a defined contribution pension plan under Section 401(k) of the Internal Revenue Code for certain employees who have completed at least three months of service. Employees may elect to contribute up to 50% of their eligible compensation on a pre-tax basis, subject to limitations. We may make discretionary contributions to the 401(k) plan. Employer matching contributions are subject to a three-year graded vesting schedule based on the participant's years of service with us. For the years ended December 31, 2015, 2014 and 2013, we made matching cash contributions of \$7.2 million, \$6.7 million and \$6.6 million, respectively, which represents 50% of the employees' contributions to the 401(k) plan up to an amount not to exceed 4% of each employee's respective compensation. Employees are permitted to elect to purchase our common stock as part of their 401(k) plan. As of December 31, 2015 and 2014, 4.5% and 7.2%, respectively, of the total plan assets consisted of our common stock.

Note P — 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 December 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 December 31, 2015 and 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 December 31, 2015 and 2014 (in thousands):

	December 31, 2015			December 31, 2014		
	Carrying Value	Fair Value	Difference	Carrying Value	Fair Value	Difference
6.625% senior notes	\$292,740	\$248,097	\$(44,643)	\$300,000	\$284,250	\$(15,750)
4.75% senior notes	250,000	183,125	(66,875)	250,000	214,375	(35,625)
Total	\$542,740	\$431,222	\$(111,518)	\$550,000	\$498,625	\$(51,375)

Note Q — Stock Repurchase Plan

Under our current common stock repurchase program, our Board of Directors has authorized the purchase, from time to time, in the open market and privately negotiated transactions, of up to an aggregate of \$1.25 billion of Rent-A-Center common stock. We have repurchased a total of 36,994,653 shares of Rent-A-Center common stock for an aggregate purchase price of \$994.8 million as of December 31, 2015, under this common stock repurchase program. No shares were repurchased during 2015 and 2014.

Note R — 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

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

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 (including tablets and smartphones), furniture and accessories. Reportable segments and their respective operations are defined as follows:

Our Core U.S. segment primarily operates rent-to-own stores in the United States, Canada and Puerto Rico whose customers enter into weekly, semi-monthly or monthly rental purchase agreements, which renew automatically upon receipt of each payment. We retain the title to the merchandise during the term of the rental purchase agreement and ownership passes to the customer if the customer has continuously renewed the rental purchase agreement through the end of the term or exercises a specified early purchase option. This segment also includes the 45 stores operating in two states that utilize a retail model which generates installment credit sales through a retail sale transaction. Segment assets include cash, receivables, rental merchandise, property assets, goodwill and other intangible assets.

Our Acceptance Now segment operates kiosks within various traditional retailers' locations where we generally offer the rent-to-own transaction to consumers who do not qualify for financing from the traditional retailer. The transaction offered is generally similar to that of the Core U.S. segment; however, the majority of the customers in this segment enter into monthly rather than weekly agreements. Segment assets include cash, rental merchandise, property assets, goodwill and other intangible assets.

Our Mexico segment currently consists of our company-owned rent-to-own stores in Mexico. The nature of this segment's operations and assets are the same as our Core U.S. segment.

The stores in our Franchising segment use Rent-A-Center's, ColorTyme's or RimTyme's trade names, service marks, trademarks and logos, and operate under distinctive operating procedures and standards. Franchising's primary source of revenue is the sale of rental merchandise to its franchisees who, in turn, offer the merchandise to the general public for rent or purchase under a rent-to-own program. As franchisor, Franchising receives royalties of 2.0% to 6.0% of the franchisees' monthly gross revenue and initial fees for new locations. Segment assets include cash, franchise fee receivables, property assets and intangible assets.

Segment information as of and for the years ended December 31, 2015, 2014 and 2013 is as follows (in thousands):
Year Ended December 31,