

RENT A CENTER INC DE
Form 10-K
March 02, 2015

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, 2014

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 51,477,316 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, \$1,476,369,423
2014

Number of shares of Common Stock outstanding as of the close of business on February 23, 2015: 53,025,180

Documents incorporated by reference:

Portions of the definitive proxy statement relating to the 2015 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 performance of our Core U.S. and Mexico segments;
- our ability to develop and successfully execute the competencies and capabilities that are the focus of our strategic initiatives, including those initiatives that are part of our multi-year program designed to transform and modernize our operations;
- our ability to successfully implement our new store information management system;
- our ability to successfully market smartphones and related services to our customers;
- our ability to develop and successfully implement virtual or e-commerce capabilities;
- our ability to retain the revenue from customer accounts merged into another store location as a result of a store consolidation;
- our ability to execute and the effectiveness of a store consolidation;
- rapid inflation or deflation in prices of our products;
- our available cash flow;
- our ability to identify and successfully market products and services that appeal to our customer demographic;
- consumer preferences and perceptions of our brands;
- uncertainties regarding the ability to open new locations;
- our ability to acquire additional stores or customer accounts on favorable terms;
- our ability to control costs and increase profitability;
- our ability to enhance the performance of acquired stores;
- our ability to retain the revenue associated with acquired customer accounts;
- our ability to enter into new and collect on our rental or lease purchase agreements;
- the passage of legislation adversely affecting the rent-to-own industry;
- our compliance with applicable statutes or regulations governing our transactions;
- changes in interest rates;

adverse changes in the economic conditions of the industries, countries or markets that we serve;
information technology and data security costs;
our ability to protect the integrity and security of individually identifiable data of our customers and employees;
the impact of any breaches in data security or other disturbances to our information technology and other networks;
changes in our stock price, the number of shares of common stock that we may or may not repurchase, and future dividends, if any;
changes in estimates relating to self-insurance liabilities and income tax and litigation reserves;
changes in our effective tax rate;
fluctuations in foreign currency exchange rates;
our ability to maintain an effective system of internal controls;
the resolution of our litigation; and
the other risks detailed from time to time in our reports to the Securities and Exchange Commission.

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 U, 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 and smartphones), furniture and 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 "RCIL."

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, Toshiba and Vizio home electronics; Whirlpool appliances; Acer, Apple, Asus, Dell, Hewlett-Packard, Samsung, Sony and Toshiba computers and/or tablets; Samsung and HTC smartphones; and Albany, Ashley, England, Klaussner, Lane, Standard and Welton 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 92% 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 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 and implementing new technology into our Acceptance Now locations.

Flexible Labor Model

Historically, we have utilized a fixed labor model in our Core U.S. rent-to-own stores, generally using five employees who perform all tasks including sales, customer verification, collections, merchandise receiving and delivery and setup. This fixed labor model includes regularly scheduled overtime, and does not allow us to scale our costs to match the revenue cycles. We are implementing a flexible labor model utilizing part-time employees so that we can provide better customer service during peak operating hours and gain cost savings during off-peak hours, and expect to deploy this model throughout 2015 and 2016. Our business has some seasonality discussed further below, and the flexible labor model is expected to have a positive impact on Core U.S. operating profit.

Pricing and Promotions

We need to price our products to remain competitive in the market, maintain a customer-centric focus and drive traffic. We tested new pricing strategies in 2014 that we are implementing in our Core U.S. stores in 2015 to meet these challenges. We are focusing on areas of immediate impact, while building a foundation for improvement, and will incorporate more structured and data-driven decision making to improve our Core U.S. marketing promotions, sales events and brand alignment.

Sourcing and Distribution

Since the Company's inception, the stores in our Core U.S. segment have relied on rental merchandise shipped from the manufacturer or distributor directly to the store and have not utilized centralized warehousing and distribution. This operating model allowed us to expand our store base rapidly with lower costs to enter new markets, but also limited our product options, reduced our ability to leverage our expenses, created longer lead times and embedded additional costs. Now that the store base has matured and we have achieved substantial market penetration, we are creating new direct supplier partnerships, implementing a new system to manage distribution operations, implementing a network of distribution centers through a third-party logistics partnership and automating replenishment processes from distribution centers to stores, all of which will be operational in the second half of 2015. The use of distribution centers will allow us to take greater advantage of discounted bulk purchasing and will expand the number of potential manufacturers and suppliers, which will allow us to offer our customers a wider selection of products while generating greater margins, better flexibility and improved store service levels.

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 650 of our manned Acceptance Now locations in 2014. This platform will also be used in unmanned locations, or virtual kiosks, where the retailer does not have enough credit-constrained customers to justify creating a manned location. We expect to roll out the virtual kiosk in the second half of 2015, with a plan for 1,250 unmanned locations.

Technology Investments

Included in our multi-year transformation program are significant investments in new technologies that will enable the strategic programs described above, as well as other initiatives. We are developing and implementing applications and systems to support our new distribution network, such as a warehouse management system and enhancements to our automated replenishment system. As described above, we have developed a virtual solution for the Acceptance Now transaction. We are also in the process of implementing our new store information management system and processes that extend and improve capabilities for store sales and operations. In the fourth quarter of 2014, 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.

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Our Operating Segments

We report four operating segments: Core U.S., Acceptance Now, Mexico, and Franchising. We began reporting our Canadian stores in the Core U.S. segment effective January 1, 2014, and now we only report Mexico operations in the segment formerly reported as International. 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 S in 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 76% of our consolidated net revenues and approximately 74% of our segment operating profit for the year ended December 31, 2014.

Approximately 77% of our business in this segment is from repeat customers.

During the second half of 2014, we began to offer smartphones for rent in our Core U.S. stores, along with no-contract service plans. Our smartphone offerings do not require the purchase of the service plans we offer, and the service plans can be purchased for phones that are already owned by the customer.

At December 31, 2014, we operated 2,824 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 the 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 inventory item 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.

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.

Total financing requirements of a typical new Acceptance Now kiosk location approximate \$350,000, with roughly 80% of that amount relating to the purchase of rental merchandise. A newly opened Acceptance Now location is typically profitable on a monthly basis within one year of its initial opening, and achieves cumulative break-even profitability in the second year after its initial opening.

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. In addition, our strategy includes enhancing our Acceptance Now offering by launching a virtual capability as discussed above in the section "Our Growth Strategy." As of December 31, 2014, we operated 1,406 kiosk locations inside furniture and electronics retailers located in 40 states and Puerto Rico.

Mexico

Our Mexico segment currently consists of our company-owned rent-to-own stores in Mexico. At December 31, 2014, we operated 177 stores after adding 26 rent-to-own store locations in 2014. We have stopped opening new stores and are pursuing several operational initiatives designed to improve the financial performance of our operations. We are

optimistic that these

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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, 2014, this segment franchised 187 stores in 30 states operating under the Rent-A-Center (106 stores), ColorTyme (50 stores) and RimTyme (31 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:

	2014	2013	2012
Core U.S.	2,824	3,010	3,008
Acceptance Now	1,406	1,325	966
Mexico	177	151	90
Franchising	187	179	224
Total locations	4,594	4,665	4,288

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 four basic product categories: consumer electronics, appliances, computers (including tablets and smartphones), furniture and 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 high-end 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 Mexico 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 as available at the applicable third-party retailer, primarily furniture and accessories, consumer electronics and appliances.

For the year ended December 31, 2014, furniture and accessories accounted for approximately 39% of our consolidated store rental revenue, consumer electronic products for 27%, appliances for 18% and computers (including tablets and smartphones) for 16%.

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 17 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. and Mexico segments, and on or before the 150th day in the Acceptance Now 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

We utilize a centralized inventory management system that includes automated merchandise replenishment. Our automated replenishment system uses perpetual inventory records to analyze individual store requirements, as well as other pertinent information such as delivery and return forecasts, blanket orders, predetermined inventory levels, and vendor performance, to generate recommended merchandise order information. These recommended orders are reviewed by the store manager and delivered electronically to our vendors. The stores also have online access to determine whether other stores in their market may have merchandise available. This centralized inventory

management system allows us to retain tight control over our inventory, improve the diversity and assortment of merchandise in our stores, and assist us in having the right products available at the right time. In addition, this centralized inventory management system requires less involvement by our store employees resulting in more time available for customer service and sales activities.

In our Core U.S. and Mexico segments, we purchase our rental merchandise from a variety of manufacturers and distributors. In 2014, approximately 14% of our merchandise purchases were attributable to Vertex Wireless, LLC, due to the initial rollout of

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smartphones. No other brand accounted for more than 10% of merchandise purchased during this period. 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. Franchising's largest suppliers are Ashley Furniture Industries and Whirlpool Corporation, which accounted for approximately 16% and 14% of merchandise purchased by Franchising in 2014, respectively.

Marketing

We promote our products and services through television and radio commercials, print advertisements, store telemarketing, Internet sites, direct response 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, prompt delivery, price match, service at no extra cost, lifetime reinstatement and the absence of initial deposits, formal credit investigations or long-term obligations. 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 ("APRO"), the \$8.5 billion rent-to-own industry in the United States, Mexico and Canada consists of approximately 10,100 stores and serves approximately 4.8 million customers. We estimate that the two largest rent-to-own industry participants account for approximately 6,800 of the total number of stores, and the majority of the remainder of the industry consists of operations with fewer than 50 stores. The rent-to-own industry is highly fragmented and has experienced significant consolidation. We believe this consolidation trend in the industry will continue, presenting opportunities for us to continue to acquire additional stores or customer accounts on favorable terms.

The rent-to-own industry serves a highly diverse customer base. According to APRO, approximately 83% of rent-to-own customers have household incomes between \$15,000 and \$50,000 per year. The rent-to-own industry serves a wide variety of customers by allowing them to obtain merchandise that 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 a report issued by the Fair Isaac Corporation on February 3, 2014, consumers in the "subprime" category (those with credit scores below 650) made up 34% 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. In addition, an increasing number of traditional retailers are offering the rent-to-own transaction or other programs designed to attract the traditional rent-to-own customer. 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, primarily due to federal income tax refunds. Generally, our customers will more frequently exercise the early purchase option on their existing rental purchase agreements or purchase pre-leased merchandise off the showroom floor during the first quarter of each fiscal year, also 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 Canada, Mexico, 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 23, 2015, we had approximately 22,200 full-time 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 109 rent-to-own stores and 67 Acceptance Now locations 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.

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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.

Future revenue and earnings growth depends on our ability to execute our growth strategies.

Our Core U.S. store base is mature. As a result, our same store sales have increased more slowly than in historical periods, or in some cases, decreased. Accordingly, we are focused on acquiring new customers through sources other than our existing U.S. rent-to-own stores, as well as seeking additional distribution channels for our products and services. Our primary growth strategy is our Acceptance Now segment. Effectively managing growth can be challenging, particularly as we continue to expand into channels outside our traditional rent-to-own store model. This growth places significant demands on management and operational systems. If we are unable to successfully execute these growth strategies, our revenue and earnings may grow more slowly or even decrease.

Our plans depend significantly on initiatives designed to transform and modernize the efficiency and effectiveness of our operations.

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

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 76% of our consolidated net revenues and a substantial portion of our net earnings for the year ended December 31, 2014. 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. In addition, in most cases, our agreements with such third-party retailers may be terminated at the retailer's election. 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 2014, approximately 18% of the total revenue of the Acceptance Now segment originated at our Acceptance Now kiosks located in stores operated by a nationwide furniture retailer and 90 of its licensees, collectively. An additional approximately 35% of the total revenues in the Acceptance Now segment in 2014 was generated by our Acceptance Now kiosks located in stores operated by three of our other third-party 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.

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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. Although we have plans to launch virtual capabilities within our Acceptance Now and Core U.S. segments, we do not currently offer the rent-to-own transaction via an on-line marketplace. 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.

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, which could have a material adverse effect on our financial condition and results of operations.

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 177 stores in Mexico as of December 31, 2014. 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 ability to manage store operations, which could have a material adverse effect on 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 the development of new store information management systems and processes that extend and improve capabilities for store sales and operations. Such enhancements to or replacement of our store information management systems could have a significant impact on our ability to conduct our core business operations and increase our risk of loss resulting from disruptions of normal operating processes and procedures that may occur during the implementation of new technology. We can make no assurances that the costs of investments in our new store information management systems will not exceed estimates, that such systems and processes will be implemented without material disruption, or that such systems and processes will be as beneficial as predicted. If any of these events occur, our results of operations could be harmed.

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, 2014, \$478.3 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.

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
2013	High	Low	Cash Dividends Declared
Fourth Quarter	\$39.00	\$32.83	\$0.23
Third Quarter	\$40.80	\$36.44	\$0.21
Second Quarter	\$39.61	\$33.20	\$0.21
First Quarter	\$38.23	\$32.93	\$0.21

As of February 23, 2015, there were approximately 41 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 I and Note J 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, 2014, 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 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 the Compensation Committee of our Board of Directors recently chose 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. For the year ended December 31, 2013, we used a peer group index selected by us, which included companies offering similar products and services as ours, such as rent-to-own and general merchandise retailers that market to our targeted customer demographic. The peer group index consisted of Aaron's, Inc., Big Lots, Inc., Conn's, Inc., Dollar General Corp., Dollar Tree Stores, Inc., Family Dollar Stores, Inc., Fred's, Inc., hhgregg, Inc. and O'Reilly Automotive, Inc. The graph assumes \$100 was invested on December 31, 2009, 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, 2014, 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,						
	2014	2013	2012	2011	2010		
	(In thousands, except per share data)						
Consolidated Statements of Earnings							
Revenues							
Store							
Rentals and fees	\$2,745,828	\$2,695,895	(4) \$2,653,925	(4) \$2,494,483	(4) \$2,339,997	(4)	
Merchandise sales	290,048	278,753	300,077	259,796	220,329		
Installment sales	75,889	71,475	(4) 67,071	(4) 67,123	(4) 62,601	(4)	
Other	19,949	18,133	16,391	17,925	76,542		
Franchise							
Merchandise sales	19,236	24,556	(4) 32,893	(4) 29,792	(4) 28,432	(4)	
Royalty income and fees	6,846	5,206	5,314	5,011	4,857		
	3,157,796	3,094,018	3,075,671	2,874,130	2,732,758		
Cost of revenues							
Store							
Cost of rentals and fees	704,595	676,674	(4) 642,387	(4) 572,874	(4) 525,641	(4)	
Cost of merchandise sold	231,520	216,206	241,219	201,854	164,133		
Cost of installment sales	26,084	24,541	(4) 23,287	(4) 23,340	(4) 22,071	(4)	
Vendor settlement credit	(6,836) ⁽¹⁾		—	—		
Franchise cost of merchandise sold	18,070	23,104	(4) 31,314	(4) 28,307	(4) 27,099	(4)	
	973,433	940,525	938,207	826,375	738,944		
Gross profit	2,184,363	2,153,493	2,137,464	2,047,755	1,993,814		
Operating expenses							
Store expenses							
Labor	888,929	881,671	(4) 840,377	(4) 791,630	(4) 757,339	(4)	
Other store expenses	839,801	789,212	(4) 764,770	(4) 744,767	(4) 728,553	(4)	
General and administrative expenses	162,316	147,621	140,039	131,909	120,662		
Depreciation, amortization and write-down of intangibles	87,399	87,980	79,249	69,889	66,665		
Other charges	12,456	⁽²⁾ —	—	24,063	⁽⁵⁾ 18,939	⁽⁶⁾	
	1,990,901	1,906,484	1,824,435	1,762,258	1,692,158		
Operating profit	193,462	247,009	313,029	285,497	301,656		
Finance charges from refinancing	4,213	⁽³⁾ —	—	—	3,100	⁽⁷⁾	
Interest expense, net	46,896	38,813	31,223	36,607	25,912		
Earnings before income taxes	142,353	208,196	281,806	248,890	272,644		
Income tax expense	45,931	79,439	(4) 101,788	(4) 89,169	(4) 102,323	(4)	
NET EARNINGS	\$96,422	\$128,757	\$180,018	\$159,721	\$170,321		

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Basic earnings per common share	\$1.82	\$2.35	\$3.06	\$2.61	\$2.62
Diluted earnings per common share	\$1.81	\$2.33	\$3.03	\$2.58	\$2.58
Cash dividends declared per common share	\$0.93	\$0.86	\$0.69	\$0.54	\$0.18

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Item 6. Selected Financial Data — Continued.

	December 31,					
	2014	2013	2012	2011	2010	
	(Dollar amounts in thousands)					
Consolidated Balance Sheet Data						
Rental merchandise, net	\$1,237,856	\$1,124,198	⁽⁸⁾ \$1,006,419	⁽⁸⁾ \$942,526	⁽⁸⁾ \$828,674	⁽⁸⁾
Intangible assets, net	1,377,992	1,373,518	1,352,888	1,350,855	1,326,091	
Total assets	3,271,197	3,018,175	⁽⁸⁾ 2,859,085	⁽⁸⁾ 2,795,241	⁽⁸⁾ 2,683,867	⁽⁸⁾
Total debt	1,042,813	916,275	687,500	740,675	701,114	
Total liabilities	1,881,802	1,682,306	⁽⁸⁾ 1,403,228	⁽⁸⁾ 1,446,564	⁽⁸⁾ 1,335,684	⁽⁸⁾
Stockholders' equity	1,389,395	1,335,869	⁽⁸⁾ 1,455,857	⁽⁸⁾ 1,348,677	⁽⁸⁾ 1,348,183	⁽⁸⁾
Operating Data (Unaudited)						
Core U.S. and Mexico stores open at end of period	3,001	3,161	3,098	3,074	3,008	
Acceptance Now locations open at end of period	1,406	1,325	966	750	384	
Same store revenue growth (decrease) ⁽⁹⁾	1.2	%				