RENT A CENTER INC DE
Form 10-Q
July 28, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 0-25370
Rent-A-Center, Inc.
(Exact name of registrant as specified in its charter)

Delaware	45-0491516
(State or other jurisdiction of 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
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 ý NO ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES ý NO ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨
Emerging Growth Company	¨		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES ¨ NO ý
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 24, 2017:

Class	Outstanding
Common stock, $.01 par value per share	53,301,924

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
(In thousands, except per share data)	Unaudited		Unaudited	
Revenues				
Store				
Rentals and fees	$575,411	$645,710	$1,170,825	$1,320,005
Merchandise sales	76,773	76,777	198,495	208,484
Installment sales	17,657	17,672	34,414	36,092
Other	2,519	3,280	5,171	7,368
Total store revenues	672,360	743,439	1,408,905	1,571,949
Franchise				
Merchandise sales	3,214	4,023	6,535	8,970
Royalty income and fees	2,061	2,157	4,181	4,352
Total revenues	677,635	749,619	1,419,621	1,585,271
Cost of revenues				
Store				
Cost of rentals and fees	159,276	169,139	321,309	345,380
Cost of merchandise sold	77,055	70,903	186,179	184,789
Cost of installment sales	5,708	5,662	10,892	11,687
Total cost of store revenues	242,039	245,704	518,380	541,856
Franchise cost of merchandise sold	3,063	3,757	6,045	8,313
Total cost of revenues	245,102	249,461	524,425	550,169
Gross profit	432,533	500,158	895,196	1,035,102
Operating expenses				
Store expenses				
Labor	179,447	199,992	371,554	409,379
Other store expenses	177,050	192,856	374,490	404,663
General and administrative expenses	47,097	40,135	86,869	83,196
Depreciation, amortization and impairment of intangibles	18,708	20,776	37,249	40,600
Other charges	11,104	18,849	24,755	21,284
Total operating expenses	433,406	472,608	894,917	959,122
Operating (loss) profit	(873)	27,550	279	75,980
Debt refinancing charges	1,936	—	1,936	—
Interest expense	11,263	11,737	22,893	23,714
Interest income	(159)	(108)	(315)	(205)
(Loss) earnings before income taxes	(13,913)	15,921	(24,235)	52,471
Income tax (benefit) expense	(5,020)	5,975	(8,663)	17,464
Net (loss) earnings	$(8,893)	$9,946	$(15,572)	$35,007
Basic (loss) earnings per common share	$(0.17)	$0.19	$(0.29)	$0.66
Diluted (loss) earnings per common share	$(0.17)	$0.19	$(0.29)	$0.66
Cash dividends declared per common share	$0.08	$0.08	$0.16	$0.16

See accompanying notes to condensed consolidated financial statements.

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RENT-A-CENTER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
(In thousands)	Unaudited		Unaudited	
Net (loss) earnings	$ (8,893)	$ 9,946	$ (15,572)	$ 35,007
Other comprehensive (loss) income:				
Foreign currency translation adjustments	1,181	(1,377)	6,736	1,073
Total other comprehensive (loss) income	1,181	(1,377)	6,736	1,073
Comprehensive (loss) income	$ (7,712)	$ 8,569	$ (8,836)	$ 36,080

See accompanying notes to condensed consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and par value data)	June 30, 2017 Unaudited	December 31, 2016
ASSETS		
Cash and cash equivalents	$73,831	$95,396
Receivables, net of allowance for doubtful accounts of $2,681 and $3,593 in 2017 and 2016, respectively	64,379	69,785
Prepaid expenses and other assets	56,363	54,989
Rental merchandise, net		
On rent	706,086	795,118
Held for rent	200,223	206,836
Merchandise held for installment sale	3,811	3,629
Property assets, net of accumulated depreciation of $552,653 and $522,101 in 2017 and 2016, respectively	311,687	316,428
Goodwill	55,424	55,308
Other intangible assets, net	794	5,252
Total assets	$1,472,598	$1,602,741
LIABILITIES		
Accounts payable – trade	$112,997	$108,238
Accrued liabilities	322,260	332,196
Deferred income taxes	152,847	173,144
Senior debt, net	97,579	186,747
Senior notes, net	538,118	537,483
Total liabilities	1,223,801	1,337,808
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value; 250,000,000 shares authorized; 109,671,676 and 109,519,369 shares issued in 2017 and 2016, respectively	1,096	1,095
Additional paid-in capital	828,355	827,107
Retained earnings	776,519	800,640
Treasury stock at cost, 56,369,752 shares in 2017 and 2016	(1,347,677)	(1,347,677)
Accumulated other comprehensive loss	(9,496)	(16,232)
Total stockholders' equity	248,797	264,933
Total liabilities and stockholders' equity	$1,472,598	$1,602,741

See accompanying notes to condensed consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Six Months Ended June 30, 2017	2016
	Unaudited	
Cash flows from operating activities		
Net (loss) earnings	$(15,572)	$35,007
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities		
Depreciation of rental merchandise	318,099	341,186
Bad debt expense	6,395	6,800
Stock-based compensation expense	1,079	4,814
Depreciation of property assets	36,705	38,857
Loss on sale or disposal of property assets	1,167	2,942
Amortization and impairment of intangibles	4,439	1,224
Amortization of financing fees	1,914	1,558
Debt refinancing fees	1,936	—
Deferred income taxes	(20,296)	(20,965)
Changes in operating assets and liabilities, net of effects of acquisitions		
Rental merchandise	(223,387)	(211,536)
Receivables	(990)	(1,881)
Prepaid expenses and other assets	(1,305)	96,008
Accounts payable – trade	4,759	(3,244)
Accrued liabilities	(3,059)	12,407
Net cash provided by operating activities	111,884	303,177
Cash flows from investing activities		
Purchase of property assets	(40,159)	(28,183)
Proceeds from sale of stores	912	2,918
Acquisitions of businesses	(215)	(3,089)
Net cash used in investing activities	(39,462)	(28,354)
Cash flows from financing activities		
Exercise of stock options	170	—
Shares withheld for payment of employee tax withholdings	(218)	(127)
Proceeds from debt	87,580	51,610
Repayments of debt	(174,705)	(284,305)
Dividends paid	(8,539)	(17,034)
Net cash used in financing activities	(95,712)	(249,856)
Effect of exchange rate changes on cash	1,725	2,840
Net (decrease) increase in cash and cash equivalents	(21,565)	27,807
Cash and cash equivalents at beginning of period	95,396	60,363
Cash and cash equivalents at end of period	$73,831	$88,170

See accompanying notes to condensed consolidated financial statements.

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

Note 1 - Basis of Presentation

The interim condensed consolidated financial statements of Rent-A-Center, Inc. included herein have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to the SEC’s rules and regulations, although we believe the disclosures are adequate to make the information presented not misleading. We suggest these financial statements be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2016. In our opinion, the accompanying unaudited interim financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary to present fairly our results of operations and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

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

Our Core U.S. segment consists of company-owned rent-to-own stores in the United States, Canada and Puerto Rico that lease household durable goods to customers on a rent-to-own basis. We also offer merchandise on an installment sales basis in certain of our stores under the names “Get It Now” and “Home Choice.”

Our Acceptance Now segment, which operates in the United States and Puerto Rico, generally offers the rent-to-own transaction to consumers who do not qualify for financing from the traditional retailer through kiosks located within such retailers’ locations. Those kiosks can be staffed by an Acceptance Now employee (staffed locations) or employ a virtual solution where customers initiate the rent-to-own transaction online in the retailers' locations using our tablet computer and our virtual solution (direct locations).

Our Mexico segment consists of our company-owned rent-to-own stores in Mexico that lease household durable goods to customers on a rent-to-own basis.

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

New Accounting Pronouncements

In 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. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which amends ASU 2014-09 relating to how and when a company recognizes revenue when another party is involved in providing a good or service to a customer. Under Topic 606, a company will recognize revenue on a gross basis when it provides a good or service to a customer (acts as the principal in a transaction), and on a net basis when it arranges for the good or service to be provided to the customer by another party (acts as an agent in a transaction). ASU 2016-08 provides additional guidance for determining whether a company acts as a principal or agent, depending primarily on whether a company controls goods or services before delivery to the customer. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which provides additional guidance related to the identification of performance obligations within the contract, and licensing. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which provides additional guidance related to certain technical areas within ASU 2014-09. In December 2016, the FASB issued ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, which provides additional guidance related to certain technical areas within ASU 2014-09. The adoption of these additional ASUs must be concurrent with the adoption of ASU 2014-09, which will be required for us beginning January 1, 2018, with early adoption permitted as of the original effective date. These ASUs allow adoption with either retrospective application to each prior period presented, or modified retrospective application with the cumulative effect recognized as of the date of initial application. We are currently in the process of evaluating the potential impact this new pronouncement will have on our financial statements and do not anticipate early adoption. We have not completed our evaluation and therefore cannot conclude whether the pronouncement will have a significant impact on our financial statements at this time. We expect to complete our evaluation by the end of 2017. We currently anticipate that we will utilize the modified retrospective method of adoption, however, this expectation may change following the completion of our evaluation of the impact of this pronouncement on our financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which replaces existing accounting literature relating to the classification of, and accounting for, leases. Under ASU 2016-02, a company must recognize for all leases (with the exception of leases with terms less than 12 months) a liability representing a lessee's obligation to make lease payments arising from a lease, and a right-of-use asset representing the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting is largely unchanged, with certain improvements to align lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The adoption of ASU 2016-02 will be required for us beginning January 1, 2019, with early adoption permitted. The ASU must be adopted using a modified retrospective transition, applying the new criteria to all leases existing or entered into after the beginning of the earliest comparative period in the consolidated financial statements. We are currently in the process of determining what impact 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.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. Rent-A-Center adopted ASU 2016-09 beginning January 1, 2017. We adopted the recognition of excess tax benefits in the provision for income taxes rather than paid-in-capital, and the classification of excess tax benefits on the statement of cash flows on a prospective basis. We elected to continue to estimate forfeitures expected to occur in our determination of compensation cost recognized each period. Furthermore, we adopted the minimum statutory withholding requirements and classification of employee taxes paid on the statement of cash flows on a modified retrospective and full retrospective basis, respectively. Additional amendments included in the accounting standard update were not applicable to us. Impacts resulting from adoption were immaterial to the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides guidance on the treatment of cash receipts and cash payments for certain types of cash transactions, to eliminate diversity in practice in the presentation of the cash flow statement. The adoption of ASU 2016-15 will be required for us on a retrospective basis beginning January 1, 2018, with early adoption permitted. We are currently in the process of determining the adoption date and what impact the adoption of this ASU will have on our presentation of cash flows.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill by eliminating the hypothetical purchase price allocation and instead using the difference between the carrying amount and the fair value of the reporting unit. The adoption of ASU 2017-04 will be required for us on a prospective basis beginning January 1, 2020, with early adoption permitted. We are currently in the process of determining the adoption date and what impact the adoption of this ASU will have on our financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Under the new guidance, modification accounting is required if the fair value, vesting conditions or classification (equity or liability) of the new award are different from the original award immediately before the original award is modified. The adoption of ASU 2017-09 will be required for us on a prospective basis beginning January 1, 2018, with early adoption permitted. We are currently in the process of determining the adoption date and what impact the adoption of this ASU will have on our financial statements.

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

Note 2 - 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, N.A., and SunTrust Bank, as syndication agents, and JPMorgan Chase Bank, N.A., as administrative agent. The Credit Agreement initially provided a $900.0 million senior credit facility consisting of $225.0 million in term loans (the "Term Loans") and a $675.0 million revolving credit facility (the "Revolving Facility"). The Credit Agreement was previously amended on February 1, 2016 (the “First Amendment”), on September 30, 2016 (the “Second Amendment”), and on March 31, 2017 (the "Third Amendment and Waiver"). These amendments are referenced in the Index to Exhibits in this Quarterly Report on Form 10-Q, as exhibits 10.35, 10.39 and 10.43, respectively. On June 6, 2017, we entered into a Fourth Amendment (the “Fourth Amendment”), effective as of June 6, 2017, with JPMorgan Chase Bank, N.A., as administrative agent, the other agents party thereto and the lenders party thereto, to the Credit Agreement.

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

The amounts outstanding under the Term Loans were $49.7 million and $191.8 million at June 30, 2017 and December 31, 2016, respectively. The amount outstanding under the Revolving Facility was $55.0 million at June 30, 2017 and there were no outstanding borrowings under the Revolving Facility at December 31, 2016. Outstanding borrowings for senior debt at June 30, 2017 and December 31, 2016 were reduced by total unamortized issuance costs of $7.1 million and $5.1 million, respectively. The Term Loans are scheduled to mature on March 19, 2021, and the Revolving Facility has a scheduled maturity of March 19, 2019.

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. In the event our Consolidated Total Leverage Ratio (as such term is defined in the Credit Agreement) exceeds 2.5:1, we are also required to pay down the Term Loans by a percentage of annual excess cash flow, as defined in the Credit Agreement. Additional payments will be equal to 25% of annual excess cash flows if the Consolidated Total Leverage Ratio is between 2.5:1 and 3.0:1, increasing to 50% of annual excess cash flows if the Consolidated Total Leverage Ratio is greater than 3.0:1. We made a mandatory excess cash flow prepayment in March 2017 with respect to our results for the year ended December 31, 2016, of approximately $141 million and in March 2016 with respect to our results for the year ended December 31, 2015, of approximately $27 million. We are further required to pay down the Term Loans with proceeds from certain asset sales or borrowings as defined in the Credit Agreement.

Borrowings under the Revolving Facility bear interest at varying rates equal to either the Eurodollar rate plus 1.50% to 3.00%, or the prime rate plus 0.50% to 2.00% (ABR), at our election (pursuant to the Fourth Amendment discussed below). The margins on the Eurodollar loans and on the ABR loans for borrowings under the Revolving Facility, which were 3.00% and 2.00%, respectively, at June 30, 2017, 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 during the second quarter of 2017 was equal to 0.50% 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.

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

- incur additional debt;
- repurchase capital stock, repurchase 6.625% notes and 4.75% notes and/or pay cash dividends when the Consolidated Total Leverage Ratio is greater than 3.75:1 (subject to an exception for cash dividends in an amount not to exceed $15 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.

Since the Consolidated Total Leverage Ratio at June 30, 2017 is greater than 3.75:1, we are limited to a maximum of $15 million in dividend payments for the fiscal year. As of June 30, 2017, we have paid dividends of $8.5 million and declared additional dividends of $4.3 million.

The Fourth Amendment removed or modified certain covenants under the Credit Agreement, including:

- the maximum Consolidated Total Leverage Ratio was removed;
- the maximum Consolidated Senior Secured Leverage Ratio was removed;
-

the minimum Consolidated Fixed Charge Coverage Ratio was reduced from 1.50:1 to 1.10:1 and the definitions of Consolidated Fixed Charges and Consolidated Fixed Charge Coverage Ratio were modified. In addition, the sole consequence of a breach of this covenant shall be that a Minimum Availability Period shall result, which impacts the borrowing capacity under the Loans;

- any guarantee obligations of Foreign Subsidiaries may not exceed an aggregate of $10 million outstanding at any time;

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

- indebtedness, including Capital Lease Obligations, mortgage financings and purchase money obligations that are secured by Liens permitted under the Credit Agreement, may not exceed an aggregate outstanding amount of $10 million, unless such Indebtedness was outstanding on the effective date of the Fourth Amendment; and
- removed certain Permitted Investments, and modified Permitted Acquisitions, which is now tied to certain performance criteria, including the Borrowing Base.

As a result of the Fourth Amendment, we are no longer required to maintain a certain Consolidated Total Leverage Ratio or Consolidated Senior Secured Leverage Ratio, and we are prohibited from repurchasing our common stock and senior notes for the remaining term of the Credit Agreement. In addition, under the Fourth Amendment, we agreed to provide additional collateral protections to secure the obligations under the Credit Agreement.

The Fourth Amendment reduced the total capacity of the Revolving Facility from $675 million to $350 million. The Fourth Amendment also modified the borrowing terms of the revolving loans under the Credit Agreement, which, as amended, establishes that the aggregate outstanding amounts (including after any draw request) not exceed the Borrowing Base. The Borrowing Base is tied to the Company's Eligible Installment Sales Accounts, Inventory and Eligible Rental Contracts, in addition to Reserves and the Term Loan Reserve. We will provide to the Agent information necessary to calculate the Borrowing Base within 30 days of the end of each calendar month, unless the remaining availability of the Revolving Facility is less than 20% of the maximum borrowing capacity of the Revolving Facility or $60 million, in which case the Company must provide weekly information.

The Credit Agreement as modified by the Fourth Amendment 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 $100 million. We may request an Incremental Revolving Loan or Incremental Term Loan, provided that at the time of such request, we are not in default, have obtained the consent of the administrative agent and the lenders providing such increase, and after giving effect thereto, (i) the Consolidated Fixed Charge Coverage Ratio on a pro forma basis is no less than 1.10:1, (ii) the Total Revolving Extensions of Credit do not exceed the Borrowing Base, and (iii) if the request occurs during a Minimum Availability Period, the Availability must be more than the Availability Threshold Amount.

The Fourth Amendment permits the Agent, in its sole discretion, to make loans to us that it deems necessary or desires (i) to preserve or protect the Collateral, (ii) to enhance the likelihood of, or maximize the amount of, repayment of the Loans and other Obligations, or (iii) to pay any other amount chargeable to or requirement to be paid by the Company pursuant to the terms of the Credit Agreement. The aggregate amount of such Protective Advances outstanding at any time may not exceed $35 million.

In connection with the Fourth Amendment, we recorded a write-down of previously unamortized debt issuance costs of approximately $1.9 million. In addition, we paid arrangement and amendment fees to the Agent and the lenders that provided their consent to the Amendment of approximately $5.1 million, which were capitalized and will be amortized to interest expense over the remaining term of the agreement.

We also utilize our Revolving Facility for the issuance of letters of credit, as well as to manage normal fluctuations in operational cash flow caused by the timing of cash receipts. In that regard, we may from time to time draw funds under the Revolving Facility for general corporate purposes. Amounts are drawn as needed due to the timing of cash flows and are generally paid down as cash is generated by our operating activities. We believe the cash flow generated from operations, together with amounts available under our Credit Agreement, will be sufficient to fund our operations during the next 12 months. As of June 30, 2017, we have issued letters of credit of $91.1 million.

The Fourth Amendment is included as an exhibit to our Current Report on Form 8-K dated as of June 6, 2017.

The table below shows the required and actual ratios under the Credit Agreement calculated as of June 30, 2017:

	Required Ratio		Actual Ratio
Consolidated Fixed Charge Coverage Ratio	No less than	1.10:1	0.77:1

The actual Consolidated Fixed Charge Coverage ratio was calculated pursuant to the Credit Agreement by dividing the sum of consolidated EBITDA minus Unfinanced Capital Expenditures minus the excess (to the extent positive) of (i) expenses for income taxes paid in cash minus (ii) cash income tax refunds received) for the 12-month period ending June 30, 2017 ($36.8 million), by consolidated fixed charges for the 12-month period ending June 30, 2017

($48.0 million). For purposes of the calculation, “consolidated fixed charges” is defined as the sum of consolidated interest expense and scheduled principal payments on indebtedness actually made during such period. The actual Consolidated Fixed Charge Coverage Ratio of 0.77:1 as of June 30, 2017 was below the minimum requirement of 1.10:1 as defined in the Fourth Amendment modifications above. As a result of being out of compliance with this covenant, we must maintain $50.0 million of excess availability on the Revolving Facility.

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

Availability under our Revolving Facility was $143.4 million at June 30, 2017, net of the $50 million of excess availability we must maintain on the Revolving Facility.

Events of default under the Credit Agreement include customary events, such as a cross-acceleration provision in the event that we default on other debt. In addition, an event of default under the Credit Agreement would occur if a change of control occurs. This is defined to include the case where a third party becomes the beneficial owner of 35% or more of our voting stock or a majority of Rent-A-Center's Board of Directors are not Continuing Directors (all of the current members of our Board of Directors are Continuing Directors under the Credit Agreement). 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.

In addition to the Revolving Facility discussed above, we maintain a $20 million unsecured, revolving line of credit with INTRUST Bank, N.A. to facilitate cash management. The availability of our INTRUST line of credit is restricted if the borrowing capacity under our Revolving Facility drops below $10 million. There were no outstanding borrowings against this line of credit at June 30, 2017 or December 31, 2016. 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 June 30, 2017 for each of the years ending December 31:

(in thousands)	Term Loan	Revolving Facility	INTRUST Line of Credit	Total
2017	$1,125	$—	$ —	$1,125
2018	2,250	—	—	2,250
2019	2,250	55,000	—	57,250
2020	2,250	—	—	2,250
2021	41,813	—	—	41,813
Thereafter	—	—	—	—
Total senior debt	$49,688	$ 55,000	$ —	$104,688

Note 3 - 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 June 30, 2017 and December 31, 2016, was $292.7 million, reduced by $2.1 million and $2.5 million of unamortized issuance costs, respectively.

On May 2, 2013, we issued $250.0 million in senior unsecured notes due May 2021, bearing interest at 4.75%, pursuant to an indenture dated May 2, 2013, among Rent-A-Center, Inc., its subsidiary guarantors and The Bank of New York Mellon Trust Company, as trustee. A portion of the proceeds of this offering were used to repurchase shares of our common stock under a $200.0 million accelerated stock buyback program. The remaining net proceeds were used to repay outstanding revolving debt under our Prior Credit Agreement. The principal amount of the 4.75% notes outstanding as of June 30, 2017 and December 31, 2016, was $250.0 million, reduced by $2.5 million and $2.8 million of unamortized issuance costs, respectively.

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

- incur additional debt;
- sell assets or our subsidiaries;
- grant liens to third parties;
- pay cash dividends or repurchase stock when total leverage is greater than 2.50:1 (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 notes have the right to require us to repurchase the notes at a price equal to 101% of the original aggregate principal amount, together with accrued and unpaid interest, if any, to the date of repurchase.
The 4.75% notes may be redeemed on or after May 1, 2016, at our option, in whole or in part, at a premium declining from 103.563%. The 4.75% notes may be redeemed on or after May 1, 2019, at our option, in whole or in part, at par. The 4.75% notes also require that upon the occurrence of a change of control (as defined in the 2013 indenture), the holders of the notes have the right to require us to repurchase the notes at a price equal to 101% of the original aggregate principal amount, together with accrued and unpaid interest, if any, to the date of repurchase.
Any mandatory repurchase of the 6.625% notes and/or the 4.75% notes would trigger an event of default under our Credit Agreement. We are not required to maintain any financial ratios under either of the indentures.
Rent-A-Center and its subsidiary guarantors have fully, jointly and severally, and unconditionally guaranteed the obligations of Rent-A-Center with respect to the 6.625% notes and the 4.75% notes. Rent-A-Center has no independent assets or operations, and each subsidiary guarantor is 100% owned directly or indirectly by Rent-A-Center. The only direct or indirect subsidiaries of Rent-A-Center that are not guarantors are minor subsidiaries. There are no restrictions on the ability of any of the subsidiary guarantors to transfer funds to Rent-A-Center in the form of loans, advances or dividends, except as provided by applicable law.

Note 4 - Fair Value

We follow 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 June 30, 2017, 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 June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016:

	June 30, 2017			December 31, 2016		
(in thousands)	Carrying Value	Fair Value	Difference	Carrying Value	Fair Value	Difference
6.625% senior notes	$292,740	$274,444	$(18,296)	$292,740	$266,393	$(26,347)
4.75% senior notes	250,000	226,250	(23,750)	250,000	206,250	(43,750)
Total senior notes	$542,740	$500,694	$(42,046)	$542,740	$472,643	$(70,097)

Note 5 - Other Charges

Acceptance Now Store Closures. During the first six months of 2017, we closed 319 Acceptance Now manned locations and 9 Acceptance Now direct locations, resulting in pre-tax charges of $13.0 million consisting primarily of rental merchandise losses, disposal of fixed assets, and other miscellaneous labor and shutdown costs. In addition, as a result of the plan to close certain Acceptance Now locations, we recorded a pre-tax impairment charge of $3.9 million to our intangible assets, related to a vendor relationship.
Corporate Cost Rationalization. During the first quarter of 2017, we executed a head count reduction that impacted approximately 6% of our field support center workforce. This resulted in pre-tax charges for severance and other payroll-related costs of approximately $2.5 million for the six months ended June 30, 2017.

U.S Core Store and Acceptance Now Consolidation Plan. During the second quarter of 2016, we closed 167 U.S. Core and 96 Acceptance Now locations, resulting in a pre-tax restructuring charge of $18.8 million for the three months ended June 30, 2016. Restructuring charges consisted of lease obligation costs of $15.0 million, of which $1.0 million was paid as of June 30, 2016, disposal of fixed assets of $2.6 million, and other miscellaneous costs.

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Mexico Store Consolidation Plan. During the first quarter of 2016, we closed 14 stores in Mexico, resulting in pre-tax restructuring charges of $2.3 million in the Mexico segment for disposal of rental merchandise, fixed assets and leasehold improvements and other charges to decommission the stores.
Activity with respect to other charges for the six months ended June 30, 2017 is summarized in the below table:

(in thousands)	Accrued Charges at December 31, 2016	Charges & Adjustments	Payments	Accrued Charges at June 30, 2017
Cash charges:				
Labor reduction costs	$ 1,393	$ 2,824	$ (2,385)	$ 1,832
Lease obligation costs	6,628	15	(2,997)	3,646
Other miscellaneous	—	531	(531)	—
Total cash charges	$ 8,021	3,370	$ (5,913)	$ 5,478
Non-cash charges:				
Rental merchandise losses		12,174		
Loss on sale of fixed assets		351		
Impairment of intangible asset		3,895		
Other(1)		4,965		
Total other charges		$ 24,755		

(1) Other primarily includes litigation settlements, and incremental legal and advisory fees related to shareholder proposals.

Note 6 - Segment Information

The operating segments reported below are the segments for which separate financial information is available and for which segment results are evaluated by the chief operating decision makers. Our operating segments are organized based on factors including, but not limited to, type of business transactions, geographic location and store ownership. All operating segments offer merchandise from four basic product categories: consumer electronics, appliances, computers, furniture and accessories. Our Core U.S. and Franchising segments also offer smartphones.
Segment information for the three and six months ended June 30, 2017 and 2016 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Revenues				
Core U.S.	$ 457,025	$ 530,612	$ 947,924	$ 1,114,977
Acceptance Now	203,321	199,516	437,867	429,912
Mexico	12,014	13,311	23,114	27,060
Franchising	5,275	6,180	10,716	13,322
Total revenues	$ 677,635	$ 749,619	$ 1,419,621	$ 1,585,271

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Gross profit				
Core U.S.	$ 318,006	$ 383,129	$ 655,960	$ 795,018
Acceptance Now	103,934	105,352	218,363	216,494
Mexico	8,381	9,254	16,202	18,581
Franchising	2,212	2,423	4,671	5,009
Total gross profit	$ 432,533	$ 500,158	$ 895,196	$ 1,035,102

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Operating (loss) profit				
Core U.S.	$30,980	$38,715	$55,382	$100,951
Acceptance Now	18,597	27,547	39,216	56,916
Mexico	(41)	572	120	(2,038)
Franchising	1,092	1,425	2,533	2,838
Total segments	50,628	68,259	97,251	158,667
Corporate	(51,501)	(40,709)	(96,972)	(82,687)
Total operating (loss) profit	$(873)	$27,550	$279	$75,980

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Depreciation, amortization and impairment of intangibles				
Core U.S.	$ 7,882	$ 10,563	$ 15,990	$ 21,455
Acceptance Now	629	828	1,415	1,665
Mexico	526	864	1,053	1,803
Franchising	44	44	88	89
Total segments	9,081	12,299	18,546	25,012
Corporate	9,627	8,477	18,703	15,588
Total depreciation, amortization and impairment of intangibles	$ 18,708	$ 20,776	$ 37,249	$ 40,600

We recorded an impairment of intangibles of $3.9 million in the Acceptance Now segment during the first six months of 2017 that is not included in the table above. The impairment charge was recorded to Other Charges in the Condensed Consolidated Statement of Operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Capital expenditures				
Core U.S.	$ 8,600	$ 3,456	$ 14,708	$ 7,227
Acceptance Now	612	305	1,095	597
Mexico	24	76	47	223
Total segments	9,236	3,837	15,850	8,047
Corporate	8,875	9,906	24,309	20,136
Total capital expenditures	$ 18,111	$ 13,743	$ 40,159	$ 28,183

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Segment information - Selected balance sheet data:

(in thousands)	June 30, 2017	December 31, 2016
On rent rental merchandise, net		
Core U.S.	$373,907	$ 426,845
Acceptance Now	318,099	354,486
Mexico	14,080	13,787
Total on rent rental merchandise, net	$706,086	$ 795,118

(in thousands)	June 30, 2017	December 31, 2016
Held for rent rental merchandise, net		
Core U.S.	$181,773	$ 192,718
Acceptance Now	11,477	7,489
Mexico	6,973	6,629
Total held for rent rental merchandise, net	$200,223	$ 206,836

(in thousands)	June 30, 2017	December 31, 2016
Assets by segment		
Core U.S.	$781,141	$ 872,551
Acceptance Now	396,092	432,383
Mexico	33,978	31,415
Franchising	2,402	2,197
Total segments	1,213,613	1,338,546
Corporate	258,985	264,195
Total assets	$1,472,598	$ 1,602,741

Note 7 - Stock-Based Compensation

We recognized $1.8 million and $2.5 million in pre-tax compensation expense related to stock options and restricted stock units during the three months ended June 30, 2017 and 2016, respectively, and $1.1 million and $4.8 million during the six months ended June 30, 2017 and 2016, respectively. During the six months ended June 30, 2017, we granted approximately 756,000 stock options, 490,000 market-based performance restricted stock units and 466,000 time-vesting restricted stock units. The stock options granted were valued using a Black-Scholes pricing model with the following assumptions: an expected volatility of 43.75% to 52.52%, a risk-free interest rate of 1.54% to 2.07%, an expected dividend yield of 2.84% to 3.85% and an expected term of 3.5 years to 5.75 years. The weighted-average exercise price of the options granted during the six months ended June 30, 2017 was $8.97 and the weighted-average grant-date fair value was $2.73. Performance-based restricted stock units are valued using a Monte Carlo simulation. Time-vesting restricted stock units are valued using the closing price on the trading day immediately preceding the day of the grant. The weighted-average grant date fair value of the restricted stock units granted during the six months ended June 30, 2017 was $9.00.

Note 8 - Contingencies

From time to time, the Company, along with our subsidiaries, is 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 condensed 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. We do not expect the ultimate outcome of the audit or any negotiated settlements to have a material adverse impact to our financial statements.

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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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, are $47.0 million, of which $2.1 million was outstanding as of June 30, 2017.

Note 9 - Earnings (Loss) Per Common Share

Summarized basic and diluted earnings per common share were calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2017	2016	2017	2016
Numerator:				
Net (loss) earnings	$ (8,893)	$ 9,946	$ (15,572)	$ 35,007
Denominator:				
Weighted-average shares outstanding	53,292	53,092	53,255	53,089
Effect of dilutive stock awards[1]	—	289	—	273
Weighted-average dilutive shares	53,292	53,381	53,255	53,362
Basic (loss) earnings per common share	$ (0.17)	$ 0.19	$ (0.29)	$ 0.66
Diluted (loss) earnings per common share	$ (0.17)	$ 0.19	$ (0.29)	$ 0.66
Anti-dilutive securities excluded from diluted (loss) earnings per common share:				
Anti-dilutive restricted share units	1,568	876	1,568	876
Anti-dilutive stock options	3,251	2,652	3,251	2,646

(1) There was no dilutive effect to the loss per common share for the three and six months ended June 30, 2017 due to the net loss incurred for both periods.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as “believes,” “expects,” “anticipates,” “estimates,” “intends,” “pla “seeks” or words of similar meaning, or future or conditional verbs, such as “will,” “should,” “could,” “may,” “aims,” “intends “projects.” A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. You should not place undue reliance on forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q 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;
- our chief executive officer and chief financial officer transitions, including our ability to effectively operate and execute our strategies during the interim period and difficulties or delays in identifying and/or attracting a permanent chief financial officer with the required level of experience and expertise;
- failure to manage our store labor and other store expenses;
- our ability to develop and successfully execute strategic initiatives;
- disruptions, including capacity-related outages, caused by the implementation and operation of our new store information management system;
- our transition to more-readily scalable, "cloud-based" solutions;
- our ability to develop and successfully implement digital or E-commerce capabilities;
- disruptions in our supply chain;
- limitations of, or disruptions in, our distribution network;
- rapid inflation or deflation in the prices of our products;
- our ability to execute and the effectiveness of a store consolidation, including our ability to retain the revenue from customer accounts merged into another store location as a result of a store consolidation;
- our available cash flow;
- our ability to identify and successfully market products and services that appeal to our customer demographic;
- consumer preferences and perceptions of our brands;
- uncertainties regarding the ability to open new locations;
- our ability to acquire additional stores or customer accounts on favorable terms;
- our ability to control costs and increase profitability;
- our ability to retain the revenue associated with acquired customer accounts and enhance the performance of acquired stores;
- our ability to enter into new and collect on our rental or lease purchase agreements;

- the passage of legislation adversely affecting the Rent-to-Own industry;
- 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;

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

Additional important factors that could cause our actual results to differ materially from our expectations are discussed under the section "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, and elsewhere in this Quarterly Report on Form 10-Q. You should not unduly rely on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by law, we are not obligated to publicly release any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

Our Business

We are 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.

Our Growth Strategy

We are focused on our mission to provide cash- and credit-constrained consumers with affordable and flexible access to durable goods that promote a higher quality of living. On April 10, 2017, we announced a new and comprehensive strategy to restore growth, improve profitability and maximize value. These initiatives are designed to strengthen the Core U.S. segment; optimize and grow the Acceptance Now segment; and leverage technology investments to expand distribution channels and integrate retail and online offerings:

Strengthen the Core

- Enhance value proposition and facilitate ownership
- Optimize product mix
- Stabilize and upgrade the workforce
- Improve account management
- Drive efficiencies in-store
- Optimize footprint

Optimize and Grow Acceptance Now

- Enhance value proposition and facilitate ownership
- Optimize partner relationships
- Centralize account management
- Grow Acceptance Now unstaffed solutions
- Enhance decision engine

Embrace Technology and Channel Expansion

- Leverage technology investments
- Build digital capabilities to support omni-channel platform
- Expand Acceptance Now to new channels, customers and products

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