

RENT A CENTER INC DE
Form 10-K
March 03, 2014

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, 2013

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 51,749,850 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 28, 2013, \$1,943,206,868

Number of shares of Common Stock outstanding as of the close of business on February 21, 2014: 52,775,592

Documents incorporated by reference:

Portions of the definitive proxy statement relating to the 2014 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,” “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.

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.

We are the largest rent-to-own operator 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, furniture and accessories, under flexible rental purchase agreements with no long-term obligation.

We were incorporated in Delaware in 1986. From 1993 to 2006, we pursued an aggressive growth strategy in which we opened new stores and sought to acquire underperforming rent-to-own stores to which we could apply our operating model. As a result of this strategy, the number of our locations grew from 27 to over 3,400 in 2006, primarily through acquisitions. We acquired over 3,300 stores during this period, including approximately 390 of our franchised stores. These acquisitions occurred in approximately 200 separate transactions, including ten transactions in each of which we acquired in excess of 50 locations. In addition, we strategically opened or acquired stores near market areas served by our existing stores to enhance service levels, gain incremental sales and increase market penetration.

As our U.S. store base matured, we began to focus on attracting new customers through sources other than our existing U.S. rent-to-own stores and to seek additional distribution channels for our products and services. One of our current growth strategies is our “Acceptance Now” (previously “RAC Acceptance”) model. With this model, we operate kiosks within various traditional retailers’ locations where we generally offer the rent-to-own transaction to consumers who do not qualify for financing from such retailers. The number of Acceptance Now locations increased to 1,325 at December 31, 2013, from 384 at December 31, 2010, and we intend to continue growing the Acceptance Now segment by expanding the number of our retail partners, increasing the number of locations with our existing retail partners and launching a virtual capability. In addition, we are expanding our operations in Mexico, and we are seeking to identify other international markets in which we believe our products and services would be in demand.

Our operations historically have generated strong cash flow. As a result, we have been able to invest in new business opportunities, execute strategic acquisitions, expand into different markets, make ongoing improvements in our support infrastructure and return value to shareholders, while maintaining a strong balance sheet.

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; 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 and credit or debit cards. Rental payments are generally made in advance and, together with applicable fees, constitute our primary revenue source. Approximately 83% and 89% of our rental purchase agreements are on a weekly term in our Core U.S. rent-to-own stores and our International 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 the 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 Operating Segments

We report four operating segments: Core U.S., Acceptance Now, International, and Franchising. Additional information regarding our operating segments is presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this Annual Report on Form 10-K, and financial information regarding these segments and revenues by geographic area are provided in Note Q 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, consisting of our company-owned stores located in the United States and Puerto Rico, is our largest operating segment, comprising approximately 81% of our consolidated net revenues and approximately 84% of our operating profit for the year ended December 31, 2013. Approximately 72% of our business in this segment is from repeat customers.

We recently launched a multi-year program designed to transform and modernize our operations company-wide in order to improve the profitability of the Core U.S. segment while continuing to support our Acceptance Now and International segments. This program is focused on building new competencies and capabilities through a variety of operational and infrastructure initiatives such as developing a new supply chain, formulating a customer-focused value-based pricing strategy, optimizing our store footprint, and innovating our digital e-commerce capabilities. At December 31, 2013 we operated 2,992 company-owned stores nationwide and in 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 it 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

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are minimal. Likewise, any exit costs associated with the closure of an Acceptance Now location would also be immaterial on an individual basis.

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.

In 2013, approximately 22% of the total revenues of the Acceptance Now segment originated at our Acceptance Now kiosks located in stores operated by a nationwide furniture retailer and 81 of its licensees, collectively. An additional approximately 37% of the total revenues in the Acceptance Now segment in 2013 was generated by our Acceptance Now kiosks located in stores operated by three of our other third-party retail partners.

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 of December 31, 2013, we operated 1,325 kiosk locations inside furniture, electronics and appliance retailers located in 38 states and Puerto Rico. We expect to open approximately 100 kiosk locations in 2014.

International

Our International segment currently consists of our company-owned rent-to-own stores in Mexico and Canada. We are expanding our operations in Mexico and seeking to identify other international markets in which we believe our products and services would be in demand. We believe there are numerous opportunities to extend the rent-to-own transaction internationally.

We will expand operations into Mexico City and other complementary new market areas, while expanding our presence in currently existing market areas. At December 31, 2013, we operated 151 stores after adding 61 rent-to-own store locations in 2013 in Mexico, and we expect to open approximately 30 stores in 2014.

We currently operate 18 stores in Canada.

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

Franchising

During 2013, ColorTyme, Inc., our franchisor of rent-to-own stores, changed its name to Rent-A-Center Franchising International, Inc., in connection with an offer to its current franchisees of the opportunity to convert their existing ColorTyme stores to the Rent-A-Center brand. We have ceased marketing franchises under the "ColorTyme" trade name and this segment is now referred to as Franchising. Our franchised stores 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.

To facilitate the conversion of ColorTyme branded stores to Rent-A-Center, we sold some of our company-owned stores to existing franchisees and purchased some of the former ColorTyme stores and are either operating them under the Rent-A-Center brand or merged them with existing stores. We believe that an unified network of both company-owned and franchised stores operating under the Rent-A-Center name creates a stronger service offering for our customers and leverages our growth efforts to reach more customers.

At December 31, 2013, this segment franchised 179 stores in 30 states operating under the Rent-A-Center (92 stores), ColorTyme (61 stores) and RimTyme (26 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:

	2013	2012	2011
Core U.S.	2,992	2,990	2,994
Acceptance Now	1,325	966	750
International			
Canada	18	18	28
Mexico	151	90	52
Franchising	179	224	216
Total locations	4,665	4,288	4,040

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

Rent-A-Center Operations

Store Design

Our Core U.S. stores average approximately 4,700 square feet and are located primarily in strip centers. Because we utilize “just in time” inventory strategies in our Core U.S. stores, receiving merchandise shipments in relatively small quantities directly from vendors, we are able to dedicate approximately 75% of the store space to showroom floor, and also eliminate warehousing costs. We continually evaluate store design in an effort to improve our customers’ in-store experience. Stores are remodeled approximately every five years.

Acceptance Now kiosks are located within the premises of third-party retailers. Each kiosk typically consists of an area with a computer, desk and chairs. We occupy the space without charge by agreement with each retailer.

Our International stores are generally similar to those in the Core U.S., although there may be differences attributable to the country in which such store is located. In Mexico, we are using distribution centers to manage inventory flow among stores.

Product Selection

Our Core U.S. and International stores generally offer merchandise from four basic product categories: consumer electronics, appliances, computers, 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 the same 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 from top name-brand manufacturers such as LG, Samsung, Sony, Toshiba and Vizio. We offer major appliances manufactured by Whirlpool, including refrigerators, freezers, washing machines, dryers, and ranges. We offer desktop, laptop and tablet computers from Acer, Apple, Asus, Dell, Hewlett-Packard, Samsung, Sony and Toshiba. We offer a variety of furniture products, including dining room, living room and bedroom furniture featuring a number of styles, materials and colors. We offer furniture made by Albany, Ashley, England, Klaussner, Lane, Standard and Welton. 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 International 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.

For the year ended December 31, 2013, furniture and accessories accounted for approximately 39% of our consolidated store rental revenue, consumer electronic products for 28%, appliances for 18% and computers for 15%.

Product Turnover

On average, in the Core U.S. segment, a rental term of 16 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. Ownership is attained in approximately 25% of rental purchase agreements in the Core U.S. segment. The average total life for each product in our Core U.S. segment is approximately 18 months, which includes the initial rental period, all re-rental periods and idle time in our system. To cover the higher operating expenses generated by product turnover and the key features of rental purchase transactions, rental purchase agreements require higher aggregate payments than are generally charged under other types of purchase plans, such as installment purchase or credit plans.

Collections

Store managers use our management information system to track collections on a daily basis. Generally, our goal is to have no more than 5.99% of our rental agreements past due one day or more each Saturday evening in our Core U.S. rent-to-own stores. For fiscal years 2013, 2012, and 2011, the average week ending past due percentages were 7.46%, 6.76% and 7.07%, respectively. 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.

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 the 90th day following the time the account became past due in the Core U.S. and International segments, and on the 150th day in the Acceptance Now segment. Charge offs due to customer stolen merchandise in our Core U.S. rent-to-own stores, expressed as a percentage of rental store revenues, were approximately 2.7% in 2013, 2.4% in 2012, and 2.5% in 2011. Charge offs due to customer stolen merchandise in our Acceptance Now segment, expressed as a percentage of rental revenues, were approximately 5.5% in 2013, 5.4% in 2012, and 4.1% in 2011, which is higher than the Core U.S. segment due to the higher cost of rental merchandise in this segment. The ratio of agreement charge offs to total agreements in this segment is comparable to the Core U.S. 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 domestic and international 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 International segments, we purchase our rental merchandise from a variety of manufacturers and distributors. In 2013, approximately 11% of our merchandise purchases were attributable to Whirlpool. 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.

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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 and Whirlpool, which accounted for approximately 18% and 14% of merchandise purchased by Franchising in 2013, 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.

Advertising expense as a percentage of Core U.S. store revenues for the years ended December 31, 2013, 2012 and 2011 was 3.7%, 3.7% and 3.5%, respectively. As we obtain new stores in our existing market areas, the advertising expenses of each store in the market can generally be reduced by listing all stores in the same market-wide advertisement.

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

Seasonality

Our revenue mix is moderately seasonal, with the first quarter of each fiscal year generally providing higher merchandise sales than any other quarter during a fiscal year, primarily related to federal income tax refunds. Generally, our customers will more frequently exercise the early purchase option on their existing rental purchase agreements or purchase pre-leased merchandise off the showroom floor during the first quarter of each fiscal year. Furthermore, we tend to experience slower growth in the number of rental purchase agreements in the third quarter of each fiscal year when compared to other quarters throughout the year. We expect these trends to continue in the future.

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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. ColorTyme owns various trademarks and service marks, including ColorTyme®, RimTyme®, and Your Hometown ColorTyme®, 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 21, 2014, 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. Four 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 121 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 47 Rent-A-Center stores in New Jersey.

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

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

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

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International

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 Core U.S. stores, but with such additional provisions as we believe may be necessary to comply with such country's specific laws and customs.

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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 strategies are our Acceptance Now and International segments. Effectively managing growth can be challenging, particularly as we continue to expand into channels outside our traditional rent-to-own store model and expand internationally. 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 recently launched a multi-year program designed to transform and modernize our operations company-wide in order to improve the profitability of the Core U.S. segment while continuing to support the expansion in our Acceptance Now and International segments. This program is focused on building new competencies and capabilities through a variety of operational and infrastructure initiatives such as developing a new supply chain, formulating a customer-focused value-based pricing strategy, optimizing our store footprint, and innovating our digital e-commerce capabilities. 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 81% of our consolidated net revenues and a substantial portion of our net earnings for the year ended December 31, 2013. 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, 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 2013, approximately 22% 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 81 of its licensees, collectively. An additional approximately 37% of the total revenues in the Acceptance Now segment in 2013 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, such as specified acquisitions, 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.

On February 20, 2014, we obtained a waiver from the lenders under our senior credit facilities to permit the declaration and payment of a cash dividend with respect to the second quarter of 2014.

In addition, on February 6, 2014, we announced that we intend to refinance our existing credit facility. We currently expect to enter into a new \$850 million senior credit facility, consisting of a \$350 million term loan and a \$500 million revolving credit facility, during the first quarter of 2014. If we are unable to complete the refinancing transaction, or obtain other relief from the lenders under our current senior credit facilities, our current projections indicate that an event of default under our existing senior credit facilities may occur in 2014.

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.

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

We opened our first store in Mexico in October 2010, and operated 151 stores in Mexico as of December 31, 2013. Our growth plans include significant expansion in our International segment. Changes in the business, regulatory or political climate in Mexico could adversely affect our operations there, which could negatively impact our growth plans. 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 international operations, and could adversely affect our financial performance.

The continued expansion of our International segment, including into new international markets, presents unique challenges which may subject us to risks associated with the legislative, judicial, accounting, regulatory, political, cultural and economic factors specific to the countries or regions in which we may operate in the future, which could adversely affect our anticipated growth.

Expansion of our International segment, including into new international markets, is one of our primary growth objectives. As these operations grow, they may require greater management and financial resources. International operations require the integration of personnel with varying cultural and business backgrounds and an understanding of the relevant differences in the cultural, legal and regulatory environments. In addition, these operations are subject to the potential risks of changing economic and financial conditions in each of its markets, exchange rate fluctuations, legal and regulatory requirements in local jurisdictions, tariffs and trade barriers, difficulties in staffing and managing local operations, failure to understand the local culture and market, difficulties in protecting intellectual property, the burden of complying with complex foreign laws, including anti-competition regulations, tax laws and financial accounting standards, and adverse local economic, political and social conditions in certain countries. If, as we continue to expand our International segment, we are unable to successfully replicate our business model due to these and other commercial and regulatory constraints present in our international markets, our growth may be adversely affected.

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 four 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 International operations 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

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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, 2013, \$348.0 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 has experienced extreme 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 International 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 at 5501 Headquarters Drive, 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 litigation loss contingencies that are both probable and reasonably estimable. We do not expect these losses to have a material impact on our consolidated financial statements if and when such losses are incurred.

Item 4. Mine Safety Disclosures.

Not applicable.

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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.

	High	Low	Cash Dividends Declared
2013			
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
2012			
Fourth Quarter	\$36.73	\$31.22	\$0.21
Third Quarter	\$37.81	\$32.31	\$0.16
Second Quarter	\$38.38	\$31.96	\$0.16
First Quarter	\$39.50	\$33.01	\$0.06

As of February 21, 2014, there were approximately 44 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. On February 20, 2014, we obtained a waiver from the lenders under our senior credit facilities to permit the declaration and payment of a cash dividend with respect to the second quarter of 2014. In addition, on February 6, 2014, we announced that we intend to refinance our existing senior credit facility. Please see the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Liquidity Requirements, Senior Credit Facilities" and "— Senior Notes" on pages 33 and 35, respectively, of this Annual Report on Form 10-K 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, 2013, 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. During the year ended December 31, 2013, we repurchased a total of 5,874,374 shares for \$217.4 million in cash, which included \$200 million under an accelerated stock buyback commenced in May 2013 and settled in October 2013. In the fourth quarter of 2013, we effected the following repurchases of our common stock:

Period	Total Number of Shares Purchased	Average Price Paid per Share (Including Fees)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs (Including Fees)
October 1 through October 31	816,916	\$36.9731	(1) 816,916	\$255,237,026
November 1 through November 30—	—	\$—	—	\$255,237,026
December 1 through December 31 —	—	\$—	—	\$255,237,026
Total	816,916	\$36.9731	816,916	\$255,237,026

Represents the final settlement of our accelerated stock buyback program, under which we received an initial share (1) delivery of 4,592,423 shares in May 2013, which was then estimated to be 80% of the total shares. We received a total of 5,409,339 shares for \$200 million, an average of \$36.9731 per share.

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 a peer group index selected by us, which includes 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 consists 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, 2008, 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, 2013, 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,					
	2013	2012	2011	2010	2009	
	(In thousands, except per share data)					
Consolidated Statements of Earnings						
Revenues						
Store						
Rentals and fees	\$2,698,395	\$2,654,081	\$2,496,863	\$2,335,496	\$2,346,849	
Merchandise sales	278,753	300,077	259,796	220,329	261,631	
Installment sales	72,705	68,356	68,617	63,833	53,035	
Other	18,133	16,391	17,925	76,542	57,601	
Franchise						
Merchandise sales	30,991	38,427	33,972	30,575	28,065	
Royalty income and fees	5,206	5,314	5,011	4,857	4,775	
	3,104,183	3,082,646	2,882,184	2,731,632	2,751,956	
Cost of revenues						
Store						
Cost of rentals and fees	683,221	646,090	570,493	519,282	530,018	
Cost of merchandise sold	216,206	241,219	201,854	164,133	188,433	
Cost of installment sales	25,771	24,572	24,834	23,303	18,687	
Franchise cost of merchandise sold	29,539	36,848	32,487	29,242	26,820	
	954,737	948,729	829,668	735,960	763,958	
Gross profit	2,149,446	2,133,917	2,052,516	1,995,672	1,987,998	
Operating expenses						
Salaries and other expenses	1,733,324	1,663,857	(1) 1,591,837	(1) 1,539,926	(1) 1,552,240	(1)
General and administrative expenses	158,424	148,500	140,612	(1) 129,507	(1) 139,272	(1)
Amortization and write-down of intangibles	11,529	5,889	4,675	3,254	2,843	
Restructuring charge	—	—	13,943	(2) —	—	
Impairment charge	—	—	7,320	(3) 18,939	(5) —	
Litigation expense (credit)	—	—	2,800	(4) —	(4,869) (7)
	1,903,277	1,818,246	1,761,187	1,691,626	1,689,486	
Operating profit	246,169	315,671	291,329	304,046	298,512	
Finance charges from refinancing						
Interest expense, net	38,813	31,223	36,607	25,912	25,954	
Earnings before income taxes	207,356	284,448	254,722	275,034	272,558	
Income tax expense	79,118	102,745	(8) 91,258	(8) 103,219	(8) 103,345	(8)
NET EARNINGS	\$128,238	\$181,703	\$163,464	\$171,815	\$169,213	
Basic earnings per common share	\$2.34	\$3.08	\$2.67	\$2.64	\$2.56	

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Diluted earnings per common share	\$2.32	\$3.06	\$2.64	\$2.61	\$2.54
Cash dividends paid per common share	\$0.84	\$0.64	\$0.44	\$0.12	\$—

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Item 6. Selected Financial Data — Continued.

	December 31,					
	2013	2012	2011	2010	2009	
	(Dollar amounts in thousands)					
Consolidated Balance Sheet Data						
Rental merchandise, net	\$1,125,068	\$1,007,519	⁽¹¹⁾ \$942,526	⁽¹¹⁾ \$828,674	⁽¹¹⁾ \$742,244	⁽¹¹⁾
Intangible assets, net	1,373,518	1,352,888	1,350,855	1,326,091	1,269,457	
Total assets	3,018,553	2,859,817	⁽¹¹⁾ 2,794,892	⁽¹¹⁾ 2,683,673	⁽¹¹⁾ 2,439,062	⁽¹¹⁾
Total debt	916,275	687,500	740,675	701,114	711,158	
Total liabilities	1,675,002	1,395,759	⁽¹¹⁾ 1,439,699	⁽¹¹⁾ 1,332,717	⁽¹¹⁾ 1,194,564	⁽¹¹⁾
Stockholders' equity	1,343,551	1,464,058	⁽¹¹⁾ 1,355,193	⁽¹¹⁾ 1,350,956	⁽¹¹⁾ 1,244,498	⁽¹¹⁾
Operating Data (Unaudited)						
Core U.S. and International stores						
open at end of period	3,161	3,098	3,074	3,008	3,007	
Acceptance Now locations						
open at end of period	1,325	966	750	384	82	
Same store revenue growth (decrease) ⁽⁹⁾	(2.0)%	1.4%	0.8%	(0.4)%	(3.5)%	⁽¹⁰⁾
Franchise stores open at end of period	179	224	216	209	210	

⁽¹⁾ Includes the effects of the reclassification of \$4.5 million, \$3.2 million and \$1.6 million in 2011, 2010 and 2009, respectively, of certain stock-based compensation expense from salaries and other expenses to general and administrative expenses, and revisions to reserves that increased (decreased) salaries and other expense by \$2.8 million, \$1.8 million, \$(0.3) million and \$(2.2) million in 2012, 2011, 2010 and 2009, respectively.

⁽²⁾ Includes the effects of a \$1.4 million pre-tax restructuring charge in the fourth quarter of 2011 in connection with the acquisition in November 2011 of 58 rent-to-own stores; a \$7.6 million pre-tax restructuring charge in the third quarter of 2011 related to the closure of eight Home Choice stores in Illinois and 24 RAC Limited locations within third-party grocery stores, as well as the closure of 26 core rent-to-own stores following the sale of all customer accounts at these locations; and a \$4.9 million pre-tax restructuring charge in the second quarter of 2011 for lease terminations related to The Rental Store acquisition.

⁽³⁾ Includes the effects of a \$7.3 million pre-tax impairment charge in the first quarter of 2011 related to the discontinuation of the financial services business.

⁽⁴⁾ Includes the effects of a \$2.8 million pre-tax litigation expense in the first quarter of 2011 related to the settlement of various California claims, including wage and hour violations.

⁽⁵⁾ Includes the effects of an \$18.9 million pre-tax impairment charge in the fourth quarter of 2010 related to the discontinuation of our financial services business.

⁽⁶⁾ Includes the effects of a \$3.1 million pre-tax financing expense in the fourth quarter of 2010 related to the write-off of unamortized financing costs.

⁽⁷⁾ Includes the effects of \$4.9 million in pre-tax litigation credits recorded in the first quarter and second quarter of 2009 related to the Hilda Perez matter.

⁽⁸⁾ Includes the tax effects of revisions to reserves that (decreased) increased income tax expense by \$(1.0) million, \$(0.7) million, \$0.1 million and \$0.8 million in 2012, 2011, 2010 and 2009, respectively.

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In 2009 through 2012, same store revenue growth or decrease for each period presented includes revenues only of stores open throughout the full period and the comparable prior period. Beginning in 2013, new or acquired stores were added to the same store revenue base in the 13th full month of operation.

(10) Includes financial services revenue.

(11) Includes revisions to reserves that decreased the following items as discussed in Note B to the consolidated financial statements, in millions:

	December 31,			
	2012	2011	2010	2009
Rental merchandise, net	\$(13.3)	\$(10.7)	\$(8.2)	\$(7.8)
Total assets	(9.3)	(6.5)	(4.7)	(4.9)
Total liabilities	(3.5)	(2.5)	(1.8)	(1.9)
Stockholders' equity	(5.8)	(4.0)	(2.9)	(3.0)

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

Business

We are the largest rent-to-own operator 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, furniture and accessories, under flexible rental purchase agreements with no long-term obligation.

We were incorporated in Delaware in 1986. From 1993 to 2006, we pursued an aggressive growth strategy in which we opened new stores and sought to acquire underperforming rent-to-own stores to which we could apply our operating model. As a result of this strategy, the number of our locations grew from 27 to over 3,400 in 2006, primarily through acquisitions. We acquired over 3,300 stores during this period, including approximately 390 of our franchised stores. These acquisitions occurred in approximately 200 separate transactions, including ten transactions in each of which we acquired in excess of 50 locations. In addition, we strategically opened or acquired stores near market areas served by our existing stores to enhance service levels, gain incremental sales and increase market penetration.

Historically, we achieved growth in our Core U.S. segment by opening new stores and acquiring underperforming rent-to-own stores to which we could apply our operating model. As a result, the acquired stores have generally experienced more significant revenue growth during the initial periods following their acquisition than in subsequent periods. Although we continue to believe there are attractive opportunities to expand our presence in the U.S. rent-to-own industry and we intend to continue our acquisition strategy of targeting under-performing and under-capitalized rent-to-own stores, the consolidation opportunities in the U.S. rent-to-own industry are more limited than in previous periods during which we experienced significant growth through acquisitions. Therefore, our historical results of operations and period-to-period comparisons of such results and other financial data, including the rate of earnings growth, may not be meaningful or indicative of future results.

As our U.S. store base matured, we began to focus on acquiring new customers through sources other than our existing U.S. rent-to-own store locations and to seek additional distribution channels for our products and services. One of our current growth strategies is our "Acceptance Now" (previously "RAC Acceptance") model. With this model, we operate kiosks within various traditional retailers' locations where we generally offer the rent-to-own transaction to consumers who do not qualify for financing from such retailers. We operated 1,325 Acceptance Now locations at December 31, 2013, and we intend to continue growing the Acceptance Now segment by expanding 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. Capital expenditures related to opening an Acceptance Now kiosk in a retailer's store are very low, since the only fixed assets required are the kiosk and computer equipment. There is no long-term lease associated with these stores and the retailer does not charge us rent. Our operating model is highly agile and dynamic because we can open locations quickly and efficiently, and we can also close locations quickly and efficiently when their performance does not meet our expectations. In addition, we are expanding our operations in Mexico, and we are seeking to identify other international markets in which we believe our products and services would be in demand.

We recently launched a multi-year program designed to transform and modernize our operations company-wide in order to improve the profitability of the Core U.S. segment while continuing to support our Acceptance Now and International segments. This program is focused on building new competencies and capabilities through a variety of operational and infrastructure initiatives such as developing a new supply chain, formulating a customer-focused value-based pricing strategy, optimizing our store footprint, and innovating our digital e-commerce capabilities. 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 seven months after its initial opening, and achieves cumulative break-even profitability in the second year after its initial opening.

Total financing requirements of a typical new Mexico store approximate \$610,000, with roughly 50% of that amount relating to the purchase of rental merchandise. A newly opened Mexico store is typically profitable on a monthly basis within 12 months after its initial opening. Historically, a typical Mexico store has achieved cumulative break-even

profitability in the third year after its initial opening.

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

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Rental payments are generally made in advance on a weekly basis in our Core U.S. and International segments and monthly in our Acceptance Now segment and, together with applicable fees, constitute our primary revenue source. 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 corporate and other expenses.

Forward-Looking Statements

The statements, other than statements of historical facts, included in this Annual Report on Form 10-K are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “would,” “expect,” “intend,” “could,” “estimate,” “should,” “anticipate” or “believe.” We believe that the expectations reflected in such forward-looking statements are accurate. However, we cannot assure you that these expectations will occur. Our actual future performance could differ materially from such statements. 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;
- economic pressures, such as high fuel costs, 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. segment or in executing our growth initiatives;
- rapid inflation or deflation in prices of our products;
- consumer preferences and perceptions of our brand;
- our ability to identify and successfully market products and services that appeal to our customer demographic;
- adverse changes in the economic conditions of the industries, countries or markets that we serve;
- our ability to develop and successfully implement virtual or electronic commerce capabilities;
- our available cash flow;
- our ability to control costs and increase profitability;
- our ability to enter into new and collect on our rental or lease purchase agreements;
- uncertainties regarding the ability to open new locations;
- our ability to acquire additional stores or customer accounts on favorable terms;
- our ability to enhance the performance of acquired stores;
- our ability to retain the revenue associated with acquired customer accounts;
- the passage of legislation adversely affecting the rent-to-own industry;
- our compliance with applicable statutes or regulations governing our transactions;
- our ability to protect the integrity and security of individually identifiable data of our customers and employee;
- the impact of any breaches in data security or other disturbances to our information technology and other networks;
- information technology and data security costs;
- changes in estimates relating to self-insurance liabilities and income tax and litigation reserves;
- changes in our effective tax rate;
- changes in interest rates;
- changes in our stock price, the number of shares of common stock that we may or may not repurchase, and future dividends, if any;

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 SEC reports.

Additional important factors that could cause our actual results to differ materially from our expectations are discussed under the section “Risk Factors” and elsewhere in this report. You should not unduly rely on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. 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 report or to reflect the occurrence of unanticipated events.

Critical Accounting Policies Involving Critical Estimates, Uncertainties or Assessments in Our Financial Statements

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

If we make changes to our reserves in accordance with the policies described above, our earnings would be impacted. Increases to our reserves would reduce earnings and, similarly, reductions to our reserves would increase our earnings. A pre-tax change of approximately \$0.9 million in our estimates would result in a corresponding \$0.01 change in our diluted earnings per common share.

Self-Insurance Liabilities. We have self-insured retentions with respect to losses under our workers' compensation, general liability and vehicle liability insurance policies. We establish reserves for our liabilities associated with these losses by obtaining forecasts for the ultimate expected losses and estimating amounts needed to pay losses within our self-insured retentions.

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

As of December 31, 2013, the amount reserved for losses within our self-insured retentions with respect to workers' compensation, general liability and vehicle liability insurance was \$116.6 million, as compared to \$116.1 million at December 31, 2012. However, if any of the factors that contribute to the overall cost of insurance claims were to change, the actual amount incurred for our self-insurance liabilities could be more or less than the amounts currently reserved.

Income Taxes. Our annual tax rate is affected by many factors, including the mix of our earnings, legislation and acquisitions, and is based on our income, statutory tax rates and tax planning opportunities available to us in the jurisdictions in which we operate. Tax laws are complex and subject to differing interpretations between the taxpayer and the taxing authorities. Significant judgment is required in determining our tax expense, evaluating our tax positions and evaluating uncertainties. Deferred income tax assets represent amounts available to reduce income taxes payable in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. We evaluate the

recoverability of these future tax deductions and credits by assessing the future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income rely heavily on estimates. We use our historical experience and our short- and long-range business forecasts to provide insight and assist us in determining recoverability. We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following

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an audit. For tax positions meeting the more-likely-than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon the ultimate settlement with the relevant tax authority. A number of years may elapse before a particular matter, for which we have recorded a liability, is audited and effectively settled. We review our tax positions quarterly and adjust our liability for unrecognized tax benefits in the period in which we determine the issue is effectively settled with the tax authorities, the statute of limitations expires for the relevant taxing authority to examine the tax position, or when more information becomes available.

Valuation of Goodwill. We perform an assessment of goodwill for impairment at the reporting unit level annually as of December 31 of each year, or when events or circumstances indicate that impairment may have occurred. Factors which could necessitate an interim impairment assessment include a sustained decline in our stock price, prolonged negative industry or economic trends and significant underperformance relative to historical or projected future operating results. Our reporting units are generally our reportable operating segments identified in Note Q to the consolidated financial statements. The fair value of a reporting unit is estimated using methodologies which include the present value of estimated future cash flows and comparisons of multiples of enterprise values to earnings before interest, taxes, depreciation and amortization. The analysis is based upon available information regarding expected future cash flows and discount rates. Discount rates are based upon our cost of capital. Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions that we believe are reasonable but inherently uncertain, and actual results may differ from those estimates. These estimates and assumptions include, but are not limited to, revenue growth rates, operating margins and future economic and market conditions. If the carrying value of the reporting unit exceeds fair value, we perform a second analysis to measure the fair value of all assets and liabilities within the reporting unit, and if the carrying value exceeds fair value, goodwill is considered impaired. The amount of the impairment is the difference between the carrying value of goodwill and the estimated fair value, which is calculated as if the reporting unit had just been acquired and accounted for as a business combination. At December 31, 2013, the amount of goodwill allocated to the Core U.S. and Acceptance Now segments was \$1,310.1 million and \$54.4 million, respectively. The fair values of the Core U.S. and Acceptance Now segments exceeded their carrying values by over 10%. During 2013 and 2012, we recorded goodwill impairment charges of \$1.1 million and \$1.0 million in our International segment as a result of the sustained underperformance of certain stores located in Canada. Based on the results of the annual assessment, we concluded that no further impairment of goodwill existed at December 31, 2013.

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

Significant Accounting Policies

Our significant accounting policies are summarized below and in Note A to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Revenues. Merchandise is rented to customers pursuant to rental purchase agreements which provide for weekly, semi-monthly or monthly rental terms with non-refundable rental payments. Generally, the customer has the right to acquire title either through a purchase option or through payment of all required rentals. Rental revenue and fees are recognized over the rental term and merchandise sales revenue is recognized when the customer exercises the purchase option and pays the cash price due. Cash received prior to the period in which it should be recognized is deferred and recognized according to the rental term. Revenue is accrued for uncollected amounts due based on historical collection experience. However, the total amount of the rental purchase agreement is not accrued because the customer can terminate the rental agreement at any time and we cannot enforce collection for non-payment of future rents.

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

Franchise Revenue. Revenues from the sale of rental merchandise are recognized upon shipment of the merchandise to the franchisee. Franchise royalty income and fee revenue is recognized upon completion of substantially all services and satisfaction of all material conditions required under the terms of the franchise agreement.

Depreciation of Rental Merchandise. Depreciation of rental merchandise is included in the cost of rentals and fees on our statement of earnings. Generally, we depreciate our rental merchandise using the income forecasting method. Under the income forecasting method, merchandise held for rent is not depreciated and merchandise on rent is depreciated in the proportion of rents

received to total rents provided in the rental contract, which is an activity-based method similar to the units of production method. Effective January 1, 2013, we depreciate merchandise (including computers and tablets) that is held for rent for at least 180 consecutive days using the straight-line method over a period generally not to exceed 18 months. Prior to January 1, 2013, merchandise held for rent (except for computers and tablets) that was at least 270 days old and held for rent for at least 180 consecutive days was depreciated using the straight-line method for a period generally not to exceed 20 months. Prior to January 1, 2013, the straight-line method was used for computers and tablets that were 24 months old or older and which have become idle over a period of at least six months, generally not to exceed an aggregate depreciation period of 30 months. This change has not had a significant impact on cost of revenues, gross profit, net earnings or earnings per share.

Cost of Merchandise Sold. Cost of merchandise sold represents the net book value of rental merchandise at time of sale.

Salaries and Other Expenses. Salaries and other expenses include all salaries and wages paid to store level employees, together with district managers' salaries, payroll taxes and benefits, and travel, as well as all store-level general and administrative expenses and selling, advertising, insurance, occupancy, delivery, charge offs due to customer stolen merchandise, fixed asset depreciation and other operating expenses.

General and Administrative Expenses. General and administrative expenses include all corporate overhead expenses related to our headquarters such as salaries, payroll taxes and benefits, stock-based compensation, occupancy, administrative and other operating expenses.

Stock-Based Compensation Expense. We recognize share-based payment awards to our employees and directors at the estimated fair value on the grant date. Determining the fair value of any share-based award requires information about several variables that could include, but are not limited to, expected stock volatility over the term of the award, expected dividend yields and the predicted employee exercise behavior. We base expected life on historical exercise and post-vesting employment-termination experience, and expected volatility on historical realized volatility trends. In addition, all stock-based compensation expense is recorded net of an estimated forfeiture rate. The forfeiture rate is based upon historical activity and is analyzed as actual forfeitures occur. Stock options granted during the year ended December 31, 2013, were valued using a Black-Scholes pricing model with the following assumptions for employee options: an expected volatility of 28.64% to 44.35%, a risk-free interest rate of 0.27% to 1.81%, an expected dividend yield of 2.20% to 2.44%, and an expected life of 2.33 to 6.25 years. Restricted stock units are valued using the last trade before the day of the grant.

We revised the 2011 consolidated statement of earnings to classify stock-based compensation received by employees above the district manager level that was previously reported within salaries and other expenses to general and administrative expenses to conform to the 2013 and 2012 presentation. This reclassification resulted in a decrease in salaries and other expenses of \$4.5 million for the year ended December 31, 2011, with a corresponding increase to general and administrative expenses. This reclassification had no impact on net earnings or earnings per share for 2011.

Income taxes. We have not provided for deferred income taxes on undistributed earnings of non-U.S. subsidiaries because of our intention to indefinitely reinvest these earnings outside the U.S. The determination of the amount of the unrecognized deferred income tax liability related to the undistributed earnings is not practicable; however, unrecognized foreign income tax credits would be available to reduce a portion of this liability.

Results of Operations

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

Comparison of the Years Ended December 31, 2013 and 2012

Overview

The following table reflects the revisions to reserves discussed in Note B to the consolidated financial statements.

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(Dollar amounts in thousands)	Year Ended December 31,			2013-2012 Change		2012-2011 Change			
	2013	2012	2011	\$	%	\$	%		
Rentals and fees	\$2,698,395	\$2,654,081	\$2,496,863	\$44,314	1.7	% \$157,218	6.3	%	
Merchandise sales	278,753	300,077	259,796	(21,324)	(7.1)	)% 40,281	15.5)%	
Installment sales	72,705	68,356	68,617	4,349	6.4	)% (261)	(0.4))%	
Other	18,133	16,391	17,925	1,742	10.6	)% (1,534)	(8.6))%	
Franchise merchandise sales	30,991	38,427	33,972	(7,436)	(19.4)	)% 4,455	13.1)%	
Franchise royalty income and fees	5,206	5,314	5,011	(108)	(2.0)	)% 303	6.0)%	
Total revenues	3,104,183	3,082,646	2,882,184	21,537	0.7	)% 200,462	7.0)%	
Cost of rentals and fees	683,221	646,090	570,493	37,131	5.7	)% 75,597	13.3)%	
Cost of merchandise sold	216,206	241,219	201,854	(25,013)	(10.4)	)% 39,365	19.5)%	
Cost of installment sales	25,771	24,572	24,834	1,199	4.9	)% (262)	(1.1))%	
Franchise cost of merchandise sold	29,539	36,848	32,487	(7,309)	(19.8)	)% 4,361	13.4)%	
Total cost of revenues	954,737	948,729	829,668	6,008	0.6	)% 119,061	14.4)%	
Gross profit	2,149,446	2,133,917	2,052,516	15,529	0.7	)% 81,401	4.0)%	
Salaries and other	1,733,324	1,663,857	1,591,837	69,467	4.2	)% 72,020	4.5)%	
General and administrative	158,424	148,500	140,612	9,924	6.7	)% 7,888	5.6)%	
Amortization and write-down of intangibles	11,529	5,889	4,675	5,640	95.8	)% 1,214	26.0)%	
Restructuring charge	—	—	13,943	—	—	(13,943)	(100.0))%	
Impairment charge	—	—	7,320	—	—	(7,320)	(100.0))%	
Litigation expense	—	—	2,800	—	—	(2,800)	(100.0))%	
	1,903,277	1,818,246	1,761,187	85,031	4.7	)% 57,059	3.2)%	
Operating profit	246,169	315,671	291,329	(69,502)	(22.0)	)% 24,342	8.4)%	
Interest, net	38,813	31,223	36,607	7,590	24.3	)% (5,384)	(14.7))%	
Earnings before income taxes	207,356	284,448	254,722	(77,092)	(27.1)	)% 29,726	11.7)%	
Income tax expense	79,118	102,745	91,258	(23,627)	(23.0)	)% 11,487	12.6)%	
Net earnings	\$128,238	\$181,703	\$163,464	\$(53,465)	(29.4)	)% \$18,239	11.2)%	

During 2013, we continued the expansion of our Acceptance Now and International segments by adding 359 locations and 61 new rent-to-own stores, respectively. Our Acceptance Now segment revenue increased by 46% over the prior year and provided over 16% of our consolidated revenue in 2013, while International segment revenue increased by 45% over the prior year driven primarily by the growth in Mexico. Expansion in these segments drove an increase in salaries and other expenses, primarily payroll-related. The significant decline in revenue in the Core U.S. segment eroded the revenue, gross profit and operating profit gains in the Acceptance Now and International segments. Our

customers remain under severe economic pressure and we face an intensified

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promotional environment. As a result of the rebranding initiative in our Franchising segment, we sold certain Core U.S. stores to existing franchisees and purchased certain former ColorTyme stores, decreasing overall store count in the Franchising segment from 224 to 179. The sale of the company-owned stores resulted in a gain of approximately \$1.6 million, net of a \$7.4 million write-off of goodwill related to those stores.

Segment Performance

Core U.S. segment.

(Dollar amounts in thousands)	Year Ended December 31,			2013-2012 Change		2012-2011 Change			
	2013	2012	2011	\$	%	\$	%		
Revenues	\$2,507,498	\$2,655,411	\$2,631,416	\$(147,913)	(5.6)%	\$23,995	0.9%		
Gross profit	1,810,160	1,904,586	1,918,781	(94,426)	(5.0)%	(14,195)	(0.7)%		
Operating profit	205,928	318,784	318,271	(112,856)	(35.4)%	513	0.2%		
Change in same store revenue					(6.4)%		0.1%		
Stores in same store revenue calculation					2,844		2,545		

Revenues. Rentals and fees revenue and merchandise sales decreased in 2013 compared to 2012. We experienced a high volume of early purchase options in 2012 contributing to our recurring revenue portfolio being down year-over-year going into 2013, decreasing both rentals and fees and merchandise sales revenue in the current year. Our portfolio of agreements surpassed prior year levels in the third quarter of 2013, however, electronic product deflation coupled with promotional activity caused our average revenue per agreement (ticket) to lag behind the prior year, driving negative same store revenue. Additionally, we believe our business has been negatively impacted throughout the year by pressure on our customers in the form of higher payroll taxes and overall macroeconomic conditions. We believe these conditions impacted our performance in the critical growth month of December 2013, which was significantly below our forecast, leaving our recurring revenue portfolio going into 2014 behind the prior year.

Gross Profit. Gross profit decreased in 2013 from 2012 primarily due to decreased store revenue as discussed above. Gross profit as a percentage of total segment revenue increased to 72.2% in 2013 from 71.7% in 2012, primarily due to increases in early purchase option pricing.

Operating Profit. Operating profit as a percentage of total segment revenue decreased to 8.2% in 2013 from 12.0% for 2012. Operating profit in 2013 was impacted by decreased gross profit as discussed above, increased claims paid under our self-funded health insurance program, adjustments to certain rental merchandise reserves and severance payable to former executives of the Company. Charge offs in our Core U.S. rent-to-own stores due to customer stolen merchandise, expressed as a percentage of revenues, were approximately 2.7% in 2013 as compared to 2.4% in 2012. Operating expenses expressed as a percentage of total segment revenue increased to 64.0% in 2013 from 59.7% in 2012 primarily due to a decrease in revenue.

Acceptance Now segment.

(Dollar amounts in thousands)	Year Ended December 31,			2013-2012 Change		2012-2011 Change			
	2013	2012	2011	\$	%	\$	%		
Revenues	\$502,043	\$343,283	\$193,295	\$158,760	46.2%	\$149,988	77.6%		
Gross profit	290,741	194,607	114,228	96,134	49.4%	80,379	70.4%		
Operating profit (loss)	66,625	25,261	(16,483)	41,364	163.7%	41,744	253.3%		
Change in same store revenue					30.1%		25.3%		
Stores in same store revenue calculation					868		256		

Revenues. The increase in revenues in 2013 was driven by the 30.1% growth in same store revenue and the addition of 359 locations during the period. This segment contributed approximately 16% of consolidated revenues in 2013.

Gross profit. Gross profit as a percentage of revenues was 57.9% in 2013 as compared to 56.7% in 2012 as a result of a maturing store base.

Operating profit. Operating profit as a percentage of total segment revenue increased to 13.3% in 2013 from 7.4% for 2012. Operating profit was positively impacted by the revenue growth in this segment, partially offset by an increase in payroll and payroll-related expenses due to the expansion and an increase in rental merchandise reserves.

Charge-offs in our Acceptance Now locations due to customer stolen merchandise, expressed as a percentage of revenues, were approximately 5.5% in 2013 as compared to 5.4% in 2012. The ratio of agreement charge-offs to total agreements in this segment is comparable to the Core U.S. segment but the percentage is higher, primarily due to the higher cost of rental merchandise in this segment. While the higher cost of merchandise results in lower gross margins in this segment, this segment's kiosk model has lower operating costs than our other operating segments, resulting in a positive contribution to operating profit while maintaining an aggressive growth plan.

International segment.

(Dollar amounts in thousands)	Year Ended December 31,			2013-2012 Change		2012-2011 Change			
	2013	2012	2011	\$	%	\$	%		
Revenues	\$58,445	\$40,211	\$18,490	\$18,234	45.3	% \$21,721	117.5	%	
Gross profit	41,887	27,831	13,011	14,056	50.5	% 14,820	113.9	%	
Operating loss	(28,237)	(30,700)	(13,679)	2,463	8.0	% (17,021)	(124.4)%	
Change in same store revenue					40.6	%	8.0	%	
Stores in same store revenue calculation					103		13		

Revenues. The increase in total revenues in 2013 was driven by the 40.6% growth in same store revenue, primarily due to the growth in Mexico, where we added 61 stores during 2013. Revenues in Canada decreased \$6.3 million, or 36.0%, to \$11.3 million in 2013 compared to \$17.6 million in 2012 due to the sale of 15 stores on December 31, 2012.

Gross Profit. Gross profit increased in 2013 primarily due to increased revenue as discussed above. Gross profit as a percentage of total revenues increased to 71.7% in 2013 from 69.2% in 2012 as a result of a maturing store base.

Operating Loss. Operating loss as a percentage of total segment revenue decreased to 48.3% in 2013 from 76.3% for 2012. As the older stores in Mexico become profitable, those profits have been more than offset by the losses experienced in the new stores, but operating loss is improving as more stores mature.

Franchising segment.

(Dollar amounts in thousands)	Year Ended December 31,			2013-2012 Change		2012-2011 Change			
	2013	2012	2011	\$	%	\$	%		
Revenues	\$36,197	\$43,741	\$38,983	\$(7,544)	(17.2)%	\$4,758	12.2	%	
Gross profit	6,658	6,893	6,496	(235)	(3.4)%	397	6.1	%	
Operating profit	1,853	2,326	3,220	(473)	(20.3)%	(894)	(27.8)%	

Revenues. Revenues decreased due to the rebranding initiative, which decreased overall store count in this segment.

Gross Profit. Gross profit as a percentage of revenues increased to 18.4% in 2013 from 15.8% in 2012.

Operating Profit. Operating profit as a percentage of total segment revenue decreased to 5.1% in 2013 from 5.3% for 2012 as we incurred approximately \$0.3 million of expenses under the rebranding initiative, including replacing graphics on windows and trucks and minor store remodeling costs.

Other Consolidated Expenses

Interest Expense. Interest expense increased \$7.6 million, or 23.6%, to \$39.6 million in 2013 as compared to \$32.1 million in 2012 due to the issuance of \$250 million of senior notes in May of 2013.

Income Tax Expense. Our effective income tax rate was 38.2% and 36.1% for 2013 and 2012, respectively. The 2013 rate for income taxes is greater than that of 2012 due primarily to the non-deductible write-down of goodwill related to stores sold to franchisees.

Net Earnings and Earnings per Share. Net earnings decreased by \$53.5 million, or 29.4%, to \$128.2 million in 2013 as compared to \$181.7 million in 2012. This decrease was primarily attributable to a decline in the Core U.S. segment, an increase in interest expense and an increase in the effective income tax rate in 2013 as compared to 2012, partially offset by growth in the Acceptance Now and International segments. Diluted earnings per share in 2013 were \$2.32 compared to \$3.06 in 2012. The decrease was due to the decrease in net income and was favorably impacted by a decrease in average diluted shares outstanding.

Comparison of the Years Ended December 31, 2012 and 2011

Store Revenue. Total store revenue increased by \$195.7 million, or 6.9%, to \$3,038.9 million in 2012 from \$2,843.2 million in 2011. Store revenue increased primarily due to growth in the Acceptance Now segment, as well as growth in the Core U.S. and International segments.

Same store revenue represents revenue earned in 2,814 locations that were operated by us for each of the entire twelve-month periods ended December 31, 2012 and 2011. Same store revenues increased by \$33.6 million, or 1.4%, to \$2,405.1 million in 2012 as compared to \$2,371.5 million in 2011. The increase in same store revenues was primarily attributable to the impact of the growth in the Acceptance Now segment.

Cost of Rentals and Fees. Cost of rentals and fees consists primarily of depreciation of rental merchandise. Cost of rentals and fees in 2012 increased by \$75.6 million, or 13.3%, to \$646.1 million as compared to \$570.5 million in 2011. This increase in cost of rentals and fees was primarily attributable to an increase in rentals and fees revenue in 2012 as compared to 2011. Cost of rentals and fees expressed as a percentage of store rentals and fees revenue increased to 24.3% in 2012 as compared to 22.8% in 2011, driven by higher merchandise costs in the Acceptance Now segment and changes in promotional sales strategies in the Core U.S. segment.

Cost of Merchandise Sold. Cost of merchandise sold increased by \$39.3 million, or 19.5%, to \$241.2 million in 2012 from \$201.9 million in 2011, driven by an increase in early purchase options. The gross margin percent of merchandise sales decreased to 19.6% in 2012 from 22.3% in 2011, primarily as a result of increased sales in the Acceptance Now segment, which has higher merchandise costs, and changes in promotional sales strategies in the Core U.S. segment.

Gross Profit. Gross profit increased by \$81.4 million, or 4.0%, to \$2,133.9 million in 2012 from \$2,052.5 million in 2011, primarily due to increased store revenue as discussed above. Gross profit as a percentage of total revenues decreased to 69.2% in 2012 from 71.2% in 2011 due to decreased margins related to changes in promotional sales strategies in the Core U.S. segment and the lower margins as a percentage of revenue in the Acceptance Now segment, whose revenue has grown to 11.1% of consolidated revenue in 2012 from 6.7% in 2011.

Salaries and Other Expenses. The amounts and percentages that follow have been adjusted for the reclassification of stock-based compensation expense discussed in Note A to the financial statements. Salaries and other expenses increased by \$72.0 million, or 4.5%, to \$1,663.9 million in 2012 as compared to \$1,591.8 million in 2011. This increase was primarily attributable to increased expenses associated with the expansion of our Acceptance Now and International segments. Charge offs in our Core U.S. rent-to-own stores due to customer stolen merchandise, expressed as a percentage of revenues, were approximately 2.4% in 2012 as compared to 2.5% in 2011. Salaries and other expenses expressed as a percentage of total store revenue decreased to 54.8% in 2012 from 56.0% in 2011 due to an increase in store revenue while continuing to manage store-related expenses.

General and Administrative Expenses. The amounts and percentages that follow have been adjusted for the reclassification of stock-based compensation expense discussed in Note A to the financial statements. General and administrative expenses increased by \$7.9 million, or 5.6%, to \$148.5 million in 2012 as compared to \$140.6 million in 2011. General and administrative expenses expressed as a percentage of total revenue decreased to 4.8% in 2012 from 4.9% in 2011.

Operating Profit. Operating profit increased by \$24.3 million, or 8.4%, to \$315.7 million in 2012 as compared to \$291.3 million in 2011. Operating profit as a percentage of total revenues increased to 10.2% in 2012 from 10.1% for 2011. Operating profit in 2012 was impacted by increased gross profit as discussed above. Operating profit in 2012 also increased compared to 2011 due to the \$7.6 million restructuring charge related to the closure of eight Home

Choice stores in Illinois, 24 RAC Limited locations within third-party grocery stores and 26 core rent-to-own stores following the sale of all customer accounts at those locations in 2011, the \$7.3 million impairment charge related to the discontinuation of our financial services business and the \$2.8 million litigation charge in 2011, all of which were reported in the Core U.S. segment, and the \$4.9 million restructuring charge in 2011 for post-acquisition lease terminations related to the acquisition of The Rental Store, which was reported in the Acceptance

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Now segment. These increases were partially offset by an increase in salaries and other expenses associated with our continued expansion of the Acceptance Now and International segments.

Income Tax Expense. Our effective income tax rate was 36.1% and 35.8% for 2012 and 2011, respectively. The 2011 effective income tax rate was less than that of 2012 due primarily to the federal tax credits taken in 2011 that were not available in 2012.

Net Earnings and Earnings per Share. Net earnings increased by \$18.2 million, or 11.2%, to \$181.7 million in 2012 as compared to \$163.5 million in 2011. This increase was primarily attributable to an increase in operating profit, slightly offset by an increase in the effective income tax rate in 2012 as compared to 2011. Diluted earnings per share in 2012 were \$3.06 compared to \$2.64 in 2011. The increase was due primarily to the increase in net income and was also favorably impacted by a decrease in average diluted shares outstanding.

Quarterly Results

The following table contains certain unaudited historical financial information for the quarters indicated, adjusted to reflect the revisions to reserves discussed in Note B to the consolidated financial statements:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands, except per share data)			
Year Ended December 31, 2013				
Revenues	\$819,281	\$760,511	\$754,780	\$769,611
Gross profit	550,678	530,620	529,332	538,816
Operating profit	78,784	77,230	55,773	34,382
Net earnings	46,133	41,876	27,165	13,064
Basic earnings per common share	\$0.80	\$0.76	\$0.51	\$0.25
Diluted earnings per common share	\$0.79	\$0.76	\$0.50	\$0.25
Cash dividends paid per common share	\$0.21	\$0.21	\$0.21	\$0.21
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands, except per share data)			
Year Ended December 31, 2012				
Revenues	\$835,254	\$749,698	\$739,314	\$758,380
Gross profit	560,417	526,973	519,341	527,186
Operating profit	90,476	78,454	67,798	78,943
Net earnings	50,968	43,825	39,701	47,209
Basic earnings per common share	\$0.86	\$0.74	\$0.67	\$0.81
Diluted earnings per common share	\$0.85	\$0.74	\$0.67	\$0.80
Cash dividends paid per common share	\$0.16	\$0.16	\$0.16	\$0.16
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands, except per share data)			
Year Ended December 31, 2011				
Revenues	\$742,178	\$698,253	\$704,271	\$737,482
Gross profit	523,148	506,355	505,724	517,289
Operating profit	80,486	72,872	57,363	80,608
Net earnings	44,272	39,713	30,948	48,531
Basic earnings per common share	\$0.70	\$0.64	\$0.52	\$0.82
Diluted earnings per common share	\$0.69	\$0.63	\$0.51	\$0.81
Cash dividends paid per common share	\$0.06	\$0.06	\$0.16	\$0.16

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	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	(As a percentage of revenues)							
Year Ended December 31, 2013								
Revenues	100.0	%	100.0	%	100.0	%	100.0	%
Gross profit	67.2		69.8		70.1		70.0	
Operating profit	9.6		10.2		7.4		4.5	
Net earnings	5.6		5.5		3.6		1.7	
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	(As a percentage of revenues)							
Year Ended December 31, 2012								
Revenues	100.0	%	100.0	%	100.0	%	100.0	%
Gross profit	67.1		70.3		70.2		69.5	
Operating profit	10.8		10.5		9.2		10.4	
Net earnings	6.1		5.8		5.4		6.2	
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	(As a percentage of revenues)							
Year Ended December 31, 2011								
Revenues	100.0	%	100.0	%	100.0	%	100.0	%
Gross profit	70.5		72.5		71.8		70.1	
Operating profit	10.8		10.4		8.1		10.9	
Net earnings	6.0		5.7		4.4		6.6	

Liquidity and Capital Resources

Overview. For the year ended December 31, 2013, we generated \$134.3 million in operating cash flow and issued \$250 million in senior notes. In addition to funding operating expenses, we used \$217.4 million for common stock repurchases, \$108.4 million in cash for capital expenditures, \$46.8 million to pay cash dividends and \$41.2 million to acquire stores. We ended the year with \$42.3 million in cash and cash equivalents.

Analysis of Cash Flow. Net cash provided by operating activities decreased by \$83.6 million to \$134.3 million in 2013 from \$217.9 million in 2012. This decrease was attributable to the net changes in operating assets and liabilities, primarily from increased purchases of inventory related to expansion in our Acceptance Now and International segments.

Net cash used in investing activities increased by \$18.9 million to \$129.6 million in 2013 from \$110.7 million in 2012. This increase was primarily attributable to an increase in both capital expenditures and acquisitions of businesses.

Net cash used in financing activities decreased by \$111.3 million to \$23.1 million in 2013 from \$134.5 million in 2012. Net borrowings increased \$282.0 million, including the issuance of \$250 million in senior notes, and we purchased \$155.6 million more of our common stock in 2013 than in 2012, primarily through the \$200 million accelerated share repurchase that we initiated in May 2013 and closed in October 2013. We also increased our quarterly dividends in 2013 compared to 2012.

Liquidity Requirements. Our primary liquidity requirements are for rental merchandise purchases, implementation of our growth strategies, income tax payments, capital expenditures and debt service. Our primary sources of liquidity have been cash provided by operations and borrowings. In the future, to provide any additional funds necessary for the continued operations and expansion of our business, we may incur from time to time additional short-term or long-term bank indebtedness and may issue, in public or private transactions, equity and debt securities. The availability and attractiveness of any outside sources of financing will depend on a number of factors, some of which relate to our financial condition and performance, and some of wh