RENT A CENTER INC DE
Form 10-Q
July 29, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from __________ to __________

Commission File Number: 0-25370

Rent-A-Center, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**45-0491516**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

5501 Headquarters Drive
Plano, Texas 75024
(Address, including zip code of registrant s principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES þ NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES þ NO o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of July 25, 2011:

Class	Outstanding
Common stock, $.01 par value per share	61,641,139

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The accompanying notes are an integral part of these statements

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RENT-A-CENTER, INC. AND SUBSIDIARIES

Item 1. Financial Statements.

CONSOLIDATED STATEMENTS OF EARNINGS

	Three months ended June 30,	
	2011	2010
(In thousands, except per share data)	Unaudited	
Revenues		
Store		
Rentals and fees	$ 617,796	$ 586,523
Merchandise sales	50,973	43,031
Installment sales	16,571	14,503
Other	4,143	19,523
Franchise		
Merchandise sales	7,525	6,755
Royalty income and fees	1,245	1,208
	698,253	671,543
Operating expenses		
Direct store expenses		
Cost of rentals and fees	139,295	129,818
Cost of merchandise sold	39,510	32,603
Cost of installment sales	5,898	5,003
Salaries and other expenses	395,091	381,121
Franchise cost of merchandise sold	7,195	6,454
	586,989	554,999
General and administrative expenses	32,047	32,173
Amortization and write-down of intangibles	1,132	1,540
Restructuring charge	4,933	
Total operating expenses	625,101	588,712
Operating profit	73,152	82,831
Interest expense	9,613	6,051
Interest income	(237)	(156)
Earnings before income taxes	63,776	76,936
Income tax expense	23,888	29,106
NET EARNINGS	$ 39,888	$ 47,830
Basic earnings per common share	$ 0.64	$ 0.73
Diluted earnings per common share	$ 0.63	$ 0.72
Cash dividends per common share	$ 0.06	$

See accompanying notes to consolidated financial statements.

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RENT-A-CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Six months ended June 30,	
	2011	2010
(In thousands, except per share data)	Unaudited	
Revenues		
Store		
Rentals and fees	$ 1,228,224	$ 1,170,371
Merchandise sales	150,239	132,428
Installment sales	33,258	29,640
Other	9,482	39,859
Franchise		
Merchandise sales	16,671	15,180
Royalty income and fees	2,557	2,484
	1,440,431	1,389,962
Operating expenses		
Direct store expenses		
Cost of rentals and fees	274,944	259,932
Cost of merchandise sold	108,089	94,414
Cost of installment sales	11,946	10,429
Salaries and other expenses	792,289	772,592
Franchise cost of merchandise sold	15,949	14,522
	1,203,217	1,151,889
General and administrative expenses	66,600	63,948
Amortization and write-down of intangibles	1,990	2,591
Litigation settlement	2,800	
Impairment charge	7,320	
Restructuring charge	4,933	
Total operating expenses	1,286,860	1,218,428
Operating profit	153,571	171,534
Interest expense	19,373	12,134
Interest income	(391)	(324)
Earnings before income taxes	134,589	159,724
Income tax expense	50,471	60,433
NET EARNINGS	$ 84,118	$ 99,291
Basic earnings per common share	$ 1.34	$ 1.51
Diluted earnings per common share	$ 1.32	$ 1.49
Cash dividends per common share	$ 0.12	$

See accompanying notes to consolidated financial statements.

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RENT-A-CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and par value data)	June 30, 2011 Unaudited	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 74,031	$ 70,727
Receivables, net of allowance for doubtful accounts of $7,340 in 2011 and $8,673 in 2010	44,573	53,890
Prepaid expenses and other assets	66,872	170,713
Rental merchandise, net		
On rent	673,431	655,248
Held for rent	194,239	181,606
Merchandise held for installment sale	5,083	5,417
Property assets, net	250,604	224,639
Goodwill, net	1,323,501	1,320,467
Other intangible assets, net	11,265	5,624
	$ 2,643,599	$ 2,688,331
LIABILITIES		
Accounts payable trade	$ 64,316	$ 126,051
Accrued liabilities	285,042	288,415
Deferred income taxes	261,599	218,952
Senior debt	361,544	401,114
Senior notes	300,000	300,000
	1,272,501	1,334,532
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Common stock, $.01 par value; 250,000,000 shares authorized; 107,387,342 and 105,990,704 shares issued in 2011 and 2010, respectively	1,073	1,060
Additional paid-in capital	745,524	712,600
Retained earnings	1,617,433	1,541,168
Treasury stock, 45,784,146 and 42,845,444 shares at cost in 2011 and 2010, respectively	(996,970)	(904,274)
Cumulative translation adjustment	4,038	3,245
	1,371,098	1,353,799
	$ 2,643,599	$ 2,688,331

See accompanying notes to consolidated financial statements.

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RENT-A-CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,	
	2011	2010
(In thousands)	Unaudited	
Cash flows from operating activities		
Net earnings	$ 84,118	$ 99,291
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation of rental merchandise	268,369	253,851
Bad debt expense	632	8,669
Stock-based compensation expense	2,523	2,252
Depreciation of property assets	31,831	31,523
Loss on sale or disposal of property assets	64	1,546
Amortization of intangibles	1,990	394
Amortization of financing fees	1,017	1,027
Deferred income taxes	42,648	(28,474)
Tax benefit related to stock option exercises	(6,456)	(2,420)
Impairment charge	7,320	
Restructuring charge	4,933	
Changes in operating assets and liabilities, net of effects of acquisitions		
Rental merchandise	(304,941)	(253,815)
Receivables	8,685	(10,798)
Prepaid expenses and other assets	102,672	4,057
Accounts payable trade	(61,735)	(39,923)
Accrued liabilities	(12,420)	21,132
Net cash provided by operating activities	171,250	88,312
Cash flows from investing activities		
Purchase of property assets	(59,216)	(29,790)
Proceeds from sale of property assets	132	48
Acquisitions of businesses, net of cash acquired	(1,016)	(1,229)
Net cash used in investing activities	(60,100)	(30,971)
Cash flows from financing activities		
Purchase of treasury stock	(92,695)	(6,450)
Exercise of stock options	24,966	8,317
Tax benefit related to stock option exercises	6,456	2,420
Payments on capital leases	(175)	(591)
Proceeds from debt	141,875	52,525
Repayments of debt	(181,445)	(141,280)
Dividends paid	(7,621)	
Net cash used in financing activities	(108,639)	(85,059)
Effect of exchange rate changes on cash	793	9
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,304	(27,709)
Cash and cash equivalents at beginning of period	70,727	101,803
Cash and cash equivalents at end of period	$ 74,031	$ 74,094

See accompanying notes to consolidated financial statements.

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

1. *Significant Accounting Policies and Nature of Operations.*

The interim financial statements of Rent-A-Center, Inc. included herein have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the SEC s rules and regulations, although we believe the disclosures are adequate to make the information presented not misleading. We suggest that these financial statements be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2010. In our opinion, the accompanying unaudited interim financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary to present fairly our results of operations and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

Principles of Consolidation and Nature of Operations. These financial statements include the accounts of Rent-A-Center, Inc. and its direct and indirect subsidiaries. All intercompany accounts and transactions have been eliminated. Unless the context indicates otherwise, references to Rent-A-Center refer only to Rent-A-Center, Inc., the parent, and references to we, us and our refer to the consolidated business operations of Rent-A-Center and al of its direct and indirect subsidiaries.

Our primary operating segment consists of leasing household durable goods to customers on a rent-to-own basis. We also offer merchandise on an installment sales basis in certain of our stores. At June 30, 2011, we operated 3,022 company-owned stores nationwide and in Canada, Puerto Rico and Mexico, including 41 retail installment sales stores under the names Get It Now and Home Choice, and 18 rent-to-own stores in Canada under the name Rent-A-Centre.

We also operate kiosk locations under the trade name RAC Acceptance, which offers the rent-to-own transaction to consumers who do not qualify for financing from the traditional retailer. These kiosks are located within such retailer s store locations. At June 30, 2011, we operated 611 RAC Acceptance locations.

ColorTyme, Inc., an indirect wholly-owned subsidiary of Rent-A-Center, is a nationwide franchisor of rent-to-own stores. At June 30, 2011, ColorTyme had 210 franchised stores operating in 32 states. ColorTyme s primary source of revenue is the sale of rental merchandise to its franchisees, who in turn offer the merchandise to the general public for rent or purchase under a rent-to-own program. The balance of ColorTyme s revenue is generated primarily from royalties based on franchisees monthly gross revenues.

From 2005 to 2010, we also offered an array of financial services in certain of our existing stores under the names RAC Financial Services and Cash AdvantEdge. The financial services we offered included, but were not limited to, short term secured and unsecured loans, debit cards, check cashing and money transfer services.

New Accounting Pronouncements. In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05), which allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-05 will not have a material impact on our consolidated statement of earnings, financial condition, statement of cash flows or earnings per share.

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). The amendments in this ASU generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed.

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

This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). The amendments are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. Early application is not permitted. The adoption of ASU 2011-04 will not have a material impact on our consolidated statement of earnings, financial condition, statement of cash flows or earnings per share.

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

2. *Intangible Assets and Acquisitions.*

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

		June 30, 2011		December 31, 2010	
	Avg. Life (years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-compete agreements	3	$ 6,096	$ 6,077	$ 6,094	$ 6,057
Customer relationships	2	67,910	63,918	67,811	62,224
Vendor relationships	11	7,538	284		
Total		$ 81,544	$ 70,279	$ 73,905	$ 68,281

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

	Estimated Amortization Expense
2011	$ 1,922
2012	2,938
2013	571
2014	568
2015	568
Thereafter	4,698
Total	$ 11,265

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

	June 30, 2011	December 31, 2010
Balance as of January 1,	$ 1,320,467	$ 1,268,684
Additions from acquisitions	616	55,922

Goodwill related to stores sold or closed		(4,320)[1]
Post purchase price allocation adjustments	2,418	181
Balance as of the end of the period	$ 1,323,501	$ 1,320,467

[1] Includes $1.8 million of goodwill impairment related to the discontinuation of our financial services business.

Additions to goodwill due to acquisitions in the first six months of 2011 were tax deductible.

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

The Rental Store, Inc.

On December 20, 2010, we acquired The Rental Store, Inc., a leading provider of consumer lease-purchase transactions through third-party retail furniture and electronics retailers. This acquisition resulted in the addition of 158 kiosks to our RAC Acceptance program as of December 31, 2010. The initial accounting for the acquisition was not finalized as of December 31, 2010 due to the timing of the transaction. As of June 30, 2011, we have completed our analysis of acquired intangible assets and determined an adjustment of $7.5 million from goodwill to vendor relationships was necessary. This adjustment was made in the quarter ending June 30, 2011. Post purchase price allocation adjustments include the vendor relationship adjustment and various other off-setting adjustments including rental merchandise as discussed in the first quarter 2011.

3. *Subsidiary Guarantors.*

6^{5}/8% Senior Notes. On November 2, 2010, we issued $300.0 million in senior unsecured notes due November 2020, bearing interest at 6^{5}/8%, pursuant to an indenture dated November 2, 2010, among Rent-A-Center, Inc., its subsidiary guarantors and The Bank of New York Mellon Trust Company, as trustee. A portion of the proceeds of this offering were used to repay approximately $200.0 million of outstanding term debt under our senior credit facility. The remaining net proceeds are being used to repurchase shares of our common stock.

The 2010 indenture contains covenants that limit our ability to:

- incur additional debt;
- sell assets or our subsidiaries;
- grant liens to third parties;
- pay cash dividends or repurchase stock; and
- engage in a merger or sell substantially all of our assets.

Events of default under the 2010 indenture include customary events, such as a cross-acceleration provision in the event that we default in the payment of other debt due at maturity or upon acceleration for default in an amount exceeding $50.0 million, as well as in the event a judgment is entered against us in excess of $50.0 million that is not discharged, bonded or insured.

The 6^{5}/8% notes may be redeemed on or after November 15, 2015, at our option, in whole or in part, at a premium declining from 103.313%. The 6^{5}/8% notes may be redeemed on or after November 15, 2018, at our option, in whole or in part, at par. The 6^{5}/8% notes also require that upon the occurrence of a change of control (as defined in the 2010 indenture), the holders of the notes have the right to require us to repurchase the notes at a price equal to 101% of the original aggregate principal amount, together with accrued and unpaid interest, if any, to the date of repurchase. This would trigger an event of default under our senior credit facilities. We are not required to maintain any financial ratios under the 2010 indenture.

Rent-A-Center and its subsidiary guarantors have fully, jointly and severally, and unconditionally guaranteed the obligations of Rent-A-Center with respect to the 6^{5}/8% notes. Rent-A-Center has no independent assets or operations, and each subsidiary guarantor is 100% owned directly or indirectly by Rent-A-Center. The only direct or indirect subsidiaries of Rent-A-Center that are not guarantors are minor subsidiaries. There are no restrictions on the ability of any of the subsidiary guarantors to transfer funds to Rent-A-Center in the form of loans, advances or dividends, except as provided by applicable law.

4. *Income Taxes.* We are subject to federal, state, local and foreign income taxes. Along with our U.S. subsidiaries, we file a U.S. federal consolidated income tax return. With few exceptions, we are no longer subject to U.S.

federal, state, foreign and local income tax examinations by tax authorities for years before 2007. The appeals process with the Internal Revenue Service (IRS) Office of Appeals for the years 2001 through 2007 has been completed. We reached agreement on all issues

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

except one issue with respect to the 2003 tax year which also recurs in each of the 2004, 2005, 2006 and 2007 taxable years. We believe the position and supporting case law applied by the IRS are incorrectly applied to our situation and that our fact pattern is distinguishable from the IRS position. We intend to vigorously defend our position on the issue. This matter has been docketed in the United States Tax Court for trial in November 2011. Currently, we are also under examination in various states. We do not anticipate that adjustments, if any, regarding the 2003 through 2007 disputed issue or state examinations will result in a material change to our consolidated statement of earnings, financial condition, statement of cash flows or earnings per share.

In determining the quarterly provision for income taxes, we use an estimated annual effective tax rate based on forecasted annual income, permanent items, statutory tax rates and tax planning opportunities in the various jurisdictions in which we operate. Significant factors that could impact the annual effective tax rate include management s assessment of certain tax matters and the composition of taxable income between the various jurisdictions in which we operate. We recognize the impact of significant discrete items separately in the quarter in which they occur.

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon the ultimate settlement with the relevant tax authority. We review our tax positions quarterly and adjust the balance as new information becomes available.

We provide for uncertain tax positions and related interest and penalties and adjust our unrecognized tax benefits, accrued interest and penalties in the normal course of our business. At June 30, 2011, our unrecognized tax benefits increased by $59,000 from December 31, 2010.

5. *Fair Value*. At June 30, 2011, our financial instruments include cash and cash equivalents, receivables, payables, senior debt and senior notes. The carrying amount of cash and cash equivalents, receivables and payables approximates fair value at June 30, 2011 and December 31, 2010, because of the short maturities of these instruments. Our senior debt is variable rate debt that re-prices frequently and entails no significant change in credit risk and, as a result, fair value approximates carrying value. The fair value of our senior notes is based on observable market data. At June 30, 2011, the fair value of our senior notes was $298.5 million, which was approximately $1.5 million below their carrying value of $300.0 million. At December 31, 2010, the fair value of our senior notes was $299.8 million, which was approximately $200,000 below their carrying value of $300.0 million.

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

6. *Impairment Charge.*

   Our impairment charge consists of the following (in thousands):

	Six months ended

		June 30, 2011
Loan write-down	$	2,569
Fixed asset disposal		1,172
Other		3,579
Total	$	7,320

During the six months ended June 30, 2011, we recorded a pre-tax impairment charge of approximately $7.3 million related to the discontinuation of our financial services business that was announced on October 25, 2010, all of which was recorded in the first quarter of 2011. The charge in the first quarter of 2011 primarily related to additional loan write-downs, fixed

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

asset disposals (store reconstruction), and other miscellaneous items. During the fourth quarter of 2010, we recorded a pre-tax impairment charge of $18.9 million, which primarily related to fixed asset disposals, goodwill impairment, loan write-downs, and other miscellaneous items. The impairment charge was based on the amount that the carrying value exceeded the estimated fair value of the assets. The fair value was based on our historical experience with store acquisitions and divestitures, which are Level 3 inputs.

7. *Restructuring Charge.* During the second quarter of 2011, we recorded a pre-tax restructuring charge of approximately $4.9 million in connection with the December 2010 acquisition of The Rental Store, Inc. This charge related to post-acquisition lease terminations. We expect the costs will be fully paid by the third quarter of 2017.
8. *Repurchases of Outstanding Securities*. Our Board of Directors has authorized a common stock repurchase program, permitting us to purchase, from time to time, in the open market and privately negotiated transactions, up to an aggregate of $800.0 million of Rent-A-Center common stock. We have repurchased a total of 26,409,047 shares and 23,470,345 shares of Rent-A-Center common stock for an aggregate purchase price of $643.9 million and $551.2 million as of June 30, 2011 and December 31, 2010, respectively, under this common stock repurchase program. We repurchased 2,069,937 shares for $64.2 million in the second quarter of 2011. Through the six months ended June 30, 2011, we repurchased a total of 2,938,702 shares for approximately $92.8 million in cash.
9. *Earnings Per Share.*

Basic and diluted earnings per common share were calculated as follows:

	Three months ended June 30, 2011		
(In thousands, except per share data)	**Net Earnings**	**Weighted Average Shares**	**Per Share**
Basic earnings per common share	$ 39,888	62,450	$ 0.64
Effect of dilutive stock options		698	
Diluted earnings per common share	$ 39,888	63,148	$ 0.63

	Three months ended June 30, 2010		
(In thousands, except per share data)	**Net Earnings**	**Weighted Average Shares**	**Per Share**
Basic earnings per common share	$ 47,830	65,945	$ 0.73
Effect of dilutive stock options		828	
Diluted earnings per common share	$ 47,830	66,773	$ 0.72

	Six months ended June 30, 2011		
(In thousands, except per share data)	**Net Earnings**	**Weighted Average Shares**	**Per Share**
Basic earnings per common share	$ 84,118	62,902	$ 1.34
Effect of dilutive stock options		818	

Diluted earnings per common share	$ 84,118	63,720	$	1.32

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

	Six months ended June 30, 2010		
(In thousands, except per share data)	**Net Earnings**	**Weighted Average Shares**	**Per Share**
Basic earnings per common share	$ 99,291	65,822	$ 1.51
Effect of dilutive stock options		823	
Diluted earnings per common share	$ 99,291	66,645	$ 1.49

For the three months ended June 30, 2011 and 2010, the number of stock options that were outstanding but not included in the computation of diluted earnings per common share and, therefore anti-dilutive, were 489,870 and 1,933,176, respectively.

For the six months ended June 30, 2011 and 2010, the number of stock options that were outstanding but not included in the computation of diluted earnings per common share and, therefore anti-dilutive, were 484,995 and 2,198,971, respectively.

10. *Subsequent Events.* On July 14, 2011, we announced the completion of the refinancing of our senior secured debt. Our new $750.0 million senior credit facilities consist of a $250.0 million, five-year term loan and a $500.0 million, five-year revolving credit facility. On that day, we drew down the $250.0 million in term loans and $100.0 million under the revolving facility and utilized the proceeds to prepay our existing senior term debt.

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RENT-A-CENTER, INC. AND SUBSIDIARIES

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

Forward-Looking Statements

The statements, other than statements of historical facts, included in this report 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 the expectations reflec 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:

- uncertainties regarding the ability to open new locations;
- our ability to acquire additional stores or customer accounts on favorable terms;
- our ability to control costs and increase profitability;
- our ability to enhance the performance of acquired stores;
- our ability to retain the revenue associated with acquired customer accounts;
- our ability to identify and successfully market products and services that appeal to our customer demographic;
- our ability to enter into new and collect on our rental purchase agreements;
- the passage of legislation adversely affecting the rent-to-own industry;
- our failure to comply with statutes or regulations governing the rent-to-own or financial services industries;
- interest rates;
- changes in the unemployment rate;
- economic pressures, such as high fuel costs, affecting the disposable income available to our targeted consumers;
- conditions affecting consumer spending and the impact, depth and duration of current economic conditions;
- changes in our stock price, the number of shares of common stock that we may or may not repurchase, and future dividends, if any;
- changes in estimates relating to self-insurance liabilities and income tax and litigation reserves;
- changes in our effective tax rate;
- our ability to maintain an effective system of internal controls;
- changes in the number of share-based compensation grants, methods used to value future share-based payments and changes in estimated forfeiture rates with respect to share-based compensation;
- 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 *Risk Factors* later in this report as well as our Annual Report on Form 10-K for our fiscal year ended December 31, 2010. You should not unduly rely on these forward-looking statements, which speak only as of the date of this report. 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.

Our Business

We are the largest operator in the United States rent-to-own industry with an approximate 35% market share based on store count. At June 30, 2011, we operated 3,022 company-owned stores nationwide and in Canada, Puerto Rico and Mexico, including 41 retail installment sales stores under the names Get It Now and Home Choice, and 18 rent-to-own stores located in Canada under the name Rent-A-Centre. Our subsidiary, ColorTyme, is a national franchisor of rent-to-own stores. At June 30, 2011, ColorTyme had 210 franchised rent-to-own stores in 32 states. These franchise stores represent an additional 2% market share based on store count.

As part of our current growth strategy, we are focused on seeking additional distribution channels for our products and services. We operate kiosk locations under the RAC Acceptance model, which offers the rent-to-own transaction to consumers who do not qualify for financing from the traditional retailer. These kiosks are located within such retailer s store locations. At June 30, 2011, we operated 611 RAC Acceptance locations.

In addition, we are expanding our operations in Canada and Mexico and seeking to identify other international markets in which we believe our products and services would be in demand. At June 30, 2011, we operated 18 stores in Canada and 15 stores in Mexico.

Our stores generally offer high quality durable products such as major consumer electronics, appliances, computers, and furniture and accessories under flexible rental purchase agreements that generally allow the customer to obtain ownership of the merchandise at the conclusion of an agreed-upon rental period. The rental purchase transaction is a flexible alternative for consumers to obtain use and enjoyment of brand name merchandise without incurring debt.

Key features of the rental purchase transaction include:

- convenient payment options:
  - weekly, semi-monthly or monthly;
  - in-store, over the phone or online;
- no long-term obligations;
- right to terminate without penalty;
- no requirement of a credit history;
- delivery and set-up;
- product maintenance;
- lifetime reinstatement; and
- flexible options to obtain ownership 90 days same as cash, early purchase options, or payment through the term of the agreement.

Rental payments are made generally on a weekly basis 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.

Historically, we pursued an aggressive growth strategy in which we sought to acquire underperforming rent-to-own stores to which we could apply our operating model as well as open new stores. As a result, the acquired stores have generally experienced more significant revenue growth during the initial periods following their acquisition than in subsequent periods.

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Total financing requirements of a typical new store approximate $625,000, with roughly 65% of that amount relating to the purchase of rental merchandise inventory. A newly opened rent-to-own store is typically profitable on a monthly basis in the ninth to twelfth month after its initial opening. Historically, a typical store has achieved cumulative break-even profitability in 18 to 24 months after its initial opening and has achieved results consistent with other stores that have been operating within the system for greater than two years by the end of its third year of operation. As a result, our quarterly earnings are impacted by how many new stores we opened during a particular quarter and the quarters preceding it. Because of significant growth since our formation, 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.

In addition, we strategically open or acquire stores near market areas served by existing stores (cannibalize) to enhance service levels, gain incremental sales and increase market penetration. This planned cannibalization may negatively impact our same store revenue and cause us to grow at a slower rate. There can be no assurance we will open any new rent-to-own stores in the future, or as to the number, location or profitability thereof.

Recent Developments

On July 14, 2011, we announced the completion of the refinancing of our senior secured debt. Our new $750.0 million senior credit facilities consist of a $250.0 million, five-year term loan and a $500.0 million, five-year revolving credit facility. On that day, we drew down the $250.0 million in term loans and $100.0 million under the revolving facility and utilized the proceeds to prepay our existing senior term debt.

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.

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 accruals by comparing amounts accrued 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 accruals as needed.

As of June 30, 2011, the amount accrued for losses within our self-insured retentions with respect to workers compensation, general liability and vehicle liability insurance was $123.0 million, as compared to $130.3 million at December 31, 2010. 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 would be directly affected. While we believe our loss prevention programs will reduce our total cost for self-insurance claims, our actual cost could be greater than the amounts currently accrued.

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Litigation Reserves. We are the subject of litigation in the ordinary course of our business. Historically, our litigation has involved lawsuits alleging various regulatory violations. In preparing our financial statements at a given point in time, we accrue for loss contingencies that are both probable and reasonably estimable.

Each quarter, we make estimates of our probable losses, if reasonably estimable, and record such amounts in our consolidated financial statements. These amounts represent our best estimate, or may be the minimum range of probable loss when no single best estimate is determinable. We, together with our counsel, monitor developments related to these legal matters and, when appropriate, adjustments are made to reflect current facts and circumstances. Legal fees and expenses associated with the defense of all of our litigation are expensed as such fees and expenses are incurred. As of June 30, 2011, we had accrued $2.8 million relating to the prospective settlement of certain putative class actions pending in California which allege various claims, including violations of California wage and hour laws. At December 31, 2010, we had no accrual relating to probable losses for our outstanding litigation.

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. We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon the ultimate settlement with the relevant tax authority. We review our tax positions quarterly and adjust the balance as new information becomes available.

If we make changes to our accruals in accordance with the policies described above, our earnings would be impacted. Increases to our accruals would reduce earnings and, similarly, reductions to our accruals would increase our earnings. A pre-tax change of $1.0 million in our estimates would result in a corresponding $0.01 change in our earnings per common share.

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 report. However, we do not suggest that other general risk factors, such as those discussed later in this report and in our Annual Report on Form 10-K for our fiscal year ended December 31, 2010, as well as changes in our growth objectives or performance of new or acquired stores, 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 our consolidated financial statements included in our Annual Report on Form 10-K.

Revenue. 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.

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

The revenue from our financial services is recognized depending on the type of transaction. Fees collected on loans are recognized ratably over the term of the loan. For money orders, wire transfers, check cashing and other customer service type transactions, fee revenue is recognized at the time the service is performed.

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Franchise Revenue. Revenue from the sale of rental merchandise is recognized upon shipment of the merchandise to the franchisee. Franchise 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. We depreciate merchandise held for rent (except for computers) that is at least 270 days old and held for rent for at least 180 consecutive days using the straight-line method for a period generally not to exceed 20 months.

On computers that are 24 months old or older and which have become idle, depreciation is recognized using the straight-line method for a period of at least six months, generally not to exceed an aggregate depreciation period of 30 months.

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, 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, 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 awards requires information about several variables including, but not limited to, expected stock volatility over the terms of the awards, expected dividend yields and the predicted employee exercise behavior. We base expected life on historical exercise and post-vesting employment-termination experience, and expected volatility on historical realized volatility trends. In addition, all stock-based compensation expense is recorded net of an estimated forfeiture rate. The forfeiture rate is based upon historical activity and is analyzed at least quarterly as actual forfeitures occur. Stock options granted during the six months ended June 30, 2011 were valued using the binomial method pricing model with the following assumptions for employee options: expected volatility of 34.66% to 50.12%, a risk-free interest rate of 0.26% to 1.78%, a dividend yield of 1.40%, and an expected life of 6.05 years. During the six months ended June 30, 2011, we recognized $2.5 million in pre-tax compensation expense related to stock options and restricted stock units granted.

Results of Operations

Six Months Ended June 30, 2011 compared to Six Months Ended June 30, 2010

Store Revenue. Total store revenue increased by $48.9 million, or 3.6%, to $1,421.2 million for the six months ended June 30, 2011 from $1,372.3 million for the six months ended June 30, 2010. This increase in total store revenue was primarily due to an increase in revenue driven by the RAC Acceptance business, offset by a reduction in revenues related to the discontinuation of our financial services business.

Same store revenues represent those revenues earned in 2,795 stores that were operated by us for each of the entire six month periods ended June 30, 2011 and 2010. Same store revenues decreased by $752,000, or 0.1%, to $1,227.5 million for the six months ended June 30, 2011 as compared to $1,228.2 million in 2010.

Franchise Revenue. Total franchise revenue increased by $1.5 million, or 8.9%, to $19.2 million for the six months ended June 30, 2011 as compared to $17.7 million in 2010. This increase was primarily attributable to an increase in the number of products sold to franchisees in 2011 as compared to 2010.

Cost of Rentals and Fees. Cost of rentals and fees consists of depreciation of rental merchandise and the costs associated with our membership programs. Cost of rentals and fees for the six months ended June 30, 2011 increased by $15.0 million, or 5.8%, to $274.9 million as compared to $259.9 million in 2010. This increase in cost of rentals and fees was primarily

attributable to an increase in rental and fee revenue in 2011 as compared to 2010. Cost of rentals and fees expressed as a percentage of store rentals and fees revenue increased slightly to 22.4% for the six months ended June 30, 2011 as compared to 22.2% in 2010.

Cost of Merchandise Sold. Cost of merchandise sold increased by $13.7 million, or 14.5%, to $108.1 million for the six months ended June 30, 2011 from $94.4 million in 2010. The gross margin percent of merchandise sales decreased slightly to 28.1% for the six months ended June 30, 2011 from 28.7% in 2010. This decrease was primarily the result of a lower margin on merchandise sales in the RAC Acceptance business in 2011 as compared to 2010.

Salaries and Other Expenses. Salaries and other expenses increased by $19.7 million, or 2.5%, to $792.3 million for the six months ended June 30, 2011 as compared to $772.6 million in 2010. This increase was primarily attributable to increased labor costs associated with the expansion of our RAC Acceptance locations in 2011 as compared to 2010. Charge offs in our rental stores due to customer stolen merchandise, expressed as a percentage of rental store revenues, were approximately 2.3% for the six months ended June 30, 2011 as compared to 2.1% in 2010. Salaries and other expenses expressed as a percentage of total store revenue decreased to 55.7% for the six months ended June 30, 2011 from 56.3% in 2010.

Franchise Cost of Merchandise Sold. Franchise cost of merchandise sold increased by $1.4 million, or 9.8%, to $15.9 million for the six months ended June 30, 2011 as compared to $14.5 million in 2010. This increase was primarily attributable to an increase in the number of products sold to franchisees in 2011 as compared to 2010.

General and Administrative Expenses. General and administrative expenses increased by $2.7 million, or 4.1%, to $66.6 million for the six months ended June 30, 2011 as compared to $63.9 million in 2010. This increase was primarily the result of an increase in expenses associated with our strategic growth initiatives in 2011 as compared to 2010. General and administrative expenses expressed as a percentage of total revenue remained at 4.6% for the six months ended June 30, 2011 and 2010.

Amortization and Write-Down of Intangibles. Amortization of intangibles decreased by $601,000, or 23.2%, to $2.0 million for the six months ended June 30, 2011 from $2.6 million in 2010. This decrease was primarily attributable to a decrease in the write-down of goodwill for stores sold or closed in 2011 as compared to 2010.

Operating Profit. Operating profit decreased by $17.9 million, or 10.5%, to $153.6 million for the six months ended June 30, 2011 as compared to $171.5 million in 2010. Operating profit as a percentage of total revenue decreased to 10.7% for the six months ended June 30, 2011 from 12.3% for 2010. These decreases were primarily attributable to a $7.3 million impairment charge in 2011 related to the discontinuation of our financial services business, a $4.9 million restructuring charge in 2011 for post-acquisition lease terminations related to the acquisition of The Rental Store, and increased labor costs associated with the expansion of our RAC Acceptance locations in 2011 as compared to 2010.

Interest Expense. Interest expense increased by $7.3 million, or 59.7%, to $19.4 million for the six months ended June 30, 2011 as compared to $12.1 million in 2010. This increase was primarily attributable to the interest associated with our senior notes issued in the fourth quarter of 2010 and an increase in our weighted average interest rate to 5.72% for the six months ended June 30, 2011 as compared to 3.38% in 2010 due to an increase in the Eurodollar rate in 2011 as compared to 2010.

Net Earnings. Net earnings decreased by $15.2 million, or 15.3%, to $84.1 million for the six months ended June 30, 2011 as compared to $99.3 million in 2010. This decrease was primarily attributable to a decrease in operating profit and an increase in interest expense, offset by a decrease in income taxes in 2011 as compared to 2010.

Three Months Ended June 30, 2011 compared to Three Months Ended June 30, 2010

Store Revenue. Total store revenue increased by $25.9 million, or 3.9%, to $689.5 million for the three months ended June 30, 2011 from $663.6 million for the three months ended June 30, 2010. This increase in total store revenue was primarily due to an increase in revenue driven by the RAC Acceptance business offset by a reduction in revenues related to the discontinuation of our financial services business.

Same store revenues represent those revenues earned in 2,818 stores that were operated by us for each of the entire three month periods ended June 30, 2011 and 2010. Same store revenues decreased by $2.0 million, or 0.3%, to $596.8 million for the three months ended June 30, 2011 as compared to $598.8 million in 2010.

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Franchise Revenue. Total franchise revenue increased by $807,000, or 10.1%, to $8.8 million for the three months ended June 30, 2011 as compared to $8.0 million in 2010. This increase was primarily attributable to an increase in the number of products sold to franchisees in 2011 as compared to 2010.

Cost of Rentals and Fees. Cost of rentals and fees consists of depreciation of rental merchandise and the costs associated with our membership programs. Cost of rentals and fees for the three months ended June 30, 2011 increased by $9.5 million, or 7.3%, to $139.3 million as compared to $129.8 million in 2010. This increase in cost of rentals and fees was primarily attributable to an increase in rental and fee revenue in 2011 as compared to 2010. Cost of rentals and fees expressed as a percentage of store rentals and fees revenue increased slightly to 22.5% for the three months ended June 30, 2011 as compared to 22.1% in 2010.

Cost of Merchandise Sold. Cost of merchandise sold increased by $6.9 million, or 21.2%, to $39.5 million for the three months ended June 30, 2011 from $32.6 million in 2010. The gross margin percent of merchandise sales decreased to 22.5% for the three months ended June 30, 2011 from 24.2% in 2010. This decrease is primarily the result of a lower margin on merchandise sales in the RAC Acceptance business in 2011 as compared to 2010.

Salaries and Other Expenses. Salaries and other expenses increased by $14.0 million, or 3.7%, to $395.1 million for the three months ended June 30, 2011 as compared to $381.1 million in 2010. This increase was primarily attributable to increased labor costs associated with the expansion of RAC Acceptance locations in 2011 as compared to 2010. Charge offs in our rental stores due to customer stolen merchandise, expressed as a percentage of rental store revenues, were approximately 2.4% for the three months ended June 30, 2011 as compared to 2.2% in 2010. Salaries and other expenses expressed as a percentage of total store revenue decreased to 57.3% for the three months ended June 30, 2011 from 57.4% in 2010.

Franchise Cost of Merchandise Sold. Franchise cost of merchandise sold increased by $741,000, or 11.5%, to $7.2 million for the three months ended June 30, 2011 as compared to $6.5 million in 2010. This increase was primarily attributable to an increase in the number of products sold to franchisees in 2011 as compared to 2010.

General and Administrative Expenses. General and administrative expenses decreased by $126,000, or 0.4%, to $32.0 million for the three months ended June 30, 2011 as compared to $32.2 million in 2010. General and administrative expenses expressed as a percentage of total revenue decreased slightly to 4.6% for the three months ended June 30, 2011 from 4.8% in 2010.

Amortization and Write-Down of Intangibles. Amortization of intangibles decreased by $408,000, or 26.5%, to $1.1 million for the three months ended June 30, 2011 from $1.5 million in 2010. This decrease was primarily attributable to a decrease in the write-down of goodwill for stores sold or closed in 2011 as compared to 2010.

Operating Profit. Operating profit decreased by $9.6 million, or 11.7%, to $73.2 million for the three months ended June 30, 2011 as compared to $82.8 million in 2010. Operating profit as a percentage of total revenue decreased to 10.5% for the three months ended June 30, 2011 from 12.3% for 2010. These decreases were primarily attributable to a $4.9 million restructuring charge in the second quarter of 2011 for post-acquisition lease terminations related to the acquisition of The Rental Store and increased labor costs associated with the expansion of our RAC Acceptance locations in 2011 as compared to 2010.

Interest Expense. Interest expense increased by $3.5 million, or 58.9%, to $9.6 million for the three months ended June 30, 2011 as compared to $6.1 million in 2010. This increase was primarily attributable to the interest associated with our senior notes issued in the fourth quarter of 2010 and an increase in our weighted average interest rate to 5.80% for the three months ended June 30, 2011 as compared to 3.48% in 2010 due to an increase in the Eurodollar rate, offset by a decrease in our senior term loans in 2011 as compared to 2010.

Net Earnings. Net earnings decreased by $7.9 million, or 16.6%, to $39.9 million for the three months ended June 30, 2011 as compared to $47.8 million in 2010. This decrease was primarily attributable to a decrease in operating profit and an increase in interest expense, offset by a decrease in income taxes in 2011 as compared to 2010.

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Liquidity and Capital Resources

Cash provided by operating activities increased by $83.0 million to $171.3 million for the six months ended June 30, 2011 from $88.3 million in 2010. This increase was primarily attributable to a reduction in prepaid expenses due to tax refunds of approximately $110.0 million received in the first quarter of 2011 and an increase in deferred taxes in 2011, offset by changes in working capital in 2011 as compared to 2010.

Cash used in investing activities increased by $29.1 million to $60.1 million for the six months ended June 30, 2011 from $31.0 million in 2010. This increase in 2011 as compared to 2010 was primarily related to an increase in capital expenditures as discussed below.

Cash used in financing activities increased by $23.5 million to $108.6 million for the six months ended June 30, 2011 from $85.1 million in 2010. This increase in 2011 as compared to 2010 was primarily related to repurchases of our common stock in 2011, offset by a greater reduction in our outstanding indebtedness in 2010 coupled with an increase in stock option exercises in 2011.

Liquidity Requirements. Our primary liquidity requirements are for rental merchandise purchases, implementation of our growth strategies, debt service and capital expenditures. 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 pursuit of our operating and growth strategies, we may incur from time to time additional short-term or long-term bank indebtedness and may issue, in public or private transactions, equity and debt securities. The availability and attractiveness of any outside sources of financing will depend on a number of factors, some of which relate to our financial condition and performance, and some of which are beyond our control, such as prevailing interest rates and general financing and economic conditions. The global financial markets continue to experience volatility and adverse conditions and such conditions in the capital markets may affect our ability to access additional sources of financing. There can be no assurance that additional financing will be available, or if available, that it will be on terms we find acceptable.

We believe the cash flow generated from operations, together with amounts available under our senior credit facilities, will be sufficient to fund our liquidity requirements as discussed above during the next twelve months. Our revolving credit facilities, including our $20.0 million line of credit at Intrust Bank, provide us with revolving loans in an aggregate principal amount not exceeding $520.0 million, of which $283.2 million was available at July 25, 2011. At July 25, 2011, we had $89.7 million in cash. To the extent we have available cash that is not necessary to fund the items listed above, we may repurchase additional shares of our common stock, declare and pay dividends on our common stock, or make additional payments to service our existing debt. While our operating cash flow has been strong and we expect this strength to continue, our liquidity could be negatively impacted if we do not remain as profitable as we expect.

A change in control would result in an event of default under our senior credit facilities which would allow our lenders to accelerate the indebtedness owed to them. In addition, if a change in control occurs, we may be required to offer to repurchase all of our outstanding senior unsecured notes at 101% of their principal amount, plus accrued interest to the date of repurchase. Our senior credit facilities restrict our ability to repurchase the senior unsecured notes, including in the event of a change in control. In the event a change in control occurs, we cannot be sure we would have enough funds to immediately pay our accelerated senior credit facility and senior note obligations or that we would be able to obtain financing to do so on favorable terms, if at all.

Litigation. 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. Please refer to *Legal Proceedings* later in this report.

Deferred Taxes. On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (the 2009 Recovery Act) which extended the bonus depreciation provision of the 2008 Stimulus Act by continuing the bonus first-year depreciation deduction of 50% of the adjusted basis of qualified property placed in service during 2009. On September 27, 2010, President Obama signed into law the 2010 Jobs Act, which again extended the bonus depreciation provision of the 2009 Recovery Act by continuing the bonus first-year depreciation deduction of 50% of the adjusted basis of qualified property place in service during 2010. On December 17, 2010, President Obama signed into law the 2010 Tax Relief Act, which enacted 100% bonus depreciation on assets purchased after September 8, 2010 and before January 1, 2012.

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Accordingly, our cash flow again benefited in 2010 from having a lower cash tax obligation which, in turn, provided additional cash flow from operations. We estimate that our 2010 operating cash flow increased by approximately $135.0 million as a result of the 2010 Jobs Act and the 2010 Tax Relief Act, less $77.0 million associated with the 2009 and 2008 deferral for a total increase of $58.0 million. We estimate that the remaining tax deferral associated with the 2008 Stimulus Act, the 2009 Recovery Act, the 2010 Jobs Act and the 2010 Tax Relief Act approximates $163.0 million at December 31, 2010, of which approximately 73%, or $119.0 million, will reverse in 2011 and the remainder will reverse between 2012 and 2013. We expect the $119.0 million reversal in 2011 will be offset by the benefit to operating cash flow of the 2010 Tax Relief Act.

Merchandise Inventory. A reconciliation of merchandise inventory, which includes purchases, follows:

	Three months ended June 30, 2011	Three months ended June 30, 2010
	(In thousands)	
Beginning merchandise value	$ 860,899	$ 772,872
Inventory additions through acquisitions	3,425	265
Purchases	209,954	168,293
Depreciation of rental merchandise	(135,972)	(126,740)
Cost of goods sold	(45,408)	(37,606)
Skips and stolens	(16,947)	(14,430)
Other inventory deletions (1)	(3,198)	(8,243)
Ending merchandise value	$ 872,753	$ 754,411

	Six months ended June 30, 2011	Six months ended June 30, 2010
	(In thousands)	
Beginning merchandise value	$ 842,271	$ 754,067
Inventory additions through acquisitions	3,513	379
Purchases	457,261	401,833
Depreciation of rental merchandise	(268,369)	(253,851)
Cost of goods sold	(120,035)	(104,843)
Skips and stolens	(33,767)	(29,485)
Other inventory deletions (1)	(8,121)	(13,689)
Ending merchandise value	$ 872,753	$ 754,411

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

Capital Expenditures. We make capital expenditures in order to maintain our existing operations as well as for new capital assets in new and acquired stores. We spent $59.2 million and $29.8 million on capital expenditures during the six month periods ended June 30, 2011 and 2010, respectively, and expect to spend approximately $41.0 million for the remainder of 2011. The increase in capital expenditures for 2011 primarily related to our investment in the development of new point of sale systems and processes designed to further enhance our management information system.

Acquisitions and New Location Openings. During the first six months of 2011, we acquired accounts from six locations, opened 25 new stores, sold two stores, closed one store and consolidated eight stores into existing locations. In addition, we opened 239 RAC Acceptance kiosk locations, acquired three locations, closed nine locations and merged six locations into existing locations. The acquired locations and accounts were the result of four separate transactions with an aggregate purchase price of approximately $1.0 million.

The profitability of our stores tends to grow at a slower rate approximately five years after entering our system. As a result of the increasing maturity of our store base, in order for us to show improvements in our profitability, it is important for us to open stores in new locations as well as increase revenue in our existing stores. We intend to accomplish such revenue growth by acquiring customer accounts on favorable terms, and seeking additional distribution channels for our products and services. We cannot assure you that we will be able to acquire customer accounts on favorable terms, or at all, or that we will be able to maintain the revenue from any such acquired customer accounts at the rates we expect, or at all. We also cannot assure you that we will be successful in identifying additional distribution channels for our products and services, or that such operations will be as profitable as we expect, or at all.

Senior Credit Facilities. As of June 30, 2011, our previous senior credit facilities consisted of a $165 million tranche A term loan, a $484 million tranche B term loan, and a $375 million revolving credit facility. As of June 30, 2011, $238.0 million was available under our previous revolving facility.

The table below shows the scheduled maturity dates of our senior term loans outstanding at June 30, 2011.

Year Ending December 31,	**(In thousands)**
2012	$ 28,959
2013	42,375
2014	215,625
2015	71,625
	$ 358,584

On July 14, 2011, we announced the completion of the refinancing of our senior secured debt. Our new $750.0 million senior credit facilities consist of a $250.0 million, five-year term loan and a $500.0 million, five-year revolving credit facility. On that day, we drew down the $250.0 million in term loans and $100.0 million under the revolving facility and utilized the proceeds to prepay our existing senior term debt.

The table below shows the scheduled maturity dates of our new term debt outstanding as if it was outstanding on June 30, 2011.

Year Ending December 31,	**(In thousands)**
2011	$ 12,500
2012	25,000
2013	25,000
2014	25,000
2015	25,000
Thereafter	137,500
	$ 250,000

The full amount of the new revolving credit facility may be used for the issuance of letters of credit, of which $136.8 million had been utilized as of July 25, 2011. As of July 25, 2011, $263.2 million was available under our revolving facility. The revolving credit facility and the term loan expire on July 14, 2016.

Borrowings under our new senior credit facility accrue interest at varying rates equal to, at our election, either (y) the prime rate plus 0.50% to 1.50%; or (z) the Eurodollar rate plus 1.50% to 2.50%. Interest periods range from seven days (for borrowings under the revolving credit facility only) to one, two, three or six months, at our election. The weighted average Eurodollar rate on our outstanding debt was 0.19% at July 25, 2011. The margins on the Eurodollar rate and on the prime rate, which are initially 1.75% and 0.75%, respectively, may fluctuate dependent upon an increase or decrease in our consolidated leverage ratio as defined by a pricing grid included in the amended credit agreement. We have not entered into any interest rate protection agreements with respect to term loans under our senior credit facilities. A commitment fee equal to 0.3% to 0.55% of the average daily amount of the available revolving commitment is payable quarterly.

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Our new senior credit facilities are secured by a security interest in substantially all of our tangible and intangible assets, including intellectual property. Our senior credit facilities are also secured by a pledge of the capital stock of our wholly-owned U.S. subsidiaries (other than certain specified subsidiaries).

Our new senior credit facilities contain, without limitation, covenants that generally limit our ability to:

- incur additional debt in excess of $250.0 million at any one time outstanding (other than subordinated debt, which is generally permitted if the maturity date is later than July 14, 2017);
- repurchase our capital stock and $6^5/8$% notes and pay cash dividends in the event the pro forma senior leverage ratio is greater than 2.50x;
- incur liens or other encumbrances;
- merge, consolidate or sell substantially all our property or business;
- sell assets, other than inventory, in the ordinary course of business;
- make investments or acquisitions unless we meet financial tests and other requirements;
- make capital expenditures; or
- enter into an unrelated line of business.

Our senior credit facilities require us to comply with several financial covenants. The table below shows the required and actual ratios under our credit facilities calculated as of June 30, 2011:

	Required Ratio	Actual Ratio
Maximum consolidated leverage ratio	No greater than 3.25:1	1.58:1
Minimum fixed charge coverage ratio	No less than 1.35:1	1.50:1

These financial covenants, as well as the related components of their computation, are defined in the amended and restated credit agreement governing our senior credit facility, which is included as an exhibit to our Current Report on Form 8-K dated as of July 14, 2011. In accordance with the credit agreement, the maximum consolidated leverage ratio was calculated by dividing the consolidated funded debt outstanding at June 30, 2011 ($609.8 million) by consolidated EBITDA for the six month period ended June 30, 2011 ($386.2 million). For purposes of the covenant calculation, (i) consolidated funded debt is defined as outstanding indebtedness less cash in excess of $25.0 million, and (ii) consolidated EBITDA is generally defined as consolidated net income (a) plus the sum of income taxes, interest expense, depreciation and amortization expense, extraordinary non-cash expenses or losses, and other non-cash charges, and (b) minus the sum of interest income, extraordinary income or gains, other non-cash income, and cash payments with respect to extraordinary non-cash expenses or losses recorded in prior fiscal quarters. Consolidated EBITDA is a non-GAAP financial measure that is presented not as a measure of operating results, but rather as a measure used to determine covenant compliance under our senior credit facilities.

The minimum fixed charge coverage ratio was calculated pursuant to the credit agreement by dividing consolidated EBITDA for the six month period ended June 30, 2011, as adjusted for certain capital expenditures ($500.6 million), by consolidated fixed charges for the six month period ended June 30, 2011 ($333.2 million). For purposes of the covenant calculation, consolidated fixed charges is defined as the sum of interest expense, lease expense, cash dividends, and mandatory debt repayments.

Events of default under our senior credit facilities include customary events, such as a cross-acceleration provision in the event that we default on other debt. In addition, an event of default under the senior credit facility would occur if a change of control occurs. This is defined to include the case where a third party becomes the beneficial owner of 35% or more of our voting stock or certain changes in Rent-A-Center s Board of Directors occurs. An event of default would also occur if one or more judgments were entered against us of $50.0 million or more and such judgments were not satisfied or bonded pending appeal within 30 days after entry.

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We utilize our revolving credit facility for the issuance of letters of credit, as well as to manage normal fluctuations in operational cash flow caused by the timing of cash receipts. In that regard, we may from time to time draw funds under the revolving credit facility for general corporate purposes. The funds drawn on individual occasions have varied in amounts of up to $98.0 million, with total amounts outstanding ranging from $2.0 million up to $108.0 million. The amounts drawn are generally outstanding for a short period of time and are generally paid down as cash is received from our operating activities.

6^{5}/8% Senior Notes. On November 2, 2010, we issued $300.0 million in senior unsecured notes due November 2020, bearing interest at 6^{5}/8%, pursuant to an indenture dated November 2, 2010, among Rent-A-Center, Inc., its subsidiary guarantors and The Bank of New York Mellon Trust Company, as trustee. A portion of the proceeds of this offering were used to repay approximately $200.0 million of outstanding term debt under our senior credit facility. The remaining net proceeds are being used to repurchase shares of our common stock.

The 2010 indenture contains covenants that limit our ability to:

- incur additional debt;
- sell assets or our subsidiaries;
- grant liens to third parties;
- pay cash dividends or repurchase stock; and
- engage in a merger or sell substantially all of our assets.

Events of default under the 2010 indenture include customary events, such as a cross-acceleration provision in the event that we default in the payment of other debt due at maturity or upon acceleration for default in an amount exceeding $50.0 million, as well as in the event a judgment is entered against us in excess of $50.0 million that is not discharged, bonded or insured.

The 6^{5}/8% notes may be redeemed on or after November 15, 2015, at our option, in whole or in part, at a premium declining from 103.313%. The 6^{5}/8% notes may be redeemed on or after November 15, 2018, at our option, in whole or in part, at par. The 6^{5}/8% notes also require that upon the occurrence of a change of control (as defined in the 2010 indenture), the holders of the notes have the right to require us to repurchase the notes at a price equal to 101% of the original aggregate principal amount, together with accrued and unpaid interest, if any, to the date of repurchase. This would trigger an event of default under our senior credit facilities. We are not required to maintain any financial ratios under the 2010 indenture.

Store Leases. We lease space for substantially all of our stores and service center locations, as well as regional offices, under operating leases expiring at various times through 2021. 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.

ColorTyme Guarantees. Our subsidiary, ColorTyme Finance, Inc., is a party to an agreement with Citibank, N.A., who provides up to $25.0 million in aggregate financing to qualifying franchisees of ColorTyme. Under the Citibank agreement, upon an event of default by the franchisee under agreements governing this financing and upon the occurrence of certain other events, Citibank can assign the loans and the collateral securing such loans to ColorTyme Finance, with ColorTyme Finance paying or causing to be paid the outstanding debt to Citibank and then succeeding to the rights of Citibank under the debt agreements, including the right to foreclose on the collateral. Rent-A-Center and ColorTyme Finance guarantee the obligations of the franchise borrowers under the Citibank facility. An additional $20.0 million of financing is provided by Texas Capital Bank, National Association (Texas Capital Bank) under an agreement similar to the Citibank financing, which is guaranteed by Rent-A-Center East, Inc., a subsidiary of Rent-A-Center. The maximum guarantee obligations under these agreements, excluding the effects of any amounts that could be recovered under collateralization provisions, is $45.0 million, of which $20.5 million was outstanding as of June 30, 2011.

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Contractual Cash Commitments. The table below summarizes debt, lease and other minimum cash obligations outstanding as of July 25, 2011, except with respect to operating leases, which are as of June 30, 2011:

Contractual Cash Obligations	Total	2011	2012-2013	2014-2015	Thereafter
			Payments Due by Period (In thousands)		
Senior Debt (including current portion)	$ 350,000(1)	$ 12,500	$ 50,000	$ 50,000	$ 237,500
$6^5/8$% Senior Notes(2)	488,812	9,938	39,750	39,750	399,374
Operating Leases	535,338	92,643	291,250	133,297	18,148
Capital Leases	293	158	135		
Total(3)	$ 1,374,443	$ 115,239	$ 381,135	$ 223,047	$ 655,022

(1) Amount referenced does not include interest payments. Our new senior credit facilities bear interest at varying rates equal to the Eurodollar rate plus 1.5% to 2.5% or the prime rate plus 0.5% to 1.5% at our election. The weighted average Eurodollar rate on our outstanding debt at June 30, 2011 was 0.24%.

(2) Includes interest payments of $9.9 million on each of May 15 and November 15 of each year.

(3) As of June 30, 2011, we have $6.7 million in uncertain tax positions. Because of the uncertainty of the amounts to be ultimately paid as well as the timing of such payments, uncertain tax positions are not reflected in the contractual obligations table.

Repurchases of Outstanding Securities. Our Board of Directors has authorized a common stock repurchase program, permitting us to purchase, from time to time, in the open market and privately negotiated transactions, up to an aggregate of $800.0 million of Rent-A-Center common stock. As of June 30, 2011, we had purchased a total of 26,409,047 shares of Rent-A-Center common stock for an aggregate purchase price of $643.9 million under this common stock repurchase program. Through the six months ended June 30, 2011, we repurchased a total of 2,938,702 shares for approximately $92.8 million in cash. We repurchased 2,069,937 shares for $64.2 million in the second quarter of 2011.

Economic Conditions. Although our performance has not suffered in previous economic downturns, we cannot assure you that demand for our products, particularly in higher price ranges, will not significantly decrease in the event of a prolonged recession. Fluctuations in our targeted customers monthly disposable income or high levels of unemployment could adversely impact our results of operations.

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 their 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. We expect this trend to continue in future periods. 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. As a result, we would expect revenues for the third quarter of each fiscal year to remain relatively flat with the prior quarter. We expect this trend to continue in future periods unless we add significantly to our store base during the third quarter of future fiscal years as a result of new store openings or opportunistic acquisitions.

Effect of New Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05), which allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-05 will not have a material impact on our consolidated statement of earnings, financial condition, statement of cash flows or earnings per share.

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In May 2011, the FASB issued Accounting Standards Update 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). The amendments in this ASU generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). The amendments are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. Early application is not permitted. The adoption of ASU 2011-04 will not have a material impact on our consolidated statement of earnings, financial condition, statement of cash flows or earnings per share.

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Sensitivity

As of June 30, 2011, we had $300.0 million in senior notes outstanding at a fixed interest rate of 6^{5}/8%, $358.6 million in term loans and approximately $3.0 million outstanding on our Intrust line of credit at interest rates indexed to the Eurodollar rate. The fair value of the 6^{5}/8% senior notes, based on the closing price at June 30, 2011, was $298.5 million. Carrying value approximates fair value for all other indebtedness.

Market Risk

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

Interest Rate Risk

We hold senior credit facilities with variable interest rates indexed to prime or Eurodollar rates that exposes us to the risk of increased interest costs if interest rates rise. As of June 30, 2011, we have not entered into any interest rate swap agreements. The credit markets have experienced adverse conditions, including wide fluctuations in rates. Such volatility in the credit markets could increase the costs associated with our existing long-term debt. Based on our overall interest rate exposure at June 30, 2011, a hypothetical 1.0% increase or decrease in interest rates would have the effect of causing a $3.6 million additional pre-tax charge or credit to our statement of earnings.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a 15(e) and 15d 15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is (1) recorded, processed, summarized and reported within the time period specified in the SEC s rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective.

Changes in internal controls. For the quarter ended June 30, 2011, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) un