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PRESENTATION

Operator

Good morning and thank you for holding. Welcome to Rent-A-Center's second quarter 2011 earnings release conference call. At this time all participants are in a listen only mode. Following today's presentation, we will conduct a question-and-answer session. (Operator Instructions) As a reminder, this conference is being recorded Tuesday, July 26, 2011. Your speakers today are meant to are Mr. Mark Speese, Chairman and Chief Executive Officer of Rent-A-Center, Mr. Mitch Fadel, President and Chief Operating Officer, Mr. Robert Davis, Chief Financial Officer, and David Carpenter, Vice President of Investor Relations. I would now like to turn the conference over to Mr. Carpenter. Please go ahead, sir.

David Carpenter - *Rent A Center Inc - VP of IR*

Thank you, Tracy. Good morning, everyone, and thank you for joining us. You should have received a copy of the earnings release distributed after the market closed yesterday that outlines our operational and financial results that were made in the second quarter. If for some reason you did not receive a copy of the release, you can download it from our website at www.investor.Rent-A-Center.com. In addition, certain financial and statistical information that will be discussed during the conference call will also be provided on the same website. Also in accordance with SEC rules concerning non-GAAP financial measures, the reconciliation of EBITDA is provided in our earnings press release under the statement of earnings highlights. Finally, I must remind you that some of the statements made in this call, such as forecasts, growth in revenues, earnings, operating margins, cash flow, and profitability, and other business or trend information are forward-looking statements. These matters are, of course, subject to many factors that could cause actual results to differ materially from our expectations reflected in the forward-looking statements. These factors are described in the earnings release issued yesterday, as well as our most recent quarterly report on Form 10-Q for the quarter ended March 31, 2011. Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statements. I would now like to turn the conference call over to Mark.

Mark Speese - *Rent A Center Inc - CEO, Chairman*

Thank you, David. Good morning, everyone, and thank you as always for joining us. As noted in our earnings release last night, the Company did meet both our top and bottom-line expectations. Although the current environment remains cautious, high unemployment, high energy costs, and low consumer confidence, the core rent-to-own business performed reasonably well. As most of you know, we had a pretty ambitious goal for the quarter coming off of our first quarter, specifically February's results. Albeit at the lower end of our estimated guidance range, we continue to outperform prior years as measured by both deliveries and returns. The growth initiatives continue to perform very well. In RAC Acceptance, we added an additional 130 locations during the quarter, ending June with 611 in total.

The interest in RAC Acceptance from other third-party retailers, be it furniture, appliance, or electronics, remains strong. In fact, we have increased the low end of the new openings this year by 25, now expecting to add between 350 to 375 for the year, expecting to end 2011 with approximately 735 kiosk locations. Now, that said, let me remind you that our long-term expectation has been and is that a district manager can or will supervise approximately 10 of these kiosk locations once built out. However, due to geography, these recent openings coupled with the expected additional accelerated openings have required us to add additional middle-management, that District Manager, in advance to supervise these. As such, we are not leveraging that cost. That cost is expected to be an additional approximate $0.04 for the year, of which $0.02 was incurred in the quarter.

You will recall on last quarter's earnings call, we had mentioned that the negative impact to earnings from our new initiatives was expected to be approximately $0.11 for the year. We now expect that to be approximately $0.14 or $0.15 for the year. It is important to note that the long term -- that the new location growth and revenue for RAC Acceptance is on or ahead of plan. It's simply a timing issue in that as we open more locations faster, there is the short or near-term drag on our earnings, but, of course, more long-term upside. Bottom line, we remain very excited about this opportunity.

Regarding international expansion, things continue to move forward favorably there as well. We did open 5 new stores in Mexico during the quarter, and another thus far this quarter now operating 16 in total. The results of these stores, be it those recently opened or those now open six months plus continue to excite us. We continue to believe that the opportunity in Mexico is upward of 1,000 locations. The challenge we face is the amount of time to find, negotiate, and build out these new locations. In that regard, as noted, we now expect to have 40 to 55 locations open by the year end and we lowered the high end estimate from 75. In Canada, we continue to move forward expecting to open 5 or so this quarter, 10 to 20 in total for the year. I will say, I remain very excited about our initiatives and at the same time, I do like our position in the core business.

As importantly, the Company is in very good shape financially. As you saw several weeks ago, we did complete the refinancing of our senior credit facility. This lowered the interest rate and provides more flexibility with the extension of the maturities to July of 2016. Of course, as also noted, the Company increased the dividend from $0.06 to $0.16 starting in the third quarter. At the same time, we have repurchased over 2.1 million shares during the quarter. I appreciate everyone's efforts. I'm excited about where we are positioned. Now let me turn it over to Mitch to share some additional comments with you about the operations.

Mitchell Fadel - *Rent A Center Inc - President, COO*

Thanks, Mark, and good morning everyone. As Mark mentioned, our total revenue and our earnings in the quarter both were within our expectations. Our same-store sales were just below expectation of minus 0.3%, but overall the core rent-to-own business performed reasonably well considering the current environment. We believe that continued tight consumer credit markets are driving business our way as customer demand measured by deliveries and returns outperformed the same quarter last year. Additionally, our units rented per customer continued to trend positively.

We continue our focus on targeted marketing and advertising programs that drive that traffic into our stories and to our Value Proposition. The consumer is very focused on value these days, and we continue to work with our merchandise suppliers in order to provide high value deals for our customers. We also believe that as the external environment becomes more positive, things like lower unemployment and higher consumer confidence, this will have an additional positive impact on our customer demand. Our collections metrics remain solid with our weekly delinquency average coming in right on top of last years second quarter, and our customer losses coming in at just 2.4%. Our inventory is also in good shape. Our held-for-rent number also goes up some in the summertime, and we ended the quarter at a very acceptable and better than last year to 22.4%.

Our centralized purchasing system, now over a year old, is performing well and our quickly RAC Acceptance business does not require the use of working capital for in-store or idle inventory. So in summary, customer demand remains good. Our inventory is in great shape, collections are solid, and we will continue to focus on driving more traffic with targeted marketing and advertising programs. I'd also like to thank our 18,000 co-workers for their dedication, their passion, and for their commitment to obtaining our goals for 2011. With that, I will turn the call over to Robert.

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

Thank you, Mitch. I'm going to spend just a few moments updating everyone on our financial results during the quarter and then provide some third quarter guidance and full-year guidance. After my comments, we will open the call for questions. As a reminder, much of the information that I do provide, whether it's historical results or forecasted results, are presented on a recurring and comparable basis. Therefore, excludes any nonrecurring charges. As outlined in the press release, total revenues were $698.3 million during the second quarter of 2011, an increase of $26.8 million or 4% as compared to the second quarter of last year.

This increase was primarily due to an increase in revenue driven by the RAC Acceptance Initiative, offset by a reduction in revenue as a result of the divestiture of the financial services business. Adjusted net earnings were $43 million, while adjusted diluted earnings per share equated at $0.68. These results include about $0.06 drive on earnings in the quarter due to the investment and ramp-up of our growth initiatives, RAC Acceptance and international expansion. As Mark mentioned, the full year impact on earnings for these growth initiatives is now expected to be a drag of about $0.14 to $0.15. These investments had a similar impact on operating margins in the quarter which came in at 11.2%.

Our EBITDA margin was about 13.7% for the quarter, with the EBITDA dollars around $95.4 million. Positive cash flow during the quarter was over $23 million, and now through June has exceeded $171 million. During the quarter, the Company did repurchase approximately 2.1 million shares of our common stock for over $64 million, and we ended the quarter with $74 million in cash on hand. Our leverage ratio at the end of the second quarter was 1.58 times. As Mark mentioned, we continue to believe our balance sheet is in great shape, particularly in light of the recent financing whereby we extended our maturities, moderated our mandatory principal payments over the next five years. This further enhances our financial flexibility.

Given where our leverage ratio is currently, we have lowered our interest rate by approximately 75 basis points. That senior credit facility is grid based, so once leverage drops below 1.5, again, we are at 1.58 now, once it drops below 1.5 times our interest rate would drop by a further 25 basis points. So we do believe we are well-positioned to execute on our growth initiatives.

In terms of guidance for the third quarter of 2011, we expect total revenues between $691 million and $706 million. With same-store sales expected to increase between 0.5% and 1.5% positively. As for diluted earnings per share, we are guiding the third quarter to a range between $0.55 and $0.61. As for the full year, we are expecting total revenues to range between $2.868 billion and $2.908 billion with diluted earnings per-share expected to be between $2.85 and $3.00, which is reflective of our results through June and the updated diluted impact of our growth initiatives.

I would like to spend a moment and provide a little bit more color on that guidance. Obviously, when you look at results today relative to last year, $0.01 here or there each quarter compared to 2010 our results on an EPS basis has been essentially flat. The guidance that we are providing for the full year now and the third-quarter guidance that we provided implies that the fourth-quarter EPS will be in the mid $0.80 range. When you compare that to last year when we posted $0.71 in diluted earnings per share, one might ask, that's a pretty steep ramp from last year given performance to date for 2011.

Just a little color on that. I will remind everyone, RAC Acceptance, we have opened over 240 locations for the year. As you all know, that business has to ramp just like a typical rent-to-own store. When you look back at 2010, the RAC Acceptance Initiative did cost us about $0.02 in the fourth quarter. This year, we are expecting contribution positively from RAC Acceptance and the combination of the acquisition of TRS to contribute about $0.09 to EPS. That is an $0.11 pickup in earnings for the fourth quarter when you compare it to the fourth quarter of 2010. $0.71 becomes $0.82, and then that implies the core businesses essentially flat up a couple pennies. So I just wanted to provide a little bit of color on that.

EBITDA and free cash flow for the year will continue to be strong at approximately $400 million and $280 million respectively. We remain committed to our capital allocation philosophy. From a capital priority perspective, the Company will continue first and foremost to reinvest in the business whether it is working capital, CapEx, or acquisitions. Followed by our current intention to continue our dividend payments, which again beginning this quarter will equate to $0.16 per share, an increase of $0.10 from prior quarters. Next priority would be a continued focus on opportunistic shares repurchase, and then finally our last priority would be on voluntary debt reduction. So as always, this current guidance excludes any benefits associated with potential stock repurchases, future increases in dividends, or material changes in outstanding indebtedness or acquisitions or dispositions completed after the date of this release. With those comments, we would now like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Arvind Bhatia with Sterne, Agee & Leach.

Arvind Bhatia - *Sterne, Agee & Leach, Inc. - Analyst*

Okay great. Thank you. Mitch, I think you mentioned -- I think Mark, as well, mentioned the core demand as measured in terms of deliveries, et cetera. It remains strong. With the negative 0.3%, comp can you get into the APU part of the core business a little bit, you know, just to see where that is and what the trends there look like as of right now. Then I have a couple follow-ups.

Mitchell Fadel - *Rent A Center Inc - President, COO*

I think there is a couple things you have got to think about when we talk about second quarter year-over-year being stronger in terms of deliveries and pickups. The same-store sales is a derivative of the last 12 months in between, and we are still suffering some of the effects of some prior bad months, specifically February. Although -- so, it's a combination of things. Unlike typical retail, having a stronger second quarter over a year ago doesn't mean you're going to have a positive same-store sales because a lot happens in between.

Also specifically, the APU had gone down, had tailed down with deflation. We have seen it level off here recently at the end of the second quarter and in to of July we have seen some leveling off. So, we believe that is done with any drop there. Again, we have seen it leveling off. As we've talked about before, we can handle deflation in different ways than a typical retailer, on the electronics side, TV's and computers primarily; where as they deflate, we can drop the term. Not necessarily have to drop the price. That is certainly our thought going forward is, that as there is continued deflation, it would be term reductions, not weekly or monthly price reductions.

Arvind Bhatia - *Sterne, Agee & Leach, Inc. - Analyst*

And then can you guys describe all this via a challenging environment, which we have heard from other companies as well. How is business trending most recently, let's say in July? Are there some trends, I think you mentioned stabilization and APU. Are there other trends that give you more comfort in terms of the business in the next couple of quarters?

Mitchell Fadel - *Rent A Center Inc - President, COO*

Well, certainly, things like the unemployment, the inflation in gas prices and food prices are unsettling for the whole country, and particularly the customer we do business with. Those are negatives. As I mentioned, I think we are getting some benefit from the tighter credit markets offsetting some of those negatives, which is why our metrics of deliveries and returns were both better than in 2010. So, though there is a lot of headwinds in the economy today, I don't think we need to go into those. Unfortunately, not a clear end in sight to some of these issues, but in our business it is getting offset in a favorable way by the tighter credit markets pushing customers in. So, when we get them both, when we have tighter credit markets and some upswing in consumer confidence, lower unemployment, and so forth, obviously, that would be the best of both worlds for us.

Arvind Bhatia - *Sterne, Agee & Leach, Inc. - Analyst*

And my last question is on trying to reconcile the $0.15 dilution that you are talking about from all of your new initiatives, and then tie it back to the RAC Acceptance positive contribution in the fourth quarter. Is it possible to get sort of a breakdown of these new initiatives and how they are affecting each of the next two quarters, including the positive impacts. I suppose TRS, or if you want to keep that out of the discussion, that's fine. Just trying to get some color on how the fourth quarter in particular will be impacted by all of these initiatives.

Mitchell Fadel - *Rent A Center Inc - President, COO*

Good question. And I will let Robert get into the detail. But you are right when you just say, you have to think about the dilution on the RAC Acceptance side. When Robert was going through why the fourth quarter -- the implied number in the fourth quarter, how you can get your head around that talking about the difference between the RAC Acceptance issue, and then when you add TRS in this year in the fourth quarter versus not having them last year and the way their businesses ramped. There is a positive impact from that acquisition we did late, late last year.

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

When you compare quarter over quarter.

Mitchell Fadel - *Rent A Center Inc - President, COO*

When you compare quarter over quarter. But when you compare just dilution within the RAC Acceptance business, I will let Robert break that down.

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

The $0.14 to $0.15 dilution for the year, I think we talked about it on the last call. It's going to cost us $0.04 in Q1. This quarter it costs us $0.06. We expected $0.04 originally when we talked about it in the last call, so the additional $0.02 of dilution in this quarter relative to what Mark was describing in regards to adding middle-management ahead of some of the openings and for RAC Acceptance. $0.03 in the third quarter is our expectation roughly, and then a penny or two in the fourth quarter. That will get you to the $0.14 or $0.15. That is across all initiatives. Canada and Mexico are essentially a penny or so a quarter. So, out of that $0.14 or $0.15, two-thirds of it is coming from Canada and Mexico. The other third, roughly, is RAC Acceptance.

Now, that RAC Acceptance is being offset by the positive contribution from the TRS acquisition. So, what I was trying to describe for folks in the prepared comments, is we posted EPS of $0.71 last fourth quarter. We expect somewhere in the mid $0.80 range; it is implied in the guidance we gave for the full year. The $0.71 into mid $0.80 range, there is about an $0.11 impact from the combined contributions from RAC Acceptance and TRS. Obviously, RAC Acceptance, albeit, $0.05 or dilution for the year. There is a positive contribution in the fourth quarter. That is front end loaded, that impact from RAC Acceptance as we ramp these stores. But it is a positive contribution in the fourth quarter. The positive contribution of RAC Acceptance in the fourth quarter, the positive contributions from TRS when you compare to last year is how you get from fourth quarter 2010 to fourth quarter implied guidance of 2011.

Mitchell Fadel - *Rent A Center Inc - President, COO*

And it was only worse in the second quarter by a couple cents because of adding more middle management to grow faster, not because they are behind the model or anything like that.

Arvind Bhatia - *Sterne, Agee & Leach, Inc. - Analyst*

Right. Okay. That's very helpful. Thank you.

Mitchell Fadel - *Rent A Center Inc - President, COO*

Thank you Arvind.

Operator

Your next question comes from the line of David Burtzlaff with Stephens.

David Burtzlaff - *Stephens Inc. - Analyst*

Good morning, guys. Trying to just kind of understand where the revenues come in, you know, relative to your expectations. Because I thought on the first quarter you basically said that the portfolio was back where you thought it was going to be at the end of March; given the promotion that you had. For the comps to come in a little bit weaker than expected, I mean, is there something else there, that you see in terms of maybe the customer or just not performing quite as well as expected?

Mitchell Fadel - *Rent A Center Inc - President, COO*

I think that's it right there at the end, David. Just not performing quite as well as expected. As we have talked about, we did have the portfolio back to where we had estimated it to be in March, as bad as February had been. And then, we estimated the second quarter at a level -- obviously, a little higher then we came in with, but, again, the deliveries and return metrics were better than the year before. Obviously, not enough better from what our guidance was. Keeping in mind, that when you have a guidance from flat to 1%, a 0.3% difference in there or even a 0.5% difference in an average store is only a couple hundred dollars a month. A 0.5 % is about $300 a month per store. So, you don't have to be very far off to be negative 0.3% versus slightly positive or you. So, --

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Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

Which is one delivery a month.

Mitchell Fadel - *Rent A Center Inc - President, COO*

Our average customer pays us -- you know the average agreement is in the $125 range. An average customer with 1.5 agreements is paying us close to $200. You don't have to be very many customers off to be off a couple hundred dollars a month. So, I think the last part of your question, David, or is it just that they didn't perform quite as well as they anticipated is the answer.

David Burtzlaff - *Stephens Inc. - Analyst*

All right. So, nothing really fundamentally changing there.

Mitchell Fadel - *Rent A Center Inc - President, COO*

Correct.

David Burtzlaff - *Stephens Inc. - Analyst*

Secondly, on RAC Acceptance, is the customer much different on demographically than what you normally see in your stores? Can you provide any kind of insight there?

Mitchell Fadel - *Rent A Center Inc - President, COO*

The average credit score that we have attracted in the past, and I think we talked about it back in the Investor --there was actually a slide on the Investor presentation back last November. If I don't remember the numbers off the top of my head, I think that's probably still on our website, that presentation, David, for the exact numbers. But there is a significant difference between the two.

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

100 points at least.

David Burtzlaff - *Stephens Inc. - Analyst*

And I then I can't remember, was income in there as well?

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

I don't believe so.

Mark Speese - *Rent A Center Inc - CEO, Chairman*

No. Not in the presentation. We've been trying to get it, but I don't think we have --

Mitchell Fadel - *Rent A Center Inc - President, COO*

It is certainly higher, but I don't have specific numbers for you. But you will see the difference in the credit score, and there is a comparable difference in income level.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay.

Mitchell Fadel - *Rent A Center Inc - President, COO*

Significant difference in income level.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay. Thank you very much.

Mitchell Fadel - *Rent A Center Inc - President, COO*

Thanks David.

Operator

Your next question comes from a line of Bud Bugatch with Raymond James.

Budd Bugatch - *Raymond James & Associates - Analyst*

Good morning. Thank you for taking my questions. I am trying to make sure I understand the revenue components that you now think for the year. You're opening RAC Acceptance faster, and yet the bottom end -- the top end of revenue guidance looks like it has come down from where you were. Of that $2.8 billion or $2.9 billion, can you kind of help us? What is RAC Acceptance? I guess TRS is included in that. What do you think the revenues of that will be, some relative number in Mexico and Canada? How should we think about that?

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

Bud, I think as we have talked about, the contribution for RAC Acceptance along with TRS, we have expected about a 6% or 7% of our total revenue to come from that initiative. We are certainly in line with that.

Budd Bugatch - *Raymond James & Associates - Analyst*

That's $41 million this quarter, right?

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Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

Pardon me?

Budd Bugatch - *Raymond James & Associates - Analyst*

About $41 million this quarter?

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

Approximately, yes. The top end of the revenue guidance coming down, really is reflective of -- as I said in my prepared comments, 6 month results today. The bottom end of our estimate did not change, but the top end as you get further along the year, relative to what has already been put on the books, so to speak, for the first 6 months of the year. That's what led us to lower the high end.

Mitchell Fadel - *Rent A Center Inc - President, COO*

And that would be in the core. When you are trying to figure out where that is, that's the core being about 1% behind where the same-store sales estimates were in the first and second quarter. You've got 1% on the $3 billion, and you are taking it down -- we took it down $20 million. It's all the core missing by 70 basis points, something in that range, and being behind on same-store sales in the first two quarters, not from a RAC Acceptance standpoint.

Budd Bugatch - *Raymond James & Associates - Analyst*

And what do Mexico and Canada look like in terms of revenue? I know they are very small, but can you kind of -- what are we looking like there now?

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

Very small. Less than 1%, I believe. At least on Mexico's side. I don't have the specific Canada numbers in front of me.

Mark Speese - *Rent A Center Inc - CEO, Chairman*

Much like RAC Acceptance. If you go to the Investor website, we've got unit economics and how they ramp up. There is 15 stores in Mexico that average three months old, at this point. So, you are talking a few million dollars.

Budd Bugatch - *Raymond James & Associates - Analyst*

And that's on track, Mark? No change?

Mark Speese - *Rent A Center Inc - CEO, Chairman*

Yes, yes.

Budd Bugatch - *Raymond James & Associates - Analyst*

Okay. And the $0.14 to $0.15 drag, that's before you consider the improvement in RAC Acceptance in the fourth quarter, right? That's excluding that?

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

No, it is embedded in that. All I was trying to draw out is, yes, RAC Acceptance will cost us a nickel for the full year. That nickel is front end loaded during the year. There will be a positive contribution from RAC Acceptance in the fourth quarter. That positive contribution from RAC Acceptance along with the contributions from TRS, is what makes up the gap between this year's fourth quarter compared to last year's fourth quarter.

Budd Bugatch - *Raymond James & Associates - Analyst*

Okay. I guess, finally, what is your thinking now about RAC Acceptance in the out years in terms of potential? Any change in that?

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

There is no change to what we have laid out in the Investor Day presentation, in terms of what they can contribute longer term. We haven't updated that this point.

Budd Bugatch - *Raymond James & Associates - Analyst*

Not per unit, but just in numbers.

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

Our views have not changed.

Mark Speese - *Rent A Center Inc - CEO, Chairman*

We haven't opined on forward years as to how many we could have and I think what you are alluding to in the past, we have talked furniture. We are in one electronics. I made the comment in my remarks that there seems to be a high level of interest, be it other potential electronic indoor appliance.

We are not far enough along at this point to make any firm statements, but suffice it to say that we believe, or we are starting to believe, and I think others are looking at it, that it's got applications beyond just furniture. Now, what that could imply, again, we are not far enough along at this point. So -- but as I said, we are going to end up this year with over 700 of them, which is up quite a bit from what we said in November, obviously. How that will grow in the future, we just need a little bit more time both with what we have and other discussions we may be having at this point anyways. We still believe it is at least the 1,000.

Mitchell Fadel - *Rent A Center Inc - President, COO*

and then you go above that with electronics and appliance stores. One other thing, Bud, that might help, you got this RAC Acceptance solution, that's contributing a little bit in the fourth quarter. At it with TRS, that's how you get into the bigger fourth quarter swing.

We sat at the beginning of the year when we bought TRS last year, that the revenue was approximately $100 million, in the $15 million range for operating income. That wasn't evenly spread throughout the year. That is more backend loaded. That might be where you might be missing a little bit where Robert went over those numbers. It is $8 million or $9 million in the fourth quarter. Because those were ramping up too. A third of their stores were new when we bought those 150 stores at the end of last year. All 40 or 50 comp locations have just been gone into in the last 90 days. A lot of their stores were new. So, that's a ramp-up thing that's happening, not just this RAC Acceptance dilution going away in the fourth quarter, but TRS is on a ramp up also. If you thought of that $15 million to $20 million of TRS operating income as spread evenly throughout the year, that's one place where your numbers might be off, because that's a ramp-up situation too.

Budd Bugatch - *Raymond James & Associates - Analyst*

My last question, just a broader philosophical question. As we do the channel checks and checking to see what the customer pays at RAC Acceptance versus other methods of procuring that product. It looks like a relatively expensive transaction to us. What I worry about is that might change as the economy improves it and things get better. God for bid -- God willing or God forbid, the credit gets easier. What happens to that opportunity down the road? How do you combat that an expensive transaction like a RAC Acceptance?

Mitchell Fadel - *Rent A Center Inc - President, COO*

Good question. The only history we have to look back at is the TRS history. When we bought those 158 stores, they had about 100 of them and then they went into the comps. And that's about a third or more new. But the hundred furniture stores, they operated for about 10 years throughout the decade of the 2000's. Maybe even longer than that. But through the 2000's, their business was actually better earlier in the decade. So, tough credit -- a higher percentage of turndowns doesn't necessarily mean you are getting more business. What happened with the numbers when -- is even though less people on a percentage basis for getting turned down let's say in 2004, 2005, 2006, it was still more people getting turned down because more people were out shopping.

The consumer confidence was so much higher. There was more people out there. Still even though a lower percentage were getting turned down. If we look at their history and if you talk to those prior owners, they would tell you that when it was quote-unquote easy credit, though the percentage was lower, there was still more people being turned down because the stores were so much busier than they are today. As we look at that, and I don't think credit is going to get as easy as it was then, as you pointed out, hopefully, it won't for the whole country, hopefully it won't. But to the extent it gets any easier, that usually goes along with driving more traffic in to those stores, higher consumer confidence and so forth. So, we don't see that as the potential negative in the model going forward.

Budd Bugatch - *Raymond James & Associates - Analyst*

Okay. Interesting thoughts. Thank you very much.

Mitchell Fadel - *Rent A Center Inc - President, COO*

Thanks, Bud.

Operator

Your next question comes from the line of Bradley Thomas with Keybanc Capital Markets.

Bradley Thomas - *Keybanc Capital Markets - Analyst*

Good morning, guys. I just wanted to follow up about the investments in personnel that you did on the RAC Acceptance side. With the current structure in place, what is the number of RAC Acceptance stores that you can operate? I am assuming that we'll get you to at least the 730 level. Does it allow for additional growth beyond that?

Mitchell Fadel - *Rent A Center Inc - President, COO*

The infrastructure is there to get the 700. As we grow next year, more infrastructure will have to be put in place for that. Again, with these 700 ramping up, that will be extra expensive. It is not like it will go back into a diluted state just by adding more middle management for next years growth. But we are in place to get to the 750 or so at the end of the year now.

Mark Speese - *Rent A Center Inc - CEO, Chairman*

As things exist right now, the challenge, Bradley, for the benefit of everyone, we don't control the geography, per se. So, a partner comes to us and we end up putting a deal together that creates this opportunity. We are not always in a position to where we can leverage the middle management we already have by simply by building out a market we are already in. In some cases, and that is what has happened. It has created an opportunity, but we had to go into a new market. That is what required or brought the need to bring in that middle management. But as we sit here, and with those that are in the pipeline, we will be able to back fill what we have. On the other hand, if we get more, into Mitch's point, that is kind of what happened here. As you have seen, we have increased the number of stores we are opening because of the opportunities. But, some of that was by going into new markets where we simply had to put in more infrastructure because we were not there yet.

Bradley Thomas - *Keybanc Capital Markets - Analyst*

Got you. And as you look out to 2012, it seems like the initial results here have been very encouraging. Do you have ambitions to open a similar level of RAC Acceptance in 2012?

Mark Speese - *Rent A Center Inc - CEO, Chairman*

Well, we haven't put that number out yet. Again, we are in discussion with others. What that may equate to at this point, it really is too early to say. Most of what we are wanting to do is fulfill the obligations we have. We have got plenty -- I mean, we've got another 100 something to get open and we are having conversation with others. What that end number will be, I don't know. It will be, you know, 100 plus for sure. Whether it is 300, I guess we will have more insight in a couple of months.

Mitchell Fadel - *Rent A Center Inc - President, COO*

90 days from now when we put out the 2012 guidance, we will have a more specific number for you.

Bradley Thomas - *Keybanc Capital Markets - Analyst*

Great. And then the stores that we have spoken with and some other partners that are public companies have been pretty positive on what the initial results is when they partnered with you seeing a 5% lift in their sales, and talking about there being potential for even more than that. You know, with another 30 days under our belts, what is it that you are seeing? Are some of these models -- you know, -- how is RAC Acceptance tracking versus what you outlined last year?

Mitchell Fadel - *Rent A Center Inc - President, COO*

We are on the model. It is running at least the model. So, we are happy with the results. The additional dilution was more at matter of -- not more, it was all a matter of putting in more middle management with our growth plans. Because geography moved around a little bit and so forth, like Mark was talking about. Overall, we are just excited about the opportunity of some of those partners you are referring to, Bradley.

Bradley Thomas - *Keybanc Capital Markets - Analyst*

Great. Okay. Thanks so much, guys. Best of luck.

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

Thank you.

Operator

Your next question comes from the line of John Rowan, with Sidoti & Company.

John Rowan - *Sidoti & Company - Analyst*

Good morning. Just make sure I understand right, you are turning positive on a year-over-year basis with RAC Acceptance in the fourth quarter. But that's just RAC Acceptance, right?

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

And the contribution from TRS.

John Rowan - *Sidoti & Company - Analyst*

And TRS. When you add in Mexico and Canada, when do you start, at least, breaking even on the new growth initiatives? I assume that it is at some point in 2012.

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

That's correct.

John Rowan - *Sidoti & Company - Analyst*

Beginning, end of the year?

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

It will all depend on how may stores are opening in the timing of that. Before a $0.05 dilution from both of those, Canada and Mexico, for 2011, is evenly spread through the year. Which is a balanced approach to growing throughout the year $0.01 or

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$0.02 a quarter from each of those, and then 2012 the either positive contribution or continued drag will be all the byproducts of the guidance we give in terms of how many stores we plan to open in 2012.

John Rowan - *Sidoti & Company - Analyst*

Okay. Again, sorry if you answered this, but the new RAC Acceptance stores, you are still only in furniture, correct? You are evaluating options and other retailers?

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

We are primarily in furniture. However, when we acquired TRS in December of last year, they had an agreement with Conns which also offers appliances, electronics, so we are in Conns as well. That's the only appliance and electronics.

Mark Speese - *Rent A Center Inc - CEO, Chairman*

Which is about 80 locations, John. As the previous caller mentioned, he was aware that Cons has been pretty pleased with this arrangement, and I think as we said, we have been pretty pleased with what we are seeing from Conns, as well. So, that is what led me to say that we think there is broader opportunity beyond just furniture, albeit we are on the into one retailer electronics and appliances, currently being Conns.

John Rowan - *Sidoti & Company - Analyst*

Okay. Fair enough. Thank you.

Mitchell Fadel - *Rent A Center Inc - President, COO*

Thanks, John.

Operator

Your next question comes from the line of John Brodsky with Kansas City Capital.

John Brodsky - *Kansas City Capital - Analyst*

Good morning, gentlemen. Looking at your guidance in the second half of the year, you are expecting fairly healthy same-store sales gains, maybe 1% to 1.5%. Given what we have seen recently in the headwinds we are still seeing economically speaking, what generates I guess the optimism that things that same-store sales will begin to ratchet up a little bit?

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

That's primarily the byproduct of stores like from RAC Acceptance rolling into the comps for the first time. I mean, I think the core is for the most part expected to be flat to slightly up for the year, but the uplift in finding the guidance is really a contribution from the RAC Acceptance stores coming in to the comps for the first time.

John Brodsky - *Kansas City Capital - Analyst*

Thank you very much.

Operator

Your next question comes from the line of Laura Champine with Cohen & Company.

Laura Champine - *Cowen and Company - Analyst*

Good morning, guys. I've got a follow-on question to the last one, because you do need the comps to ramp in Q4 to hit your guidance. You just mentioned that the RAC Acceptance will help there, but can you quantify that? Because it looks like you also in Q4 would need -- could you quantify how much lift you will get from RAC Acceptance? And also, how much new customer growth in the core business you need in the back half to hit your Q4 implied comp target?

Mitchell Fadel - *Rent A Center Inc - President, COO*

I don't have that breakdown in front of me, Laura, but it's probably, you know, 75% of it. Of that difference is going to come from RAC Acceptance, what Robert what just referring to, and maybe 25% of that uplift on the quarter, So, there is some anticipation for the quarter -- instead of being negative 0.3% to be on the positive side. Some of it comes from the core business and probably a majority of it certainly comes from RAC Acceptance building in.

Laura Champine - *Cowen and Company - Analyst*

Got it. Thank you.

Mitchell Fadel - *Rent A Center Inc - President, COO*

Thanks, Laura.

Operator

Your next question comes from the line of Carla Casella with J.P. Morgan.

Carla Casella - *JPMorgan - Analyst*

Given the new initiatives and the increased dividend, have you changed your view on your target leverage ratio?

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

No, not really. When you think about where we are today, 1.5-ish roughly, in the relative moderation of mandatory debt payments. Leverage will stay essentially where it is or slightly down as we make our mandatory payments, and EBITDA, stays flat or improves after the dilution is offset by the contributions of the initiatives. So, where we are today, we have always said we are very comfortable below a 2 times leverage ratio. Obviously, where we are today is below that. The coveted requirement is 3.25 terms. So, significant flexibility and room there in that covenant in the 1.58 -- we expect it to just go down over time with mandatory debt payments and improvements in EBITDA.

Carla Casella - *JPMorgan - Analyst*

Okay great. Thank you.

Mitchell Fadel - *Rent A Center Inc - President, COO*

Thanks, Carla.

Operator

Your next question comes from the line of Chuck Ruff with Inside Investments.

Chuck Ruff - *Inside Investments - Analyst*

Hi. You used to talk about free cash flow this year of $285 million to $305 million. Can you update that for us?

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

Sure. In the prepared comments, I estimate about $280 million of free cash flow. And so, reconciling from EBITDA number of roughly $400 million, net cash interest expense expected to be around $35 million, CapEx now expected to be $100 million. Working capital, as we are ramping up these initiatives, there is a bigger impact of working capital investments. Now expect about $80 million impact from working capital. And then, as we talked about last call, there is a positive impact from cash taxes. We got a refund earlier in the year, about a $95 million benefit on cash taxes. That gets you down to about $280 million free cash flow estimate. That is down from roughly $300 million. That's a combination of CapEx and working capital. You think about ramping up the initiatives.

Chuck Ruff - *Inside Investments - Analyst*

Okay. And can you tell us what your June 30 share count is, the number of shares outstanding?

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

Well, in terms of the dilutive share count, for the diluted shares, it is 63.1 million. Basic shares outstanding, 62.5 million.

Chuck Ruff - *Inside Investments - Analyst*

As of June 30, not for the quarter?

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

Well, that's a weighted average.

Chuck Ruff - *Inside Investments - Analyst*

What I am looking for is the number of shares outstanding as of June 30.

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

I don't have that number in front of me. You can follow up with us off-line.

Chuck Ruff - *Inside Investments - Analyst*

Okay.

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

And the 10-Q will be filed on Friday also. That number will be updated then.

Chuck Ruff - *Inside Investments - Analyst*

Okay. The reason I ask is your number of shares you are guiding to for the year looks high of 63 million to 64 million. Given how much you just bought in the second quarter, it's hard to imagine it falling around 63.5 million, unless there is all sorts of options exercised or something else.

Robert Davis - *Rent A Center Inc - EVP of Finance, CFO, Treasurer*

Well, we do have an option program, and we do estimate each quarter for there to be an increase in shares outstanding due to our option program. Obviously, that's a weighted average number. There were more shares in the first quarter than the second, and it's just an estimate that we are comfortable with.

Mitchell Fadel - *Rent A Center Inc - President, COO*

Nor does it take in to account any future purchases.

Chuck Ruff - *Inside Investments - Analyst*

Understood. Lastly, obviously, your main competitor, Aaron's reported last night, and their numbers looked better. I am wondering, is it because of the different customer base that maybe your customers are struggling a little more with the increased cost of gasoline and some of the other headwinds that is weighing on your results, or is there -- can you help me at all understand that?

Mitchell Fadel - *Rent A Center Inc - President, COO*

It could be some of that. I also remind you, without taking anything away from Aaron's fine results, the age of the stores is a big difference. Just like we talked about the last question we got was about how come the same-store sales are going to be better in the fourth quarter, implied better based on our annual guidance. We have talked about -- that's only a few RAC Acceptance stores falling in there in the fourth quarter still has an impact. And you know next year when 600 or 700 of them are rolling into their second year, it will be a bigger impact. So, you get a big impact the newer the store. Again, not taking anything away from them in the way they are running their core business. A lot about age of stores, and some about maybe -- could be the different customer being affected differently, Chuck. You know our job is to drive more traffic with our own promotions and our advertisement. We think we've got a great plan for the second half of the year from a promotional standpoint and the values we are offering our customers for our core business to grow as their core business is growing. Again, a lot of that is going to be driven by the age of the store.

Chuck Ruff - *Inside Investments - Analyst*

Okay. Thanks. That's all I have.

Operator

(Operator Instructions) Your next question comes from a line of Arvind Bhatia.

Arvind Bhatia - *Sterne, Agee & Leach, Inc. - Analyst*

Thanks. Just actually had a follow-up question on RAC inventory. What I'm referring to is I think Mark, you had mentioned in the past that there is about 80% of the customers that are taking the product at a full-term at RAC. Just to doing some challenge (inaudible) ourselves, we are just wondering, as the other 20% comes back into the stores, your traditional rent-to-own stores. How does that all play out in terms of the pricing within the store, how that inventory moves, et cetera. Can you give us some color on how all of that happens?

Mark Speese - *Rent A Center Inc - CEO, Chairman*

Yes. Mitch, you want to explain -- behaviorally it's no different. The margin's a little different.

Mitchell Fadel - *Rent A Center Inc - President, COO*

The margins are lower, as you know Arvind, because we pay higher than wholesale when we buy it from our partner. But that margin being lower because we pay more -- the few that do come back in the Rent-A-Center store will be priced pretty close to what it would have been purchased before. So, if you pay -- you know we run on a two by two formula; cash price is two times cost and rent-to-own is two times the cash price. If you pay $1 for something and you are going to get four times out of it. If you then pay $1.40 for it and get three times out of that, then you are about at the same number. So, when you buy it from the retailer, we have lower margin, but when it comes back in the store, if it is similar product, it won't stick out at any different price when it comes back in to a Rent-A-Center. A lot of times we get back this higher end product from these partners, and you would notice it in the store as a higher-priced piece because it is a higher end product. We have not had any problem moving those because of the unique pieces coming in our store. Again, there is not many of them, so it is very a unique piece and usually goes out right away.

Arvind Bhatia - *Sterne, Agee & Leach, Inc. - Analyst*

So, how critical is the fact that 80% of the product is going full-term? Is that trend changing at all? Do you anticipate -- do you have any concerns on that, I guess, one way or the other?

Mitchell Fadel - *Rent A Center Inc - President, COO*

No concerns at this point. It is an important part of the model. If you pay more than wholesale for the product being in these partner retailers and get three-quarters of it back like you do on the core rent-to-own business, it probably won't work. But this works because it is a different customer, higher end customer both in income and in credit score like we've talked about before. They keep it longer. It is a monthly model, not a weekly model. In our systems are set up for them to keep it longer also, because, again, it is a monthly model. So, no concerns with that, because the metrics are staying very good on that, but it wouldn't work -- you're exactly right. If it flipped around and we got it back just as fast as they got it on a weekly model, it wouldn't work paying 40% or 50% more for the product up front.

Arvind Bhatia - *Sterne, Agee & Leach, Inc. - Analyst*

Okay. Thanks.

Mitchell Fadel - *Rent A Center Inc - President, COO*

Thanks.

Operator

There are no further questions at this time. Mr. Mark Speese I turn the call back over to you.

Mark Speese - *Rent A Center Inc - CEO, Chairman*

Well, thank you very much, ladies and gentlemen. As always, we appreciate your time and interest in the Company, hopefully, we have given you some further insight into these new initiatives. As we've said, we remain very excited. At the same time, don't want to lose sight of the core business. We feel very good about where we are there, and think we are well-positioned to be able to continue to execute the plans moving forward. As always, we appreciate your response, and we look forward to reporting to you again next quarter. Have a great day.

Operator

This concludes today's conference call. You may now disconnect.
