FINAL TRANSCRIPT

Thomson StreetEvents℠

RCII - Q4 2008 Rent-A-Center Earnings Conference Call

Event Date/Time: Feb. 03. 2009 / 10:45AM ET

CORPORATE PARTICIPANTS

David Carpenter
Rent-A-Center - Analyst

Mitch Fadel
Rent-A-Center - President, COO

Robert Davis
Rent-A-Center - CFO

Mark Speese
Rent-A-Center - Chairman, CEO

CONFERENCE CALL PARTICIPANTS

Arvind Bhatia
Sterne, Agee & Leach - Analyst

Laura Champine
Cowan and Company - Analyst

John Baugh
Stifel Nicolaus - Analyst

Jason Trujillo
Barclays Capital - Analyst

David Burtzloff
Stephens, Inc. - Analyst

Mike Smith
Kansas City Capital - Analyst

John Curti
Principal Global Investors - Analyst

David Schmugler
Kingsland - Analyst

Joel Havard
Hilliard Lyons - Analyst

Gina Matsuyama
Post Advistory Group - Analyst

PRESENTATION

Operator

Good morning and thank you for holding. Welcome to Rent- A-Center's fourth quarter and year 2008 earnings release conference call. (Operator Instructions) As a reminder, this conference is being recorded February 3, 2009. Your speakers are Mr. Mark Speese, Chairman and Chief Executive Officer of Rent-A-Center, Mr. Mitch Fadel, President and Chief Operating Officer and Mr. Robert Davis, Chief Financial Officer and Mr. David Carpenter, Vice President of Investor Relations. I will turn the call over to Mr. David Carpenter .

David Carpenter - *Rent-A-Center - Analyst*

Thank you. 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 we made in the fourth quarter as well as the year-end 2008. If for some reason, you did not receive a copy of the release, you can down load it from the Website at www.investor.rentacenter.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 highlight.

Finally, I must remind you that some the statements made in this call such as forecast growth and 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 10Q for the quarter ended September 30, 2008. Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statements. Now, I would like to turn the conference call over to Mitch. Mitch?

Mitch Fadel - *Rent-A-Center - President, COO*

Thanks Dave, good morning everyone and thanks for joining us on our fourth quarter earnings call. We were pleased with our fourth quarter as our financial results were within our guidance and well ahead of consensus estimates. Traffic was good, even a little better than we had forecasted. We did have lower priced items. Things we call Super Values and this lowered our average per unit or APU resulting in same-store sales being flat. Overall, this worked pretty well and we are going to keep the Super Values concept. While at the same time we have been adjusting some of our other pricing which will positively impact APU over the first half of 2009. We believe we can do that without affecting demand and we can raise the price on some of these other items by 4% by adding just a dollar a week. We believe these Super Values have helped us retain and attract more of the lower income consumer that we were previously losing.

Overall we continue to see a higher income consumer relative to average income levels of a few years ago. Most likely driven by the credit tightening at traditional retail. So, to summarize demand is strong, APU is a little weak and we believe we can get that back up over the next six months without affecting our Super Values or demand which again is the key metric, strong, demand. So, good quarter and one of the reasons that we are raising guidance for 2009. Our collection efforts remain solid as 2008 average weekly delinquency number is the lowest it has been in six years. That translated the losses through customer skips and stones for the year down 30 basis points from 2007. Again, a key point of our business model, especially in a tough economic environment like this is because equity doesn't transfer until ownership is taken at the end of the agreement or upon early purchase option if a customer is really struggling. Unlike traditional retail we can pick up the item, and of course we have an outlet for it ,as well as the original customer can come in and virtually pick up where they left off when they get their feet back on the ground. In other words the transaction works even in tough economic environments like the one we are in.

Inventory management remains solid as our inventory held for rent came down from the third quarter as expected and we remain comfortable with our inventory levels. We continue to work on our new inventory purchasing initiative that I mentioned last quarter that will roll out in phases throughout 2009. We remain excited about the potential that there is with this more centralized approach as we believe enhanced inventory management will help us take advantage of a higher percentage of the rental opportunities. Besides working at increasing demand. We are always working on expense reduction initiatives. I'll give you one current example, we are working on lease expense. In this tough real estate market we believe it worthy to renegotiate some leases, especially those expiring within the next 12 to 24 months. We believe in doing so we may be able to limit any future rent increases in some cases get rent reductions. Additionally, we continue to work on the integration of our financial services kiosk in about 350 stores and Mark will talk more about that in a moment. So in summary it was a good quarter, we have lots of good thing in the works for 2009. We remain focused on driving traffic through targeted advertising and marketing programs, maintaining our control of delinquencies, properly managing our inventory, and enhancing the overall customer experience as well as improving efficiencies and maintaining tight expense controls..

I am extremely proud of the job our 18,000 coworkers are doing and thank them for the commitment and solid performance, with that I will turn it over to our Chief Financial Officer, Mr. Robert Davis.

Robert Davis - *Rent-A-Center - CFO*

Thank you Mitch, I'll spend just a few moments here updating you on our financial highlights during the quarter and then I'll turn the call over to Mark. I would like to mention that much of the information I provide, whether it is historical results or forecasted results, will be presented on a recurring and comparable basis. So, as outlined in the press release, total revenues were $699.8 million during the fourth quarter down $17.2 million as compared to the fourth quarter of last year. Now this slight decline of 2.4% is primarily the result of having approximately 10% fewer stores in the period. That is a result of the consolidation plan that we announced last fall.

Our same-store sales comp came in flat for the quarter and net earnings and diluted earnings per share is adjusted for $31.4 million and $0.47 respectively. Increases of close to 12% in both cases. Our fourth quarter EBITDA came in around $83.3 million with a margin of 11.9%. A 40 basis point increase over the fourth quarter of last year. And for the full period 12 months ended 12/31/08, we posted an EBITDA of approximately $364 million in the margin of 12.6%. We continue to post strong results in both actual EBITDA and margins and these results ultimately lead to our strong recurring cash flow generation. As you all know in today's macro environment there is a heightened focused awareness placed on cash and liquidity and the strength or weakness of a company's balance sheet. We continue to believe that our ability to generate strong recurring cash flows is the true strength of our Company and business model and ultimately allows us to continue to enhance our balance sheet going forward. In fact, our positive operating cash flow is close to $70 million during the fourth quarter alone and has now equated to $385 million during the full year of 2008.

As a result and particularly in this uncertain economic environment we have been focused primarily on continuing to strengthen our balance sheet, as I have alluded. During the fourth quarter, we sought and secured a waiver from our bank syndicate. Allowing us to tender for our outstanding tranch B term loans for less than par amounts. This waiver along with our cash flow generation allowed us to reduce our senior indebtedness during the quarter by approximately $32.3 million on a net basis. And was the primary driver behind the $4.3 million gain on the extinguishment of debt recorded during the quarter. Which, along with other items have been backed out of our performer results for the quarter and year ended December 31st. Additionally, we were able to reduce our subordinated debt by $15 million during the quarter. So, all combined, these fourth quarter debt reduction amounts now bring the total reduced indebtedness during 2008 to over $312 million.

As a result of this debt reduction. our leverage at year end was lower to 2.43 turns, down from 3.08 turns since the prior year-end of 2007. This position just comfortably below the floor of our covenant requirement of 3.25 turns, as well as allowed us to step down our spread 25 basis points on our term loan A and revolver the facilities going forward. At quarter end net debt to book cap equated to 42.4%. Down over 1,000 basis points since the prior year-end 2007. And so at year-end 12/31/08, our debt levels now equating to less than $950 million were made up in the following amounts. Approximately $722 million in senior term debt and approximately $225 million in our 7.5% subordinated notes, while ending the quarter with a cash balance of over $87 million. These efforts we believe have positioned us well to manage through the continued challenging times.

Additionally during 2008 the Company has expended over $61 million in CapEx as well as deployed close to $16 million in the acquisition of stores and accounts and over $13 million in share repurchases. In fact we purchased over 800,000 shares in the fourth quarter alone at an average per share cost of less than $13. So in conclusion our cash flow remains strong and leverage levels are healthy and continue to improve. We feel comfortable with where we are in regards to our leverage, liquidity, cash flow and generally our overall capital structure in this period of economic uncertainty. As always, we will continue to prudently utilize our cash resources going forward. In terms of guidance as outlined in the press release, we anticipate for the first quarter of 2009 total revenues to range between $721 million and $741 million with diluted earnings per share ranging between $0.54 and $0.60. And for all of 2009 our total revenues are expected to be within a range of $2.83 billion and $2.89 billion with diluted earnings per share estimated in the range of $2.15 and $2.32, which is an increase from the previous guidance provided for fiscal 2009. And is largely the result of the operational improvements Mitch spoke of as well as strengthening of our balance sheet. As always this current guidance excludes any potential benefits associated with the potential stock repurchases or acquisitions completed after the day of this press release. To with that, I would now like to turn the call over to

---

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

Thank you, Robert and Mitch. And good morning, everyone and thank you for joining us. Suffice it to say I am pleased with the overall performance during the quarter, particularly in light of the current economic environment. As you just heard from both Mitch and Robert, the demand for our products and services continues to be favorable. And financially, we believe we are sound and well positioned to execute our strategies. As Mitch mentioned, while there was some reduction in the average monthly rental rate due to trading down and/or favoring more of the Super Value products, traffic as measured by deliveries was up. As consumers find themselves with fewer options and faced with the uncertainty of the future we believe more and more come to appreciate the flexibility and convenience of our program.

All the while. Our delinquency and losses continue to run at or below historical levels. Operationally, I am pleased with how our team has performed. And financially, as Robert mentioned, the Company is in good shape. Having reduced our indebtedness approximately 25% in the last year alone and with our leverage ratio at 2.43 turns, I believe we are well positioned financially, again, I am pleased with how we have performed. Having said that, we are mindful of the macroeconomic environment we are in including the instability and uncertainty of consumer spending. Rising unemployment and the impact it may have on demand. While currently low compared to last year, the instability of oil and energy cost and the impact that may have on demand as well as our own cost. The financial and banking markets and continued tightening of credit and access to financing.

At the same time, again, I believe we are well positioned to execute on the strategies and thus, given these factors our out look for 2009 remains cautiously optimistic. Let me spend a moment on financial services. When we spoke last, we mentioned that we would not open any additional stores until and unless we improved the operating results of those locations including top line losses and ultimately the bottom line results. We also discussed some of the work streams that were being completed as it related to the IT and back office support systems. I am pleased to say all of the work streams are completed. While we are not yet ready to open additional stores. I can say that we have and continue to make progress in the result of those stores. The top line is growing and more importantly we have made meaningful improvements in our delinquencies and losses. In fact January, while seasonably better anyway, our losses are in the low 20% range. Quite an improvement from the prior months.

We still have work to do and as I stated previously the next couple of quarters will tell us a lot about our ability to execute that model. But, I remain optimistic that we will be successful as we continue to work and improve our operating results in the near term. All in at all it was a good quarter in a very difficult environment. And as previously stated I believe we are well positioned as we begin 2009. We continue to work hard educating and enlightening potential customers of the benefits of the products and services as well as enhancing the overall experience for those currently doing business with us. I appreciate all the hard work and commitment of our coworkers and your continued support as well. With that, we will open the call up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) Our first question comes from Arvind Bhatia from Sterne, Agee and Leach. Your line is open. Thank you. Good morning, guys.

Robert Davis - *Rent-A-Center - CFO*

Good morning, Arvind.

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

A couple of questions. First, wondering if you can comment on the rentals being slightly weaker than you had projected. Is that just the APU factor that you were talking about or was there something else? And then wondering if you have any latest thoughts on the regulatory environment, particularly on the payday loan business, Mark, what you see as developing and how you will confront that in the next say quarter or two?

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

Sure. Mitch, you want to talk on the first one, the APU.

Mitch Fadel - *Rent-A-Center - President, COO*

Sure. Actually the demand, Arvind, in the fourth quarter was a little better than we expected. By the metric of deliveries, it was stronger than we even expected. So it was a good quarter from a traffic standpoint. The overall revenue was slightly off because the APU went down, and that's what I mentioned where we are going to maintain the Super Values approach because we think it is helping us with the lower income consumer primarily. But, there are some other prices we can tweak up a little bit to make up for that and we think we'll get that APU back in the first half of '09. And when I say some of the other prices, you certainly -- as I mentioned, you can get a dollar. If you raise a dollar you get a 4% increase but that is only taking the price from $25 a week to $26 a week.

What we have seen over our history is that a dollar doesn't matter much. Now, on some items to be competitive we also have the ability to bring down the term. So we can get the APU up, but take a month or two or three off of the overall rental term and stay competitive on overall price. So, there is a lot we can do with pricing and are doing with pricing to get the APU back in the first half of the year. Sticking with those hot deals for those looking for them, demand was strong and we will get the APU back by tweaking some of the other pricing in the first half of '09.

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

On the regulatory question, you said primarily financial services. Certainly as it relates to rent to own we are comfortable. There are 47 states. Everyone knows that. I think the environment is pretty good and we continue to work on others. From the financial service standpoint, there has been a lot of commentary around it. Again, there are approximately 35 or so states today that have enabling legislation. We are in about half of those. We are very mindful. Well, again, we are not opening any stores right now anyway. To the extent we do begin to start opening additional stores, it will only be in those states that have the enabling legislation and frankly will just continue to fill out the states that we are in. I think we will know a lot more over the next probably several quarters. I know the administration, the new administration there has been some talk about not just financial services but anything around financial and the cost and how they may want to reign that in.

Will this be part of anything? It is frankly way too early to say. But, I know the industry much like rent-to-own is working hard in terms of educating and making the case for the need. Certainly, I think we can demonstrate that the consumers like and want the product and service. And what can or needs to be reached from a regulatory standpoint that makes the option available to the consumer and allows the provider to be able to do so, that will probably have to be debated and I'm sure at some point in the future it will come up but at this point it is more grass roots educating and informing, and we hope we will have an opportunity at the right time to show the need and the value of the transaction.

And I will tell you for what it is worth, the FDIC just recently did a study and showed the cost of NSF checks as an example and comparing it to the financial service of the payday lending business. I know some might criticize what might be implied to be a 400% interest rate. If you were trying to extrapolate that on a payday loan and, again, that's not because it's a short-term loan, but if you were trying to compound rate, that's the number you come up with. The FDIC study, which was done independent and compared it to the NSF and the checking and the banking, the fee there is close to 1100%. And I share that because the point there again is the consumer knows that as well and they know what works best for them and the cost and so forth. So, again, hopefully as time goes on there will be more imperial data that will come out that will help support the argument. And, again, we hope we will have an opportunity to be able to show and demonstrate, but nothing going on at the moment. Obviously, the new administration is settling in and more time will tell over the next 6 to 12 months.

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

Speaking of which, is there any more clarity on the stimulus package, what that holds for the rent-to-own business particularly, Robert, on the depreciation side. And also, just in general, what is the new guidance for you guys implying for free cash flow. Can you refresh us on that?

Robert Davis - *Rent-A-Center - CFO*

Yes, obviously, Arvind, as it relates to 2008 part of one of the drivers that led to our cash flow this year as well as the net debt reduction was the benefit of accelerated appreciation on our rental products and that benefited us in 2008. We do expect that tranch of deferred taxes to turn in 2009. And so as we think about current guidance, what we know today, irrespective of what is currently being contemplated through a new stimulus package, what we know today is we are estimating cash flow around $170 million this year, CapEx of about $60 million so free cash flow around $110 million. Obviously that is well below last year but, again, part of that is the turn of some of those deferred taxes that we benefited from in '08.

Having said that ,our understanding is the current draft of the economic stimulus package does contemplate a similar type of accelerated depreciation. Now, we are not factoring that in our guidance right now or in any of our forecasts to the extent it happens it only enhances what I just spoke of. And so as we sit here today, albeit, we could benefit in '09, we are not going to speak to it until we know for certain.

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

From what you can tell it could be of similar benefit, not any less?

Robert Davis - *Rent-A-Center - CFO*

We're estimating $30 million to $40 million benefit in '09 . So that free cash flow can go from $110 million to

---

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

Got it. Great. Thank you guys and good quarter.

Robert Davis - *Rent-A-Center - CFO*

Thanks, Arvind.

Operator

Next question comes from Laura Champine from Cowan and Company. Your line is now open.

Laura Champine - *Cowan and Company - Analyst*

Good morning. Just had a question about a little more detail on where you think you might be able to take prices up. Are their specific product categories that you are targeting on that? And are any of those passed along price increases you are seeing from vendors?

Mitch Fadel - *Rent-A-Center - President, COO*

It's really within each category, Laura, within each category looking at products within those categories. It's not any one particular category as much as looking product by product. As far as price increases where we are -- some of it is passing on price increases in appliances. But on other products, with the deflation of electronics, mostly when we want to raise our APU there, as I mentioned earlier, we bring down the term because the costs continue to go down and by bringing down the term we can get even more -- we can lower the cash price and the total rent-to-own price for someone who wants to takes its ownership even though we get more per month.

On the electronics side, overall the pricing is coming down, not up. Furniture, we are not seeing any increases in furniture either, as far as cost, just appliances and it wasn't huge. It was 2% or 3% on appliances and we had to pass that along. But on the other ones it is a little bit of margin enhancement on certain products. In a lot of cases, it is just a matter of raising the APU so we get that monthly revenue, but not really changing the overall margin because we bring down the number of months to acquire ownership.

Laura Champine - *Cowan and Company - Analyst*

Got it. Thank you.

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

Thanks, Laura.

Operator

Next question comes from John Baugh, Stifel Nicolaus. Your line is now open.

John Baugh - *Stifel Nicolaus - Analyst*

Good morning. Thanks. Could you give a little more color on the deliveries were up comment? Is that a sequential year-over-year? Does that mean pickups were net, in other words BOR, whatever, went up? Just some more color on actual customer accounts and contracts outstanding. In the third quarter you alluded to some, I guess, increased pick ups or struggling customers and you don't seem to have experienced that. Some commentary, thank you.

Mitch Fadel - *Rent-A-Center - President, COO*

Sure, John. The deliveries were up sequentially over third quarter and up year-over-year. We grew in customers and in the overall BOR. Pick ups were about flat year-over-year, a little more on the payout side but the primary driver deliveries were up year-over-year and sequentially. The revenue would have been higher had the APU not gone down and that's what we're trying to fix going forward, as I've already talked about, without affecting that demand of the hottest products. The demand was strong sequentially and year-over-year.

John Baugh - *Stifel Nicolaus - Analyst*

Do you think it was your Super Value product or what, I know it's hard, but what would you pinpoint as a reason in an obviously worsening environment?. You seemingly did better on deliveries.

Mitch Fadel - *Rent-A-Center - President, COO*

I think two primary things. The Super Values were part of it and I also think the worsening environment, less and less options for the consumer drives them into a rent-to-own store, and obviously we prefer they come into Rent-A-Center. But I think rent-to-own becomes more of an option for that tightening credit out there. And from an advertising standpoint. Advertising standpoint, we tweaked that a little bit we did a little more advertising geared towards that consumer that is getting turned down for credit. We call it creditfreelife.com for any of you who want to go take a look at it and we explain the rent-to-own transaction there. We did some of that kind of advertising. Again, we call it creditfreelife.com and we did some television around that with Mark in a commercial. In addition to our normal advertising and so targeting that, what we call a shoulder customer that is maybe had access to credit a year ago and doesn't anymore, more targeting of that customer. So I think it is the Super Values getting to the lower income consumer in our credit-free life push on the consumer that is being effected by -- that had credit a year ago and is now being affected by the tightening of it.

John Baugh - *Stifel Nicolaus - Analyst*

Yes and, Mark, I guess your the Lee Iacocca of the RTO industry but I was impressed by that ad and I thought it made a lot of sense, is there any way of tracking the success of that message which, as you said, is more toward the transaction and the flexibility and the like?

Mitch Fadel - *Rent-A-Center - President, COO*

The main way we are tracking it, John, is looking at the website hits when the commercials run and when they don't run. The website is getting tremendous amount of activity. We do see it as successful based on the number of people going to the website and how many pages they look at when they're on the website. For anybody who looks at that kind of business its not just a matter of going there but how long they are there is another key metric to that, so based on the traffic to that we see it as successful.

John Baugh - *Stifel Nicolaus - Analyst*

Great. Thank you very much. Good luck.

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

Thanks.

Operator

Your next question comes from Emily Shanks from Barclays Capital. Your line is now open.

Jason Trujillo - *Barclays Capital - Analyst*

Hi. Good morning. This is actually Jason Trujillo in for Emily.

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

Hi, Jason.

Jason Trujillo - *Barclays Capital - Analyst*

Good morning. First, regarding the debt paydown just wanted to confirm something. So you repurchased $42 million of the term loan B but senior debt is down $32 million. So, was there a revolver draw or something else going on?

Robert Davis - *Rent-A-Center - CFO*

Yes, 12/31/08 we also have a $20 million line of credit with one of our treasury banks, cash management bank that was drawing about $12 million at year end. And that has been since paid down since 12/31/08. So in the first quarter we've already reduced our debt another $12 million since year end, but that's what was going on there.

Jason Trujillo - *Barclays Capital - Analyst*

All right. Great. That's very helpful. And then along those same lines, can you speak to what your debt pay down plans are for 2009? Do you expect a similar level as 2008?

Robert Davis - *Rent-A-Center - CFO*

Well, certainly not the similar level. Just given some of the comments I made earlier in regards to our forecast for free cash flow this year. Again, as we sit her today around $100 million to $120 million of free cash, the majority of that we anticipate being focused on debt reduction. And to the extent there is a further economic stimulus act that is passed this year that enhances that free cash flow of $30 million to $40 million again, a portion of that would look to reducing indebtedness. Obviously, as you think about our debt payment schedule from an mandatory standpoint, in 2009 we have only got $22 million of mandatory payments and then next year that number ramps up considerably primarily due to the maturity of our subordinating notes that mature in May of 2010. So, we have 15 months there to look at how we are going to address that situation.

But coupled with 2009 and 2010 cash flow, if we focus 100% of those dollars to debt reduction we could essentially pay down our mandatory debts the next two years without any further needs for cash above and beyond that. There will be a continued focus on that but not at the same level of '08 just given the deferred taxes we were able to recognize this year.

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

And along that line, Robert, you may want to remind that we do have a revolver that has about $260 million of availability under it.

Robert Davis - *Rent-A-Center - CFO*

Right. So, what Mark is alluding to is albeit the $225 million sub notes that mature in May of next year, and theoretically we have $270 million availability under our revolver as well as the $20 million of the other line of credit. So close to $300 million of availability or liquidity, dry powder if you will, that we could utilize in regard to those notes as well.

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

Those notes are all [callable] at (inaudible) and May of this year.

Robert Davis - *Rent-A-Center - CFO*

Next year.

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

No, this year.

Robert Davis - *Rent-A-Center - CFO*

Yes.

Jason Trujillo - *Barclays Capital - Analyst*

Okay. Great. That detail helps out a lot. Lastly, can you give us a CapEx and cash taxes for the quarter?

Robert Davis - *Rent-A-Center - CFO*

Cash taxes for the quarter were essentially zero and then CapEx for quarter was -- let me find it here, about $20 million, so $60 million, $61 million for the year and $20 million of that came in the fourth quarter.

Jason Trujillo - *Barclays Capital - Analyst*

All right. Great. Thank you very much.

Mitch Fadel - *Rent-A-Center - President, COO*

Thanks, Jason.

Operator

Your next question comes from David Burtzloff from Stephens, Inc. Your line is now open.

David Burtzloff - *Stephens, Inc. - Analyst*

Good morning, guys. Great quarter here. A few questions. One, retail sales seem to be pretty strong and the gross margin was much better than your guidance. Is there anything in there that caused that?

Robert Davis - *Rent-A-Center - CFO*

Yes, David, this is Robert. What you are referring to is the margin on our merchandise sales I think came in around 70%, our guidance was 75% to 79%. The primary driver behind that is the fact that we sold about a dozen stores in the fourth quarter. And so the funds received for that inventory and those accounts were booked in to merchandise sales and the RV, remaining value of those were in the merchandise cost of goods sold line. However, that enhancement or that improvement over the guidance was off set by an increase in our amortization of intangibles. You saw that. We did write off goodwill associated with those stores. So that deal essentially broke us even on the transaction. There was some benefit on the gross margin line, but that was off set by amortization on the bottom line. And so, if you think of the first quarter guidance we gave on that line, we are taking it back up because we don't anticipate further sales going forward on stores and accounts.

Mitch Fadel - *Rent-A-Center - President, COO*

Although having said that, Robert, we were in our guidance range at the low end of the guidance range on the actual sale.

David Burtzloff - *Stephens, Inc. - Analyst*

Okay. Robert, do you have the payday loss rate for the quarter? I think you said it was around mid 30s in the third quarter.

Robert Davis - *Rent-A-Center - CFO*

In the fourth quarter it was in the 30% to 35% range. So when Mark, in his prepared comments, talked about January thus far already being in the low 20's, that is a significant improvement from what we were running in the fourth quarter.

David Burtzloff - *Stephens, Inc. - Analyst*

Seasonally, that should come down any way with tax refunds.

Robert Davis - *Rent-A-Center - CFO*

Correct.

David Burtzloff - *Stephens, Inc. - Analyst*

Okay.

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

It was trending better throughout the quarter and its gotten better still in January. You're right, seasonally expected, but trending better through out the quarter.

David Burtzloff - *Stephens, Inc. - Analyst*

Okay. Last question. How much do you think gas prices coming down helped you on the operating expense line?

Robert Davis - *Rent-A-Center - CFO*

Well, it helped us marginally, if you will, maybe a penny and I say that we have a chart here that shows you that for the quarter our gas, in terms of our vehicles offset by our utility increases is about a million dollar benefit for the quarter. That helped us a little bit as gas prices were coming down. How much of that also benefited the consumer from the demand side, so there are two sides to that.

David Burtzloff - *Stephens, Inc. - Analyst*

Right. Okay. Thank you very much.

Robert Davis - *Rent-A-Center - CFO*

Thanks, David.

Operator

Next question comes from Mike Smith from Kansas City Capital. Your line is now open.

Mike Smith - *Kansas City Capital - Analyst*

Most of my questions have been answered. In terms of APU, what percentage decline are you experiencing there or did you experience in the fourth quarter?

Mitch Fadel - *Rent-A-Center - President, COO*

I don't have that in front of me, Mike. But somewhere over the last four or five months primarily the fourth quarter 2% to 3%.

Mike Smith - *Kansas City Capital - Analyst*

So is it fair to then guess that traffic was up 2% to 3% so you had the flat counts?

Mitch Fadel - *Rent-A-Center - President, COO*

Yes, I couldn't disagree with that observation.

Mike Smith - *Kansas City Capital - Analyst*

Then, what is your new store program going to look like in 2009 and 2010?

Mitch Fadel - *Rent-A-Center - President, COO*

In 2009 we are going to add 30 to 40 new stores. Haven't looked at 2010 yet but we're going to continue to open them. We have had square footage decline the last couple of years with our consolidation program in closing some of the non-performing stores. I think those 30 to 40 new stores opening will give us maybe a little bit of growth. We'll continue to close some as leases expire, ones that are underperforming, but it will give us a little bit of growth. I think as we get into 2010 we'll be able to take that 30 to 40 year up to 50 to 60 year range and have some square footage growth every year. I think we should have, and plus a few acquisitions along the way I think we'll have a little bit of square growth footage this year and then more in 2010. I think the decline of square footage is what will stop.

David Burtzloff - *Stephens, Inc. - Analyst*

Thank you

Mitch Fadel - *Rent-A-Center - President, COO*

Thanks, Mike.

Operator

Next question comes from John Curti from Principal Global Investors. Your line is now open.

John Curti - *Principal Global Investors - Analyst*

Good morning. In terms of the ability to negotiate better terms on leases, how many stores do you have coming up in '09 and '10 and what do you think you can do there in terms of getting the rent rates down?

Mitch Fadel - *Rent-A-Center - President, COO*

If you think about the 3,000 stores, we are primarily on five-year leases so we pretty much turn the leases every five years, so in that 600 range per year expire. As far as forecasting, what we can do with it, we certainly think this is the right environment where we can get some increases knocked out and at least keep it flat going forward. Any reductions beyond that will be gravy on top at least keeping it flat. We really haven't, John, we haven't forecasted how much we think we can save there. We haven't put it in our model. Pretty much anything there will be up side to the model. And, Mark, I don't know if you have any thoughts on that. I don't know how to forecast it.

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

We are having a little bit of success. I wouldn't consider it material at this point. We started this a couple of months ago, again in light of what is going on and knowing that Mitch's point, as we renegotiate these leases. We are looking out further where you may be required to give us six or nine-month advance notice. Certainly those are being worked. Might we reach out a little further, i.e., 12 or 15 months and we feel confident or comfortable with that store and its results and its location, is there an opportunity to go to that landlord today to give them a little piece of mind knowing we'll give you five year. You've got a good tenant, but in doing so, we want extra Y and that's either no increase or can we possibly negotiate a decrease.

As you might imagine, many of those landlords, certainly sensitive to what's going on and where businesses are struggling may have a warm ear. So the first thing they ask for is send your financials. The store is doing pretty good. It is a little hard -- what you might be able to do is negotiate the no increase and we've had some success without question. It's not a material number, but when you think about doing 600 to 800 leases a year, and again we're pretty early in to it, if we can pick a number, if it's 20% but it's not an increase even, yes, not so much of a benefit today. Just as we sit here and think about how we manage our business and manage cost and frankly try to take advantage of the situations, I don't mean it in way. The fact is that real estate values have depressed and so make sure we are paying fair real estate prices today irrespective of why it is what it is.

Mitch Fadel - *Rent-A-Center - President, COO*

We will see benefit, it's just hard to quantify at this point.

John Curti - *Principal Global Investors - Analyst*

Then on your financial services business, how much of maybe the improved guidance for this year is a reflection of maybe improved results out of that business?

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

None. We are still assuming again, what we said we weren't going to open any more until we enhanced the results. I believe last quarter I stated at the time they were losing $1 million a month and the expectation was that we would be able to get those breaking even and performing as we expected, or that we wouldn't go further. We have modeled that assumption as we sit here today that we will be able to accomplish that. That we will get them to hold their own and do a little bit, but that was consistent with our expectation when we talked last quarter.

Mitch Fadel - *Rent-A-Center - President, COO*

That hasn't changed. Breaking even later in the year after a couple of quarters certainly means there is a loss in the beginning of the year. At $1 million of operating loss going into 2009 per month, later in the year breaking even means our model has a loss on the front end in the $0.05 to $0.06 range and that has not changed since the last time we gave guidance, but it is still in there at a $0.05 to $0.06 loss in '09.

John Curti - *Principal Global Investors - Analyst*

You mentioned the opportunities on centralized purchasing. Is that in terms of just keeping the inventory levels down or also getting a little better price through the centralized purchasing?

Mitch Fadel - *Rent-A-Center - President, COO*

I think it is both as well as reducing the number at times in any retail business there are times you are out of a product that a consumer wants and if he can reduce those times that you don't have the product that's at the highest demand that particular day because you have better data and a better IT system giving you historical results and so forth, you do more business. So it's a matter of better pricing and lowering the inventory primarily as well as doing more rentals because you are not out of key products at any point in time.

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

Right products at the right time.

John Curti - *Principal Global Investors - Analyst*

Then, with oil prices coming down, how much of a benefit maybe this year prices would more or less hold at these levels for the delivery expense or fuel expenses?

Mitch Fadel - *Rent-A-Center - President, COO*

Well, in our guidance we certainly have some assumptions about future prices of gas and oil. So those assumptions are a little bit ahead of where we currently are. The weighted average price for the year is ahead of where we are today, but that ramps up throughout the course of the year, so our model assumes the current price of oil, but that's going up in the summer time to where we think pricing will be. So to the extent it stays at these levels and doesn't go up, there might be some upside a couple of pennies.

John Curti - *Principal Global Investors - Analyst*

Then lastly, what is kind of the environment for acquisitions at this point?

Mitch Fadel - *Rent-A-Center - President, COO*

It is still active out there. They are smaller certainly than what we have done in the past. Primarily, and you see it in the press release, I want to say it was 38 last year, account purchases where we bought only five stores for the year in 2008. We bought 38 stores that we call account purchases where we closed the competitor's store and bought the accounts and put them in our store which, as you would guess, John, is more accretive, right, because you're just buying the revenue and not taking on the expense of another store in the same town. So because our saturation level, penetration level is pretty high, we can still open some more stores, but certainly not like we used to. Most of what we see in acquisitions is the account purchases. Which, again, help the revenue and are very accretive, you won't see big deals where there's a big store count increase, but we do another 38 and I predict in that 50 range this year of account purchases, the activities there, another 50 of those, that will certainly help revenue and bottom line because they are accretive just bringing the revenue without all the expenses. A little bit on the store count of acquisitions, but I don't think you'll see anything big there.

John Curti - *Principal Global Investors - Analyst*

Anything of consequence or any development on the ColorTyme operation in terms of either possibly repurchasing stores from franchisees or commitments by franchisees to step up store openings?

Mitch Fadel - *Rent-A-Center - President, COO*

Last year, they opened -- I don't have it in front of me, in the 30 store range. Of course we did buy some also from them. I think they broke close to the even from a store count standpoint. So you buy about -- they continue to open them and if you look over the last five years, they probably average 30 to 40 a year and we buy 30 to 40 a year. They'll continue to grow. We'll continue to get acquisitions off of them. Some of them will be account purchases I mentioned earlier because in some cases we're in the same town. So ColorTyme continues to be an accretive subsidiary force, but also one that continues to open stores and gives us acquisition opportunities going forward.

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

I think what's interesting, Mitch, correct me if I am wrong, John, they are going the franchisees. There has been increased interest and growth in the number of franchisees. So, whether it is new folks coming in. We've had others that may have had another brand or been independent that have switched to the ColorTyme brand. So that's been kind of exciting, frankly. Whether that's given the market and or the strength of that business model, the point is what we are seeing, which is really where you want to start from anyway if you think about it from a franchise perspective, is your ability to attract and get operators. They had a pretty good year on that front last year.

John Curti - *Principal Global Investors - Analyst*

Okay. Thank you very much.

Mitch Fadel - *Rent-A-Center - President, COO*

Thanks, John.

Operator

(Operator Instructions) The next question comes from David [Schmugler] from Kingsland. Your line is now open.

David Schmugler - *Kingsland - Analyst*

Hi, guys. Did you guys say earlier that you purchased shares of stocks in the fourth quarter?

Robert Davis - *Rent-A-Center - CFO*

Yes, just over 800,000 shares in the fourth quarter.

David Schmugler - *Kingsland - Analyst*

How much did you spend on that?

Robert Davis - *Rent-A-Center - CFO*

I think it was around $13 million. No, it was about $13 a share.

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

It was about $10 million or $11 million.

Robert Davis - *Rent-A-Center - CFO*

Roughly $13 a share at 800,000.

David Schmugler - *Kingsland - Analyst*

Got it. Would you be able to break out the balance of the secured debt between (inaudible) A and B and the revolver at the end of the year?

Robert Davis - *Rent-A-Center - CFO*

At the end of the year?

David Schmugler - *Kingsland - Analyst*

Right.

Robert Davis - *Rent-A-Center - CFO*

The breakout was about $175 million on A and the balance of that senior debt was determined on B. We did have $12 million outstanding on our line of credit and then $225 million on our subordinated debt.

David Schmugler - *Kingsland - Analyst*

Correct me if I am wrong, but I have it in my notes that the term loan A matures in 2011 and that there is a rather sizeable amortization second half of 2010. Is that the case? And if it is, does your comments around generating enough cash this year and next year to meet the mandatory debt amortization include that amortization?

Robert Davis - *Rent-A-Center - CFO*

Yes. The term loan A matures in 2011. Mandatory debt on A is 15 in '09, 85 in 2010 and 75 and '11. My comments around '09 and 2010 is that between the revolver and our free cash flow we would be able to pay off our mandatory debt for the next couple of years. Obviously, we will be working on terming out the facility longer term as the environment improves in the next couple of years. That would be our plan and our goal.

David Schmugler - *Kingsland - Analyst*

Okay. Then just one other one around that topic. Does the credit agreement at this point limit you on to how many of the subordinate notes you guys can buy back in the market?

Robert Davis - *Rent-A-Center - CFO*

I think the question was in regards to bond repurchases in the open market. Can you restate the question? You were breaking up a little bit.

David Schmugler - *Kingsland - Analyst*

Sorry about that. Is there a limit under the credit agreement at this point as to how many of the bonds you guys can buy back in the open market?

Robert Davis - *Rent-A-Center - CFO*

No, there is not. That falls under the restricted payments basket. And given our current leverage ratios in terms of senior leverage, there is currently unlimited amount available for restricted payment, be it share repurchase or bond repurchase.

David Schmugler - *Kingsland - Analyst*

Okay. Thanks a lot.

Mitch Fadel - *Rent-A-Center - President, COO*

Thanks, David.

Operator

The next question comes from Joel Havard from Hilliard Lyons. Your line is now open.

Joel Havard - *Hilliard Lyons - Analyst*

Thank you. Guys, a lot of good questions asked so far. One I wanted a little color on, the sales lines have held in quite strongly over the course of '08 despite the disruptions. Is there something different going on with your existing customers behind that or is that possibly a different class of customers coming into the system?

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

The merchandise sales, Joel?

Mitch Fadel - *Rent-A-Center - President, COO*

Early purchase options.

Joel Havard - *Hilliard Lyons - Analyst*

Both of the sales lines. Well, I guess the installment sort of that's the customer that walked in normally. But merchandise sales particularly, is that a new customer coming in to some meaningful degree?

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

I wouldn't say to any meaningful degree, no. What is encapsulated in the merchandise sales are the early purchase options where they come in and exercise the pay out early as well as the cash sales off the floor. Both of those are always taking place. And it is interesting, I think the other way -- You probably heard us say in the past that the average products in our system about 20, 21 months from the time we buy it to the time it's disposed of more often than not through a rental transaction. That behavior hasn't changed over the last couple of years. It's remained pretty consistent in terms of how long it's in the system, how many times it's rented, the average length of time it is on rent in those periods, and then how it behaves when it leaves the system. In other words, over 90% leaving to a rental transaction, cash sales and so forth. I couldn't sit here and tell you that we have seen a material shift in the vat, what that customer looks like. We know the demographics of the customers have gone up over the years.

Mitch Fadel - *Rent-A-Center - President, COO*

The transaction, as you mentioned, Mark, the time in the system and how long it's in our system for payout is staying pretty consistent. Remember, Robert mentioned earlier there's a few million dollars in the fourth quarter selling some stores that were in there that was offset by amortization. That's part of it. I think pay outs, when products are in our system on average 20 to 21 months, you are about two years out from when you rented it on average, the average early purchase option. We had a good year in 2006. We saw more payouts in 2008.

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

That's the off set.

Mitch Fadel - *Rent-A-Center - President, COO*

The more you rent, the more pay outs you are going to have the next 18 to 21 months later, so I don't think it's the customer acting any different.

Joel Havard - *Hilliard Lyons - Analyst*

Okay. One quick one and one other followup. Do you guys have a rule of thumb you will be following, say, over the course of '09 with regard to a percentage of free cash flow that you are willing to direct at the share repurchase effort or some other benchmark like that that we can think about?

Robert Davis - *Rent-A-Center - CFO*

No, not really. I think, as we have indicated in some of the prepared comments and our more recent history, what we demonstrated in 2008, is the primary focus will be on continuing to strengthen the balance sheet and debt reduction. Having said that, we did repurchase some shares in the fourth quarter given where the stock was trading at that point in time and what we thought was a good use of capital. So to the extent that presents itself in '09, we'll balance it and look at that as an option as well, but we are not going to go out and target necessarily share repurchase, per se, all that will be taken in to consideration with what's going on in the environment, demand, cash availability, and what the shares are trading.

Joel Havard - *Hilliard Lyons - Analyst*

Got it. Last question, the Ohio payday loan initiative. How did that vote affect your view of that market in particular and then more broadly? I know you sort of addressed the regulatory environment. Maybe you can comment specifically on Ohio and how you may have adjusted.

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

Yes, Joel, what you are alluding to and most people will recall, Ohio the attorney general or governor -- I guess the governor had signed a bill back in the summer of last year that essentially would not permit payday lending as we knew it. Ohio has a procedure where by if you meet certain criteria it can go on to a voter -- a referendum where the voters will decide whether or not that will take place. And we were able to meet that objective. And it was put on the -- it was a referendum vote. It was part of the general election that took place in November. We were not successful, so the voters did not vote the way that we had hoped they would that would allow us to continue to operate as we have previously. We were mindful that that was a possibility and so in advance of that had been looking at some other ways we might be able to offer the product and, in fact, we applied for and received license and permits under what is known as the Ohio Mortgage Lending Act, the MLA.

It's a little different than what we had operated before and really probably the key difference is there are minimums that we'll lend and maximums where before it could have been maybe as little as $50, generally speaking, the minimum is $150. Then we have maximums under the MLA where we will limit it to no more than $300. There are some other loans we can do that are higher that are permissible, but what we are doing in terms of the typical payday under that MLA has the mins and maxes and then the fee structure is different. It does have a much lower interest rate, but what it allows for is the collection of an application or a processing fee as well as credit check fee. Albeit at lower rates than what we were able to do before, it gets us kind of close and we thought it was worth testing. So that is what we are doing in Ohio. And it is probably a little too early because, again, it has only bee 90 days at this point but, thus far, we know the demand and the need is there from the consumer side so we are seeing the traffic and we're doing the loans. We believe we could do it profitably but, again, one that we are still evaluating much like we are the other results and so forth in the other states.

Mitch Fadel - *Rent-A-Center - President, COO*

It is the lower margin so the test is can you make it up in volume.

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

And some of the competitors, given that law, there was a reduction. Some of them left the state and others downsized quite a bit. Again, we know we can leverage the real estate and some of the others, so might then afford us an opportunity to pick up some business and as Mitch just pointed, outrun it with volume, if you will. So that's what we are working on.

Mitch Fadel - *Rent-A-Center - President, COO*

The way we leverage real estate and labor to some extent and utilities and other items we can do business at a lower margin than others and then as others leave the state, that volume makes up for it so that's what we are testing.

Joel Havard - *Hilliard Lyons - Analyst*

Okay. Great, guys. Thanks for the insight. Good luck. Congratulations on a good quarter.

Operator

Next question comes from Gina [Matsuyama] from Post Advisory Group. Your line is now open.

Gina Matsuyama - *Post Advistory Group - Analyst*

Housekeeping question. The 30 to 40 new stores for next year, that is gross, right?

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

I am sorry, Gina. You are breaking in and out pretty bad. Can you try again?

Gina Matsuyama - *Post Advistory Group - Analyst*

The 30 or 40 stores that you are opening next year, that is a gross number?

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

30 or 40 new stores in the rent-to-own that we expect to open this year would be the gross number.

Gina Matsuyama - *Post Advistory Group - Analyst*

What is the timing of that and how many stores do you guys plan on closing?

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

I'm sorry, you're going to have to say it again.

Mitch Fadel - *Rent-A-Center - President, COO*

Timing of new stores.

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

Randomly over the year.

Gina Matsuyama - *Post Advistory Group - Analyst*

Okay. And then down know how many stores you plan on closing?

Mitch Fadel - *Rent-A-Center - President, COO*

No.

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

Not a definitive number.

Mitch Fadel - *Rent-A-Center - President, COO*

We don't because we analyze those over the course of the year. I think it will be somewhere less than that. I think we will have positive square footage growth, but it will be pretty minimal. It will be close to 30 to 40, slightly below that. And the overall, the net gain will be minimal.

Gina Matsuyama - *Post Advistory Group - Analyst*

Got it. All right. That's it. Thank you.

Operator

I will now like to turn the conference over to Mr. Mark Speese for closing remarks.

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

Ladies and gentlemen, thank you again for joining us and your support. Again, we are pleased with the fourth quarter. I am pleased with how we are positioned and how we're starting the 2009. Certainly none of us knows exactly what 2009 will bring. But I believe that we are well positioned both operationally and financially to handle whatever may come our way. Again, we appreciate your support and we look forward to updating you on our progress next quarter. Thanks and have a great day.

Operator

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