FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning and thank you for holding. Welcome to Rent-A-Center's first quarter 2010 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, April 27, 2010.

Your speakers today 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 Mr. 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 - VP of IR*

Thank you, Chris.

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 first quarter. If for some reason you did not receive a copy of the release, you can down load it from our website at investor.Rent-A-Center.com. In addition, certain financial and statistical information will be discussed during the conference call, will also be provided on the same website.

Also in accordance with SEC rules regarding 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 of the statements made in this call, such as forecasts, 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 annual report on form 10-K for the year ended December 31, 2009. Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statements.

I'd now like to turn the conference call over to Mitch. Mitch.

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

Thanks, David. Good morning, everyone and thanks for joining us on our first quarter earnings call.

We are very pleased with our results in the quarter as we exceeded our guidance in store and total revenue and soundly beat our earnings estimates with a record $0.77 of EPS. Both our revenues and gross profit margins were strong and our expense management continues to contribute to solid results. Same store sales were down just .5% and at the high end of our guidance. Consumer traffic remains good, as our comp was the best in the last five quarters, and we're expecting positive same store sales of approximately 1% in the second quarter. Additionally, we're starting to see a positive trend in the number of units customers are renting on each agreement.

We're very encouraged by our consumer traffic and the stabilization and improvement in our units per agreement metric. Again, this combination is leading to much better same store sales results. We continue to believe the ongoing tightening of consumer credit is helping our traffic, as more and more consumers see rent-to-own as a more flexible and viable alternative to credit. We continue to work with our suppliers on strategic purchases that create strong values for the consumers, while continuing to target our advertising and marketing accordingly. Additionally, we remain focused on our customers in-store experience and on our own sales training and selling skills.

With regard to collections, our overall numbers remain in line with historical results and, in fact, our first quarter loss number related to customers skips came in at 2.1%, our lowest first quarter customer loss number in the last four years. Our inventory is in good shape as our centralized inventory management system roll-out has been completed nationwide. The system is functioning well. It does better job anticipating business based on historical and forward-looking algorithms. That along with our large blanket order for April that came in just in the last few days of March, has our quarter ending Held For Rent number at 23.7%, on the high end of our historical range of 20% to 24%, but well equipped to have the merchandise necessary to continue our positive growth trends.

Our Financial Services business continued with its positive trends, as that aspect of the business contributed positively to earnings in the quarter. Our overall loan losses and Financial Services in the quarter were at 17.6%, our best number in seven quarters. Additionally, in the first quarter, as part of our ongoing business review, we analyzed the operating results of each of those kiosks and as a result we closed 36 of them. We are adding quite a few this year as well, again, only in states with a favorable legislative environment for this additional product offering. We still have a goal of adding a net of 50 kiosks this year and to end the year with approximately 400 Financial Services locations.

So in summary, we were encouraged by the continued positive trend in consumer traffic and the stabilization and improvement in our units per agreement metric, our execution on our customer experience, product margins, and cost controls continue to improve and we now have inventory management system fully implemented throughout the country. Our same store sales numbers continue to improve and after a record quarter for EPS, we remain positive on the environment out there, at least for our business model. I'd like to thank our 18,000 coworkers for their excellent execution and with that, I'll turn it over to Robert.

Robert Davis - *Rent-A-Center - SVP of Finance, CFO, and Treasurer*

Thank you, Mitch. I'll spend just a few moments updating everyone on our financial highlights during the quarter and our updated guidance for the balance of the year, and then I'll turn the call over to Mark for a few brief comments. I'd like to mention that much of the information that I provide, whether it is historical results or forecasted results, will be presented on a recurring and comparable basis.

As outlined in the press release, total revenues were $718.4 million during the first quarter of 2010, down about $9.8 million as compared to the first quarter of last year. However, as the press release alluded to, taking into account the divesture of our prepaid telecommunications and energy subsidiary, total revenues actually increased slightly during the period. Mitch has already spoken to the improvements in our comp and the drivers behind the positive trends there, as well as the improved margins as a result. In fact, we've seen a 30 basis point improvement in our cost of rental and fees margin, which along with the continued strength in our expense management initiatives, has led to an operating profit margin of 12.3% in the first quarter, an improvement of 140 basis points over the prior year and the highest quarterly operating profit margin in the last three years. Net earnings and diluted earnings per share were $51.5 million and $0.77 respectively, an increase of over 18% in both cases, and as Mitch mentioned, the $0.77 is a record EPS number.

Our first quarter EBITDA came in at $105.5 million, an 8.7% increase from the prior year, while the EBITDA margin increased 140 basis points in the period to 14.7%. We continue to post strong results in both actual EBITDA and margins and both are improving over historical results. This translates into our solid recurring cash flow generation. During Q1, we posted cash flow from operations of $71.9 million. As a result of our first quarter cash flow and where our balance sheet was at 12-31-09, we did reduce outstanding indebtedness during the period by the following components, $6.4 million in mandatory senior debt payments during the quarter, as well as $68.5 million in payments under our revolving lines of credit. As a result of the increased EBITDA, as well as the reduction in our debt level, our leverage ratio at the end of the first quarter of 2010 was 1.57 times, well below the floor of our covenant requirement of 3.25 turns within our senior credit facility. This is significantly lower than our 2.14 times leverage a year ago and is an improvement of over 26%.

At quarter end, net debt to book cap equated to 28.5%, down from 35.7% a year ago, an improvement of over 20%. We continue to believe that our balance sheet is a strength of ours and along with the cash flow characteristics in our model, provides us with more than adequate flexibility in regards to capital allocation. We will first and foremost continue to invest in the business. Additionally, given our significant debt reduction efforts over the course of the last couple of years, during an extended period of macro economic uncertainty, along with the amendment in the fall of last year to our senior credit facility in which we extended a portion of our maturities, we intend to focus primarily on mandatory debt payments only. This will allow us to be more opportunistic in regards to future share repurchases as well as evaluate other alternatives in regards to enhancing and returning shareholder value.

Turning to guidance for a moment. We do anticipate for the second quarter of 2010 total revenues to range between $670 and $685 million, with same store sales expected to increase approximately 1%. As for diluted earnings per share, we are guiding the second quarter to a range between $0.64 and $0.70 cents. We are pleased to be updating our annual 2010 guidance with increases in revenues, same store sales and diluted earnings per share. We are now increasing our guidance for 2010 total revenues and expect them to fall in the range of $2.725 billion and $2.78 billion. This has allowed us to increase our same store sales guidance, as well, and we now expect same store sales to increase between 1% and 2%.

These top line improvements along with our continued success and cost control initiatives and the flow through in our model of incremental revenue has enabled us to increase our guidance for diluted earnings per share. Therefore, we are increasing our diluted earnings per share guidance to approximately 10% to be in a range between $2.60 and $2.80. In terms of EBITDA, free cash flow, the Company now expects EBITDA to range between $375 million and $395 million, an increase from prior guidance of $25 million. Free cash flow for all of 2010 is now expected to be in a range of between $120 million and $140 million. This free cash flow guidance is down approximately $20 million from our prior expectation, but it is a reflection of the increased top line guidance and the working capital commitment to support that growth. As always, this current guidance excludes any potential benefits associated with potential future stock repurchases, changes in outstanding indebtedness or acquisitions or dispositions completed after the date of the press release.

With that update, I'd now like to turn the call over to Mark.

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

Robert, thank you, Mitch, also. Good morning, everyone and thank you for joining us.

I'm going to be brief given the good overview just provided by Mitch and Robert. Suffice it to say, I'm quite pleased with the overall performance and results that again, as Mitch mentioned, included record earnings per share. As mentioned, we continue to see positive trends in our customer traffic as measured by the number of deliveries per week or month in the stores, and, at the same time, have begun to see a slight increase in the number of units that individual customers are renting. That has helped in the stabilization and even improvement in our EPU, which is the average monthly rate or pricing for an agreement. The better than expected top line results are driven by both traffic and pricing and, of course, that coupled with our ability to not only leverage, but further manage our costs has led to the strong EPS and margins. Again, very pleased with our recent results.

Mitch also mentioned we've completed the roll-out or conversion of all of our stores to the new centralized inventory management and forecasting system. As previously stated, we believe that this enhancement will improve our overall inventory utilization, ensuring that stores have the right products at the right time. We do know that the stores have a more balanced and desirable mix of inventory on hand today and available than what was seen in previous periods. We believe that this will help minimize loss rentals in the future due to out of stock or so forth.

With regard to the Financial Services, again, continue to see good performance there as well. As I mentioned last quarter, we believe now the model is right, the systems and programs are operating as designed or intended since the changes and enhancements were made last year; so our long-term outlook has unchanged and we remain steadfast in growing that business in both size and profitability, again looking to still add a net 50 stores this year. Of course, as Robert just shared with you and as you saw in the press release, the overall financial resorts -- results, including the margins, cash flow, and balance sheet quite strong for the quarter, expecting most of that to be recurring, coupled with the improved top line, has allowed us to raise the EPS outlook for the year to the range indicated.

So an exciting quarter, positive trends are in place, and I also want to thank all of the coworkers and team members, both the field and the support center for all of their efforts. It was a job well done. We're excited about where we're placed today. So with that, we'd like to go ahead and open the call up for questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the Arvind Bhatia from Sterne. Your line is open.

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

Thank you. Good morning, everyone.

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

Good morning Arvind.

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

Congratulations on a strong quarter.

My first question, guys, is on the inventory, here. Looks like it was up. I'm just trying to understand, is this tying back to your inventory management system? Are they telling you that you were -- as a result of this system now you are reducing your out of stock situations and the increase in inventory, the working capital you're talking about for the year, all of that ties back to that?

In other words, the 20% to 24% number that you talked about, should we be expecting now to be at the upper end as you try to capitalize on opportunities that you see? Is that the right way to think about the inventory?

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

I think so, Arvind. I think that, we're not really sure that we're going to stay at that upper end and never be back down at that lower end of the norm because it's really the first quarter. We ended the quarter with all stores on it. So not sure where that's going to go historically, but yes, you're looking -- you're tying it all together well.

As I mentioned in my prepared comments, there was one other thing that we got a large blanket order in for our April promotion, came in late March, and when we compared that to last year, we didn't have a large blanket order at the end of March compared to this year. So that was some of the reason for being on the high end, but I think in general, you're looking at it right, that, yes, the new management system is more forward-looking and puts it in better position and the amount of products that we need to grow and that's why the free cash flow, ultimately, is down $20 million for the year that Robert mentioned and it should help us, our growth. It will cost a little money to support that growth, obviously, it's an investment we're willing to make.

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

I think Arvind, as you know, that there's been, historically, a little bit of seasonality in that number, first quarter oftentimes being the lowest, third quarter the highest, and I think you've heard us say, of course, there's the operating side of it is -- you heard me make the comment, ideally, the average store is going to have 160 to 170 pieces of available inventory held for rent.

The first quarter demand, they are typically well below that, which is why we're at the low end of that range. The forecasting system is not allowing them to drop as far as they had or might have otherwise, and so I think what we would hope to see also, which Mitch alluded and you suggested, it will be more consistent throughout all the periods, some variations, but not to the extent that we had seen before, because it is predicting and anticipating and the product's always there.

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

And I want to touch on the Financial Services business a little bit. When you gave your Q1 guidance of overall revenue, you obviously break down your rental revenue. We don't get the break down on the rest of the line items. Is most of the upside, as I can tell, is that coming from the Financial Services side? Is it also -- I think merchandise sales were stronger as well, but just going back to Financial Services, how much stronger was this versus your expectation?

You talked about the profitability now, with more stores on a -- you're saying net basis 50, so you'll be opening, what, 80, 90 stores now? Help us now summarize this with what's the profitability outlook of Financial Services for 2010? Is it still break even or are you projecting profitability?

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

Arvind, let me start. The -- you're right in getting to net 50, we'll need about 80 new locations, 80 to 85. You can see in our guidance we intend to add about 70, but we don't have any acquisitions in our guidance, so we can get to that number, maybe by buying a few stores. If we don't, maybe we'll end up opening a few stores, we'll be real close to that net 50 add.

As far as the first quarter, they were slightly ahead of the plan, but it wasn't material and as far as the overall outlook for the year, it probably is a little ahead of break even now, it did make money in the first quarter, but it's a real small part of the increase in earnings guidance.

Robert Davis - *Rent-A-Center - SVP of Finance, CFO, and Treasurer*

Right. And then the revenue increase, I think in the guidance we increased total revenue $25 million, about 20% of that was through the rental and fee line and the majority of it was in merchandise sales, some of that being what we've experienced in the first quarter thus far. The $5 million in rental and fee, that's part of what is driving increased comp; that's the recurring revenue from 1% to 2%.

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

Final question on the product side.

You guys have any comments on what's in the pipeline? You guys have talked about the LED televisions coming. That was in the fall this year, I think you were planning.

Is that still in the time table or can you move that up? Again, I don't know if the demand is strong for that and you plan to do more.

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

Yes. I'm not sure what the demand is for LED anyhow, because it's going to be at a higher price point, but we'll have it in at least by fall, maybe we'll be testing it by this summer. We're looking at the pricing right now and what the vendors are offering us. Maybe we'll be at least testing it sooner than this fall and seeing how strong it is.

That's certainly a product that's going to come into the line up. In general on the TVs, the screen sizes just get bigger. As the costs come down, the screen sizes get bigger and it's a combination of plasma, LCD, DLP and, of course, the LED will be coming in. It's still a very exciting category, just with the deflation, we're able to just offer bigger and bigger sizes all the time, and the customer's really accepting it very well.

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

That's great. Thank you, guys.

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

Thanks, Arvind.

Operator

Your next question comes from David Burtzlaff from Stephens. Your line is open.

David Burtzlaff - *Stephens Inc. - Analyst*

Good morning, guys, I'd like to extend my congratulations, as well.

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

Thanks, David.

Robert Davis - *Rent-A-Center - SVP of Finance, CFO, and Treasurer*

Thanks, David, good morning.

David Burtzlaff - *Stephens Inc. - Analyst*

Hey, Robert, the other revenues were up fairly large sequentially, I mean even from the fourth quarter. Is that all pay day or is there something else in that line item that causes that $4 million jump?

Robert Davis - *Rent-A-Center - SVP of Finance, CFO, and Treasurer*

Certainly -- certainly pay day is a big component of it, but there's other items that are embedded in that number as well, be it, repair costs for our Product Service division, other income for taxable and nontaxable items for certain customer classifications, but, certainly to your point, the Financial Services is one of the main drivers in that line item that we've talked about.

David Burtzlaff - *Stephens Inc. - Analyst*

Because typically -- seasonally, that business should not see as great of revenue growth sequentially from the fourth quarter?

Robert Davis - *Rent-A-Center - SVP of Finance, CFO, and Treasurer*

Well, part of it is also driven by the tax season in the Financial Services division, in terms of being the tax returns that we're doing in the first quarter that's not in the fourth quarter. So, from a seasonality perspective, unlike the fourth quarter, the first quarter does have tax income and prep fees that were not in the fourth quarter.

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

David, unlike probably a lot of the Financial Services companies you're looking at, the Pay Day Loan companies, unlike them, we do prepare tax returns at our locations, so we don't have that drop that you would normally see because we're doing tax returns and cashing those checks, also.

Robert Davis - *Rent-A-Center - SVP of Finance, CFO, and Treasurer*

Multi-line as opposed to mono-line.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay.

And then also on the store closures and on pay day, is that related to any regulatory events or is that state specific or is it across the board?

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

It was across the board. It was more performance of a relatively small number of the kiosks compared to what we opened, but it was performance, not regulatory.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay. Okay.

And can you just remind us, what's the mandatory debt payments that you have for the year?

Robert Davis - *Rent-A-Center - SVP of Finance, CFO, and Treasurer*

For the balance of the year, I believe that number is around $51 million for the rest of the year. Let me just verify that real quick here, David. $51.7 million is the mandatory payments for the balance of 2010.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay.

And then finally, can you talk a little bit about your early pay out trends? How -- were they up this year with tax refunds being larger and how does that -- and, if so, were you able to get more of those customers to re-rent or enter into new rental agreements?

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

Yeah, David, they were up about 5% and I think about 5.5% to be more specific from last year. And we were able -- you can see that -- you can see that on the statement that our revenue was up even a little more than 5% under sales because the early purchase options are embedded in that merchandise sale line on our statement, but the actual number was up about 5.5%. Dollars were -- when you back that DPI revenue, that telecommunications energy company, out of 2009, you'll see $6 million or $7 million or $8 million increase on that line on the revenue side, but about 5.5% pure numbers and, yes, we were able to convert at a higher rate than we certainly were last year, and that's part of the reason for the good quarter from a rental and fee standpoint and as well as guidance going forward.

So they're up some, not dramatically at 5% or 5.5%, but -- and what was up, we're able to do pretty good on conversions. So it's a good thing, a payout and the key is just converting them, so you keep the business and we're able to do that at a pretty high rate.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay, thank you very much.

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

Thanks, David.

Operator

Your next question comes from Bud Bugatch from Raymond James. Your line is open.

Bud Bugatch - *Raymond James - Analyst*

Good morning and let me add my congratulations on the quarter to you and your team.

Robert Davis - *Rent-A-Center - SVP of Finance, CFO, and Treasurer*

Thanks, Bud.

Bud Bugatch - *Raymond James - Analyst*

Can you talk a lit bit about the long-term potential in Financial Services? You've said it was around a 1,000 you thought, for your long-term goal. Is that still intact as it is, or have you revised that at all?

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

Well, as we sit here today, I would say it has not materially changed and I'll remind everyone that when we discussed that, it was, again, looking at only states that had favorable or enabling legislation as a starting point. There are a number of locations within those states that were not able to do it because of lease provisions or things of that nature and that's what gets us down to the 1,000. You know, is it 950, it could be.

Again, that assumes no further change, positive or negative, if you will, in terms of either legislative environment and/or having any different success rate than we are today in terms of negotiating the leases that allow us to do it and so forth. So generally speaking, that's a long answer, but, yes, it's still in that 900 to a 1,000 today as we sit here, absent any of those kind of changes.

Bud Bugatch - *Raymond James - Analyst*

And is the cadence of store openings now, Mark, somewhere around 80 a year, does that imply you're going to acquire, get more aggressive in acquisition of that particular -- ?

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

I wouldn't say that at this point Bud, no, I mean we do -- of course, when we first got into the business, we were pretty aggressive in our openings, in fact, we put in well over a hundred, and obviously we were -- that was not the right thing to do at that point in time. We didn't have the model entirely finalized, we didn't have all the technology in place, and we didn't have a bench to draw from; and so now as we've gotten those things -- most importantly, the model right and the technology to support it, we're more confident on our ability to begin adding --

We're not going to go all the way up to a hundred yet, but we're comfortable in our ability to put on, again, the 75 or so today. My expectation would be that that could continue to increase each year. So might it be 100 and a quarter next year, very well could be. We'll see how we do this year. In terms of the acquisitions, you know, to the extent there's -- we're not aggressively pursuing anything on that front today, again, until there's a little bit more clarity or certainty. That's not to say we won't do a one off here or there. Sometimes we'll look at those, because that's what will open up the store that's in the center that's prohibited otherwise.

And so by doing that, it allows us -- again, assuming you can get it to the right terms, not a big risk, but that allows us to then leverage our real estate, et cetera, et cetera. So we'll look at some one offs like that, but not aggressively at this point. A.) we've got to, again, get more clarity and certainty legislatively going forward and then as that transpires and we get more and more confident rolling those things up and out, we'll look at it differently then, also.

Bud Bugatch - *Raymond James - Analyst*

And if you could perhaps just perhaps give us a little more clarity on the priorities of cash now that you've gone back to, say, mandatory payments of debt, only mandatory payments, now. Can you kind of prioritize the cash use as soon as.

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

Robert alluded to it. First and foremost we're, you know, always looking to continue to invest in the business and obviously this free cash that's projected today is net of our stated goals as we sit here today in terms of openings, whether it's Rent-to-Own and/or Financial Services and the likes. Again, should something else present itself that we think would give us a great rate of return and be consistent with the core competency, we'll look at it.

Given where we are in terms of the balance sheet, I think everyone knows we've been big supporters of our stock in the past and so we'll continue to look at opportunistic share repurchase. We are evaluating -- we have not reached any definitive agreements at this point, but we are evaluating, "could it be a dividend, might that be something that we would consider putting into place?" and that is one thing as an example that we're looking at, but not solely.

There are a couple of other things that we're considering also, but we're mindful of the fact that -- and I think everyone knows, in light of what the economy was going through and how the markets were behaving and given where our debt was at that point in time, coming off of the acquisition of Rent Way, we felt it was prudent to focus on the balance sheet, and, obviously, with the debt pay down and the amend and extend, we're very comfortable where we are today, and given the cash flow characteristics, we're mindful of that.

We are spending quite a bit more time and doing quite a bit more work and analysis, if you will, in some various things, but not in the position to state it yet today, but do want you to know we're mindful of it and going to be looking at some various alternatives for that.

Bud Bugatch - *Raymond James - Analyst*

You've certainly done a very credible job in taking care of the balance sheet. My last question is, any progress to disclose or talk about on the furniture store experiment that you had under way?

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

It's going well. There's -- we're at about 80 kiosks within furniture stores, for those of you who don't know what Bud's referring to. We have a kiosk in a furniture store where it if a customer -- where if a customer is denied credit, we can do a rental agreement with them.

We're up to 80 and we're working on our plans for how many we're going to expand this year. We are going to be adding to that over the course of the year. We're tweaking it a little bit from a programming standpoint.

We're waiting for that. I think that's going to be in the middle of May and then we can start growing pretty well through the end of the year.

We don't have any specific numbers yet. We're still working on the exact plan, but suffice it to say, we're going to be adding those throughout the year, and over the next couple of months, we'll have more specific information on exactly how many we're going to add.

Bud Bugatch - *Raymond James - Analyst*

Do those numbers show up anywhere differently on the geography of the statements or are they in rental and fees, where are they?

Robert Davis - *Rent-A-Center - SVP of Finance, CFO, and Treasurer*

No, they do not show up any differently. At the end of the day, it's still a rent-to-own transaction, and so to the extent we're able to successfully convert a customer to a rental agreement, then it shows up in the rental and fee line like our core storefront revenue would.

Bud Bugatch - *Raymond James - Analyst*

Okay. Thank you very much and again, congratulations.

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

Thank you.

Operator

Your next question comes from John Baugh from Stifel Nicolaus, your line is open.

John Baugh - *Stifel Nicolaus - Analyst*

Gentlemen, terrific margin performance. I wanted to pursue that. First, could you give some color around why depreciation is a bit of a margin expansion here and whether that's sustainable?

And then secondly, I'm sure it's not one item, but maybe you could touch on two or three items that are leveraging the store salaries SG&A line, because obviously you're guiding earnings up primarily because of leverage? And then comment on the sustainability of those? Thank you.

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

Sure, John. Let me start. I would say that, you know, the revenue -- the overall revenue guidance is up about $25 million, too, which flow through would get -- if you think of that, what we always talk about in that 40% range on -- 40% to 50% range on flow through, you're going to end up coming up at about half of the earnings guidance increase is revenue driven and the other half expense driven.

So let me take your first point. On depreciation, it's a combination of a few things, the focus from an operations standpoint on taking care of the product and how we can turn the product and use -- when it's in used condition, if we take better care of the product, really focus on refurbishing of the product. And the better it looks the second time out, the more you can make on it. If you can rent it for 14 months instead of 12 months because of a strong refurbishing program, then that's our benefit. So I think it starts there with a strong refurbishing program.

Some of the depreciations and some margins with deflation, we pass some of that along to the customers on the electronics deflation and some of it improves our margin. It's a combination there. I would say those are the two biggest things, how we're refurbishing the product as well as the deflation on the electronics is helping it as well.

As far as the SG&A line, you know, it's -- as we mentioned, losses are the lowest number 2.1% on customer losses, the lowest it's been in four years. A couple of $1 million and really beyond that, it's pretty much across the board. Some is in labor, some is in delivery.

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

Delivery -- remind everybody it was a year ago we completed the -- half the fleet got switched out to the van.

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

Right.

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

If the first quarter of last -- in the first quarter of last year, so --

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

So that continues to help by having one van and one cube truck instead of both being cube trucks. It's really across the board on the SG&A line. Robert, did you want to add anything to that?

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Robert Davis - *Rent-A-Center - SVP of Finance, CFO, and Treasurer*

No, I would just say that back to the depreciation comment that John asked, "Is it sustainable?" I think the answer was, yes, we do believe it would be sustainable on the depreciation line, the cost of rental and fee line. In terms of leveraging the cost structure, Mitch is correct, it is all across the board.

I would highlight the fact that in conjunction with the uncertain economic environment, not only are we focused on the balance sheet, but we're also focused on how can we conduct business more efficiently and better, so we've taken a harder look across the entire cost infrastructure, so we've been very diligent in managing costs at the store level, at the corporate level, so on and so forth. So it is spread throughout the P&L and all the lines that run through the salaries and other and that, we also believe, is sustainable, thus the increase in earnings guidance.

To Mitch's point, the overall increase of earnings guidance is up $0.25. We increased revenue guidance $25 million, about half of that at a 50% flow through would be half of the earnings increase and the other half is through the expense category. Certainly, what we've experienced here is reflected in the forward guidance as we sit here today.

John Baugh - *Stifel Nicolaus - Analyst*

That's terrific additional color on that.

Any comment on -- obviously, the economy seemed to be at least at the retail, getting a lot healthier in the month of March and continues to be strong into April. Are you able to look at that and see the same in your business in terms of a pickup in traffic or renting more items? Is it that correlated to the recent pickup we've seen or more of that may be in the future if, indeed, the economy is getting a lot better?

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

I'll take that first, John. As the economy gets better and as unemployment comes down, that's something that's certainly in the future. Right now, that's something that works against us, some of these unemployment rates.

I think as far as consumer confidence, the -- you start to see that a little bit as the amount of units per agreement starts to go up over the last couple of months. I think that's a positive sign for us. Of course, you never know if that's just operational focus or is it the customer acting differently, because we certainly put a focus on that.

So I think the -- I think the benefits that we're seeing at retail is really down the road for us and the best combination for us is unemployment rates coming down, but consumer credit still being tight, which is probably the most common forecast out there. As unemployment improves, consumer credit isn't going to get as loose as it was three or four years ago any time soon. That could present even a better combination for us.

John Baugh - *Stifel Nicolaus - Analyst*

A lot of the retailers are complaining about February weather particularly hitting on weekends. I assume that impacted you to some degree. Did March rebound even stronger since you hit the high end of your range of comps for the quarter? Was March a particularly good month? Any comment on recent trends? Thank you.

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

Sure, John. I would say it was pretty even through the first quarter. I wouldn't say February was down and March was a great month, I wouldn't say that. It was pretty consistent through the quarter.

In the northeast, the DC, Baltimore area, there were a few weekend storms right in a row which certainly hurt, but certainly nothing materially overall for the Company.

John Baugh - *Stifel Nicolaus - Analyst*

Thanks, good luck.

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

Thank, John.

Operator

Your next question comes from Laura Champine from Cowen and Company. Your line is open.

Laura Champine - *Cowan and Company - Analyst*

Good morning, guys. I was impressed by that loss ratio in your Financial Services business, because I think it's better than the industry average.

Is the industry showing those kinds of improvements and if not, what are you doing that's driving that strong rate?

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

I'd say -- All right. I guess we got an echo or something. Can you hear me, Laura?

Laura Champine - *Cowan and Company - Analyst*

I can, yes. I don't hear the echo.

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

Okay. That must have just been on our end.

The 17.6% in the first quarter, when you look at industry statistics and talk to the trade association, there are numbers in the low 20s, 20% to 24% for an -- on an annual basis, but you'll also be told from an industry standpoint that the first quarter is a lower quarter, because of the tax returns. So if you're going to run 20% for the year, you're going to be in the high teens in the first quarter and maybe in the summer be 22% or 23%. So I'd like to sit here and tell you that's much better than industry statistics, but I think it's probably closer to right in line with industry statistics on that line.

Laura Champine - *Cowan and Company - Analyst*

Okay. Thanks.

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

Thanks, Laura.

Operator

Your next question comes from John roam from Sidoti & Company. Your line is open.

John Rowan - *Sidoti & Company - Analyst*

Good morning.

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

Good morning, John.

John Rowan - *Sidoti & Company - Analyst*

Can you just go over quickly again the free cash flow guidance that you provided and how much of that is CapEx?

Robert Davis - *Rent-A-Center - SVP of Finance, CFO, and Treasurer*

Free cash flow for the year is anticipated to be $120 million to $140 million and operating cash flow is about $200 million to $220 million. CapEx is expected to be about $80 million. So the $200 million to $220 million less the $80 million gets you the $120 to $140.

John Rowan - *Sidoti & Company - Analyst*

Okay. And can you remind me, do you have a share repurchase plan in place?

Robert Davis - *Rent-A-Center - SVP of Finance, CFO, and Treasurer*

We do. We have a Board authorized plan of which about $34 million is currently available and outstanding under that plan. I think it was a $500 million plan.

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

Yes.

Robert Davis - *Rent-A-Center - SVP of Finance, CFO, and Treasurer*

Of course, that can be changed with an approval by the Board to increase that, but right now, about $34 million of dollars are available to put against that plan.

John Rowan - *Sidoti & Company - Analyst*

Okay.

And just one last question, I didn't quite catch the whole answer to it, but I think as a follow up just to David's question. There was -- the seasonality in the Other line item, that's tax prep, am I right?

Robert Davis - *Rent-A-Center - SVP of Finance, CFO, and Treasurer*

A portion of that is tax prep related. When you think about the sequential increase in the other revenue line, the Financial Services revenue does fall in the Other income category and so from a sequential perspective, tax revenue, tax prep, additional check cashing fees in the first quarter by cashing those tax refund checks is in that category that was not there in the fourth quarter.

John Rowan - *Sidoti & Company - Analyst*

Okay. So there's no one off type of revenue number in that -- in that $20 million?

Robert Davis - *Rent-A-Center - SVP of Finance, CFO, and Treasurer*

No.

John Rowan - *Sidoti & Company - Analyst*

Okay. Thank you very much.

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

Thanks, John.

Operator

(Operator Instructions). Your next question comes from Joel Harvard from Hilliard Lyons. Your line is open.

Joel Harvard - *Hilliard Lyons - Analyst*

Thank you. Good morning, everybody. Great work.

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

Thanks, Joel.

Joel Harvard - *Hilliard Lyons - Analyst*

Mitch, I believe in your opening comments, you made some reference to average ticket trends. I wondered if you could elaborate, put some detail to that, year-over-year, sequentially?

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

Yes, the -- what I was talking about was the number of units per agreement being rented has gone up the last couple of quarters. We hit our low point probably some time last fall and it's gone up the last few months due to the customer renting more which does drive the overall average per agreement up. So from a sequential standpoint, it's hard to go up in the first quarter and then that's very positive for us.

On a year-over-year basis, from a same-store sales standpoint, it's still a negative compared to a year ago. So where it helped us against guidance for the first quarter and was better than we expected and we're happy to see that stabilization and even improvement in that number, still from a year-over-year standpoint, it's down and as that continues to improve, along with the strong traffic, that's where we're going to go from a slight negative comp in this quarter to positive comp over the -- towards the end of the year. That will be in that 2% to 3% range by the end of the year.

You see our annual guidance of 1% to 2% for the year and starting out with negative .5%, obviously we're going to have to be 2% plus by the end of the year, we're forecasting 2% plus by the end of the year to hit that annual number. So it's a combination of traffic and that improvement in the number of units per agreement being rented.

Joel Harvard - *Hilliard Lyons - Analyst*

Okay.

And to make sure I understand, this is the number of individual items on an individual customer's contract?

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

Correct.

Joel Harvard - *Hilliard Lyons - Analyst*

Okay.

And by implication, then, the average -- the $1 ticket is increasing?

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

That's correct, that's correct.

Joel Harvard - *Hilliard Lyons - Analyst*

Okay. Great. Guys, great work. Thanks again and good luck.

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

Thanks, Joel.

Operator

And your last question comes from Bill Baldwin from Baldwin Anthony Securities. Your line is open.

Bill Baldwin - *Baldwin Anthony Securities Inc. - Analyst*

Good morning.

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

Good morning, Bill.

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

Hi, Bill.

Bill Baldwin - *Baldwin Anthony Securities Inc. - Analyst*

Just wanted to get some color or comment, if you can, on where you stand in terms of your assessment of potential growth in the retail installment business, where you currently have about 35 stores, I believe it is, operating.

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

Yes, we do. We've got them primarily in Wisconsin and Minnesota, and as you know, Bill, that's primarily because of the laws up there and the legislative environment in those two states.

Bill Baldwin - *Baldwin Anthony Securities Inc. - Analyst*

Correct.

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

We -- it's done very well in those two states, so we expanded it to Illinois a year or so ago with eight stores to see if in a state where there is rent-to-own, if we could pick up additional business without over-cannibalizing the rent-to-own business and that still is in the evaluation stages.

We're tweaking that a little bit, have a pretty big advertising campaign coming up here that starts on May 1, so those eight stores in Illinois are still in the evaluation stage; and I think they will be for the rest of the year. Then by the end of the year, we'll be making a decision on whether that's another growth vehicle for us or not.

Bill Baldwin - *Baldwin Anthony Securities Inc. - Analyst*

Okay. Thank you, Mitch.

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

Thanks, Bill.

Operator

And this concludes our Q&A portion. I will turn it over to Mr. Speese for closing remarks.

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

Well, ladies and gentlemen, thank you very much for joining us again this morning. Obviously, we are very pleased with the continued trends that we've seen over the last several quarters now. We've obviously been working on a number of initiatives, we talked about some of the expense initiatives and customer experience. We're steadfast in doing that and believe that we're well-positioned to continue the path that we've been on.

We appreciate your support. As always, we're available for follow-up. We look forward to talking to you next quarter. Thank you, much.

Operator

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