FINAL TRANSCRIPT

Thomson StreetEvents℠

RCII - Q4 2010 Rent-A-Center Earnings Conference Call

Event Date/Time: Feb. 01. 2011 / 3:45PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

David Carpenter
Rent-A-Center - VP of IR

Mitchell Fadel
Rent-A-Center - President, COO

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

Mark Speese
Rent-A-Center - CEO, Chairman

CONFERENCE CALL PARTICIPANTS

Budd Bugatch
Raymond James & Associates - Analyst

TJ King
Raymond James - Analyst

David Burtzlaff
Stephens Inc. - Analyst

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

Laura Champine
Cowen and Company - Analyst

John Baugh
Stifel Nicolaus - Analyst

Mike Grondahl
Northland Securities - Analyst

John Braatz
Kansas City Capital - Analyst

John Rowan
Sidoti & Company - Analyst

PRESENTATION

Operator

Good morning and thank you for holding. Welcome to Rent-a-Center's fourth quarter and year end 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 today, Tuesday, February 1, 2011. 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, Michelle. Good morning everyone and thank you for joining us. You should have received a copy of the earnings release distributed after the market close yesterday, that outlines our operational and financial results that were made in the fourth quarter. If for some reason, you did not receive a copy of the release, you can download it from our website at 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 highlights. Finally, I must remind you that some of the statements made in this call, such as forecast growth in revenues, earnings, operating margins, cash flow, and profitability, and other business or trend information are forward-looking statements. These matters are, of course, subject to many factors that could cause actual results to differ materially from our expectations reflected in the forward-looking statements.

These factors are described in the earnings release issued yesterday, as well as our most recent quarterly report on form 10-Q for the quarter ended September 30, 2010. Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statements. I would now like to turn the conference call over to Mark. Mark?

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

Thank you, David, and good morning everyone and thank you again for joining us this morning. I continue to be very pleased with our overall performance as supported by the fourth quarter and year-end results that were just reported. It was a strong finish to the year and as importantly, I believe that we are well positioned as we begin 2011.

Mitch and Robert will walk you through some of the particulars as it relates to our operational and financial results but suffice it to say, I am excited to report we're seeing an acceleration in both our top-line and bottom-line. In fact, these results have led us to raise our outlook for 2011. We now expect same-store sales to range from a positive 1.5% to a positive 2.5%. The midpoint of the new revenue guidance now equates to approximately 6% revenue growth and that compares to the approximate 4% growth that we had previously forecasted.

This is being driven by a 2% comp in the core rent-to-own business and the accelerated ramp up of the RAC Acceptance locations from both organic growth as well as the acquisition of TRS. The new midpoint of our increased EPS guidance now equates to approximately 7% EPS growth, like the revenue this is up from 6% last quarter and also includes a ramp up of our initiatives, the additional ramp up in the added cost associated with them. We are very much on track, even a little ahead, of the overall four year objectives that were laid out during our investor conference last November.

Let me provide a brief summary on the growth initiatives. The RAC Acceptance channel, these are the locations inside of a third-party retailers, is proving quite exciting. Not only did we open 160 new locations during 2010, as was announced late last month, we also acquired 158 kiosk locations from The Rental Store, otherwise known as TRS, who was previously had been the leading player in that space. All in, we ended 2010 with 384 locations and now, given both firms' prior partnerships and commitments, we expect to add approximately 300 additional locations in 2011. Of course that is up from our previous expectation of 100 to 150.

In fact we have roughly 250 committed and in the pipeline to be opened over the next six to nine months. Overall, the RAC Acceptance business should contribute approximately 6% to 7% of our total revenue in 2011, and add approximately $15 million to $20 million in EBITDA. So again, very exciting with regards to that business channel.

On the international front, we now have our first five stores opened in Mexico and we are very pleased with their initial results. We continue to pursue an aggressive rollout plan, now expecting to open between 40 and 75 locations there this year, and at the same time we are pleased with our progress in Canada as well, and expect to open 10 to 20 locations there this year. The value proposition is being well received in both countries.

As we previously mentioned, in light of these initiatives, we review the strategic alternatives with regard to our financial service business and decided to exit that business. We have now sold a majority of the customer accounts and 280 locations as well as closed six locations. In light of the decision to exit the business, we reported in the fourth quarter a pre-tax and pyramid charge of $18.9 million relating to its discontinuance.

We will continue working through the remaining locations, again starting with about 330 so there are 50 or so locations, plus some accounts from the others that had been previously sold. We will continue working through those remaining locations and the balances and expect most to be resolved over the next 90 to 180 days.

In summary, it was another excellent quarter, it lays the foundation for a successful 2011 that includes continuing our strong performance in the core rent-to-own business, the implementation of our growth initiatives in both RAC Acceptance and International as well as our continued investments in technology in an effort to continue to improve the top-line and drive additional efficiencies as well. I do want to thank all of our coworkers for their continued hard work and commitment and a special thank you for the successful fourth quarter 2010, and with that let me now turn the call over to Mitch to provide more operational details.

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

Thanks Mark. Good morning everyone. We are very pleased with our quarterly results as we see both our rental and P revenue and our earnings guidance. Traffic was strong during the quarter as we had our best gain in customer agreements in a number of years. And our units rented per agreement steadily increased during the quarter as well.

This has helped us achieve a flat comp which excluded the benefit we had been getting in prior quarters from the financial services revenue. Therefore, it was our best to rent-to-own operation only comp since 2008. The strong quarter of customer in agreement growth has also helped us, help lead us to forecast a 1.5% to 2.5% comp in the first quarter and to increase the entire year of 2011 to that 1.5% to 2.5% estimate.

Due to the continued tightening of consumer credit, an increasing number of consumers needing or wanting high-quality brand-name merchandise are attracted to our value proposition. We are seeing that in our results and in our customer demographics as we continue to see the income levels of our customers skew a little higher, something that we believe is a result of the current credit environment. In addition to the continued tightening of consumer credit helping us, we believe we are driving more business from our targeted marketing and advertising programs, our ongoing focus on the customer experience and our new centralized purchasing system.

For example, with our new purchasing system our product mix in the stores has improved and more specifically, our new product ratio in the stores in the fourth quarter, was approximately 25% better than it was a year ago. So a much better mix and a better mix of new product in the stores so that is working well for us. And speaking of the new centralized purchasing system, our inventory held for rent ended up at 21.7% within our normal range and again in great shape heading into 2011. From a collection standpoint our metrics remain strong, with our weekly delinquency average just a bit higher than last year and our customer losses coming in at historical lows at just 2.3% for the quarter and for the year.

In summary, we are encouraged by the positive results in the fourth quarter as it laid a very positive foundation for 2011. Demand remains strong, our units per agreement metric is coming back nicely, our inventory is in good shape and we believe our new inventory management system is helping drive results, and our collections continue to be strong. So we will continue to work to improve the top-line and drive efficiencies in the business in 2011, and I also like to thank our 18,000 coworkers for their dedication and for the 2010 accomplishments and with that, I will now turn the call over to Robert.

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

Thank you, Mitch. I'm going to spend just a few moments updating everyone on our financial highlights during the quarter, provide guidance for the first quarter of 2011 as well as our revised guidance for the year, after which we will open the call for questions.

I would 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 and will therefore exclude the approximate $0.22 in charges associated with our refinancing and the financial services business. So as outlined in the press release, total revenues were $677.1 million during the fourth quarter 2010, an increase of $4.2 million as compared to the fourth quarter last year. This increase was primarily driven by a $5.5 million dollar increase in the higher margin recurring rental and fee category which did exceed the high end of our guidance and principally the result of our expansion of the RAC Acceptance initiative.

We also estimate that our total revenues were negatively impacted during the quarter by approximately $4 million to $5 million due to the discontinuation of the financial services business. As a result, and as Mitch described, our same-store sales were flat during the quarter given that we did exclude the revenues from financial services for both periods in the comparison. This top-line growth coupled with our continued focus on managing expenses led to operating profit margins of 12.1% in the quarter. That is an improvement of 100 basis points from the fourth quarter of last year. Net earnings were $45.6 million while diluted earnings per share equated to $0.71, an increase of 7.6% and a penny ahead of the top end of our guidance.

Our fourth quarter EBITDA came in at $98.2 million, an increase from the prior year of 8.4%, while the EBITDA margin also increased 100 basis points in the period to 14.5% as compared to last year. For the full year, operating profit increased 10.7% while the margin increased 120 basis points to 11.8%. Similarly the full year EBITDA margin increased 120 basis points as well to 14.3%, while net earnings and diluted earnings per share increased 12.5% and 13.3% respectively for the full 12 month period ending in December.

We continue to post positive recurring cash flow in the fourth quarter proved no different with roughly $24 million in positive operating cash during the quarter. That is despite an increase in working capital investment to support our fourth quarter growth in both the core business as well as our expansion-related initiatives. For the full year our operating cash flow equated to $216.5 million.

Now as most of you recall, we did issue $300 million in senior unsecured notes in the fourth quarter and only paid down $200 million in our senior term loans with the additional $100 million to be used for share repurchase. During the quarter, we did repurchase approximately 1.4 million shares of our common stock, for approximately $39 million, which going forward, essentially offsets the increase dilution from the higher interest costs from the notes. So, the increase in our 2011 earnings guidance, which I will walk through in a moment, is not a result of or impacted by either the refinancing or the subsequent share re-purchases in the quarter. As a result of the refinancing and the positive trends in the business our leverage ratio at the end of the fourth quarter was 1.69 times, well below the floor on our covenant requirement of 3 1/4 turns. We believe our balance sheet is in great shape and with minimal near-term debt maturities, we believe we are positioned well to execute on our growth initiatives.

Turning to guidance for a moment, we are initiating our first quarter guidance of 2011 while increasing our full year 2011 guidance. So for the first quarter we expect total revenues to range between $745 million and $765 million with same-store sales in a range of a positive 1.5% and 2.5%. As for diluted earnings per share we are guiding the first quarter to range between $0.82 and $0.88. As mentioned we are increasing our 2011 guidance and we now expect total revenues to be within a range of $2.868 and $2.928 billion, that is a $62 million increase from our prior guidance, with our same-store sales for 2011 expected to range between a positive 1.5% and 2.5%. Overall diluted earnings per share for 2011 are expected to be in the range of $2.90 and $3.10, again that is up from our prior guidance.

In terms of EBITDA and free cash flow, the company expects EBITDA to range between $400 million and $420 million with free cash flow expected to be in a range between $315 million and $335 million. I will tell you, this free cash flow expectation is positively impacted by the 2010 Tax Relief Act signed into law on December 17, 2010.

So I would like to reiterate our capital allocation philosophy that the company communicated in its first ever Investor Day in New York back in November. From a capital priority perspective, the company will first and foremost continue to reinvest in the business, be it working capital, CapEx, or acquisition-related investments. That will be followed by our current intention to continue our dividend payments. Next would be our focus on continued opportunistic share repurchase which our recent history illustrates. And given where our balance sheet is currently, our last priority would be on voluntary debt reduction. Hopefully this helps you understand Management's view on the business and our belief in the long-term prospects of the company.

As always, this current guidance that I just reviewed with you excludes any potential benefits associated with future potential stock re-purchases, future increases in dividends, material changes in outstanding indebtedness, or acquisitions or dispositions completed after the day of this press release. So with that update, I would now like to open the call to questions. Michelle, if you would, please, compile the Q&A roster.

QUESTIONS AND ANSWERS

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

(Operator Instructions)

Operator

Your first question comes from Budd Bugatch at Raymond James. Your line is open.

Budd Bugatch - *Raymond James & Associates - Analyst*

Good Morning Mark. Good Morning Mitch, Robert, David. This is actually, TJ filling in for Bud who is traveling this morning. Congratulations on the quarter.

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

Thank you TJ.

TJ King - *Raymond James - Analyst*

No problem. The first question I had is to the guidance and Mark, thanks for the detail for the RAC acceptance contribution , any comment you want to provide? I know Mexico is still small, but any comments you want to provide as to maybe the potential contribution there, or if not a number, what you're learning, with the first five stores and what you might have -- what you might know today that you didn't six months ago when it entered

---

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

Mark, Let me start out with the financial impact and you can talk about what we're seeing operationally. For 2011, Mexico is actually a drag of next year of about a nickel and 11 million or so in top-line contributions. Very small as you indicated, TJ, that nickel is about $0.03 more than we were expecting last quarter. As you know we did give a range of 25 to 75 last quarter given the fact that we brought the low end up, that implies we expect to open more stores in 2011 and therefore the total drag mixture for Mexico is a nickel about $0.03 more than what we were expecting last quarter.

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

Yes, and that's a good -- I will build right on that. I think that speaks to how we feel about the market down there. As Robert said, we had originally had given a guidance of 25 to 75, not knowing again you have got to find locations, the time involved in negotiating, hedging a little bit how the market is going to perform, but suffice it to say ,the results we have seen at this point, from the stores that are in place, and the consumer sentiment towards the proposition, has reaffirmed our belief that this would be well received and successful. And it's for that reason that we have really have taken a more aggressive position in terms of trying to ramp those up a little bit quicker. And, so that is why it is now 40 to 75 as opposed to the 25 to 75 and then of course, the by product, as Robert just alluded, is a little more drag then you might have expected otherwise, but certainly one that we are very comfortable with, just a few pennies.

TJ King - *Raymond James - Analyst*

Okay. Okay guys, that is actually very, very helpful. Thank you for that. The other question I had, was about the inventory and maybe this one is best for Mitch. I know we talk about the held for rent ratio this quarter, Mitch, being in the normal range, should we expect over time as maybe the RAC acceptance part of the business becomes a larger proportion, for that normal range to trend down given the nature of that business and how you have to acquire the inventory and the customers there?

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

I think so. I think you are right on, TJ. As we grow a business, that you don't keep any idle inventory in, you'd expect that to trend down and maybe we will have some new normal ranges in the next couple of years as that ramps up. But it certainly should get better rather than go the other way, because that is one of the beauties of that model, right is that you don't buy the inventory until you have a rental agreement on it.

TJ King - *Raymond James - Analyst*

Right, right. Yes, exactly. That was where I was going.We will keep our eyes out and we will see if we start to see some normal patterns, maybe hopefully you guys can keep us abreast of that, but that does it for me guys, thank you for answering my questions.

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

Thanks TJ.

Operator

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

David Burtzlaff - *Stephens Inc. - Analyst*

Good morning guys and great quarter.

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

Thanks David.

David Burtzlaff - *Stephens Inc. - Analyst*

A few questions. Mark, you said your customer demand was the strongest you have seen, can you give any more color on that? Maybe what the growth is in customers here?

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

Well we -- I guess I will qualify it this way, you know we have not in the past given a number of agreements or number of customers. Last year, you heard us talk all of last year and throughout this year how strong last year was from -- the way we measure traffic was the number of deliveries the stores are making, be it week end or month end, and last year we were experiencing double-digit demand or delivery output from the prior year. And in fact last year was one of our best delivery outputs in a number of years. So we had a high bar to get over, if you will, in fact this year, we actually out-delivered the last year, throughout the year and again the fourth quarter as well. And so, in fact, from a delivery standpoint, it was the best output that the stores have had in many years.

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

The fourth quarter was the best in years, not only from a delivery output stand point, but even more importantly from what the customer growth number was at the end of the quarter and the agreements, and as I mentioned earlier David, also the units per agreement steadily increased in the quarter, so we have more customers, we grew more customers in the fourth quarter than we had in many, many years, as well as more agreements than we had in many, many years and they are renting a little bit more per agreement. All the metrics are in the right direction. Another thing I would add, David, that I mentioned in my prepared comments. As we look at the demographics of where the deliveries are going, there are slightly up. So is that a sign that the current consumer credit environment is pushing a little higher skewed -- higher income skewed customers to our stores, we believe it is.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay. Well the higher number of agreements, or higher number of units per agreement, is that possibly a function of the declining prices? That you may be bundling more?

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

No

David Burtzlaff - *Stephens Inc. - Analyst*

Or is that just a straight customers renting more?

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

No.I think that is a couple of things. Not really declining prices because you are probably referring to declining television prices, but we drive that decline primarily to the term and not the rate, so I think it's a matter of pushing it harder, some of our promotions were geared towards getting that number back. Operationally, we have done a much better job the Ops team is doing a better job, recommending an add-on unit every time a rental goes out. So I think it is operational promotional, not necessarily the pricing because, again, we handle the TV deflation primarily through the term rather then the weekly rate.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay, okay. And are you --

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

Our point there, is that it is improving, it is not at historical levels. It has been declining for period of time and it was flat for a couple of quarters, we now actually have seen a slight up tick, which is an encouraging sign but don't want to confuse that with the others in terms of at historical or best in years and years, it is certainly improving but it is not where it was.

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

And still more opportunity there, that is right.

David Burtzlaff - *Stephens Inc. - Analyst*

And then one more question, on TV, are you guys seeing any, are the customers still looking to increase size --screen size, or have they gotten to a point where maybe a 52 inch TV or whatever it may be, as big as they want to go?

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

Well, certainly we're talking about deflation. And though we cannot have big revenue drops in television like retailers have reported recently, because we can reduce the term versus the rate, at least primarily, -- where that deflation also helps us, or at least it doesn't hurt the revenue as I just described, but where it helps us, is we can carry bigger screen sizes. We are now on flat-panel TVs up to 60 inches and the customer, to answer your question, yes, the customer, bigger is better, up to 60 inches and because of the deflation we have been able to bring them in -- the overall prices work for us and for the customer. We have carried the 73 inch in the DLP technology for quite a while but from a flat-panel standpoint, we are up to 60 inches because of that deflation, so that deflation is helping us unlike a traditional retailer.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay. And then one more.Can you disclose what you sold your receivables for? How much you got for them?

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

Sure. We -several as you might imagine, David, widespread as our footprint is, the receivables that we sold were in a series of transactions across a seven or eight different buyers. For the most part, we were a dollar for dollar on current loans to the extent that there was no customer overlap, things of that nature. So for the most part, dollar for dollar, there is -- a couple of different moving pieces that were still yet to be determined, for example any past due customers that they are trying to work to the extent they can convert them later we will get paid for them at a later date. And so some of that stuff is still yet to be worked through.

So, by and large it is dollar for dollar but part of the, I do want to spend too much time on this. But bottom line is, the $18.9 million charge for financial services, about $3 million or so roughly is an increase reserve for loan-loss allowance, which we think, as we exit the business, would be a byproduct of doing so. $12 million or so is from fixed assets, couple of million in goodwill write-off, and then a million or so in severance; and so that is how that breaks down but again, don't spend a lot of time on financial services.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay. Thank you very much.

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

Thank you David.

Operator

The next question comes from Arvind Bhatia of Sterne, Agee . Your line

---

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

Thank you and my congratulations, as well.

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

Thank you Arvind.

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

Just a few questions. You guys are ramping up your RAC acceptance as well as Mexico and I am just curious, what are some of the areas within, for example, RAC acceptance, that are perhaps more exciting than you maybe you even thought two or three months ago. In other words, are you seeing maybe a better revenue opportunity? Is it more that you are able to execute a lot faster ? Are margins any better? If there is any more color, just to understand the acceleration here. And then on Mexico, is your excitement more because you're seeing better revenue or better margins and, again, what about the bad debt rate there versus what you

---

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

I will start Arvind on the acceleration on the RAC acceptance numbers. We performed against our model well. Really the increase in numbers is because after buying TRS, they had a pipeline of people wanting to open more stores and so did we, so it is really a combination of putting those two pipelines together the drives the 100 to 150 up to that 275 to 325 that is now in the guidance. They had a pent-up demand for that business model as well and couldn't really take advantage of it from a financial standpoint like we can, so it's really those two companies coming together and adding the demand together is why it has increased.

On Mexico, we continue to perform on behalf of the performance against the model, doing real well down there and more revenue, yes, is the answer to that. The margins are about where we expected, but the revenue, the demand for the product and the acceptance, as Mark pointed out, the acceptance by the consumer is what we are really excited about down there, which is driving the revenue.

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

And just to follow on, Mitch, the RAC acceptance, not only was it the combination of the two pipelines, but given our performance we were more than willing to do so, right, so it was not just only because they had a pipeline built up, but given the fact we were performing well ahead of our model and expectations, those two together, helped us make that decision.

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

Got it. And are you guys able to disclose which locations you plan to open. I know that Ashley obviously was one and, I know, TRS was in Conns and some other stores. Are you able to share what locations this pipeline is going to be in?

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

In general terms, we will continue to work with Ashley. The Conns opportunity for us is exciting, the TRS as you mentioned, is already in Conns, -- not all of them, so some of the pipeline is finishing out Conns, so that is exciting for us because that adds a whole other dimension, it adds electronics and appliances to the business model, to the store within a store business model, rather than just furniture which we had been doing. And then, we are in some of the bigger stores between us and TRS and there is more to do with some of those bigger companies like The Room Store and Rooms- To-Go. It is going to spread, you know, 385 now and opening 300 this year, we are going be in a lot of places by the end of 2011, close to 700 spots. But the -- I think the highlight there could be the opportunity of getting into electronics and appliances, like Conns deal, that is a pretty exciting addition now that we bought TRS.

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

And my last question, on the comp number, the 2%, let's say the midpoint, how much of that is coming from the new initiative versus the core RTO comp?

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

Arvind, I think, as Mark mentioned in his prepared comments, 2% of our revenue growth is from the core business which is the mid-point of the comp guidance. None of the initiatives will be included in the comp, maybe, save for a handful of some of the earlier RAC acceptance stores. But if you think about the annual guidance, virtually none will be in for the annual guidance.

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

It will really be 2012 before we start seeing significant comp, significant help to the comp from those the new initiatives.

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

In that case, as the RAC acceptance comes into comps and you're going to be at 600 some stores by the end of this year, I mean we are looking at something like mid single digit comps in the coming years?

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

Well we have not done the math for the coming years. You can take the business model of RAC acceptance, now the stores don't get up to the same revenue as a regular store, so you have to cut it a little there as you look at the dollar amounts, because it is a smaller revenue and obviously a smaller expense business and you get the same or even a better bottom line, but from a revenue standpoint you can take the model and look what do in the second year. It's not like it's 600 more rent-to-own stores but it certainly it should, over time start providing significant help.

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

I don't know what exact number is it will provide, though will we have not really gone past 2011rom that stand point.

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

Sounds great. Congrats again guys. Thanks.

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

Thanks, Arvind.

Operator

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

Laura Champine - *Cowen and Company - Analyst*

Good morning guys. Robert, I just have a house keeping question. On the balance sheet, from the press release today, it looks like you prepaid expenses and other ramp to $170 million. What drove that?

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

Great question. You are doing your homework, that is good. Bottom line is, Laura, in my prepared comments, we talked about the benefit of the 2010 Tax Relief Act signed into law in December. Obviously that was a late occurrence in the year and we had been a cash taxpayer for 2010. After that law was signed in to -- put into place in December, some of it reaches back to the beginning of this year. Bottom line is we are in over paid tax position today that is a receivable on the balance sheet for -- that we expect to get back in 2011.

Laura Champine - *Cowen and Company - Analyst*

Got it , great.

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

Thanks Laura.

Operator

Your next question comes from John Baugh from Stifel Nichols. Your line is open.

John Baugh - *Stifel Nicolaus - Analyst*

Good Morning. Congratulations, Mark, Mitch, Robert and David. Good quarter. Quickly, can you -- we danced around it a little bit, you made the comment that you are seeing a sequential up-tick or slight up-tick not relative to the historical. Are you -- what metric were you referring to there and I guess what I am really interested in knowing is, in the new contracts you are writing, and this is all about dollars at the end of the day, are we seeing increased traffic and increased customer contracts per agreements or units per agreement but still sequential declining APU or is the APU actually flattened out and going up or how does that all work?

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

The answer is yes to everything except your last one, the APU, the answer is no. It is not declining. So yes, we have seen more traffic. Those customers, as Mitch said, are renting a little more, a few more units, which is driving the APU up on the packaging so the number of units per agreement has picked up a little bit and that has led to a slight increase in the APU. So it had been declining, it was flat in the last quarter or two, and it is actually because of those other things, has actually inched up a little bit as well.

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

So all the metrics are in the right direction, whichever one you want to look at from a growth standpoint. They are all in the right direction, year-over-year and sequentially.

John Baugh - *Stifel Nicolaus - Analyst*

And just in case anybody who wants to short your stock or is short your stock is listening, the way to achieve that with deflating prices on TVs is to shorten the term, correct or not correct?

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

Yes, that is correct.

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

And (inaudible) the recurring revenue, just bring the number of months down in which in you collected. And to Mitch's point, declining prices for televisions actually helps our business, does not hurt our business.

John Baugh - *Stifel Nicolaus - Analyst*

Correct. Could you all build a quick bridge for me between the $400 million to $420 million of EBITDA guidance for the year and the free cash flow number, the key in betweens there?

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

Sure, so starting out with the $400 million to $420 million in EBITDA, net cash interest is expected to be $35 million for the year, CAPEX is around $75 million, working capital investment about $70 million and then an add-back for taxes of around $95 million. Again we have overpaid for 2010 and expect to get some of that back. That is what Laura was referring to previously, that all adds up to $315 million or $335 million in free cash flow for 2011.

John Baugh - *Stifel Nicolaus - Analyst*

Okay, and that number, Robert, obviously a gift to fall in your lap in December, is substantially higher, does it change your thinking at all about share re-purchases or capital structure in anyway?

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

No. And I think -- obviously what I reiterated in my prepared comments, was how we laid out our capital allocation philosophy priority if you will back in November, which was well in advance of the new law going into place. Obviously this gives us a lot of more dry powder, but from a priority perspective it does not change our thinking.

John Baugh - *Stifel Nicolaus - Analyst*

Okay, and lastly, I admit to being lazy here and I did not go back to your detailed investor day presentation on each business unit and the ramp in terms of capital needed and drag on earnings, but when you look at RAC acceptance alone, and the increase you are now looking at, you talk about the earnings drag. Will that have a capital drag as well?

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

There is obviously working capital investment as we are growing that business. Obviously, if you think about that $70 million or so in working capital investment, a portion of that is related to RAC acceptance, but not all. I don't have the particular numbers broken out specifically, but when you think about the 2% comp in the core business obviously that is going to drive the majority of the working capital investment and then the remaining would be associated with the initiative to be Mexico, RAC acceptance, et cetera.

John Baugh - *Stifel Nicolaus - Analyst*

Great, thank you for the color.

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

Thank you John.

Operator

You next question comes from Mike Grondahl from Northland Capital. Your line is open.

Mike Grondahl - *Northland Securities - Analyst*

Yes. Thank you for taking my questions, guys. Three pretty quick questions. Just, maybe one more follow-up on this best growth in customer agreements in years of statement. Would you say that was more driven by traffic or maybe any product category that really stuck out? And then, secondly, if you can comment on how your campaign here advertising the free until February 5 has been going and maybe, just lastly, for Mark, with all the things we have going on in 2011, what is the most exciting thing for you?

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

I will start with , on the growth of the fourth quarter, Mike. Traffic, it was primarily traffic. I think the deflation helped us do a little better in the larger sized TVs, the 50 inch and 60 inch TVs were a strong force including a great Black Friday sale as well as the whole month of December. Televisions were a good part of it. Again, because of the deflation, being able to carry bigger screen sizes. Although every category grew, appliances, furniture, computers, everything grew maybe a little more out of televisions, because we were able to use that deflation to our benefit. As far as this month promotion, I don't think we want comment a whole lot on January. We obviously had just seen the final results this morning but certainty no surprises out there, from our standpoint on the promotion. We run it every January and nothing has surprised us this year. And then on excitement, I think you wanted Mark

---

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

Yes. I tell you Mile, I guess I was sitting here thinking about it as Mitch was responding to the other questions, and I don't know that it's any one thing. I would actually say it was a couple of things. Not the least of which is seeing things come to fruition, and when I say that, of course the last couple of years, in what was going on and continues to go on in the macro economy throughout that entire period, we felt and believed that it could be opportunistic for us. That in fact, several of years prior to that, one of the bigger competitors we had faced was easy access to credit and with that being diminished and consumers having fewer choices but still needs and wants, that we could be in a position to capitalize or serve that, and I think ,at this point, we continue to believe that we are seeing that.

The results that we have posted throughout this past year and as Mitch talked, some of the expanding customer base, so forth, the international is also very exciting. We have been looking at and working on that for quite some time. We've only been in the recent market, Mexico, the last quarter, but again have been working on it well in advance of that, and obviously are excited at this stage with what we are seeing, and what we continue to believe the prospects are. And then the RAC acceptance, of course you have to excited. Now that is a little bit newer, in that albeit, we kind of looked at it, got into it 18 months ago, it is really in this past year -- presented the opportunity that it has, and then being able to get TRS and make it part of it and to have that as the platform.

So, quite frankly, I'm pretty enthused about a lot of things. We have a lot of people that are working hard and having fun, and we are seeing the results of those efforts in the things that we have working on and, frankly, I am pretty excited about where we are and how we are positioned going into 2011 and all the things that we do have in place.

Mike Grondahl - *Northland Securities - Analyst*

Well, great. We look forward to watching your progress and best of luck next year or -- this year, 2011.

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

We appreciate it. Thanks Mike.

Operator

You next question comes from John Braatz from Kansas City Capital. Your line is open.

John Braatz - *Kansas City Capital - Analyst*

Good morning gentlemen. Turning back to RAC acceptance, obviously you are accelerating the expansion -- well you are expanding quite rapidly there. And obviously with the acquisition of TRC, you're going to expand a little bit more quickly, but what is the market opportunity beyond 2011 look like? How sizable is that opportunity and can you give us any color on that?

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

Sure, John. We have been pretty consistent all along and we think on the furniture side of things we felt like it was a 1000 store opportunities, store within a store, that there was a 1000 of them we could do, and, now, getting into Conns with the TRS, we are not sure what the opportunity is on the electronics and appliance side of things but it certainly that 1000 -- now we can say 1000 plus, because you add electronics to that and obviously if you get inside one of the big electronics or appliances players, then you can do the math from there. It would be pretty big players out there. It's 1000 on the furniture side, we believe, so when you add electronics and appliances, it is certainly 1000 plus.

John Braatz - *Kansas City Capital - Analyst*

Okay what is the expectation with Conns, I know you talked al little bit about it earlier, is there already a timetable involved?

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

Yes, we're going to finish those out probably by midyear. We will be finished with the rest of their stores, TRS was in about half of them, we have got some assimilation things to do here in the first quarter, and then we will start adding stores and then we should be done with Conns by midyear.

John Braatz - *Kansas City Capital - Analyst*

Okay. Is the value proposition to you, any different in an electronics store then a furniture store?

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

No, the value proposition is the same. The cost per transaction is a little lower. On the electronic side than the living room group at an Ashley store or TRS -- a Rooms-To-Go or something like that. It's a little lower but the math all works pretty much the same way.

John Braatz - *Kansas City Capital - Analyst*

Okay. Okay, fine. And lastly, I noticed that you said there were a few more financial stores the you have to close. Will there be any additional charges that we might see through this year, when you get out of it completely?

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

We do not anticipate any. Right now as I indicated earlier, we are sitting at roughly a 50% loan loss reserve of the remaining receivable that we have on our balance sheet to the extent we have experienced worst performance if you will, there might be a slight change but no, we don't anticipate that happening.

John Braatz - *Kansas City Capital - Analyst*

Okay, alright, very good. Thank you very much. Great quarter.

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

Thank you.

Operator

Your next question comes from John Rowan from Sidoti Capitol and Company. Your line is open.

John Rowan - *Sidoti & Company - Analyst*

Good morning guys.

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

Good morning, John.

John Rowan - *Sidoti & Company - Analyst*

Robert, just to go back to the $95 million, there is going to be an additional $95 million coming into the prepaid expenses and other assets line, correct?

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

Correct.

John Rowan - *Sidoti & Company - Analyst*

Okay, and that is obviously part of the free cash flow?

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

Correct.

John Rowan - *Sidoti & Company - Analyst*

Now, your guidance for the year, you did say obviously that -- voluntary debt reductions we be the last use of capital, your guidance though, does that include debt reductions as the use of a lot of the free cash flow for the year or how do you look at that for your guidance?

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

Great question, the answer is yes. It is assuming debt reduction in the guidance, which means that to the extent capital is deployed in other ways, such as share re-purchases as opposed to debt reduction, that would accelerate the guidance that was given.

John Rowan - *Sidoti & Company - Analyst*

Okay. And how much is left under the current repurchase authorization?

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

There is, with the board authorization, there is about $280 -- $250 million with the board, the senior credit facility is unlimited given our senior leverage ratio is below 2.5.However the new indenture associated with the note offering last fall, there is a basket there as well and that is $180 million baskets. So that would be the lowest of the three components, but the $180 million is the threshold as we sit here today, that basket does build over time with future net earnings and so forth.

John Rowan - *Sidoti & Company - Analyst*

So, let me just understand. You have $180 million is the maximum you can repurchase at today?

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

Correct.

John Rowan - *Sidoti & Company - Analyst*

Okay, and then, what are the mandatory debt repayments over the next couple of years?

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

I don't have those numbers specifically in front of me. I think it is $30 million or so in 2011, $18 million or $20 million in 2012 and it kind of ramps up beyond that. It's very minimal the next couple of years.

John Rowan - *Sidoti & Company - Analyst*

Okay. And then, just of switching to Mexico quickly. I know, you guys obviously gave some pretty good numbers here for store openings, 40 to 75, but I know you said at the analyst day that the market could support 1000. What is the constraint to get to 1000? Is it the hiring, is it real estate, how long is that ramp up going to be?

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

Well certainly at the beginning, it is both of those, John. We have opened five stores from scratch down there and not just hit 40 or 50 this year, we're obviously up to 75, takes quite -- it is quite a task to build the infrastructure of people.Once we have this year behind us, it should ramp up each year. We should be able to multiply or compound that growth a little more because we have a foundation people trained and so forth.

It's mostly people, it takes time to find real estate but we don't see that as a restraint, it's just resources to find it. But it's mostly just developing the people not to go so fast that you screw it up or something. And when you think about being able to put a lot more RAC acceptance / TRS stores in the United States, we have quite a foundation here to draw from whether it's district managers, regional directors, we have pretty much the entire TRS management team coming with us from their chief operating officer on down, which is only about the only reason could do the 300 here, because those folks have matched up with us and we have their great team with us now. Whereas in Mexico, there is no foundation at all. So it should compound each year to be able to grow faster as you go forward.

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

And John, going back to your question on mandatory debt payments in '11, are $ 36.5 million, $29 million in '12 and $48 million in '13. Less than $50 million in each of the next three years.

John Rowan - *Sidoti & Company - Analyst*

Okay and then just one more question again on the tax issue, does that $95 million reverse out in 2012?

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

Yes. We have obviously been the beneficiary of some of these acts from Congress the last few years. It's basically a timing issue. So it is a deferred item that would be repaid back in future years.

John Rowan - *Sidoti & Company - Analyst*

Okay, and just one last question. You guys talked about the mix of new goods improving, is that any indication or is that maybe to service the higher income consumer that is coming in the door?

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

No. I think it was our purchasing system, our new purchasing system, just getting product in the stores at a better pace and getting exactly what we needed versus not needing, so I think it was a purchasing system driving that. And the people here that run that system, it is not just because we have a good computer program, the people behind it are doing a great job.

John Rowan - *Sidoti & Company - Analyst*

Okay thank you.

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

Thanks John.

Operator

This concludes today's question-and-answer session. I would now like to turn the call back over to Mr. Mark Speese for closing remarks.

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

Michelle, thank you. And ladies and gentlemen, we thank all of you for taking the time to join us again. As I mentioned at the very beginning, I am very excited and pleased with our performance through 2010. I am very excited with how we are positioned as we go into 2011. Obviously, we have a couple of big initiative opportunities in front of us, suffice it to say that we are focused on this core business, this all fits within the core business.

I don't think we have very many distractions ahead of us, and we feel excited about those opportunities, and we look forward to reporting back to you in the quarters ahead as to how we are doing. In the meantime we always appreciate your support and interest in us. Thanks again, have a great day and we look forward to speaking to you next quarter.

Operator

This concludes today's conference call. You may now disconnect.(Operator Instructions)