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PRESENTATION

Operator

Welcome to Rent-A-Center's first-quarter 2011 earnings release conference call. At this time, all participants are in a listen-only mode. Following today's presentation, we will conduct a question-and-answer session.

(Operator Instructions)

As a reminder, this conference is being recorded, Tuesday, April 26, 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.

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

Thank you, Jessica. 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 download it from our web site 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 web site. Also, in accordance with SEC rules concerning non-GAAP financial measures, the reconciliation of EBITDA is provided in our earnings press release under the statement of earnings highlights.

Finally, I must remind you that some of the statements made in this call, such as forecasts, growth in revenues, earnings, operating margins, cash flow and profitability and other business or trend information are forward-looking statements. These matters are, of course, subject to many factors that could cause actual results to differ materially from our expectations reflected in the forward-looking statements. These factors are described in the earnings release issued yesterday, as well as our most recent annual report on form 10-K for the year-ended December 31, 2010. Rent-A-Center undertakes no obligations 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. Good morning, everyone, and thank you for joining us this morning. Albeit we fell short of our overall expectations for the quarter, specifically the core rent-to-own top line revenue and then, hence, EPS, I will say I am pleased with how the quarter ended as our total portfolio, and, specifically, the core rent-to-own ended as originally expected and, at the same time, our growth initiatives performed well during the quarter. So, while the first-quarter fell a little short, and Mitch will go into some more detail here in a moment, we remain committed to our original 2011 guidance, both the top and bottom line. Again, that's top line growth of approximately 5% to 7% for the year, and EPS growth of 3% to 10% for the year, and that includes approximately $0.11 dilution from our new initiatives.

Speaking of those, let me provide a brief summary of the growth initiatives. RAC Acceptance -- During the quarter, not only did we open an additional 109 kiosks, we also completed the integration of the 158 TRS locations that we acquired in late December. By integration, I mean all are now operating on our POS IT system, the necessary realignment is complete, compensation and incentive plans have been rolled out and best practices between the two have been identified and implemented. We ended the quarter with 485 locations, and I'm pleased to say that the total portfolio exceeded both our revenue and store operating income expectations.

As noted in the release, we are also increasing the number of total kiosks that we expect to open during the year by 50, now expecting to open a total of 325 to 375 ending the year with approximately 725 locations. As a reminder here, we expect the RAC Acceptance to contribute approximately 6% to 7% of our total revenue in 2011, and contribute between $15 million and $20 million of EBITDA. We remain very excited about the opportunity here, both in the near-term and the long-term.

On the international expansion -- albeit at a slower pace than the RAC Acceptance due to obviously a more comprehensive build-out process, finding physical locations, negotiating leases, building out and so forth, we remain excited here about the long-term growth potential, as well. In Mexico, we did open an additional 5 stores in the quarter, now operating 10. And, again, we are pleased to say that we have exceeded our expectations in both revenue and store operating income here, as well. As we continue opening these stores, we become more excited about the long-term opportunity. For the year, we still expect to open between 40 and 75 locations in Mexico and 10 to 20 locations in Canada.

As we reported late last year, in light of these initiatives, we were exiting the financial service business, and, again, as noted in the press release, we have completed the exit during the first-quarter. All remaining receivables have either been sold or written down, and all final charges were taken in the quarter.

So in summary, while the quarter had a hiccup, we remain optimistic. The current tone of the business is good. The new initiatives are performing well. The distraction of the financial service business is behind us. And I believe that we are positioned to accomplish our overall 2011 objectives. I do want to thank all of our co-workers for their continued hard work and commitment, and with that, I would like to turn the call over to Mitch to provide you some additional details.

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

Thanks, Mark, and good morning, everyone. We did not meet our revenue expectations in the first-quarter, which then drove missing our earnings as well. The quarter started out good with a very solid January. In February, turned negative and really ended poorly. We believe one of the reasons for February's weak results was the severe weather across the majority of the country. That not only affects our stores being open and customer traffic, but it also affects our customers' income. If our customer is off work for an extended period of time and not getting paid, then the effect is very significant.

We believe a second reason for February's weak results was the limited availability of refund anticipation loans in the marketplace this year, which had been a very popular product with our consumer in the past. We believe the lack of that product in the market this year really affected our customer behavior relative to prior years. Then in March, we were very promotional in getting the portfolio of accounts back up to our expected level. Doing that put further drain on revenue in the quarter, but it did work which is why we are able to confirm guidance for the year.

Additionally, I'm pleased to say that April has been good, so far, and it's been good without the need of using numerous free-time offers to raise the demand. That demand remains better in spite of the rise in gasoline prices. We think the 2% Social Security payroll tax reduction has provided some buffer against those higher gas prices for our customers. And we also believe the continued tight consumer credit market helps drive more business our way. The units-rented-per-customer continues to trend upward which is another really good sign for the overall health of our business. We remain concentrated on driving more demand with a focus on value -- value for the consumer, as well as an ongoing focus on the customer's experience.

In terms of collections, our collections metrics remain strong with our weekly delinquency average coming in right on top of last year's first-quarter and our customer losses coming in at just 2.2% for the quarter. Our inventory is also in really good shape as our held for rent number at the end of the quarter was just 21.1%. So, in summary, our core rent-to-own portfolio ended the quarter as expected, which again allows us to confirm our 2011 annual guidance. Demand has been good in April. Our inventory is in great shape and collections continues to be a strong suit of our Company. We'll continue to work diligently to drive the revenue line and to drive efficiencies in our business, and I would like to thank our 18,000 co-workers for their dedication and for their commitment to obtaining our goals for 2011. 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 you on our financial results during the quarter, as well as provide second-quarter guidance, after which time will open the call for questions. Now, as a reminder, much of the information that I provide, whether it's historical results or forecasted results, is presented on a recurring and comparable basis and will therefore exclude any nonrecurring charges. As outlined in the press release, total revenues were $742.2 million, during the first-quarter of 2011, an increase of $23.8 million or 3.3% increase as compared to the first-quarter of last year. Now, this increase was primarily due to the incremental revenue driven by the RAC Acceptance initiatives and in particular, the acquisition of The Rental Store in the fourth-quarter of 2010, yet this revenue was offset by a reduction of the decline in revenue related to the divestiture of the financial services business. So even with exiting that business, revenue was up 3.3%.

Same-store sales were positive, up 0.1% during the quarter. Adjusted net earnings were $50.6 million, while adjusted diluted earnings per share equated to $0.79, an increase of 2.6% over the first-quarter of 2010. These results do include about a $0.04 drag on earnings in the first-quarter, due to the investment and the ramp up of our growth initiatives, RAC Acceptance, as well as international expansion. As Mark mentioned the full-year impact on earnings for these initiatives is a drag of $0.11, $0.04 of that came in Q1 of this year. These investments had a similar impact on operating margins in the quarter, which were essentially flat with last year at 12.2%.

First-quarter EBITDA increased $107.1 million, with a margin of 14.4%. Positive cash flow during the first-quarter equaled approximately $148 million. Now, during the quarter, the Company did repurchase nearly 900,000 shares of our common stock for over $28 million, as well as repaid $43 million in indebtedness which was a combination of a mandatory payment due in the quarter, as well as the repayment of some of our outstanding lines of credit or revolving lines of credit that were outstanding at year-end of 2010. With all of that use of capital, we still ended the quarter with $145 million in cash on hand.

Our leverage ratio at the end of the first-quarter was 1.33 times, well below the floor on our covenant requirement of 3.25 turns and we continue to believe that our balance sheet is in very great shape. Currently we have very minimal near-term debt maturities. In fact, we have no additional mandatory payments in 2011 and less than $50 million in mandatory payments per year in both '12 and '13. So as such, we believe that we remain very well positioned to execute on our growth initiatives. From a guidance perspective, in terms of the second-quarter, we expect total revenues between $694 million and $709 million, with same store sales expected to range between a flat and positive 1%. Diluted earnings per share for the quarter are expected to range between $0.68 and $0.74.

As mentioned in the press release, in Mark's opening comments, we are maintaining our full year 2011 revenue and earnings guidance provided last quarter. As such, we remain committed to our capital allocation philosophy. As a reminder, 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 will be our continued focus on opportunistic share repurchase. Lastly, given the strength of our balance sheet, our final priority would be on voluntary debt reduction. Now, as always, this current guidance excludes any potential benefits that are associated with potential stock repurchases in the future, any future increases in dividends, material changes in outstanding indebtedness, or any acquisitions or dispositions completed after the date of this press release. So with that update, we would now like to open the call to questions. Jessica, if you would please compile the Q&A roster.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Budd Bugatch from Raymond James. Your line is now open.

Budd Bugatch - *Raymond James & Associates - Analyst*

Good morning, gentlemen. Mark, you talked in the press release about February ended poorly, and I appreciate some of the color. Could you perhaps add some numbers to that, maybe what were comps in February and January and March, how does that look? And maybe, if you would be so kind, maybe even in first part of April?

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

Well, we don't do monthly comps, Budd, as you will recall, because in this business the way the calendar varies from period to period -- now, certainly we do it on a quarter, because you will end up with comparables, but month by month doesn't tell you that. As Mitch mentioned, January was actually a very good month for us, one of our better January's, again in years.

March, like January, was a good month for us, one of our better Marches in years. And April appears to be shaping up the same way. February, as Mitch said, it started out pretty slow. As the month went on, it really worsened and it was limited demand more than anything. I don't know what other color you want to put on that, Mitch.

Budd Bugatch - *Raymond James & Associates - Analyst*

Well, if you don't use comps, when you say they worsened, was it just overall sales or revenues? How would you -- what are you measuring if you are not measuring comps?

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

It was -- this is Mitch, Budd. It's really both -- revenue and deliveries and pickups and what's happening in the portfolio. So, as the month went on, we fell farther and farther behind on our projections from a portfolio standpoint. From portfolio, we are talking about what's there at the end of the day, based on deliveries, minus pickups and minus payouts. So the deliveries were soft. Then they got softer as the month went on. Pickups were higher than normal. So overall, that's a bad combination. We ended with a much smaller portfolio.

And as the month wound down and we went into March, as I mentioned in my prepared comments, we needed to get it back. We needed to get the portfolio back and we used some free time offers to convert a lot of the payouts that happen in the first quarter, and though that was successful in getting the portfolio back by the end of the quarter, it really hurt. It hurt the revenue for the quarter.

On those refund anticipation loans I mentioned, maybe some more specifics on that, Budd. What that did was push our payouts later in the quarter than normal. They didn't start in mid- to late January, like they had in past years. And they start in mid- to late January, not because people have their refund back from the IRS, it's because these refund anticipation loans that used to be in the market. They were well reduced this year. It pushed it back a few weeks.

We ended up with all the payouts in the first quarter ultimately, but it pushed them back, which also pushed back our conversion into a new account. As our conversions were running behind past years -- conversion meaning customer pays out something and then rents something else -- as those fell behind, we got more promotional. And though that worked to get our portfolio back by the end of the quarter, it certainly compounded the revenue problem.

I'm glad we did it, rather than sit here with maybe a little more revenue in the first quarter, but a portfolio that we would be reducing guidance going forward on. It was a choice we had to make as we went into March, on being promotional or not. But, there was a shift in the way our customers' money came in this year, at least a lot of our customers with those refund anticipation loans not being there, and it moved the timing back. And I think, you know, we saw some of the positive effects of that timing in March, and so far April is coming out pretty good.

Budd Bugatch - *Raymond James & Associates - Analyst*

All right. And just looking at RAC Acceptance and the other growth initiatives, the international expansion. You talked about a $0.04 drag in the quarter. Can you parse between the two, what was that drag and how does that drag play out over the rest of the year to get to $0.11? What's the quarterly progression that you see?

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

I can break down the first quarter, Budd. It's about $0.03 for RAC Acceptance and about a $0.01 for Mexico. Canada was de minimis, so we really haven't started opening any new stores there yet. So that impact will come later in the year. The full $0.11, I don't have the breakout by quarter, but suffice it to say, with $0.04 roughly in the first quarter, getting to $0.11, that's not a run rate of 16. So that impact will diminish as you move throughout the year.

Budd Bugatch - *Raymond James & Associates - Analyst*

I was wondering if you had it, you know, a couple of quarters at this negative and then the fourth quarter was a positive. When does the drag become a plus?

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

Well, the drag for each initiative for --

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

Mexico will get worse, RAC Acceptance gets better.

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

Canada will get worse because there was nothing in the first quarter. RAC Acceptance will improve, and Mexico will get a little worse throughout the year, too. RAC Acceptance will turn positive by the end of the year, but I hesitate to put any exact numbers on it right here because I don't have that breakout front in of me for the quarter. Certainly, follow-up with us off offline and we'll get it to you specifically.

Budd Bugatch - *Raymond James & Associates - Analyst*

Just my last question. You said that the revenue gain that you did see, besides the 0.1% comp, came from RAC Acceptance and the TRS acquisition and Mexico. Can you break those apart as to what came from what?

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

The 0.1% comp?

Budd Bugatch - *Raymond James & Associates - Analyst*

No, no, the other part of the gain, from RAC Acceptance and Mexico and TRS. How much was coming from any of those?

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

Well, the $23 million gain in revenue was essentially all related to RAC Acceptance and the TRS acquisition. Now, that's offset by the decline in revenues from financial services, so with the comp being 0.1%, you can essentially say the RTO core revenue was flat for the quarter, since the majority of those stores are in the comp. So the revenue uptick is primarily all related to RAC Acceptance and TRS acquisition.

Budd Bugatch - *Raymond James & Associates - Analyst*

And Mexico, too, right?

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

Right, but that's not --

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

Very small.

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

Very small. 5, 10 stores. Very small numbers.

Budd Bugatch - *Raymond James & Associates - Analyst*

All right. Thank you very much.

Operator

Your next question comes from the line of Mike Grondahl from Northland Capital Markets.

Mike Grondahl - *Northland Securities - Analyst*

Yes, thanks for taking my calls, guys. Just two questions right now. One, could you just kind of talk about some of the inbound calls you are getting for RAC Acceptance? Have those continued to be strong? And related to that, could you remind us of the contractual arrangement you have with, like an Ashley Furniture Stores, to provide RAC Acceptance? Is that a couple year deal, or how does that work? And then any update on, you know, getting a deal in electronic stores or appliance stores?

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

Yes. The calls for RAC Acceptance are still there, and more and more retailers want us in their locations. That's primarily the reason we raised the forecast 50 for the year, that we are going to open 50 more.

As far as the contractual -- well, take the electronic thing you asked about. We are in about half of the Conns stores right now, and we will end up in the majority of their stores, if not all of them, maybe minus 1 or 2. We will end up in all of their stores here, soon. So we are expanding on the electronics side through Conn's. We don't have any other electronics retailers yet as a partner, other than Conn's, but we are working on going from 40 or so with Conn's up to their 80 or 90 store-count, whatever it is. And working on some other electronics retailers but nothing to announce yet.

As far as the contractual side of that, no, they are not a couple of years. They are more on average around the 6-month range. That's the contractual side. The practical side is that we've got accounts coming in to that retailer's store every month paying on their account. And for the retailer to want to end that transaction is to send business out the door and have us take it to another retailer maybe across the street, another furniture store in the area and set up shop there.

So the contractual side is only, on average, about 6 months, but the practical side is, as long as the relationship is good and everybody is winning, we're buying a lot of merchandise from the retailer at close to retail value, so they are happy with that, we're happy with the way it's going on our side. And the practical side, like I said, is to send us across the street with our customer base is coming in there to pay every month, isn't very practical.

And it hasn't happened. It hasn't happened to us, and we bought TRS -- in our diligence with them, we found that it had never happened to them and they have been doing it for 10 years. So, once you are in there, it's hard for that to happen. So hopefully that answers.

Mike Grondahl - *Northland Securities - Analyst*

Okay. Great. Maybe just as a follow-up, could you just relay what you are seeing on competitive landscape? And then maybe lastly, just a quick update on that store-within-a-store concept that you guys have been testing?

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

Well, from a competitive landscape, certainly, it's primarily us and Aaron's, and, we obviously pay close attention to what they are doing and react accordingly. So I don't know that much has changed there. It's really a 2 company game. There's been a few other companies start up, but gosh, they are really, really small. And, of course, Aaron's has the second concept, the weekly concept of Homesmart -- that obviously is really, really small, although we will certainly watch that.

Mike Grondahl - *Northland Securities - Analyst*

Do you think their advertising campaign affected business at all?

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

You know, I don't know. They went on a national campaign. They have always done a lot of advertising, and the fact that they now buy it nationally versus buying it locally in certain markets -- I mean, I remember when we did that, gosh, 8 or 10 years ago when we stopped buying for each market and we went national. I don't know that it had a big impact for us. I don't know if it will have a big impact for them.

I think it's certainly the right move for a company that's getting as large as them, but I don't know that the fact that they are -- it's not like they weren't advertising before. They are just really buying it on a national basis versus locally, which probably saves -- not probably -- it saves them money and maybe they can get a little more out of their advertising budget. So they probably now are advertising a little more. But, I can't say that specifically we saw that. I know they said yesterday they started that in February, but we bounced back since February. So I don't know that that would have had much of an impact.

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

Based on March and April's results, you wouldn't say so.

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

Yes.

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

And, what we look at in terms of what was going on in February for us otherwise, the anticipation loans and the weather, we would --

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

Like I said, it's not like they weren't advertising before. They have always done a lot of good advertising. So, as far as the other -- the store-within-the-store, we've got, you know, the RAC Acceptance is a store within a retail partner. I think the other one that you are talking about, Mike, is probably where we have got some kiosks inside of grocery stores. We have got about 20 of those.

Mike Grondahl - *Northland Securities - Analyst*

Yes.

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

It's still in the test phase and we are tweaking that to see if we can make it work, tweaking the way we do business within that grocery store, see if we can make it work. We will be adding a few this year, but it's really still a test and there's not much to say until we continue to develop that test. It's not an off-and-running program like the international expansion or the RAC Acceptance kiosk program.

Mike Grondahl - *Northland Securities - Analyst*

Okay. Thank you.

Operator

Your next question comes from the line of Arvind Bhatia from Sterne, Agee. Your line is open.

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

Thank you, guys. A couple of questions. First one is on gasoline. Just wondering what you modeled, in terms of the increases that we are seeing, you know, what's factored into your model. And then on the weather related impact on your business, just wondering if you could specify which markets might have seen a bigger impact than some of the others. Because weather obviously in January was also a bit of an issue and you didn't see much of an impact there.

And then last question is on the changes you made, the promotions, the free time, et cetera. In addition to that, was there anything else you guys did that helped you, I guess, gain these customers back very quickly? Obviously it was very effective. Just wondering if you can provide some more color on the promotions you did as well and the advertising.

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

Hey, Arvind. This is Robert. I will start with gasoline prices. Similar to how we forecast that historically, and the beginning of the year, we have increased our forecast for gasoline prices as the government forecast has changed in terms of looking out on what gasoline prices are predicted to do through the balance of the year. So we did layer that into our forecast.

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That does have an impact on the overall earnings results, but given the fact that we've got $0.20 range that we've given that impact changes slightly, how that translates into where we fall out in that range. Offset by, how Mitch described, getting the portfolio back, and our success in building the business back, that's offsetting some of that increase in gas prices that we have layered in the model. So we do use the federal government's forecast for gasoline prices. That has been input into the model, and that is embedded in the assumptions that we have laid out in our earnings guidance.

In terms of weather by market or promotions, I will let Mitch take that one.

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

Yes, this was a -- it really was in February, Arvind. There was a little bit of bad weather, a normal January. February was much more severe throughout the South and the Midwest. You will recall, the first week of February in the Texas market, which obviously we don't get much bad weather here, all but ruined Super Bowl week the first week of February here. Certainly up until that Sunday. So the first week of February was some of the most severe weather across the South, Atlanta, Raleigh-Durham, all through the South, as far south as Houston even, in Texas, was shut down for a few days with ice.

That first week of February was the worst part of it, and then in the middle of the month, there was a little more. And then at the end of the month, there was another severe storm, mostly in the Northeast. You always deal with bad weather up north and they are used to it. And people still get to work and they get around the towns. Obviously you saw things in New York City where they were shut down for days, but then the South, all through the southern markets that I mentioned, being shut down, that whole, at least the first week of February and into the second week of February.

So, like I mentioned earlier, when our people aren't working, there's a tail to that. When they go back to work, then they don't get a paycheck. Typically this demographic is not a customer who is going to get paid when they are not at work, like many of us probably do. So like I said, there's a tail to it when businesses are closed, factories are closed and so forth, and the severity of February was in the South, not just the normal bad weather of the North.

You asked about promotions. We got -- we offered a free month to any payout customer as our conversions were softer, we really pushed this free month to anybody who was paying out a unit, and that worked in March to get them back on the books. Again, I talked about the timing, how the lack of refund anticipation loans in the market kind of pushed that back farther. And we got them back on the books in March, and they are staying on the books in April, but it didn't help the revenue much to get that portfolio back. Because this free time offer, which was, to be more specific, Arvind, was a month free for anyone paying out on their account. And like I said, it worked to get the portfolio back. It just didn't work for the revenue in the first quarter.

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

The other thing I would point out, again, as Mitch said, January was one of our better in years, March was one of our better in years. Albeit promotional, it was one of our better in years, April is shaping up, and certainly the fourth quarter last year and the quarter prior was also. And as I said, this February we really view it and it turned out to be a hiccup. Perhaps a pretty big one, but -- and I only say that because albeit, we got promotional, we are doing things all the time and the fact is the other months continue to be in line with our expectation and above last year.

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

Got it. And one final one from me. On RAC Acceptance, I'm just wondering, if there is any change in the margin structure, product margin structure, and I guess what I'm asking is when you are doing these new deals with retailers, are you pretty much holding the same margins across product categories? Are there any changes at all in how you are buying from the retailers at all?

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

Well, the margins if you go back to that new store model, which I guess you go back to that November investor day --

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

Yes.

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

David? Is where the new store model is for RAC Acceptance, and the margins that are in that model haven't changed.

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

What we pay each retailer is something we don't go public with. Suffice it to say, it's very close to retail, in most cases. It's not like you get a big discount off of retail, but we don't get any more specific than that. But the margins that are in that new store model are still the same.

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

Great. Thank you guys. Good luck.

Operator

Your next question comes from the line of John Baugh from Stifel Nicolaus. Your line is now open.

John Baugh - *Stifel Nicolaus - Analyst*

Thank you and good morning. I guess, first on Q2 guidance, it's relatively flat with year ago. I realize you have some new initiative drag. I'm curious, does the lack of deliveries, say, in February, I would assume that has some spill over effect on revenue into the second quarter? So that's my first question.

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

That's -- yes, I think that's accurate. Certainly as we got the portfolio back -- I don't know, as we get the portfolio back, John, I don't know that it has much. Maybe a little bit in April, but not much. I think probably the spread, the way the spread was out there prior to us giving second quarter guidance is the bigger issue. Probably the year -- in our opinion, certainly wasn't spread the way our model spread it.

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

Right.

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

Yes. Because we hadn't given second quarter guidance yet.

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

Yes, in fact, John, even to kind of calibrate how we saw the year breaking out for quarter by quarter, what we missed in the fourth quarter, or excuse me, the first quarter, we see ourselves getting that back ultimately in the fourth quarter. That's why we left guidance the same. The second and the third quarter, we had not given quarterly guidance yet, and yet our model has not really changed much from our prior guidance for the second and the third quarter.

Obviously, you guys have to do your jobs and put your numbers out there, but, regardless of how the first quarter ended, most likely our guidance for Q2 is going to be consistent with where it is right now. And so you guys are probably going to be bringing down your numbers for Q2 anyways, but putting that back in the fourth quarter once we gave the second quarter guidance.

As it relates to the question from Budd earlier, since you brought it up too, as well as on the initiatives, $0.11 drag -- I've got -- we talked about $0.04 in the first quarter, it's about $0.04 in the second, $0.03 in the third and it's actually neutral in the fourth quarter. So 4,4,3, neutral. I went and had some numbers brought in to me.

But that clarifies, at least, the $0.11 drag for the year. $0.04 came in the first quarter, $0.04 will be in the second, $0.03 in the third and break even or neutral across all three in the fourth quarter. How that breaks out in the fourth quarter, basically, it's $0.015 dilution from Mexico and Canada, that's offset by about a $0.03 pickup, or benefit, from RAC Acceptance.

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

And that's -- the way that goes over the course of the year, Robert, could be one of the reasons why the overall numbers were off compared to our internal model, the second quarter now needing to come down versus the fourth quarter.

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

Right.

John Baugh - *Stifel Nicolaus - Analyst*

Thanks for that color. And then the follow-up, I guess would be, the pickup in the fourth quarter that you now expect, what are you seeing in your results that would suggest that's going to happen? And -- or was it just maybe conservative guidance in the first place? I'm just curious, what gives you confidence that the second half, particularly fourth quarter, will make up what we missed in the first quarter. Thank you.

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

Well, again, John, I think you see it as a pickup because the way the rest of the year was spread, compared to our internal model was different.

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

Right.

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

So bringing down the second quarter, all we are saying is that, in our model, it was the fourth -- the second quarter was too high anyhow, and the fourth quarter was too low as we spread -- as we look at the analysts' spreads compared to our internal models. It's not like we have gone in and added more into September or October or something, to build up the fourth quarter.

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

Right.

John Baugh - *Stifel Nicolaus - Analyst*

All right. Thank you very much.

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

Thanks, John.

Operator

Your next question comes from the line of Jon Braatz from Kansas City capital. Your line is now open.

Jon Braatz - *Kansas City Capital - Analyst*

Good morning, gentlemen. Maybe along the same line -- when I look at your guidance for the full year of same store sales growth of, I think, 2%, something like that, that implies a fairly sizable increase in the second half relative to this first half. What gives you the confidence that things will ratchet up that strongly in the second half of the year?

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

Well, as we spread what we think is going to happen month to month, that's the way the numbers come out. You know, with this -- when you add contracts in this business, it's, again, a recurring revenue stream and as you add them, you are really going back over the course of a year when you talk about same store sales. And how many contracts we added last year in the fourth quarter can help this year in the fourth quarter because you get all the revenue out of them this year in the fourth quarter, versus adding something last year -- And so forth. So as you spread the year, it's just the way the numbers come out.

Jon Braatz - *Kansas City Capital - Analyst*

Okay.

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

And certainly the way we see April shaping up thus far, which has been stronger than we anticipated when we gave guidance at the end of January, that obviously -- we would expect that trend to continue throughout the balance of the year.

Jon Braatz - *Kansas City Capital - Analyst*

Okay. Okay. And secondly, as we look towards next year, your growth initiatives are costing you, what, $0.11 this year. What do you think they will cost you next year assuming that, no changes at -- in your expectation in terms of stores to be added and so on and so forth? How does that look for 2012?

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

We have not given 2012 guidance, but suffice it to say, the way that $0.11 drag comes to neutral in the fourth quarter, as we think about going into 2012, I think it's fair to say that we would expect to have a net benefit, particularly given the ramp up and RAC Acceptance offsetting any dilution from either expansion in Mexico or Canada. Now, that will obviously depend on the pace of new store development in those international markets. Suffice it to say, we would expect it to be positive -- net positive, unless we ramp up the development. New stores in the international markets.

Jon Braatz - *Kansas City Capital - Analyst*

Okay. All right. Thank you very much.

Operator

Your next question comes from the line of John Rowan from Sidoti & Company. Your line is now open.

John Rowan - *Sidoti & Company - Analyst*

Just to be clear, the guidance -- is that assuming $0.69 or $0.79 for the first quarter?

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

$0.79.

John Rowan - *Sidoti & Company - Analyst*

$0.79?

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

Yes, it's excluding nonrecurring items.

John Rowan - *Sidoti & Company - Analyst*

Okay. And then just on the deferred income tax line, where did that number wind up for the first quarter? When do you start seeing reversals coming out and to what magnitude maybe into the end of the year and into 2012?

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

We will be filing our Q this Friday. We are finalizing the balance sheet as we sit here today, but suffice it to say, we ended the year with a large receivable on our balance sheet, as you may recall, which was an overpayment from 2010, which was a byproduct of President Obama signing his tax stimulus act in December. We did receive that refund in the first quarter and we do not anticipate being a net cash taxpayer this year. Obviously that will begin to turn in 2012.

The exact numbers, and how that falls out, that will be disclosed in the Q. As we sit here today and how we see it, you know, transpiring between now and the next couple of years, that obviously changes with actual results as well as new -- any new tax law changes, et cetera. But that will all be disclosed in the Q this Friday.

John Rowan - *Sidoti & Company - Analyst*

Okay. Thank you.

Operator

Your next question comes from the line of Chuck Ruff from Inside Investments. Your line is now open.

Chuck Ruff - *Inside Investments - Analyst*

Hi. I'm kind of scratching my head over the answer as to why the second half is going to be so strong. The way I calculate it, if I calculate it correctly, your EBITDA in the second half is going to be up about 10% versus the second half of last year. Can you help me understand better why we expect the second half so strong?

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

I think what is being missed -- I don't think that we expect it to be any stronger than our original expectation for the whole year was.

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

Correct.

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

February, we ended up backing up at the end of February. We got it all back in March, but had to be promotional to do so, which did not bring the revenue in. But we essentially ended March where we expected from a portfolio standpoint. We now expect that portfolio to perform the rest of the year just like we had expected at the beginning of the year, because we are back to where we started. So to the extent we can continue to gain, or stay within our assumptions from a portfolio standpoint, and collect it the way we always expected, that still keeps us within the original range we had out for the entire year.

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

Or said another way, Mark --

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

That's what we have got out there on the table.

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

Unlike some analysts that have models, they have got a pinpoint number by quarter, whereas we have got a range for the full year. Our original guidance was $2.90 to $3.10. That's a $0.20 range. We missed the first quarter on the low side by $0.03. That's a $0.20 -- you have $0.03 and a $0.20 range we missed the first quarter by. So --

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

We're still where we thought we would be at this point.

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

So we still feel like the full year will come within that range.

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

Which I can understand can be a little confusing if you think about backing up and then how do you get it back because it would suggest you have to do more than you thought originally. All we are saying is we ended the quarter where we thought we would. We didn't collect all the money on the portfolio that we thought we would, but we do believe we will going forward.

Chuck Ruff - *Inside Investments - Analyst*

Okay.

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

Because we won't have to be as promotional. We have the portfolio where the original expectation was. So, as long as we do what we originally believe we would do all along. And again, we view February as a hiccup, an anomaly, for the reasons stated, that we ought to be able to stay within that original range we had out there for the whole year.

Chuck Ruff - *Inside Investments - Analyst*

Okay. I think I understand it.

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

Okay? Well, I can -- yes. Go ahead.

Chuck Ruff - *Inside Investments - Analyst*

Do you have any guesses as to why your chief competitor, clearly was not apparently impacted by the same drop in demand in February, from weather or whatever else?

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

No, about the only thing I can point to, Chuck, is that the refund anticipation loans may have affected our demographic a little more than theirs, that change in timing, because their demographics are a little higher than ours. So does the refund anticipation loan have more effect on us than them? That's about the only thing I could point to as a possibility. They certainly had a good quarter, and we congratulate them on that. But that's the only difference I see between what happened in February.

Chuck Ruff - *Inside Investments - Analyst*

Okay. And maybe you could help me understand this relationship a little bit. The -- your merchandise on rent is up 15%, versus March 2010, and yet if I use the midpoint of your guidance, the second quarter revenue is only going to be up 4%. What -- shouldn't -- I thought those numbers would be closer together. So I'm confused about that also.

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

Part of the difference that you are seeing, on a year-over-year comparison, is the fact that with the ramp up in RAC Acceptance, and the acquisition of The Rental Store, that adds a large portfolio of inventory into the on-rent category that had not been there previously, or a year ago March. And so when you compare the relationship of on-rent to idle, obviously -- Mitch talked about the idle merchandise being 21.1% for the quarter. That's down historically, primarily because RAC Acceptance and The Rental Store type inventory, there is no idle.

These accounts are all on-rent. So that's a little bit of the change that you are seeing, and to try to correlate that exactly back to last year, it's not going to be as transparent as you might think in terms of a correlation.

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

And Robert, not just the on-rent to the held-for-rent number, but the on-rent to the revenue growth. We have a lot of growth on RAC Acceptance right away and, I mean, the -- on the balance sheet, you've got the whole value of the merchandise.

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

Right. But, it comes over time.

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

It comes over time. It's not steady state, is another way to say that, because there's so much growth happening in RAC Acceptance.

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

That's right.

Chuck Ruff - *Inside Investments - Analyst*

But wouldn't that show up in second quarter revenue? In other words, I understand why the revenue -- or I'm sorry, I understand why the inventory, the merchandise on-rent, I understand why that's up 15%. What I'm confused about is why that isn't translating into a higher revenue growth number for the second quarter.

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

The revenue comes over time, as opposed to in one quarter. So these contracts are 18 to 24 months on average. That revenue comes over that 18 to 24 month period. So Mitch's comment about it not being steady state, you fast forward a couple of years from now, it will make more sense in terms of a correlation for you.

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

In our revenue numbers were contract value, it would correlate more.

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

Right.

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

Versus just when we get paid in cash.

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

Correct.

Chuck Ruff - *Inside Investments - Analyst*

Okay. And lastly, I know the Q is going to have more information about the deferred taxes and all that, was the first quarter refund $65 million? And the second quarter you expect $45 million or did you -- just, what is the situation with the refund from last year's overpayment?

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

It was roughly $100 million and we received all of that in the first quarter.

Chuck Ruff - *Inside Investments - Analyst*

Okay. Thanks a lot.

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

Round numbers.

Operator

Your next question comes from the line of Bill Baldwin from Baldwin Anthony Securities. Your line is now open.

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

Good morning, gentlemen. If I missed this, I'm sorry, but have you given any color on how the test is going with your installment sales stores in Illinois, and some of those markets there in the Midwest?

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

We have not talked about that, Bill. We have not given any color. So far we have got -- we had opened 8 of them last year. We are opening 1 or 2 more this year as the test continues. The plan right now is to open 1 or 2 more, and see how that goes. We tweaked the model a little bit and we will, like I said, open 1 or 2 more and see if we got it. Certainly not something we are ready to say is going to be part of our growth initiative going forward. We are still seeing if we can't get that other customer without cannibalizing the Rent-A-Center stores. So, still a work in progress, and it will be for the rest of this year, still be in the test mode. It won't come out of test mode certainly in 2011.

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

Thank you, Mitch.

Operator

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

David Burtzlaff - *Stephens Inc. - Analyst*

Good morning, guys. I just had a question on, how do you kind of view gas prices and the customer? I mean, obviously your demand in March and April is not really showing any impact from higher gas prices on customers' disposable income. But back in 2008 when the prices spiked, you may have see a few customers start to return items. I mean, how do you figure that or factor that in? And what are your expectations as you play out through the summer, especially if gas prices continue to move higher?

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

Well, certainly, David, it's a head wind for certain customers and it certainly has a negative effect on everybody, more so at the lower end. You know, as I mentioned in my prepares comments, the -- one of the things that's probably helping is that 2% Social Security tax reduction for this year. And certainly providing some buffer to that. I think, the other thing, talking about demand, not only us but our competitor demand being there, obviously, with the exception of February for us, there's other -- there's more -- there's still a very tight consumer credit market and it's pushing people into this business model, whether it's Aaron's or Rent-A-Center. That's providing some offset, for sure.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay. Do you guys worry about it at all, or is it something you feel you can manage through?

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

Oh, sure. To sit here an say we are not worried about prices forecasted to be $5 this summer, we are. You know, we are fortunate in that there are some other things going on that push customers into the rent-to-own transaction that I already mentioned. But yes, we worry about that.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay. And, back in 2008, I think you guys kind of walked through what the impact is on your fuel costs. Is it still -- is it about -- for every $0.25 increase, is that still about $1 million a month in expenses, or am I off on that?

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

Yes, really hasn't changed that much.

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

It's gone down --

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

Maybe down a little bit, marginally.

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

It's gone down a little bit, David, as we added more vans versus trucks. I will remind you, we were able to add vans rather than trucks as TVs got smaller, and now stores have a van and a truck instead of 2 trucks. So, that has come down more towards that $800,000 number.

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

Right. As opposed to $1 million.

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

But David, I want to be clear. $1 per gallon, not $0.25.

David Burtzlaff - *Stephens Inc. - Analyst*

$1. Okay.

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

You said a $0.25, right?

David Burtzlaff - *Stephens Inc. - Analyst*

Yes. No. I couldn't remember exactly what the impact was.

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

It's $1 per gallon.

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

It will cost us about $800,000 a month now.

David Burtzlaff - *Stephens Inc. - Analyst*

Okay. All right. Thank you, guys.

Operator

Your next question comes from the line of Arthur Winston from Pilot. Your line is now open.

Arthur Winston - *Pilot Advisors - Analyst*

Thank you. My question was answered.

Operator

Your next question comes from the line of Mike Grondahl from Northland Capital Markets. Your line is now open.

Mike Grondahl - *Northland Securities - Analyst*

Yes, just a follow-up, Mitch, to what you said about the tight consumer credit market is kind of pushing more people into the rent-to-own category. Do you have anything that kind of quantifies that, or would you care to take a guess how much that has lifted your potential customer base?

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

The only thing we can point to, certainly, is besides the obvious, Mike, of the consumer credit market -- it is so much harder to get approved for the consumer. Certainly our partners in the RAC Acceptance business show us numbers how their turn downs have gone up over the last 3 or 4 years. It's dramatic how many people are getting turned down relative to a few years ago. And also, our -- as we look at the income level of our customer, it has gone up slightly over the last couple of years.

Now, I will tell you in the first quarter, it was kind of level, compared to the quarter before that, but overall, it's gone up, when I think about the last couple of years. So I think as we look at all of those things, the turn downs we see with our partners in RAC Acceptance and then we see the average income of our customer ticking up over the last couple of years, that's why we say that.

Mike Grondahl - *Northland Securities - Analyst*

Okay.

Operator

Your next question comes from the line of Laura Champine from Cowen & Company. Your line is now open.

Laura Champine - *Cowen and Company - Analyst*

Hi, guys, this is Tom Nikic for Laura Champine. I was wondering how the Mexico business is shaping up. I know you only have 5 or so open right now. But, I'm wondering if you are seeing any unforeseen circumstances or anything like that while you are building that business, or any, maybe differences in customer demographics or anything like that. Thanks very much.

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

Yes, Tom, Mark Speese. No, I would say, no concerning surprises. Things continue to perform well, albeit we only have 10, as I said in my remarks. For the quarter, those 10 collectively, we exceeded our expectations, be it top line and/or loss, loss money but not as much as you might have thought because we had more revenue. Again, as I said, with each of the openings, albeit only 10, only in a couple of markets at this point, what we have seen continues to reaffirm our decision of going down there, and kind of revalidates, if you will, our belief in terms of what the market can mean to us over the long run, but, again, still have a long ways to go.

So, remain really excited and view it opportunistically. I think the only thing -- and I don't view it -- I know we have shared with you before the cost of real estate is essentially the same here as in the states. Not a big surprise, but it's taken time not just to find the location, but negotiate them and kind of get the leases worked out, and then be able to go get them built and opened. Not a whole lot different than in the US, but, maybe you didn't think it would. It's proven to be as challenging, I guess, is what I would say, as it is in the US. But that's about the only thing. Otherwise, I don't know -- Mitch, you have been down there several times also. We remain pretty optimistic, excited about it.

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

And many surprises.

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

Yes.

Tom Nikic

All right. Great. Well, thank you very much.

Operator

Your next question comes from the line of Arvind Bhatia from Sterne, Agee. Your line is now open.

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

Thank you. Guys, this is going to sound like a bit of a stretch, but I know that TV demand picks up during football season and what not. If we have this lockout situation with the NFL continue, I wonder if there is even a thought within the Company as to what that might do to TV demand, or do you think that's so small it's not really a factor in your mind at all?

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

Yes, we haven't really talked about it, Arvind. Off the top of my head, I would say it could have a slight effect. Certainly there will be college football for the real -- for the hardcore football fan to watch. There will be something, other sporting events to watch. So I don't think it would have much of an effect. I wouldn't expect the lockout to continue that long, but I wouldn't expect it to have any material effect.

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

Great. Thank you guys.

Operator

And there are no further questions at this time. I will turn the call back over to Mark Speese.

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

Ladies and gentlemen, thank you again for joining us. Certainly, as we discussed, we are disappointed with the first quarter results, but as I mentioned, we view it as a hiccup. We do remain optimistic on our long term, as we mentioned, we had a good March; April is looking good. The new initiatives are working well. All of that leads us to confirm -- reconfirm our outlook for 2011 and believe we are positioned to be able to do that.

So, again, we appreciate your time, your support, and we do look forward to reporting back to you next quarter with our results then. Thanks very much. Have a great day.

Operator

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