FINAL TRANSCRIPT

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RCII - Q4 2003 Rent-A-Center Earnings Conference Call

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OVERVIEW

RCII report total 4Q revenues up $36.5m to $558.7m,up 7% YonY. In the 4Q, RCII opened 36 new stores, acquired 17 new locations and made account buys in 21 additional locations. 4Q Capex was$15.8m. 2003 Capex was $56m. GUIDANCE. 1Q04 diluted EPS is expected to be $0.62-0.63. FY04 diluted EPS is expected to be $2.62-2.70. Q&A: competition;taxes; Rainbow; guidance detail.

CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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SunTrust Robinson Humphrey - Analyst

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PRESENTATION

Operator

Good morning and thank you for holding. Welcome to Rent-A-Center's fourth-quarter 2003 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, February 10, 2004.

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, Director of Investor Relations. I would now like to turn the conference over to Mr. Carpenter.

David Carpenter - *Rent-A-Center - IR Director*

Thank you, Kizzy (ph). Good morning, everyone, and thank you for joining us.

You should've received a copy of the earnings release distributed after the market close yesterday that outlines our operational and financial results that we made in the fourth quarter of '03. 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 forecast growth and revenues, earnings, operating margins, cash flow and profitability and other business or trend information are forward-looking statements. These matters are, of course, subject to many factors that could cause actual results to differ materially from our expectations reflected in the forward-looking statements. These factors are described in our most recent annual report on Form 10-K for the year ended December 31, 2002 and our quarterly report Form 10-Q for the three months ended September 30, 2003 as filed with the SEC. Rent-A-Center takes no obligation to publicly update or revise any forward-looking statements.

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

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

Thank you, David. Good morning, everyone.

I'd like to start by providing you with a high-level overview of the business. I'll speak specifically about the fourth quarter, talk a little bit about the current tone of business and then I will provide some more details with regard to the recently announced acquisition of Rainbow Rentals. At that time, I will then ask Mitch to provide some further details on the operation side and Robert will provide some additional financial highlights for you.

As was mentioned in the press release, the overall results in the fourth quarter were positive and in line with our expectations. We saw (technical difficulty) in key areas in the business, including customer growth, growth in the number of active rental agreements, revenues, earnings and cash flow -- all positive after coming off of a challenging third quarter.

You'll recall, during our last quarter, we spoke of the abnormally high number of payouts during the third quarter, which were driven largely by the child tax credit refunds. Payouts did slow or normalize some during the fourth quarter and we saw the normal, strong demand for our products and services similar to past years -- again, nice gains in all of the key areas. So the fourth quarter as a whole was good and I'm pleased with the improvements that we made.

Thus far in the current quarter, albeit only five weeks, I would say that business has been only fair, as we saw some softness with our January promotion, as well as the customary uptick in payouts during the first quarter. So that, combined with the uncertain timing of the Rainbow closing, along with the transition period necessary to implement the cost savings expected, leaves us at this point to leave our guidance at the $2.62 to $2.70 per share.

With regards to the Rainbow acquisition, let me provide you what details I can at this time. Again, this is a stock purchase -- $16 per share to the selling shareholders. It is 124 stores that are located in 15 states. Of course, this transaction does require the customary government approval, as well as the Rainbow shareholder approval. Given both of those, we expect that the transaction will close in approximately the next 60 days or so. We do expect that the majority of these stores will remain open. Rainbow has a strong and similar business model with these stores, averaging approximately 68,000 in monthly revenues. After a transition period, we expect that these stores will become accretive to earnings later in the year and, beginning in 2005, we expect that they will add approximately $17 million annually in operating profits.

Some areas of opportunities include economy of scale in advertising and marketing, the elimination of some duplicative overhead expense as well as gross margin enhancements due to increased buying power that we have. That, of course, will take some time, as the merchandise has to cycle through the system.

The total consideration being paid is consistent with past acquisitions, consisting of a large number of stores as a multiple of monthly revenues. We are excited about the opportunity that this acquisition presents and we look forward to welcoming them into the Rent-A-Center family.

With that, I'm going to now hand the call over to Mitch and ask him to provide you some further details on the operating results themselves.

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

Thanks, Mark. Good morning, everyone.

As stated in our press release, our quarterly revenue comp was a positive 0.2 percent, a little below our expected 1 to 3 percent number. From a customer standpoint, as Mark pointed out, we had very positive sequential growth in Q4. However, partially due to the customers lost last summer, our year-over-year customer count remains behind and was down about 3 percent. The main reason this is down, as you may recall from our last couple of calls, is due to our planned cannibalization via our new store opening plans and our acquisition strategies. In fact, we have 1480 stores that have not been cannibalized at all with either a new store or an acquired store. In those 1480 stores, we had a positive customer comp of 2.7 percent year-over-year, a great number and one that proves our business model remains a strength and our core business is growing.

We know that new stores (indiscernible) (technical difficulty) acquisitions are great ways to grow our revenues and EPS, and yet the more growth we add, the lower the customer comp is due to that cannibalization effect.

Because the metric can be misleading, investors have asked us for a better way to track our progress. This morning we are going to unveil a new simplified way of reporting our progress, which is square footage growth and total customer growth, which we believe best incorporates the number of different ways and how efficient we add customers in both core stores and new square footage.

We are in the business of growing total customers in an accretive fashion, so we're going to revise the way we report our customer growth to you on these calls by simply giving you our sequential customer growth on a quarterly basis. With our square footage growth coming so much faster and the planned cannibalization effect continuing to grow, now is the time for us to give you a more meaningful metric to value our customer growth on.

So, here's the new metric for the fourth quarter -- we grew our square footage, as you can tell from the press release, by 1.9 percent in the quarter and had 3.5 percent customer growth. As we said earlier, a very positive quarter for customer growth -- again, square footage up 1.9 percent, customer growth up 3.5 percent fourth quarter over third quarter. So, we will continue to report our revenue comp on a quarterly basis the way we always have, which I remind you is a very conservative manner, as we do not include our (indiscernible) in those revenue comps, and we will start giving you this new metric as a way to report on customer growth the way I just did.

Let me spend another minute on the comps. I just want to make sure everyone realizes what a flat revenue comp means at Rent-A-Center. A flat comp does not mean we're not growing the business. With our new store opening plans -- which by the way continue to run well ahead of plan -- our ongoing acquisition strategies, both in terms of store buys and account buys, as well as using our strong cash flows to bring shareholder value, we can grow our EPS by about 10 percent, even with a flat comp. This doesn't include a large acquisition like the one Mark was talking about, including Rainbow. I'm just including our ongoing day-to-day acquisition strategies. I think you'll agree that's a pretty interesting statistic -- the flat comps and still getting about a 10 percent EPS growth. That doesn't mean we're satisfied with a .2 percent comp; I'm just talking about minimum growth levels of 10 percent if the comp does stay flat.

However, having said that, let me spend a few minutes talking about what we're doing to increase that comp. As we mentioned on the last call, we're in the middle of an extensive multi-variable testing process with regards to all of our advertising vehicles, and those results are just starting to come in and they will continue for the next several months. Just based on some of the preliminary results, we're very encouraged that this project will pay big dividends from a traffic standpoint and from an advertising efficiency viewpoint.

Partnerships with McDonald's and Jackson Hewitt continue as we try to drive additional traffic through those relationships. As always, we continue to strive for greater operational execution in our stores and we feel very good about the senior operations team we have in place and their ability to execute our business model. As evidence of this, our collection efforts remain a strength of our business model as we continue to perform at acceptable levels on that front.

In addition, our HR team continues to add very critical support items. One good example is that we recently added employment kiosks to all of our stores and have improved our recruitment efforts pretty dramatically by getting all applicants into one database. This is enabling our staffing team to support operations' needs in a manner that was never before achievable. Obviously, this business, like so many, is about the people and to the extent we can fill holes faster with the help of these new initiatives, that will pay big dividends for us.

So, in summary, it was a very good quarter in terms of sequential customer growth, earnings and cash flow, as we continue to provide value to our 15,000 co-workers and our shareholders.

With that, I'll turn it over to our CFO, Robert Davis.

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

Mitch, Thank you. Good morning, everyone. I'm going to spend just a few moments on some financial data pertaining to our income statement, balance sheet and cash flow statement, after which we will open the call to any questions that you might have.

As it relates to our income statement, our total revenues increased during the fourth quarter of 2003 by $36.5 million to 558.7 million, or a 7 percent increase when compared to the fourth quarter of 2002. This revenue growth was primarily the result of revenues generated from new stores, acquired stores and account buys.

As it relates to the growth in our store base through those vehicles, for the fourth quarter, we opened 36 new stores, acquired 17 new locations and had account buys from 21 additional locations. For the entire year 2003, we opened 101 new stores, the high-end of our guidance of 80 to 100 stores that we outlined last year. We acquired an additional 160 locations and have had 220 account buys, the largest majority of those being through the Rent-Way acquisition -- while consolidating 20 stores into existing locations for a total growth in square footage of 10 percent.

As a result of our revenue growth, our recapitalization that we completed earlier in the year, as well as the better-than-anticipated effective tax rate associated with our restructuring completed on December 31st last year and on a recurring basis, our diluted earnings per share increased 24 percent over the fourth quarter of the prior year.

EBITDA for the quarter equaled 103.5 million. It was approximately 426 million for the entire year for a margin of 19.1 percent.

Pertaining to our balance sheet and cash flows, from a cash-flow perspective, the Company generated approximately $39 million in operating cash flow during the quarter and nearly 340 million for the entire year. The Company ended the year with approximately $144 million of cash on hand. We also ended the year with a net book value of inventory on rent of approximately $543 million, an increase of nearly 35 million from the third quarter of 2003, illustrating the growth in the number of customers and agreements on rent during the fourth quarter, as Mitch outlined a moment ago.

During the quarter, we had around $15.8 million in capital expenditures and approximately 56 million for the entire year. Our leverage, per our credit agreement, which allows for only 50 million in cash to be included in the net debt calculation, improved to 1.52 times for the quarter. Otherwise, given the full benefit of the entire cash on hand at the end of the year, leverage was only 1.3 times.

Meanwhile, our interest coverage ratio increased or improved to approximately 6.42 times for the period ended December 31, 2003.

Debt to book capitalization at the end of the year improved 100 basis points from the end of the third quarter by declining to approximately 46.8 percent. Our current outstanding indebtedness at year-end was $698 million, comprised of two components -- $398 million in senior term debt and 300 million of 7.5 percent senior subordinated notes.

As many of you may recall, we have minimal near-term amortization on our senior indebtedness. We are currently very comfortable with our capital structure and believe that our leverage only continues to improve.

Our balance sheet and cash flows continue to be a strength of the Company, providing us a tremendous amount of flexibility in managing the business. Whether we are opening new stores, making acquisitions of stores or accounts, servicing debt or making opportunistic share repurchases, we feel that our current capital structure affords us all of these opportunities without increasing our indebtedness. In fact, as we sit here today, we believe that the majority of, if not all, of the Rainbow purchase will be funded entirely with cash on hand.

In terms of guidance, as outlined in the press release -- which does include the impact of Rainbow beginning sometime in the middle of the second quarter -- we anticipate revenues for the first quarter of 2004 to be in the range of $583 million to $588 million and diluted earnings per share between 62 and 63 cents.

For the fiscal year ending 2004, we expect total revenues to be in the range of 2.362 billion and 2.392 billion, and diluted earnings per share, as Mark mentioned previously, between 2.62 and 2.70.

With that update, we'd now like to open the call to questions.

David Carpenter - *Rent-A-Center - IR Director*

If you would please compile the Q&A roster.

QUESTIONS AND ANSWERS

Operator

Yes, sir. (OPERATOR INSTRUCTIONS). Dennis Van Zelfden of SunTrust Robinson Humphrey.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Good morning, everyone. Mark and Robert, I guess, if I did the math correctly, the guidance would imply that operating income for the first quarter would be down versus last year. First of all, is that correct? And in general -- big picture -- why would that be?

Unidentified Speaker

Operating income?

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Yes, dollars of operating income would be down slightly, a couple or $2 or $3 or $4 million.

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

Well, there are 30 -- how many new stores were open in the fourth quarter?

Unidentified Speaker

Thirty-six new stores.

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

As you know, all new stores are dilutive in the ramp-up stage, and there were 36 in the fourth quarter opened, and we expect 20 to 30 more opened in the first quarter, so there is a rather large influx of new stores that have just recently come in, as well as expected to come in in the first quarter, which is a big piece of that.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Would you expect, Mark, that the 100 or so that you opened in this past year, kind of combined with the 70 that you opened the prior year, on an annual basis, the ramp-up of the older stores would offset the losses from the new stores on an annual basis?

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

Yes. That is starting to take place, Dennis. When you look at all of our stores in total, all of the stores we opened since we began the new store initiatives at the end of 2000, the new stores that we are opening, their losses are being offset by the positive contributions from those locations. That doesn't mean, however, that the new stores that we add in the fourth quarter of this year and the first quarter of next year don't have some drag in that first quarter timeframe.

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

Just because of the relative number (inaudible).

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Mark, are there any -- and do there need to be any cost-cutting initiatives at the store level, given the slow comps?

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

No. I mean, by and large, this is a fixed-cost business and obviously, some costs have gone up. Well, one example is fuel and oil. Gas, unfortunately, continues to rise and as I think everyone knows, we've got an extremely large fleet of trucks that's been on the road delivering products. And so, some expenses just inherently are going up.

You know, most of the cost that is in place now, frankly, is necessary and there obviously was a big opportunity, as you know, Dennis, and I think most others know, a couple years ago, whether it was at the salary line with the regional (indiscernible) that we rolled out and/or just some of the day-to-day expenses. Most of that has been realized and is in place. There may be some minor opportunities but I wouldn't view it as anything significant.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

What about on the gross profit side and/or the pricing side to recapture a little bit of the rising costs -- any opportunities there?

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

Not a lot. There are some products that maybe have a little bit of opportunity, but the fact is that most of the margins that we are at today -- you know, we've been on this new pricing that we rolled out in the fall of '01 for now two years, so it is anniversarying itself and I would expect it to stay somewhat flat. There might be a little bit of improvements as we go forward but again, I don't view it as significant.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Okay, last question -- does Rainbow hurt either in the second or third quarters before it starts helping?

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

No, we don't expect it to add any benefit during the initial transition period but don't expect any drag. Again, they've got pretty good revenue stores (ph), as you probably know or others can look. They essentially have been breaking even -- very minor accretion in the aggregate (inaudible) themselves in the third quarter or even the second quarter. We will be able to get some of that cost out; it's just going to take time before we can start realizing some of that, but I don't expect it to be a drag.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Okay, last question, I promise -- cash taxes -- the last couple of years, the President has given you guys a break on cash taxes and depreciation and so on and so forth. Do you have to start recouping some of that this year with respect to cash flow?

Unidentified Speaker

We don't expect that to impact us in '04, Dennis, but in '05 and '06, we do expect that to have a higher impact than normal and then normalize, at that point, the later half of '06 and '07 and beyond towards a normalized run-rate that is consistent with what we've seen prior to those tax initiatives being implemented. But in '04, we don't see it being an impact; in '05, we do. Maybe $40 to $50 million for a couple of years more than what we've seen or more than what our normal run-rate is, which we have been forecasting 120 million or so in cash taxes a year.

Operator

(inaudible) Roe (ph) of Stephens, Inc.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Good morning. I guess I only have a last name now. Quickly, it sounds like tax refunds this quarter are still maybe hurting you a little bit more than last year. Is that fair, or is it too soon to tell? I mean not hurting you, but generating more merchandise sales?

Unidentified Speaker

Well, we've certainly seen an increase in the number of payouts thus far versus historical, if you will. Now, that could be an aberration; we do know that refunds are a little higher this year than the past years, a couple hundred dollars. People are probably filing faster and therefore receiving their money more quickly. I think it's a little too early to say what the overall net effect of that could be. In other words, it's possible that these payouts are simply front-end loaded and then may moderate more quickly than prior years. But as you know, we always have a pretty good uptick in payouts in the first quarter because of income tax. Yes, we're starting to see that.

Dennis Telzrow; You've talked about this (indiscernible) multivariable advertising test or whatever it is. Could you put that in plain English in the sense of what does it mean you're going to do differently versus what you've been doing? You mentioned some excitement about it. Are you seeing something where you're testing it that makes you excited?

Unidentified Speaker

Yes. Mitch, do you want to tell them exactly how it works and what we are -- (Multiple Speakers)?

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

Sure. In plain English, it's multivariable testing. Multivariable means you take lots of variables -- as many as 40 or 50 a month -- and test them in different areas and do a very complex statistical analysis of how those markets differ. It's things like having one product on the cover of a flier in one market versus having four products on the cover of a flier in another market and then statistically looking at that. It is even what color the background of the flier is -- does that make a difference? -- all the way to -- we send out fliers in most parts of the country almost every week -- virtually every week.

What happens in markets where we send them out only two weeks, or we send them out every week versus three weeks on average? What happens when we send more? What happens when we send less? So it's about what works better, as well as how much you need to do. What happens in a market where it's more cable TV versus local TV and those kind of variables? Then again, (indiscernible) Pro, the company we've partnered with, does a very complex analysis and comes back and reports to us.

It's kind of too early to tell. Some of the initial results are encouraging, a few things we can -- that work better in the first test than the way we've been doing it. What we do is retest that, which we're doing in February. You go out, you test a lot of things. The ones that work better or are interesting to us, either they work better from a consumer standpoint or they are more efficient from a cost standpoint -- retest them (indiscernible) make a decision on one test. Now, we're in that second phase, and if the things test out again the second time, there will be some things where we can get a little more traffic out of our advertising and potentially some things where we could take some costs out where -- to advertise more efficiently.

So, it is certainly too early to report on anything about it but that's kind of the gist of where we are at. We are just getting into the second phase of that testing.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Okay, last question -- you're also testing/experimenting with dedicated delivery people and having your staffing a little bit different in the store. Any update on that progress?

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

No. I mean, it's too early to tell there as well. We've only been about a month or two into it. For everybody else, what Dennis is talking about is a little bit different staffing structure where there is dedicated delivery people, kind of a restructure of the staff, same cost basis as what we've run in all the rest of our stores. It's just too early to tell whether it's going to make us more efficient or not. We're optimistic that it will but it's too early to tell from the test.

Operator

Alan Rifkin of Lehman Brothers.

Alan Rifkin - *Lehman Brothers - Analyst*

A couple of questions, if I may? In hindsight, if you look at, let's say, the RentWay acquisition and the ROIC that you've captured from that, how does that compare kind of to the ROIC of organically grown stores or even the ROIC of accounts that you've acquired?

Unidentified Speaker

Yes, Alan. Generally, what we've commented on in the past is that the best return on capital is a new store because the investment per new store is generally spread over a twelve-month period. That cash is outlaid over a twelve-month timeframe, whereas an acquisition, that cash is outlaid on Day One. The differences between the two again -- they're both positive. Whereas the return on capital for a new store is better, the dilution from a new store is not as good as an acquisition. So an acquisition, whereas the return on capital may not be as good, still within our returns that we look for when we make an acquisition -- 20 percent or better -- the accretion from acquisitions are better than the dilution -- well, the offset of the new store dilution. So, both of them are very positive for different reasons.

In particular, as it relates to RentWay, just to give you an update, we had forecasted about 6 cents in earnings to be contributed during 2003 from that acquisition on a split-adjusted basis. Those stores came right on plan, maybe slightly better than what we had guided to, so we're very pleased with the results we've seen in RentWay thus far.

Alan Rifkin - *Lehman Brothers - Analyst*

Robert, just taking that one step further, if I may? So, applying that to Rainbow, you're pretty confident that that is an advantageous route, as opposed to organically growing stores, let's say, in those same markets where Rainbow operated?

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

Certainly. For us to be able to take a competitor out of the marketplace, capture a large base of customers in one fell swoop, so to speak, as opposed to going in and building those over a course of a period of time -- I mean, this is 124 stores. Last year, we opened 101 stores over twelve months. So we are able to get the same type of new square footage growth in one transaction, yet we are able to do it in an accretive fashion as opposed to being a drag on earnings from a new store perspective.

Unidentified Speaker

(inaudible) slightly less ROIC but still well within acceptable ranges.

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

It is certainly consistent with our growth strategy over the years, past acquisitions and the success that we have been able to have with those and, frankly, view the same opportunities on this one. As I alluded to, Rainbow has a lot of similarities to Rent-A-Center in terms of their business model and operating results, which we view is a positive going in in terms of an integration, assimilation and so forth, so we're really excited about the opportunity.

Unidentified Speaker

Not to mention some strong middle management people that we are -- (Multiple Speakers). They've got some great people on that company and what value do you put on that?

Alan Rifkin - *Lehman Brothers - Analyst*

The $68,000 a month that the average Rainbow store is generating is a pretty high number. Do you think, over the course of time, that the Rainbow stores can actually produce average volumes that are even north of your corporate average?

Unidentified Speaker

We certainly believe that we will be able to get them to the corporate average. Given where those stores are and the markets that they are in, I think that it's fair to say that we think we will (inaudible) up the normal Rent-A-Center averages we've (inaudible) because that obviously includes a mix of markets in metropolitan areas, rural areas and so forth. And their's, by definition, are more in metropolitan areas, which obviously you do have a larger (inaudible) customer base to draw from.

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

And in addition, we've stated we're going to keep most of the stores open. They have a few stores bringing that average down and when we merge that in, that 68,000 goes up with just a few mergers of some of the stores that are dragging that number down in their organization. Obviously, that's a very accretive portion of the acquisition for us when we merge those stores.

Alan Rifkin - *Lehman Brothers - Analyst*

Thanks, Mitch. Mark, also, you mentioned that business thus far in the first quarter, even though it's only five weeks, is fair. You said that you had some limited successes on the promotional side. Can you maybe just shed a little bit more color on that? Going forward, will there be any tweaks of any sort to the promotional calendar?

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

In January of every year, we run what we call a free (inaudible) promotion it and starts in the middle of the month and it's free until February 1st -- (Multiple Speakers) -- coming off of the holidays, people catching up with expenses incurred because of Christmas in advance of the typical income tax (inaudible) kind of getting back into a normal environment.

The promotion was good; it was not quite as strong as what we had seen in a couple of the past years. That, coupled with -- again -- the payouts are increasing as they do in the first quarter of every year. We did see a larger increase in the last two weeks of January, compared to historical norms.

My comment, I think, to Dennis Telzrow a moment ago, again, is it's possible that they are simply front-end loaded and may moderate more quickly because they're doing returns quicker. That part we simply don't know at this point, but the payouts are up over historical norms.

Now, in terms of what we're doing, obviously we've got a lot of advertising going on, as we always do. Mitch talked a little bit about the MVPs but that will benefit us once we get the final conclusions from all of that, which again we are pretty excited about where we are and what we're seeing thus far and I think it's going to present two opportunities for us. There may be some savings when we look at efficiencies or inefficiencies in some areas, as well as just being able to enhance the message, the vehicle, the platform that we're using to get that out there. But you know, the tone of the business -- the demand is still there; our deliveries are consistent with last year as we speak today; our collections are in fantastic shape, quite candidly. We've talked in the past, an objective of a 6.5 percent or lower card (ph) close. Last Saturday, two days ago, our delinquency was 5.4 percent -- well below -- so that is obviously very encouraging as well. So, I think we've got all the things in place; it's just staying up with the payouts and working new sales.

Unidentified Speaker

To add onto that, Alan, the (indiscernible) about the promotion -- and we have run it every January for a few years now. We will have to tweak that, we believe, next year, some kind of -- it's different wording; it's something different because it may -- you keep running it every year, we believe -- because it was a little less effective than it has been in the past, we will have to tweak that a little for next year.

Alan Rifkin - *Lehman Brothers - Analyst*

Thank you very much, gentlemen.

Operator

(OPERATOR INSTRUCTIONS). John Baugh of Wachovia Securities.

John Baugh - *Wachovia Securities - Analyst*

Several things -- one, can you break down the 0.2 number, the comp, between traffic, mix, ticket, whatever variables go into that?

Unidentified Speaker

The 0.2 comp, as I said, the customer comp was down about 3 percent, so we got 3 percent or so, 3-plus percent from a merchandise-mix standpoint.

John Baugh - *Wachovia Securities - Analyst*

Okay. What would you expect, Mitch or Mark or anybody, the mix influence for all of calendar '04 would be on the comp?

Unidentified Speaker

Well, we've given guidance of 0 to 2 percent for the full-year 2004. We've also given guidance that the first quarter, we expect to be flat, so that kind of tells you that towards the back end of the year, we expect the comps will be positive.

Now, a couple things that go into there -- again, merchandise mix/pricing or however you want to call it, and then customer growth. As we talked about before, when Mark -- I guess it was the fall of 2001, we went through and looked at all of our rental agreements and changed pricing and terms to make them a little bit more attractive from a customer aesthetics standpoint, as well as allow us for higher pricing or higher contribution from merchandise mix. That's what we've seen throughout 2003. We I guess would expect that comping over that or allowing that to run through the system for a couple of years -- the impact of the 0.2 percent comp is not going to be as heavily weighted towards merchandise mix as it has throughout 2003.

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

As I pointed out, John, the cannibalization just continues to affect the customer comp number, and that's why we started reporting sequential customer growth and will continue to report that versus the customer comp number because, as I pointed out, 1480 stores that have not been cannibalized at all had a 2.7 percent customer count -- positive 2.7 percent. So as this cannibalization continues and only grows, the customer comp, we believe, a sequential customer growth that takes everything into account -- new stores, acquisitions of accounts and so forth -- is a better way to look at that. So that customer comp, because of the cannibalization, could stay flat for a long, long time as we grow the customers overall.

John Baugh - *Wachovia Securities - Analyst*

I'm certainly aware of the way you calculate comps and the conservative nature. Let me just be clear on that 1480 store example being positive. Is that a year-over-year comparison, or a sequential comparison?

Unidentified Speaker

That's a year-over-year comparison.

John Baugh - *Wachovia Securities - Analyst*

I noticed depreciation expense was guided up slightly from first quarter -- 21.6 to 22 -- (inaudible) 21.8 would be the midpoint, and you did 21.6 in the first quarter of the year prior. What's the reason for that number creeping up?

Unidentified Speaker

The guidance is consistent with what we've given in the past, in terms of guidance anyway. Part of the reason for that, for this year, is some anticipated uptick in the depreciation line from rolling Rainbow into the system. As most of you probably know, Rainbow -- that's one of the things that Mark pointed out as opportunities for us, being able to implement our buying power and leverage on the cost of goods. So Rainbow doesn't have as good a gross profit from a depreciation of (indiscernible) perspective as we do at this point in time.

John Baugh - *Wachovia Securities - Analyst*

Yes, but I'm talking about the first quarter and Rainbow won't be in the first quarter. I believe the first quarter -- (Multiple Speakers).

Unidentified Speaker

I'm sorry. I thought you meant for the full year.

John Baugh - *Wachovia Securities - Analyst*

No, I think the guidance for the first quarter -- maybe I'm mistaken -- was 21.6 to 22. Is that right?

Unidentified Speaker

That's correct. I mean, that's consistent with the guidance we've given in the past and that's just the range we've given. I would say that, right now, we don't see anything that would cause it to increase from the fourth quarter.

John Baugh - *Wachovia Securities - Analyst*

Okay. I think (indiscernible) the fourth quarter come in?

Unidentified Speaker

21.6 in the half.

John Baugh - *Wachovia Securities - Analyst*

So you're trying to tell me there is no known reason why that will go up other than just your giving guidance -- (multiple speakers) conservative.

Unidentified Speaker

That's right.

John Baugh - *Wachovia Securities - Analyst*

(Multiple Speakers) -- first quarter. Obviously, as Rainbow folds in, it might go up a little from there.

Unidentified Speaker

Right. (multiple speakers) -- given in the fourth quarter was 21.6 to 22.

John Baugh - *Wachovia Securities - Analyst*

Okay. I realize the Jackson Hewlett thing is probably too early to talk about any feedback and success there, but what about McDonald's? I know that kind of rolled out in November. Have you got any kind of feel for how many McDonald's employees have become customers?

Unidentified Speaker

Yes, we do. You're right; the Jackson Hewlett deal is a little too early to tell.

McDonald's -- in January, we rented to a couple hundred of them, which doesn't sound like much but it's a good start. That was a cost-free issue for us of putting that discount on their employee card. Somewhere -- I don't have it in front of me, John, but like 220 or so that we rented to in the first -- in January -- and we presume that will be building.

John Baugh - *Wachovia Securities - Analyst*

Did that card go out to all the franchisees or do have any feel for how many the franchisee (inaudible) -- (Multiple Speakers)?

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

Yes, we do. We talked to -- our Vice President of Advertising talked to the McDonald's folks. About 10 percent of the franchisees have picked it up so far, as they see what the company is doing with it. That's just been in the last 30 days that about 10 percent of their franchise community has picked it up.

Unidentified Speaker

Hopefully, that will continue to grow as we (inaudible).

John Baugh - *Wachovia Securities - Analyst*

I don't have a balance sheet. What was the percentage of the balance held for rent, the percent of the total?

Unidentified Speaker

I think it was right over 20 percent, 20.2.

John Baugh - *Wachovia Securities - Analyst*

Thank you. And last question -- how many shares did you buy back in the fourth quarter at what average price?

Unidentified Speaker

For the fourth quarter, we bought back about 800,000 shares at an average price of $32. Those came in between mid-November and mid-December. If you kind of weight that for the full quarter, you kind of half that -- maybe 400,000 shares, which really wouldn't have changed our results for the quarter in terms of EPS.

John Baugh - *Wachovia Securities - Analyst*

Help me with the -- going forward, kind of what can you buy per quarter, for the year? What are the restrictions on the high-end?

Unidentified Speaker

We have a $100 million authorization from our Board of Directors. We've utilized about 25 percent of that, so we have about 75 million remaining. In addition -- and that authorization can change, given whatever the trends in the stock price and what not are doing.

Our bank basket is significantly higher than that threshold and builds 25 percent of net income a quarter, so we have a lot of flexibility under the credit agreement, up to 75 million from the Board authorization at this point.

Operator

Hal Gosch (ph) of Boston Company.

Hal Gosch - *Boston Co. - Analyst*

Hi, guys. I might have missed this. I was out of the call for a few minutes. What are some of the trends you're seeing in digital TVs, high-definition TVs? That's the first question.

The second question is, if I recall from a few conference calls a few months back, or a year back, that you thought you could get comps in the low single digits, just on price alone, or maybe I'm mistaken. If I am, correct me on that. But if that's what you said in the past, what has changed now? Are you seeing any push-back on the prices you are charging? Those are my questions.

Unidentified Speaker

Let me take the digital TV one first. About a year ago, we stopped buying, from a big screen standpoint, analog TVs and bought high-definition-ready TVs and we've done very well with them. They have helped drive a lot of that pricing comp that we're talking about and we are carrying high-definition-ready televisions from 48 inch up to 60 inch from a big screen standpoint. We are almost out of analog TVs out of our inventories, so that's gone very well and just will continue to grow, obviously, as those prices come down and they'll continue to be a growth vehicle for us.

From a comp standpoint, yes, the low single digits from a merchandise mix or a pricing standpoint -- and we've gotten that. The 0.2 percent in the fourth quarter overall with negative 3 percent customer comps would tell you that about 3 plus percent, around 3 percent, was from the merchandise mix. The customer comp is down based on all the cannibalization we've been talking about since I gave you the numbers on what our un-cannibalized stores have done and what our sequential growth has been.

Unidentified Speaker

Given the merchandise mix comp and the number of deliveries that we're making, the demand that we are still seeing for our products and services doesn't tell us, at this point, that the pricing or merchandise mix comp is causing the customer growth to go down; it's more the cannibalization issue that we've talked about.

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

On the contrary, the big screens are still the highest demand product that we have and, as Mitch alluded to, all the big screens that we're offering today are HDTV, so there's been no slowdown, if you will, in terms of the demand for that product.

That pricing comp, again, part of that, a year ago, two years ago, you'll recall, is the fall of '01 is when we did some term and rate adjustments; we shortened the terms and increased the rates. Obviously, we knew that that was going to be a good opportunity, from a price comp perspective, and we were able to achieve that (indiscernible) particularly in '02 and then somewhat throughout '03. What we will get now is a more normal comp with regards to that but, as Robert alluded to, the demand for those high-end products is still very strong and the HD big screen is the best example; it is still the Number One product in our system.

Operator

Arvind Bhatia of Southwest Securities.

Arvind Bhatia - *Southwest Securities - Analyst*

I got on the call a little bit late. I don't know if you guys talked about the new store performance. In the past, Mitch, you've provided some numbers on how new stores were -- from a margin and revenue standpoint -- performing better than expectations. I don't know if you provided that kind of a metric this time or not.

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

I will, but what I pointed out in my prepared comments were that they continue to perform well ahead of plan. We don't know if everybody wanted to hear these numbers every single quarter, actually, but they continue to perform well ahead of plan. For example, the stores that have hit one year are performing like our -- you'll recall our one-year model, the first-year model is, from an EBITDA standpoint, to lose 85,000. All of our stores that have hit one year since we started this in late 2000, started the (indiscernible) opening plant, have lost 46,000 on average instead of 85, so they are about 40,000 ahead.

Year Two, we expect a positive EBITDA of 80,000, and the 100 stores or so that have hit a two-year anniversary in their full second-year did about 130,000 -- again, well ahead of the 80. Then the three-year number is 140 for EBITDA and we had about 30 stores so far hit three years and they, in their third full year, did 162, so all cases are running well ahead of our metric.

Arvind Bhatia - *Southwest Securities - Analyst*

I think it's important because it sort of helps to understand the point about customer count. If your new stores are performing better-than-expected, then they are having a disproportionate effect on your existing stores. That was kind of the point I was trying to understand.

Secondly, the customer count assumption -- not to focus too much on it, but the customer count assumption for the year, the way I look at it, you are assuming about minus 2 percent. Given your comp assumption of 0 to 2 percent and the discussion on pricing, am I in the ballpark with minus 2 percent (inaudible) traffic?

Unidentified Speaker

For the year, I would say 0 to negative 2 percent because you figure the mix is going to be positive. At 0 to 2 percent, we know some of that's going to be mix. If the customer comp is negative 2 percent, we get to the zero; if the customer comp is flat, we get to the plus 2 is one way to look at it. Again, as you pointed out, it's planned cannibalization and that's why the overall customer growth numbers (indiscernible) new stores (inaudible) are so important.

Unidentified Speaker

Again, Arvind, I don't know if you heard it earlier, but we have approximately 1500 stores that had no impact from cannibalization, that customer growth grew 2.7 percent positively year-over-year.

Arvind Bhatia - *Southwest Securities - Analyst*

I got that. Now, those 1400, 1500 stores don't have any Rent-A-Center within a few miles?

Unidentified Speaker

They didn't get any new Rent-A-Centers within a few miles. They may have one that's been there for awhile but no new ones.

Arvind Bhatia - *Southwest Securities - Analyst*

No new ones, okay. Then on Rainbow, I know you gave some guidance on what to expect in '05. What sort of margins does that number assume? Is it assuming full Rent-A-Center type operating margins in '05?

Unidentified Speaker

No, Arvind. There's three areas that we have identified that provide opportunity; one is the gross margin line. We don't expect those to be to Rent-A-Center levels gross margin line until late 2006, given two years to cycle through their inventories. The other two areas are more in the middle of the P&L. The advertising that Mark mentioned and some overhead from a G&A perspective are the two other areas outside the gross margins. So those three areas (indiscernible) expect to get the majority of the advertising and the overhead in for the full year of '05 but the gross margin only a portion of. Because it will take two full years to get the gross margins up to ours -- (Multiple Speakers).

Arvind Bhatia - *Southwest Securities - Analyst*

Sure. I guess one more question (indiscernible) on RentWay, how much of that is in the comp? Is that half a percent or less this year?

Unidentified Speaker

There's no RentWay impact in the comp at all at this point. They won't come in until the second quarter of '04.

Arvind Bhatia - *Southwest Securities - Analyst*

What I mean is for the '04 guidance?

Unidentified Speaker

I'm sorry. I thought you meant for the third quarter reported. There's two ways to look at that, the merged stores and then the existing stores that we left open. The existing stores we expect to be low double-digit, mid 10 to 15 percent range. Then the merged stores would probably be down, given the way that we report the comps. When you merge $30,000 stores on top of our 70,000 on average, you're going to have some impact of those -- and by the way, when we do that, that sets the base. You know, the 70 plus the 30 sets the base; you're now at 100,000, so you're trying to comp over 100,000.

Because of what we've seen historically with a merged acquisition, you've got customers who now may or may not want to drive to the new location and or had some (technical difficulty) management. There's some fall-off of those merged accounts in our existing locations.

Unidentified Speaker

Forecast.

Unidentified Speaker

Overall, that's what we expect. Overall, the margins are better in that location, the revenues are higher and so forth.

Unidentified Speaker

Because so many of those were merged stores, Arvind, versus the ones we kept open, we wouldn't see much of an impact in the second quarter. We would expect that to be pretty uneventful when they come in -- (Multiple Speakers).

Unidentified Speaker

(Multiple Speakers) -- open we will be able to give you specifically and you will see a nice improvement in those.

Operator

Ryan Rencertier (ph) of (indiscernible) Asset Management.

Ryan Rencertier - - *Analyst*

Thank you. I guess I wanted to understand one thing a little bit better. You had talked about the tax payouts as sort of increasing your comp in the near-term because people come in and have the early payouts, but having a little bit more difficulty winning back the recurring revenue stream. So I'm curious if, when you talk about January sales, the last three weeks having higher than normal payouts but also saying that business is only fair, are you saying that the tax checks that came in August you're still having difficulty getting people to go back to -- I'm sorry, I'm trying to phrase this properly.

Unidentified Speaker

What you're saying is, are they coming back and re-activating into a new agreement?

Ryan Rencertier - - *Analyst*

Right, exactly.

Unidentified Speaker

Certainly, Ryan, we saw, the fourth quarter, a lot of those payouts in the third quarter, in fact, reactivate. As Mitch alluded to, the sequential comp was a pretty strong number. A lot of that was those payouts from the child tax credit refunds in fact coming back in the fourth quarter and reactivating. We would expect similar behavior with these but it is typically -- it takes a little bit of time. They don't sign up the same day they payout oftentimes; there's a little bit of a delay before they come back and enter into a new agreement. But the fact is we saw a lot of that in the fourth quarter. There was a 3.5 percent sequential customer growth, and we would expect something similar again. It's just, you know, you have an abnormally high number of payouts this time of year because of income tax refund and then it's just how long does it take them to get them back in and activate again.

Operator

Adam Weiss (ph) of Shilton (ph) Investment Company.

Adam Weiss - *Shilton Investment Co. - Analyst*

I just want to understand the impact of the cannibalization this year versus prior years and whether there's something to be noted there, because you have been opening stores pretty consistently, correct?

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

The number continues to grow.

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

Yes. For instance, in 2002, we added about 5 percent square footage, and in 2003, we added about 10 percent square footage between new stores and acquired stores. So in 2002, we opened -- between opens and acquisitions, not talking about account buys, just stores we bought -- it was 153 -- 70 opens, 83 purchases. And in 2003, it was 101 opens and 160 purchases, so that 5 percent has gone to 10 percent. Plus, you still have the 5 percent from 2002 so cumulatively, you're over 15 percent square footage growth from a cannibalization standpoint. So, it just keeps building and it is accelerating; that is why it's having more of an impact now than it did over the last couple of years.

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

I think that was one of Mitch's comments is that (indiscernible) number just gets further apart as we open more stores and expand more. Thus, as we sit here today, we are anticipating opening 100 stores this year. We just, obviously, announced this 124 store acquisition, of which the majority will be left open. Then to the extent we do some other acquisitions as well, you can obviously sit here today and assume that we're going to add somewhere between 250 and maybe 300 stores this year.

Adam Weiss - *Shilton Investment Co. - Analyst*

So if two-thirds of the store base was up almost 3 percent and the entire base was flat, then the ones that were cannibalized were probably down mid-single digits I guess?

Unidentified Speaker

Correct.

Adam Weiss - *Shilton Investment Co. - Analyst*

From an operating levered standpoint, how much of that sales decline flows to the operating line?

Unidentified Speaker

It's both ways. Meaning, we have talked in the past about how our fixed costs or our breakeven point is about $42,000 a month in costs and so anything above and beyond that level, you get about 50 percent flow-through and quite frankly, that cuts both ways. That's kind of what we've spoken to in the past.

Adam Weiss - *Shilton Investment Co. - Analyst*

So, do you factor that in at all when you look at kind of the new store model -- whether or not you should take into account cannibalization of an existing store?

Unidentified Speaker

Yes. I mean, in the guidance we've given, we are accelerating the new stores we are opening this year. Last year, we gave guidance of 80 to 100; we did 101. This year, we're giving guidance of 100 to 120, so we expect to open more stores in 2004 than we did last year. Again, that's planned and expected and for the long-term benefit of growing the overall business.

Adam Weiss - *Shilton Investment Co. - Analyst*

Okay. I just have one other question. In terms of increasing your merchandise, your rental merchandise, should it grow with square footage plus comps or -- is that an accurate --?

Unidentified Speaker

Yes, that is accurate. Our merchandise purchases that we make should be for square footage growth as well as to support the comp.

Adam Weiss - *Shilton Investment Co. - Analyst*

Okay, thank you.

Operator

John Sykes of Nomura.

John Sykes - *Nomura Securities - Analyst*

Good morning. Just really an understanding question -- as the economy improves, I mean, what impact will that have on the customer base? Because how many of these people will actually just outright buy a television or outright buy furniture and that type of thing, versus renting it? Has that kind of been factored into your analysis in the guidance, I guess?

Unidentified Speaker

What we've seen historically over the 20-plus years that myself and Mark have been doing this -- and we've gone through different economic cycles -- yes, some people -- we will lose some people that can now afford to buy it. But what we've seen historically is we gain people that come into the business that maybe couldn't afford to rent even before that -- unemployed.

Now, if they're working, that's better for us than if they are unemployed. So, you lose some out of the top but you pick some up coming into the Group, so to speak. Just like when we went into a bad economy, we may have lost some at the bottom end, let's say. I hate to say it like that, but it's the only way I can explain it to you -- you might lose some on the bottom end, but you pick some up at the top end. Now, it just goes back the other way. So yes, we will lose some but historically, we pick some up that maybe were unemployed over the last couple years as well.

We've done very well in a good economy. Our best years, from a comp standpoint -- now we have smaller stores and it wasn't the law of big numbers hadn't caught up with us quite so much and so forth as far as the revenue of stores and so forth, but some of our best numbers were '97, '98 and '99, when the economy was booming.

Unidentified Speaker

I think the other thing I might add with that, John, really, this customer base that we target or serve, by definition, is an extremely large segment of the population. We know that there are approximately 45 million households that fit within the profile. I'm not suggesting that they all need or want a rent-to-own store. The fact of the matter is the entire industry only serves about 3 million of those households -- i.e., 7 percent. So, as we continue to grow -- and again, when we talk about our growth opportunities, the ability to cluster these stores, albeit there's some cannibalization, we just know that there's a very large segment of us population we have not reached out to yet.

If the economy gets good, by definition, an unbanked or under-banked or perhaps a credit-constrained consumer -- their problems don't get solved the next day. They are still unbanked, they still have credit issues and so forth, so good economy/bad economy, we still have that going for us throughout all those periods. And again, it's a very large segment of the population, so --.

John Sykes - *Nomura Securities - Analyst*

Could I ask just another question? It's really just sort of comparing you to Aaron Rent, who you know pretty well, I'm sure, but --. You look at their fourth quarter; they had a pretty good same-store sales number. I mean, now I realize there are differences, but could you just sort of take me through a comparison of the two companies and maybe the competitive advantage that you have vis-a-vis them or that type of thing? I am just trying to look at this. I'm looking at their comps and yours.

Unidentified Speaker

Absolutely. I mean, there are some distinct differences in a couple of regards, and Aaron's has done well, it continues to do well. I don't know how many stores are in their total comp from a store count perspective, albeit they have 700 or 800; half or so are franchised, which would not be in that number, so it's the half Company-owned. Where I'm going with that is we do know, two years ago, they added over 100 stores when they bought the leases from Heilig-Myers. So, 25 percent of those stores, by definition, are new and are now in the comp over the last year for the first time. They've done a great job.

The point is, part of it is how many stores have been mature for a long period of time in the comp with the law of big numbers. In Rent-A-Center's case, that's an awful lot of our stores. Of the 2600 stores that we have, 2300 of them, or 2200, have been over five years in the comp and are, by definition, mature with the law of big numbers. So, there's a little bit of that going into it. I do want to say that.

In terms of the business models, there are some differences, albeit we offer similar products, household durable goods. They I think would say that they do intentionally maybe try to go after an upper scale customer. They are very big, as an example, in monthly pay. We offer that to our customer but we give our customer the choice; you can pay weekly or monthly. In our case, about 85 percent of ours pay weekly. The 15 percent would be bi-monthly or monthly.

In their case, I believe it's somewhere around 70-plus percent are monthly and in fact, maybe even a higher number than that. On a lot of their products, they have a three-month minimum term. In our case, we have no minimum term on any of our products. So again, it gets back maybe to the customer you're trying to serve and what you're trying to offer. There are those kinds of differences. I mean, those are some of the big picture, easy ones if you will. Then there are certainly other things in terms of the operating model and so forth.

Unidentified Speaker

I'm not sure you can really do the comparison, Ryan, because it is a different business model. Their's being a monthly business and ours being a weekly business is -- I'm sorry -- I'm sorry, John. The business models are different, theirs being monthly and ours being more of a weekly, them having a minimum, (indiscernible) , so I don't think you can really compare the two, not to mention if you do compare the two, you have that difference in maturity issue that Mark was talking about.

Operator

We have reached the end of the allotted time for questions and answers. Mr. Davis, are there any closing remarks?

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

This is Mark Speese. As always, we appreciate everyone's time and interest and we're certainly excited about the opportunities ahead, the Rainbow acquisition and getting the closing done on that. As always, we are available for follow-up questions. Feel free to call us. We look forward to talking to you again next quarter. Thank you very much.

Operator

Thank you. This concludes today's Rent-A-Center conference call. You may now disconnect.