FINAL TRANSCRIPT

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RCII - Q3 2006 Rent-A-Center Earnings Conference Call

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PRESENTATION

Operator

Welcome to Rent-A-Center's third quarter 2006 earnings release conference call. At this time, all participants are in a listen-only mode. [OPERATOR INSTRUCTIONS] As a reminder, this conference is being recorded Tuesday October 31st, 2006. Your speakers today are Mr. Mark Speese, Chairman and Chief Executive Officer of Rent-A-Center, Mr. Mitch Fadel, President and Chief Operating Officer, Mr. Robert Davis, Chief Financial Officer, and Mr. David Carpenter, Vice President of Investor Relations.

I would now like to turn the conference over to Mr. Carpenter. Please go ahead, sir.

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

Thank you, Richard. Good morning everyone and thank you for joining us. You should have received a copy of the earnings release distributed after the market closed yesterday that outlines our operational and financial results that we made in the third quarter of 2006. For some reason, if you did not receive a copy of the release, you can download it from our website at investor.rentacenter.com.

In addition certain financial and statistical information that will be discussed during the conference call, will also be provided on the same website. Also in accordance with SEC rules concerning nonGAAP financial measures, the reconciliation of EBITDA is provided in our earnings press release under the statement of earnings highlights.

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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 31st, 2005, and quarterly reports on Form 10-Q for the quarters ended March 31st, 2006 and June 30th, 2006, as filed with the SEC. Rent-A-Center undertakes no obligation to publicly update or revise any forward looking statements.

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

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

Thanks Dave. Good morning everyone and thanks for joining us on our third quarter earnings call. Our third quarter did turn out to be a very good one. Our same-store sales came in at 3.6%. Our third positive quarter in a row, and just above the high end of our 2.5 to 3.5% guidance. And earnings came in at $0.51 per share, excluding the nonrecurring items, also above the high end of the guidance of $0.46 to $0.50. The earnings of course were a result of the strong same-store sales number, which continues to be driven by being less promotional in our offerings, as well as having more units on rent, a great combination for strong results.

As I explained on last quarter's call, the way the calendar falls can have a significant impact on our revenue and count numbers, because we are primarily a weekly business model, and the majority of our payments are made on the weekend. By way of example, in the third quarter, because we had extra Saturday versus an extra Friday in 2005, that helped account by about 0.7 of a percent. Now we did have that factored in our guidance as well, so we still performed at the high end, but the fact is the 3.6% would probably have been around 2.9 had the calendar not had a favorable impact in the quarter.

At the same time, as I explained last quarter, the fourth quarter that we are in right now, is short an entire business day when compared to 2005, and because it's a Saturday, the negative effect of missing a Saturday will be about 2.5%. Now last quarter I mentioned we expected the fourth quarter to be flat due to the 2.5% calendar swing. However as you can see in our guidance, we have now raised that expectation to flat to positive 1% even with the negative impact of about 2.5% from the calendar shift.

So demand is good and by being less promotional we are driving more revenue per unit on rent. Our advertising changes that we have made over the last year or so are working well for us, and we will continue to refine those. Our new home package that allows for discounts on larger rentals of three or more core products continues to be a success in getting additional business. As is our price match program that allows our store managers to match a competitors price if needed.

In terms of new technology in our stores, we now have a full array of flat panel televisions in our line-up, from 26-inch to 42-inch, as well as LCD projection and DLP technology in the larger screen sizes. And although we are seeing strong demands for the new technology, I will remind you that for us, the revenue of that new technology is going to come in over a couple of years. If products are in our system an average two years, these types of products will be in our system probably close to 2 years, so we won't generate the revenue all at once like a typical retailer. So strong demand on this new technology does help, but it doesn't explode the comp numbers the way it may for someone selling that new technology.

On the collections front we remain very consistent. The summer quarter is the toughest for us in terms of collection, and this summer was no different than the past. And our weekly credit averages were the same as they had been in prior summer months. Also our quarterly loss rate on customer skips and stolens as a percent of revenue was again consistent with past summer quarters, in fact this year we are slightly lower than last summer on that metric.

Our inventories levels remained consistent with our expectations that our idle, or held for rent inventory, was 23.4% of our total inventory at quarter's end. This is up from the end of the second quarter as expected, due to the seasonality of the business in the normal slower summer months. And because we received in a lot of our fall merchandise the last two weeks of September.

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The third quarter held for rent ending number was better than last year by 40 basis points, and within what we would consider the normal range of 20 to 24%. We would expect that number to be closer to the low end of that range by the end of the fourth quarter, as these units are put on rent in our highest demand quarter of the year.

Our expense controls continue to improve with our new procurement program for supplies, gasoline, and the like. So all-in-all a very fine quarter. A quarter that has our core business in great shape and ready for the pending Rent-Way acquisition. We have developed a detailed integration plan for the Rent-Way acquisition, and we are very much looking forward to welcoming the fine Rent-Way associates to our team of 16,000 very proudful workers.

And with that I will turn it over to Robert.

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

Thank you, Mitch. I'm going to just spend a few moments updating you on some income statement items, balance sheet and cash flow, after which I will turn the call over to Mark. And I would like to reiterate that most of the information that I present today, whether it's historical results or forecast results, are presented on a recurring and comparable basis, so excluding some of the one-time items that are outlined in the press release.

Pertaining to the income statement, as outlined in the press release, total revenues did increase during the third quarter by 2.4%, with diluted earnings per share increasing 45.7% from the prior year to $0.51, primarily driven by the positive same-store sales comp of 3.6% that Mitch spoke of. We were also able to leverage this increase in revenue, as EBITDA for the quarter increased over 14 million from the prior year, or by 21%. So close to $82 million, with the margin increasing over 200 basis points to 13.9% in the third quarter. Now for the last 12 months ending September 30th, 2006 pro forma EBITDA has totalled approximately $339 million, and we continue to expect this margin, the EBITDA margin for the full year 2006 to come in around 14.5%.

Now from a cash flow perspective, the Company has generated over $131 million in operating cash flow during the first 9 months of the year. With close to 100 million of that being generated in the third quarter alone. And we currently expect approximately 175 million operating cash flow for the entire year, as we now anticipate further investments in working capital to support the strong demands and continued growth. While beginning the year with approximately 58 million in cash on hand, the Company has since invested over $80 million in working capital. Utilized approximately 51 million in CapEx, 34.5 million in the acquisitions of stores and accounts, close to 5 million in share repurchases, and have reduced outstanding indebtedness at 9/30 by over $65 million, while still ending the quarter with approximately 54 million in cash on hand.

At quarter end, our consolidated leverage ratio was down below 2 times, to approximately 1.88 times. Our interest coverage ratio remains very healthy at approximately 6.4 times and debt-to-book cap at quarter end equated a 41%, a 580 basis point reduction from 46.8% at year end.

With outstanding indebtedness at September 30th, at just over 658 million. Our current debt levels at the end of the third quarter break out as follows. About 322 million in senior indebtedness, 36.3 million is outstanding under the our revolver and lines of credit, and $300 million of 7.5% subordinated notes. Given the recent refinancing, our revolver availability that we expanded has now provided more liquidity, so the current availability under our revolver is nearly $258 million.

Now as you know, we intend to raise the necessary financing for the Rent-Way acquisition, by increasing the term loan B portion in our senior credit facility by roughly $600 million. Now this indebtedness will not be in place until we close the merger with Rent-Way later this quarter, and as a result we do anticipate recording a financing charge in the fourth quarter of approximately 2.6 million. In any event, the cash flow characteristics of our Company, the strength of our balance sheet, and increased liquidity through our expanded revolver, as well as the improving credit metrics in margins, that we have spoken about, are all indicative of the overall health of the organization, as we continue to improve upon our core business.

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Now in terms of guidance. For the fourth quarter of 2006, we do anticipate total revenues to range between 586 million and 594 million, and diluted EPS to range between $0.46 and $0.50, which does exclude the impact of the write-off of the unamortized fees I mentioned previously. For 2007 and consistent with our previous statements regarding steady state total revenue growth in the low to mid single-digits, and earnings growth between 6 and 10%. We expect total revenues to range between 2.42 billion and 2.45 billion, with our same-store sales between a positive 1 and positive 2%.

Diluted earnings per share are estimated to be in the range of 2.24 and 2.32. And as always our current guidance excludes any potential benefits associated with additional future debt prepayments, stock repurchases, or acquisitions completed after the day of this press release. So as such, any impact of the pending acquisition of Rent-Way is not currently included in our guidance.

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

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

Thank you, Robert and Mitch. And good morning, everyone. As always we do appreciate your time and interest in joining us. I would like to spend a few moments and share some additional comments and updates, and then of course we will be happy to take your questions. As you have heard from both Mitch and Robert, the overall tone of the business remains positive. And I think the management team has done a wonderful job of staying focused and executing our business plan over the last several quarters, and we are seeing the results of that.

Certainly we have more work to do, but much of what we have focused on and have spoken of, is taking hold and generating positive results. All-in-all a solid quarter, and I believe that we are well positioned for the balance of the year. With regards to the Financial Services, our results there have been pretty good as well. For the quarter, we added an additional 24 stores ending September with 101 locations now offering those products or services, and we are on-track to add an additional 45 to 55 locations this quarter. We expect to end the year with approximately 150 stores offering our Financial Services products.

The overall results continue to perform in-line with our expectations, and the outlook remains positive. As a reminder, we expect those stores to reach maturity between month 18 and 24, generating at that time between 15,000 and 20,000 a month in fee revenue, and the flow through to be approximately 30 to 40%.

For the fiscal year 2007 we expect to add these services to an additional 200 to 250 locations. Now given the fourth quarter and 2007 ramp up, we expect the Financial Services to be slightly dilutive to our earnings next year, approximately $0.03 to $0.04, and to become accretive beginning in fiscal 2008.

All-in-all again, we are very pleased with the performance and the outlook for the long term is unchanged. Let me add, there has still been no meaningful difference between the two layout concepts. Be it the in-store or box-in-the-box, we will continue to add both over the next several quarters as well as continue to evaluate your performance before any final determination is made.

Let me address the announced prospective settlement with the California Attorney General. Now as many of you are aware, in October of 2004, the Company settled the Griego lawsuit in California, with asserted claims concerning the setting of cash prices in our club programs. And as we have announced previously, the Attorney Generals' Consumer Protection Division had begun its own investigation around those same issues earlier that same year.

During the course of the AG's investigation, the existing Rental Purchase Act in California, the Karnette act was amended. Those amendments were signed in the law on September 22nd 2006, and they will become effective as of January 1st, 2007, and those will clarify the setting of cash prices going forward. We are now implementing the pricing changes to conform to that amended statute.

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This proposed settlement with the Attorney General will cover any rental purchase or club agreement that we entered into it since the settlement of Griego, through the date the settlement becomes final, expected to happen yet this year. As part of that settlement, we expect to enter into an agreed upon injunction limiting our cash prices, the total of payments, and the purchase option price in future rental agreements, to the new specified limits in the statute.

The injunction will also require some changes to our club program. This settlement and injunction along with the amendments to the existing law should bring closure to those issues in California, and just as importantly, provide clarity on future practices. While the amended statue will mean lower cash prices and total cost in California, we do not believe it will have a material impact on our overall financial results.

And finally, let's talk for a moment about Rent-Way, the acquisition. Of course I think as everyone knows, HSR approval was obtained last month, and Rent-Way has scheduled their shareholder meeting for Tuesday November 14th, to approve the transaction. It is expected that they will approve the deal, and as such, we would expect the final closing to occur as soon as possible thereafter. Needless to say we are very excited about this transaction, and believe it creates tremendous opportunities for all involved. As Robert mentioned, while our current guidance does not include any consideration for Rent-Way, we will speak specifically to that on our next call in February.

I do want to take a moment and remind you of our earlier stated expectations. Again it is 782 stores operating in 34 states, with current annual revenues of approximately $515 million. We would expect the integration process to begin immediately after final closing. That includes consolidating back offices. We would expect to have most of that completed within 90 days from that point. We expect to consolidate approximately 20% of the store base, or roughly 150 stores. We will begin that process in early December, and expect most of the consolidations to be completed by the end of January.

The implementation of our IT systems, the business model, the product offerings, name change campaign, realignment of personnel, and so forth will all begin soon after the closing as well. And we expect to have all of that completed by the end of the first quarter of 2007. As we have previously mentioned, once fully integrated we expect to realize annual synergies of approximately $25 million. Most of that coming in the G&A advertising and some merchandise purchasing lines.

For the fiscal year 2007, we expect the transaction to be slightly accretive to earnings, approximately $0.01 to $0.02 and that will come in the back half of the year, as we begin to realize the synergies after the complete integration of the two companies. So there could in fact be some dilution in the first or second quarter, which again we will speak to at a later date.

Again as we have previously mentioned, in the year 2008, we would expect the acquisition to add approximately $0.20 to earnings. Our outlook has not changed, and again as I said, we remain very excited about welcoming Rent-Way into the Rent-A-Center family. Obviously this is a large undertaking, but I do believe we are well prepared and up to the task.

As Mitch mentioned, the operation side is performing well. We have a detailed plan in place, and the support of both organizations to bring these two companies together, and of course as you know, Rent-A-Center has a history of successfully integrating acquisitions, and we view this one no differently.

Again as I mentioned, we will provide more in-depth numbers on a combined basis during our next scheduled call. And at that time, we expect much of the work will be completed or nearing completion, and as such, we will be able to provide more specific data.

Again we appreciate your support, and with that we would now like to open the call up for questions.

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QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, [OPERATOR INSTRUCTIONS] We will talk a brief pause to compile the Q&A roster. Your first question comes from Arvind Bhatia with Sterne, Agee.

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

Good morning, guys.

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

Good morning Arvind.

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

Solid quarter obviously, but everybody wants to know you know, next year's guidance. Being where it is. And as you know Consensus was higher, would just like to go through your perspective of what you see out there from a trend standpoint. Is there anything that concerns you in your trends, that you know, you were guiding for. Some what lower growth than we might have expected. Is that, you know, you are expecting some deleverage it looks like in some of your expenses, salaries for example, and again, you have got a lot of positives going on here with the flat panels and payday loans, et cetera. I guess we would have expected stronger guidance but would like to get your perspective obviously.

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

Well, I think Arvind, the first comment that I would make is obviously this is the first time the Company has come out and spoken about '07. We have in the past. On multiple occasions spoken about what we would expect, in terms of revenue and EPS growth in a normal environment absent an acquisition or something of that nature. And in that regard, we have stated time and again, that we would expect total revenue to grow in the mid single digits, i.e. 4 to 5%, and that in turn would lead to EPS growth in the mid to upper single digits, or low double digits, i.e., 8 to 10%, if you will.

Obviously we have got some momentum, we have a couple of quarters. And we are excited about that, and at the same time to now turn that into what might imply or suggest that it would be a 15% EPS growth, if you will, doesn't make sense to us. I mean the fact is the revenue is still growing within those ranges we had previously spoken about, i.e., that 4 to 5%, so until or unless you see that going to 8 or 9, I am not sure why you would then think EPS would grow at 15 or 20.

We are seeing good things as it relates to the new products, as Mitch said, we are bringing in more of the flat panels and the demand is starting to increase, but again, what that means, we are renting a unit and getting $30 a week. You have to do that for a period of time, and get a lot of them out there before it starts to build, unlike retail where you sell a lot of them today, and recognize the full sale, that is not the case here.

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

I don't know if you caught it or not in Mark's prepared comments. The fact that Financial Services rollout is ramping up in the fourth quarter, 45 to 50 locations in the fourth quarter alone. As opposed to being spread evenly through this year, we had spoken previously about some of the challenges that we were facing on the licensing and permit side, we have overcome those hurdles, but now that has pushed back some of our openings to the back half of '06. Which is going to have an impact in next

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year's guidance, as Mark mentioned, $0.03 to $0.04 dilution. If you add $0.03 to $0.04 dilution to our earnings guide range that we gave, $2.24 to $2.32, you get into that 7 to 11% EPS growth next year, off of what we expect in '06.

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

Got you. As far as the trends towards the end of the third quarter, beginning of fourth quarter, nothing different from what you might have expected earlier?

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

No. Not at all. I mean, if we were to give, if we were talking about, next year 90 days ago, that would have been our guidance. We were as Robert and Mark have both mentioned, when we have a 1 to 2% comp and then some other revenue comes in the stores that aren't in the count base, and you get 3 to 5% overall revenue growth, and you end up with an 8 to 10%, now when the Financial Services are driving more that that come 2008, and Rent-Way is in there with another $0.20 in 2008, then you have more than 8 to 10%, but with the dilution in '07 of the Financial Services, and Rent-Way only a penny or 2, really there is really no consideration for the numbers at all with Rent-Way, but even when that is in there, it is not going to be much, and then you have a 8 to 10% bottom line increase. But no trends have driven that number down in the last 90 days.

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

Perfect. One last question on the payday loan business, when do you think you will start to break the business out? If I am reading it correctly, the second half will have a positive contribution, and then maybe the first half will have a negative contribution. Is it fair to assume that the inflection point will be sometime in the second or third quarter of this year, from the standpoint of profitability in that business? Meaning, you know, the drag from the opening being offset by the ramp-up in the older stores.

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

I think you started out talking about Financial Services. But then I assumed you were going to Rent-Way. I got a little confused.

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

No, I am still talking about Payday loans, how, the $0.03 to $0.04 dilution. I assume that is not going to be evenly spread out.

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

I am sorry. I got you. Again, the 200 to 250 that are expected to open next year, if those in fact happen ratably throughout the period, your assumptions are right, that once you get into the back half of the year, that pool as a whole, will in fact begin to become accretive. Breaking even or to then start to make money.

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

On a monthly basis, not necessarily on a cumulative for the year.

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

That's right, on a monthly. And our expectation and the we way have it mapped at 200 to 250, generally speaking we do expect to open it ratably throughout the period. In other words, it is not assumed that it will be 20 or 30 in the first quarter and then, again a situation where it might be 150 in the fourth quarter of next year. So having said that, and given how they are ramping up, yes I would expect that on a monthly basis or for the quarter as we get into the back half of the year, they will begin at that point to start even, Or starting to in fact add some contribution and then just continue to grow there.

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

When do you think you will be able to break out that business a little bit more for investors to see the contribution, both from a top line and bottom line perspective?

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

Well there is no decision made at this point, technically we are not required to break it out separate from a financial reporting perspective, until it is at least 10% of your overall business.

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

Right.

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

And the forecasts that may never occur, now that we have got Rent-Way into the fold. But I do expect that as we start to anniversary some of these other stores from a comp perspective, we can at least break out some of the comp numbers on Financial Services.

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

That's when it probably starts to have a little bit more meaning. In fact it was this time last year that we started adding them into the Rent-A-Centers, so if you were to even think of it from the comp perspective, It would not even be until the first quarter, that they would even look at it that way.

And again of the 100 we have today. 75 of those are the adds that we have done, the 25 that we acquired. And of the 75 that we have done, 26 of those were opened in the third quarter, so a third of them within the last couple, three months. Nothing meaningful there at this point, but certainly our expectation would be as we get some point into next year, that it would make sense, and we would be happy to start speaking more to it.

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

I appreciate it. Good quarter.

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

Thank you.

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Operator

Your next question comes from Henry Coffey with Ferris, Baker, Watts.

Henry Coffey - *Ferris, Baker, Watts - Analyst*

Good morning, everybody. Obviously throw in my compliments too. A very strong quarter. First to clarify something. The calendar issue that you are talking about, explain to me how that works. You have got, in this quarter we had more Fridays but fewer Saturdays. No, no, this quarter we had--

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

We had the opposite.

Henry Coffey - *Ferris, Baker, Watts - Analyst*

Why don't you explain it?

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

This quarter we had same number of days, but is was an extra Saturday, and then 2005 it was an extra Friday. When I say extra, when you look at a quarter, you have got 13 weeks, and sometimes you have another day in there. So in 2005, the extra day was a Friday and in 2006 the extra day was a Saturday. We do more revenue on a Saturday, so that helped the quarter by about 0.7, so we would have been at 2.93% range without the--.

Henry Coffey - *Ferris, Baker, Watts - Analyst*

And then going into the December quarter?

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

the December quarter is actually missing a whole day, because we are not open on Sunday. Retailers that are open 7 day a week, in most quarters you would never have a calendar shift, right, because it is the same number of days. In this case, in the fourth quarter, A Sunday replaces a Saturday, and so we are missing a whole Saturday out of the quarter compared to 2005, and that will impact us about 2.5% negative.

Henry Coffey - *Ferris, Baker, Watts - Analyst*

You are missing a day and Saturday and that equals about 2.5%? So it is a much bigger impact.

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

That's right. Because we are missing the whole day, not just replacing. In the third quarter we were replacing a Friday with a Saturday, which had a 0.7 impact. But when you lose the whole thing, and it being a Saturday would be 2.5%. If you normalized it you would about 3% in the third quarter, and really about 3% in the fourth quarter. Because if you take the mid-point of our

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range, the flat to positive 1% use the 0.5% mid-point, throw in the 2.5% from the calendar shift, you are normalizing 3%, which would be the exact same if you normalized the third quarter.

Henry Coffey - *Ferris, Baker, Watts - Analyst*

Right.

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

And key with all of this, Henry, as I think you, or hopefully everyone understands the fact that we are in a weekly generally, I mean 85, You heard us say this. 85% of our customers pay us weekly. And in fact the vast majority, pay us on Saturday and Sunday. Saturday being the biggest day for us. That is the difference. It is not as if it is a monthly pay, like you pay rent for your apartment, where it doesn't matter how the calendar falls.

Henry Coffey - *Ferris, Baker, Watts - Analyst*

I understand it. I was trying to get the logistics straight. Then you mentioned that you have got, I just heard this. $2.6 million of financing charges and that's tied to--?

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

We are expecting to write off the unamortized loan fees in the fourth quarter of about 2.6 million.

Henry Coffey - *Ferris, Baker, Watts - Analyst*

In addition to what happened in the.

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

Yes. Henry, just so you understand, when we refinanced our current existing credit agreement in July, we were not in a definitive agreement in a position with Rent-Way at that point in time. So we had an opportunity at that point to go back to the market, tighten our spreads and loosen some of our covenants, which we did do, but we weren't in a position with Rent-Way to put them on hold at that point, so it is the old proverbial 'bird in the hand, two in the bush' concept, but once we got in a position to be in a definitive agreement with Rent-Way, and realized that we were going to need to raise more capital, now we have got to write-off the loan fees associated with the financing that we put in place in the summer. So we anticipate that to be about 2.6 million in the fourth quarter, once the Rent-Way deal is closed.

Henry Coffey - *Ferris, Baker, Watts - Analyst*

This that is included in the $0.40 to $0.50-- ?

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

That is excluded from the $0.40 to $0.50.

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Henry Coffey - *Ferris, Baker, Watts - Analyst*

Okay. And finally, its sound like Rent-Way is going to come on obviously really strong in 2008, and of the $0.20 contribution that you are talking about, how much of that do you think is going to be driven by revenue growth, and how much of that really is going to come from this durability to cut costs throughout that system?

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

Much of that in the '08 period, there are a couple of things, and even as a gross beyond that. Again, the realization of the full synergies for the entire period is driving much of that, or part of it, I shouldn't say much, there is an expectation of additional contribution as we grow the revenues. The exact mix between that--.

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

In the 150 consolidations, we are modeling that some of that revenue will deteriorate as typically happens when you merge locations.

Henry Coffey - *Ferris, Baker, Watts - Analyst*

Right.

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

There is some revenue increase considerations in the stores that we keep open, I think what we talked about previously was that by the end of year 3, as you look at what we expect from a revenue perspective, that those stores would be getting close to about 90% of the current Rent-a-Center run rate, so there is some growth considerations in the revenue and top line, but after 3 years, still not up to Rent-A-Center current averages.

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

Which is based on the fact that in 2003, when we bought 300 Rent-Way stores, and 3 years of having those stores, we got the revenue up to about 90% of our core store, so that's where we factored in with these 800, or the 620 or 630 that would be left open, kind of modeled them the same as how we performed with the '03 stores. That in 3 years, we would be at 90% of our core.

Henry Coffey - *Ferris, Baker, Watts - Analyst*

So basically $0.20 in '08 was other improvements likely beyond that.

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

It is a combination.

Henry Coffey - *Ferris, Baker, Watts - Analyst*

I mean 20% contribution, $0.20 per share contribution in '08, with more growth likely in future years?

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

We said back in August, that '09 would be in the $0.35 range. Because one of the other things that happens half way, there is an amortization of the customer contracts that drops off half way through 2008, because it is an 18-month amortization. So yes, I think 2009 we said $0.35.

Henry Coffey - *Ferris, Baker, Watts - Analyst*

Great. Thank you very much.

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

Thanks, Henry.

Operator

Your next question comes from John Baugh with Stifel Nicolaus.

John Baugh - *Stifel Nicolaus - Analyst*

Congratulations.

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

Morning, John.

John Baugh - *Stifel Nicolaus - Analyst*

Can you get on California, refresh my memory, how many stores do you have there? What precisely is the adjustment you are having to make in the cash price, and then how does that adjust the, if you want to call it the lease cost or rent to own cost, and you made the comment that you don't expect it to have a big impact. Is that because you are going to tighten up expenses somewhere, or the revenue impact just isn't that great?

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

There is about 150 or 160 stores out there.

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

The Amendment to the current Act, the previous Act, the language was maybe left to interpretation on how you set the cash price, and this more clearly defines the setting of those cash prices, and by way of example in some of the product classifications, i.e., Electronics as I recall, landed cost times a specific factor, which I believe is 1.65 or 1.7 on Electronics would be the cash price. And then the cash price times a factor which is 2.2 times, or 2.5.

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

2.25

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

2.25 would then become your total rent to own cost. And you have heard us in the past talk about, we have simplified it a little bit, but you have heard us talk about this 2x2 formula. So it is a modification if you will to that.

With again, Electronics. Wholesale landed cost times 1.7 is cash times 2.25 becomes total rent to own. So that gives you something like 3.85 or something, as opposed to what might have been the 4 otherwise. Again, a little bit of differences between the different product classifications, but that's generally how it works.

Having said that, that will lead to some deterioration in the gross margin. How much, and whether or not you can outrun that with additional business remains to be seen. But again, as we look at it, given that it is 160 stores, and as we look at it as a mix of the whole. If there is no uplift in demand or base of contracts, and so you are really left with just the deterioration in the gross margin, that could be 3 to 5%, depending on the mix, and so forth. Again, in terms of the overall whole, it is pretty deminimus.

John Baugh - *Stifel Nicolaus - Analyst*

I calculated 4.5% or something of revenue impact.

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

In terms of a gross margin deterioration?

John Baugh - *Stifel Nicolaus - Analyst*

Yes.

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

I would say 3 to 5, so you got it about right.

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

And just in California obviously.

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

That's right.

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

That's why in the whole, John, it just doesn't have much of an impact.

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John Baugh - *Stifel Nicolaus - Analyst*

That 150 to 160, that is just Rent-a-Center stores, or does that include any franchise, ColorTyme?

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

That number is Rent-A-Center only.

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

Just Rent-a-Center, and there are only a handful, 3 or 4, ColorTyme stores out there.

John Baugh - *Stifel Nicolaus - Analyst*

Okay, great. Maybe a question for Robert. Stock repurchase, how is that effected with the Rent-Way acquisition? Are you restricted completely, what would be your freedom obviously, you would be more levered up, and I would think you would want to pay down debt. Just curious as to your flexibility going forward.

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

Yes, currently just to run back through some of those numbers. We have got roughly $40 million available under our Board authorized plan, that obviously is very easy to potentially get modified for more authorization.

And once we put this new credit agreement in place after we close the deal with Rent-Way, our leverage will be right around 3.25 turns. There is some benefit to delevering, based on the pricing grid of the interest payments on the LIBOR spread.

We will start out with a $50 million basket in this new credit agreement, that will add 50% of consolidated net income cumulatively each quarter, and then once leverage gets below 2.5, I believe, we are unlimited in our amount of repurchases that we can make.

John Baugh - *Stifel Nicolaus - Analyst*

but if you heard you right. There is benefit to the lower interest by immediately paying off some debt.

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

Potential, yes. Obviously when you do the math, it is most likely to always be more accretive anyway to repurchase shares, than to pay off debt, but that just has to be taken into consideration with an overall use of capital, what is going on in the business.

John Baugh - *Stifel Nicolaus - Analyst*

Correct. Okay. Thank you very much.

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

Thank you.

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Operator

Your next question comes from Allan Rifken with Lehman Brothers.

Alan Rifkin - *Lehman Brothers - Analyst*

Thank you very much. Couple of questions, if I may. With respect to the Financial Services part, you mentioned the accretion in 2008. Is that assume a similar square footage growth in '08 versus '07, and if you can, can you just provide us some sort of update on what revenue and return characteristics you are seeing so far with the 101 stores?

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

Your first question, the answer is yes. The growth rate in '08 similar to what we are forecasting in '07, i.e. 200 to 250 additional stores. Again at maturity which we don't anticipate them reaching until somewhere 18 and 24, at that time the expectation is the revenue would be in the neighborhood of 15,000 to $20,000 a month fee revenue, and that flow through contribution of that would be about 30 to 40% of that 15,000 to 20,000 in revenue.

They behave a little bit like the Rent to Own store, in that there is a ramp-up period, you don't open them up and do huge volume month one, you have got to, kind of like Rent to own, in that you build this space of outstanding loans, if you will, and then the fee generation that is coming in. The average store of, again of the 75 or so we have opened, the median age is probably 4 months.

And in that regard, again with the way that we modeled the growth, they are performing in-line with that expectation. Now the exact number, I don't know. But it is around $3,000, maybe $4,000 in fee revenue at this point.

Now again, those that we opened 8 or 9 months ago are double that. Those we opened three weeks ago are not even 10% of that, there is a similar ramp-up like Rent to own, a similar time period to get there, and just depending on whether they are 3 months old or 9 months old, they are anywhere from $1,000 in fees, to maybe 7,000 or 8,000 at this point in fees.

Alan Rifkin - *Lehman Brothers - Analyst*

Okay.

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

Does that answer your question?

Alan Rifkin - *Lehman Brothers - Analyst*

Yes, it does. Thank you very much. Mark, with respect to the TV category, any sort of color as to what this category in its entirety, was it a contributor to comps in the meaningful way?

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

Well the TV category as a whole, I don't know that it was. Do you have that detail, Mitch, or can you speak to that?

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

I suppose they are only talking about the new technology.

Alan Rifkin - *Lehman Brothers - Analyst*

The flat screens and the advanced TVs.

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

Flat panel technology, I would say not in a meaningful way yet. We just started renting them this summer. I think we had the 42-inch plasmas before the summer, and then this summer we put in the 32 and 37, and just put in the 26 October 1st, So like I mentioned earlier, Alan, the fact that the demand is there, but because you know, it is a rental product, and we will get that revenue over the next two years, and not all at once like a retailer from selling it. Then it wasn't a meaningful part of the count. But it certainly can be over the next couple of years, based on that revenue being spread out over a couple of years in the rental business, unlike a typical retailer. So we are excited about the demand, but it is not having an impact on the comps yet.

Alan Rifkin - *Lehman Brothers - Analyst*

One more question, if I may. With respect to Rent-Way, just to be clear, you are assuming the same sort of progression for the 780 stores following the acquisition, what you saw in the first few hundred that you acquired? Is that correct?

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

Yes.

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

They are starting a little bit higher on a per store basis, in terms of their monthly revenue, compared to those that we bought 3 years ago. So if you thinking about breaking those out as a standalone from a comp perspective, the comp percent may not be as high. But we absolutely expect them to grow like those have, and get to the same point, closely matching where the average Rent-a-Center is after the 3 years, and just continuing to get closer from there. Yes.

Alan Rifkin - *Lehman Brothers - Analyst*

In terms of the original Rent-Way stores, you said that right now it is probably running about 90% of the core. Do you think it probably a 4-four year maturation cycle, where maybe in one more year we could assume that they will be on-par with the core Rent-A-Center store?

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

Yes, that would be our assumption. They are still growing, so we don't have any reason to believe that by the end of the fourth year that we wouldn't be--

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

The gap is narrowing. Yes.

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Alan Rifkin - *Lehman Brothers - Analyst*

Okay. That's great. Thank you very much, gentlemen.

Operator

Your next question comes from Carla Casella, JP Morgan.

Azita for Carla Casella - *JPMorgan Chase - Analyst*

This is actually [Azita Capati] here for Carla. I was wondering if you could talk about the legislation environment, and if you are seeing anything different than might impact your stores?

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

No. Other than the amendment in California that we have talked about, of course New Jersey earlier this year. It wasn't necessarily legislation, but a court ruling that we changed up there our business practices as well. And even though we are you know, we are not done fighting that either in New Jersey. Important to note New Jersey does not have legislation.

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

Right, New Jersey doesn't have legislation. But that Court ruling affected our transactions. The amendment of the legislation in California, though it does reduce our margins in that state a little bit, the good news is it clarifies a law that was open to interpretation, and we consider that good news, the fact that there is clarity in the law.

So California, on one hand, the margins will be a little lower, but clarity is a darn good thing in California, to have that clarity in the law, and that's been the only real law legislative activity this year, there is really not anything else material out there that is causing us any concern.

Azita for Carla Casella - *JPMorgan Chase - Analyst*

Okay. Just on the skips and stolens, what was that for the quarter?

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

I don't have that in front of me. We run on an annual basis for many, many years, we have reported in the K between 2.3 and 2.5, or maybe even 2.2 last year, I think. So we have a range of 2.2 to 2.5. The summer is usually a little higher, but as I mentioned earlier, we are in-line with where we were, in fact, a little lower than last summer.

So probably on the high end of that, again, I don't have them in front of me, and it is the worst quarter of the month, or the highest quarter of the month of the year for the skips and stolens. Again, it was normal. A little better than last year, and for the year we are going to be in that 2.2 to 2.5 range. I just don't have the exact quarter number in front of me. We will have that broken out in the Q though, when it is being calculated out of the Q, the skips and stolens. We should probably file that on Friday.

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Azita for Carla Casella - *JPMorgan Chase - Analyst*

Okay. Thanks a lot.

Operator

Your next question comes from Bill Baldwin with Baldwin Anthony.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Good morning.

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

Hi, Bill.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Two questions. If I missed this, I apologize. Were there any unusual items Robert in the third quarter G&A numbers?

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

Yes, in the G&A line in the third quarter, obviously that is up sequentially and year-over-year, and those costs are primarily associated with some increased investments that we have had in our infrastructure, particularly labor, IT, and some consulting costs. All related to our growth plans, be it Financial Services, or the upcoming Rent-Way merger. So that is primarily what those cost increases are related to.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

So they should stay in the G&A then going forward?

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

Yes, to some extent, you know, the water is going to get muddy. After we close the deal with Rent-Way, but the steady state of the run rate that we are on is what we would expect similar, going forward.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Okay. Secondly, can you offer any color as to kind of what, I will call them preopening expenses are for the 45 to 50 new locations for Financial Services, that will be opened up this quarter?

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

Typically. A Financial Services store, costs us 40,000 or 45,000 in CapEx, depending on whether it is box-in-the-box or in-store, which is about half of, or a little less than half of a typical RTO from a CapEx perspective, you know, 45,000 versus 100,000. The box-in-the-box is a little more expensive, more like 50 or 60, and the in-store is closer to 30 or 35. And so on average, about

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40,000y to 45,000 from a CapEx standpoint. Then you have got a couple of employees in the store, about 4500 a month in payroll.

Then the loan losses associated with your loan portfolio, which runs around 18 to 20%. That ramps up with your volume, and so, you know, there is a direct correlation from a loan loss perspective to the revenue as it grows. And that's really the majority of the costs in that business model. So as revenue ramps up, the incremental cost is mainly tied to your loan loss reserves.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Part of the opening of the store, Robert, how far in advance do you start bringing on your personnel?

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

About 30 to 60 days. Depending on the level of employee. And there are obviously some costs associated with that. But again, we are talking one or two employees per site, and generally training in a store close to where they are today. So it is diminimus on a per store basis.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Okay.

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

I am sorry.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

I said okay. Do you have what a district manager for how many stores? Do you add a separate district manager for your Financial Services, over and above the RTO business?

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

Yes. A typical RTO district manager will supervise 7 or 8 stores on average, the district manager in the Financial Services business will oversee approximately 12 to 14 locations. So, a little bigger span of control, but obviously a lot less activity going through that business than an RTO store.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Okay. Thank you very much.

Operator

Your final question is a follow up from Henry Coffey from Ferris, Baker, Watts.

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Henry Coffey - *Ferris, Baker, Watts - Analyst*

Two questions. One on Rent-Way obviously their purchase costs are significantly higher than yours. It shows up in their own cost of goods sold. How long does it take to work its way through the system, so that their costs sort of become your costs? Is it going to be the full sort of 12 to 18 months that it would take to turn over.

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

It will, Henry. The biggest asset, or one of the largest assets is inventory. And of course, most of that is on rent, certainly as we speak today. And those products exit the system through the traditional ways.

The current customer taking it to term, or the next renter coming in and doing so, paying it off, et cetera. If you think even in our case, we turn about half of our inventory a year. You have heard us say that the average product is in our system 20 months from the date of purchase to the time it leaves. Theirs doesn't behave much different.

So having said that, it will take about 18 months to cycle all the inventory. We will begin to see some of the benefits you know, better buying, if you will, start to show probably in the third quarter, maybe more in the fourth or fifth, but it will take six quarters anyway, before it really is at the run rate we would expect with all our products priced collectively.

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

The margin would slowly be growing all the way along, until it got to our margin after 6 quarters.

Henry Coffey - *Ferris, Baker, Watts - Analyst*

Right, and then the effective date on the California legislation?

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

January 1st, 2007.

Henry Coffey - *Ferris, Baker, Watts - Analyst*

That is what I though, I just wanted to make sure I heard it right. Thank you.

Operator

That concludes our question and answer portion of today's conference. Mark, do you have closing remarks?

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

Well again on behalf of the Company, I would like to thank you for your continued support and your time in joining us this morning. Again as we said, I am pleased with how the operation team has performed this last quarter.

We are very excited as we near the completion of the Rent-Way acquisition, and realize we have a lot of work to do, but believe we are well positioned, and we do look forward to speaking to you next quarter and updating you on our core business, as well as giving you some more insight as it relates to Rent-Way.

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So thank you again very much. We look forward to speaking to you. Take care.

Operator

That concludes today's Rent-A-Center's third quarter 2006 earnings release conference call. You may now disconnect.

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