FINAL TRANSCRIPT

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RCII - Q1 2005 Rent-A-Center Earnings Conference Call

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OVERVIEW

The company announced 1Q05 EPS of $0.56. 2Q05 EPS guidance was $0.51-0.55, with 2005 EPS guidance of $2.20-2.30. Q&A Focus: Inventories, fuel prices, share repurchases.

CORPORATE PARTICIPANTS

David Carpenter
Rent-A-Center - VP Investor Relations

Mark Speese
Rent-A-Center - Chairman, CEO

Mitch Fadel
Rent-A-Center - President, COO

Robert Davis
Rent-A-Center - CFO

CONFERENCE CALL PARTICIPANTS

Dennis Van Zelfden
SunTrust Robinson Humphrey - Analyst

Craig Belve
Southwest Securities - Analyst

John Baugh
Legg Mason - Analyst

William Baldwin
Baldwin Anthony Securities - Analyst

Patrick Flavin
Flavin, Blake & Co. - Analyst

Michael Cresdadulu
Inwood Capital - Analyst

PRESENTATION

Operator

Good morning and thank you for holding. Welcome to Rent-A-Center's first quarter 2005 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. If you have a question you will need to press star 1 on your push-button phone. As a reminder this conference is being recorded Tuesday, April 26, 2005.

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

David Carpenter - *Rent-A-Center - VP Investor Relations*

Thank you, Lori. 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 first quarter of 2005. If for some reason did you not receive a copy of the release you can download it from the our website at investor.rentacenter.com.

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

Finally I must remind you that some of the statements made in this call such as forecast growth in revenues, earnings, operating margins, cash flow and profitability, and other business or trend information are forward-looking statements. These matters are, of course, subject to many factors that could cause actual results to differ materially from our expectations reflected in the forward-looking statements. These factors are described in our most recent annual report on form 10-K for the year ended December 31, 2004, 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 call over to Mark. Mark?

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

Thank you, David, and good morning everyone. As always we appreciate your time and interest in joining us for our quarterly update. Suffice it to say that we continue to face a headwind, largely impacted, we believe, by the continued rising fuel costs leaving less disposable income in the hands of our customers. While certain key indicators remain positive others that are negative are offsetting those plus some. By way of example, thus far this year, a leading key indicator is deliveries, or demand for our products and services which is up approximately 1% year-over-year on a per-store basis, so the demand or interest remains strong.

Payouts. I think most of you know those ran abnormally high, 9 to 18 months ago, have normalized and are running below this same time last year. Both of these are positive. The offset to these, are delinquency rates and pickups. The return of rented products are both up versus historical as well as last year's numbers. On the delinquency front, while our losses, attributable to customer skips and stolens, continue to run at historical levels, approximately 2.3% of store revenues, our week-ending delinquency rates, accounts one day or greater past due Saturday night close of business, are up nearly a half a percent at 6.42% average card close versus 6.08% the same time last year.

And that in turn is leading to an increase in the number of pickups which are up over 4% on a per store basis versus last year. While we are working with those that we can, we believe it speaks to the fact that our customers are having a difficult time making ends meet and consequently continues to put pressure on our business. Now these current delinquencies and pickup trends, which have occurred over the last six to eight weeks, have caused to us lower our comp guidance for the full year by 1%, from original guidance of flat to minus 2%, to a revised guidance of negative 1 to negative 3% and consequently our earnings guidance for the year is being reduced by $0.10 to a now EPS estimate of $2.20 to $2.30 per diluted share. We continue to believe that we will turn a positive comp in the back end or fourth quarter this year.

Couple of updates. On our two-state pricing test, while we are seeing some lift in customer and BOR growth above the company average it is at the expense of lower revenue and lower margins. Like the rest of the Company, or country, their delinquency rates are up as well. Now, once we anniversary the change, which was again implemented late in the second quarter last year, we will be better able to evaluate the overall impact and determine the next course of action if any. Overall we continue to generate strong margins and cash flow and we look to use that cash to continue to grow our business; be it the opening of new stores, continued acquisition of other rent to own stores as well as addition of other products and service that will allow us to leverage our real estate and or customer base.

The fact is the want and need for our products and services are there. We are working diligently on a number of fronts to improve the business. Our customer base, the financially constrained, more than any other, is having a difficult time making ends meet. We are battling the issue of the customer being able to afford and keep the product on rent. Let me turn the call over to Mitch. He'll give you some additional insights into some things that we're working on to battle the issues we're facing. Mitch?

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

Thank you, Mark. We are working on many initiatives to enhance the overall performance of the business and let me, let me hit on some of the more significant initiatives. First, as many of you know, we have implemented some previously tested changes into our advertising programs. We continue to queek -- to tweak those and in March we announced a restructuring of our advertising account. Our new structure is non-bundling of services from one agency that will allow us to tap best in class resources for the various marketing and advertising initiatives. In other words, instead of using one agency for everything, we may now use one agency for one thing that they're experts in, another one for their area of expertise, and et cetera. It's more of a strategic way of doing it and one we're committed to with the main focus on driving more customers in the door and retaining them longer without incurring any additional costs.

On the purchasing front, most of our buying continues to be done by the store managers through our purchasing department using our approved product lists. However, in an effort to enhance the value proposition for the customer, while maintaining our margins, we made a few strategic bulk purchases in the first quarter; and while those bulk purchases caused our held for rent number on the balance sheet to go up it's really more of a timing issue than anything else.

Let me explain that, the -- the percent of inventory held for rent at the end of February was 20.4% and by the end of March it was 22.9%, which is what you see on the balance sheet, and we gained customers and agreements in March which normally reduces the number held for rent so you can see that number going up even in a month where we gained customers -- the held for rent going up was just the timing of those bulk purchases more than anything coming in late in the quarter.

So it's not a number we're concerned with, it's strategic, save some money on the products we bought in bulk, which again helps us with what Mark was talking about, from a value standpoint to pass some of that on to the customer while we maintain our margin and have a better value out there so not a number we're worried about with that inventory coming in again, more of a timing issue.

Now we're also testing some new products in order to assess their viability for a national rollout later in the year. Operationally we're working on a number of areas. First we're completing implementation of a few operational changes we made for our recent multi-variable testing. And as you can see in the press release we are aggressively attacking our underperforming stores as we closed 22 in the first quarter and we continue to evaluate other consolidation opportunities. Now, many of these closures are the result of our acquisition program where we may have bought a store with a short time left on their lease and instead of consolidating it day one, we might have chose to work it for awhile and determine the viability of that extra store in that particular market.

Now, if we do decide to close it later, based on the performance, these closures are a little different in our business. Due to the residual nature of our revenue we can close the store, move the revenue stream across town or down the street to our other store, maintaining the majority of that revenue stream, while cutting out the operating expenses of a store. And speaking of expenses, we continue to focus on those as, and as you saw in the press release, our expenses on a per store basis are flat year-over-year which is significant when you consider our own fuel costs are up about a million dollars quarter-over-quarter. So, our expenses are under control but our margins are lower because of the same-store revenue shortfall.

From a training standpoint we recently rolled out an on-line training vehicle that we call My Learning Center, and this new tool will expedite and improve our field training at all levels so we're pretty excited about that. And, speaking of people and people development, our HR department continues to do a great job in supporting the field and our recruiting efforts are working very well. We're seeing some small decreases in our turnover, which are all positive factors. So it's a matter of working on all these aspects of the business with a common goal of enhancing the overall performance of the business. And with that, Robert, our CFO, I'll turn it to you.

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

Thank you, Mitch. I'm just going to provide a few quick updates pertaining to our income statement, balance sheet and cash flow statement prior to opening the call for questions. And I would like to remind you that much of the information I present today, whether it's historical or forecasted results, will be presented on a recurring and comparable basis.

As outlined in the press release, total revenues increased during the first quarter of 2005 by 2.8%, and as mentioned, primarily driven by revenues in the new and acquired stores, while our comps declined 5% during the quarter. And as a quick reminder, during the first quarter of this year, we did have one less business day than last year, which was a Friday and that had approximate 1.5% negative impact to same-store sales, so, you know, on a comp basis, if we had a similar calendar this year to last, the comp would have come in more close to 3.5% down as opposed to down 5%.

As relates to growth in our store base, for the last 12 month period ending March 31, 2005, we have increased net square footage by approximately 7.3%, opening 82 new stores, acquiring 171 storefronts and buying accounts from 101 locations while consolidating or selling 61 stores, much as Mitch had -- has mentioned just a moment ago. Diluted earnings per share declined 11.1% from the prior year to to $.56, illustrating the impact of the declining same-store sales having a negative impact to earnings for the quarter.

EBITDA for the quarter totaled nearly $94 million for a margin of 15.5% and for the last 12 months EBITDA totaled approximately 377 million for a margin of roughly 16.2% for the the last 12 months. And although margins have declined in recent periods, they continue to be good strong margins and the highest in the industry at current levels. From a cash flow perspective, the Company did generate over 87 million in operating cash flow during the quarter. And while starting the year with approximately 59 million cash on hand, the Company has since utilized approximately 11 million in Cap Ex, nearly 4 million in the acquisition of stores and accounts, and just right at 61 million in debt prepayments. While ending the quarter with approximately 75 million cash on hand.

And as mentioned in the press release, since quarter end, we've utilized 38.5 million of that cash to fund the Griego litigation matter. We did end the quarter with a net book value of inventory on rent of approximately 610 million, an increase of over 13 million or approximately 2.3% from the end of the year last year, which, to Mitch's point, gained customers and agreements in March and so forth. Now, as he did indicate, the net book value of inventory on rent -- excuse me, net book value of inventory held for rent was 22.9%, that is a number we're comfortable with and is a result of what Mitch has previously discussed. At quarter end our consolidated leverage ratio improved to 1.54 times from 1.73 times at year end.

Our interest coverage ratio equated to 9.8 times, and our debt to book cap improved at quarter to 43.3%, from just over 47% at year end, while current outstanding indebtedness is just over 647 million, comprised of roughly 347 million of senior term debt and 300 million of 7.5% coupon subordinated notes. We continue to generate a significant amount of cash and maintain a strong and healthy balance sheet. In terms of guidance, as outline in the press release, we do anticipate for the second quarter of 2005 total revenues to increase roughly 1 to 2% and diluted earnings per share to be between $0.51 and $0.55. For the full fiscal year ending 12/31/05, we do expect total revenues to increase roughly 3 to 4%, and as Mark mentioned earlier, diluted earnings per share in the range of $2.20 and $2.30, with our EBITDA margins to be in the range of current levels.

As always, our guidance excludes any benefits associated with additional debt repayments, stock repurchases or acquisitions completed after the date of this press release. With that financial update I'd like -- now like to open the call to any questions. Lori, if you would please compile the Q-and-A roster.

QUESTIONS AND ANSWERS

Operator

If you would like to ask a question please press star then the number 1 on your push-button phone. We'll pause for just a moment to compile the Q-and-A roster. Your first question comes from Dennis Van Zelfden of SunTrust Robinson Humphrey.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Good morning, everyone.

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

Good morning, Dennis.

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

Good morning, Dennis.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Mark, what were the bulk purchases of and how much did you buy?

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

Well, we did a couple of different product groupings. Big screen TVs is one example. Some bedroom suites, living room suites. What else was in there, Mitch? Bedrooms, living rooms, big screens. And most of these were --

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

Air conditioners.

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

Well, air conditioners, which we've typically done in the past that way, but we had an opportunity. These were core products that we know the demand will be there for these products, and rather than letting the stores order them as needed we were able to work out a deal with the manufacturers whereby making those large commitments and allowing them to drop in -- drop ship a larger quantity into the stores at one time, they still went to all the individual storefronts, we were able to get a little bit more attractive pricing and in doing so make those rental rates more attractive to the consumer. And again, it was an effort to, given the lack of disposable income, if we can make the prices a little bit more affordable without sacrificing our margin is there a way to do that and these are products that, again, we typically have pretty good success with and we were able to work that out and get them drop-shipped in in late March.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Can you tell us how much of the savings you were able to pass along to the consumer?

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

Well the -- Dennis, this is Mitch. The discounts, when we -- when we do a blanket order like that, are in the range of 10% by making the commitment. And in some cases we're, you know, we pass all that along and we're able to make the overall price and term for the customer, you know, in that 5 to 10% range as far as less than what they'd use -- what they'd normally see. It was, you know, and it was -- you know, on some big screen TVs and furniture, as Mark mentioned, you know, so it'd be, oh, we'd have, in the typical store, eight to ten pieces of product that, you know, came in on blanket order with a little better price.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

So that would be 8 to 10 more than they otherwise would have had at this time?

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

Not necessarily. I mean, cause it's -- they're ordering less product because of the -- you know, we're, we -- because the blanket order's coming. So, by way of example, just in March in blanket orders, you know, we probably got in the neighborhood of $50 million worth of blanket orders and you didn't see the -- the held for rent doesn't go up that much cause a lot of it they would have ordered anyhow, so a lot of it's replacement. But what -- what jumped the number up in March is just the timing of a lot of it coming in in mid-March and a lot of it being for April and May and so forth.

So, it would -- the blanket order number wouldn't all be incremental to what the managers would be ordering, cause they know the blanket orders are come sog they're not ordering as much on their own.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Okay, so -- so if you never made any more blanket purchases would this kind of level out -- or let me rephrase it -- how long would it take? Is this two months worth? Three months worth? Five months worth?

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

Couple of months.

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

Couple of months.

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

Yeah, it's not long.

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

Couple of months.

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

It's a couple of months worth, Dennis.

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

If you look at last year, Dennis, in the second quarter, you know, we were in the close to 23% range on held for rent inventory. It's a matter of that inventory being there sooner but if we didn't do any more it's a couple of months, is the answer to your question.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Okay. Okay, just moving on here, a couple of other miscellaneous questions. I notice you only made just a couple of acquisitions or acquired only a couple of stores in the quarter. Kind of the same trend you had last year's third and fourth quarter. Is there anything unusually tough about acquiring people out there right now?

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

No, just that, you know, the conversations we're having, as you know, there's not a lot of big acquisitions out there to do and they're all in very small one and two and three-store increments, but they're out there. They're just real small. But, no, there's nothing, other than the fact the larger ones aren't aren't really out there anymore, there's really nothing different about it.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Okay, last question. The buyback -- stock buyback program, can you refresh us what it is and did you spend any of it in the quarter?

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

We did not spend any in the first quarter, Dennis. The current availability that we have, there's basically three factors. One is a little more easy to amend, so to speak, and that's the Board approval. We still have about 62.4 million available under our Board repurchase program, and then our senior credit facility and our bond indenture has restrictions as well, and both of those are right around 115 million of authorized availability for share repurchase.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Okay. Thanks.

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

Thank you.

Operator

Your next question comes from Arvind Bhatia of Southwest Securities.

Craig Belve - *Southwest Securities - Analyst*

Hi, it's actually Craig Belve (ph) in for Arvind. Just had a question on the fuel prices. I mean, I guess your guidance is predicated on fuel prices remaining at this level, is that correct?

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

Those are the underlying assumptions we have currently, yes, and that's both in our cost structure, Mitch alluded to, you know, we've got, and I think most people realize this, we've got a fleet of nearly I don't know, 6500, 7,000 trucks so our own fuel cost has gone up and operating costs has gone up rather significantly. That is embedded in the go forward assumption and then we're -- obviously have those same considerations in terms of the impact it's having on our consumer based on what we've been experiencing as of late.

Craig Belve - *Southwest Securities - Analyst*

And then, do you think if they remain at these levels, are you concerned that that's going to delay your return to positive comps?

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

Well, I mean, there's always some concern with that. I think part of it is,is, you know, when the fuel jumped the first time, I guess has now been over a year ago, having gone from $1.50 to $1.80 or 90, that happened fairly quick, took time to settle in, we had a very strong fourth quarter. The first of this year started out pretty good. I think everybody knows, I guess it was around late February, beginning of March, we had another jump again, rather dramatic and quick, $.25 or so, in a span of ten days.

You know, I think part of that, whether it comes down or we just - the consumer gets acclimated to it again and adjust where they need to, we think that'll come in to play, but also when we talk about our comps, you know, turning positive at the back end of the year, as we've said in the past, a lot of that is really just a timing issue as we get over, you know, the watermark that we set a year ago.

Craig Belve - *Southwest Securities - Analyst*

Right.

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

And frankly some of that positive comp expectation going into the fourth quarter is really just timing more than it is us expecting this sudden up-lift above what we're seeing right now from the consumer.

Craig Belve - *Southwest Securities - Analyst*

Okay. Great. Thanks.

Operator

Your next question comes from John Baugh of Legg Mason.

John Baugh - *Legg Mason - Analyst*

Good morning.

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

Good morning, John. Couple or three things. Cash taxes versus reported taxes in the quarter.

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

Yeah, in the first quarter, we did not have a cash tax payment. It was roughly, I don't know, million dollars, but nothing to shake a stick at, so to speak. And for the full year we still expect to pay cash taxes of roughly 130 million for the calendar year and that's compared to 75 million in the prior year.

John Baugh - *Legg Mason - Analyst*

Okay.

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

So that's -- that's the current expectation.

John Baugh - *Legg Mason - Analyst*

Is that sort of evenly spread throughout the next three-quarters or is there one big lump?

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

The second quarter is larger than the third and the fourth --

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John Baugh - *Legg Mason - Analyst*

Okay.

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

-- like 60 million, you know, 30, 35 million. 35 million or something like that.

John Baugh - *Legg Mason - Analyst*

Great. Thank you. Mark, do you anticipate consolidating more stores? I mean, if you look at the portfolio of stores, you obviously closed, what was it, 20-odd or something, and that's more than you've done historically. Was that all in acquisitions or mostly in acquisitions? Did you clean it all up, or is that something that we are just going to see as a higher number going forward?

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

That was mostly acquisitions, John, and as I think most people know, when you think back to Rent Way two years ago, and the Rainbow and Rent Rite less than a year, albeit at the time of those acquisitions we consolidated quite a few, we had stated that some of those, given where their location was in proximity to ours and their lease remaining terms, that we felt we would take some time and see how they would perform under our business model with the fact that we may end up coming back and consolidating some of those.

And that is what we've done. I am not suggesting that they were all consolidations. Certainly the vast majority of them were. You know, we always look at that, and if you go back over history, not at the numbers you're seeing here, but we have always consolidated a few stores every quarter because of the past acquisition or non-performance and we're continuing to evaluate those as we look out today. I think the number that we had in this past quarter would be the high watermark, at least as we sit here today and look into the near-term future.

Would you agree with that, Mitch? Is I think we got -- there are certainly a few others that we are looking at and suspect there will be a few more coming in this current quarter, but I suspect that will taper off a little bit as we go forward and that it will be more the normal that we've seen in the past because of their performance or close proximity to another Rent-A-Center, et cetera..

John Baugh - *Legg Mason - Analyst*

Okay.

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

I agree, Mark. Robert mentioned that in the last 12 months we closed 61, so if 25 were in the last quarter, that means the prior three-quarters was 36 and that those, you know -- so there's on average dozen to 15 a quarter, going back over the last year, and I would expect that kind of number to continue.

John Baugh - *Legg Mason - Analyst*

12 to 15 a quarter. Okay. And then, you made a comment, and thank you for that on the price reduction test, I don't want to read between the lines. I want to be clear. Is that -- are you saying that so far you're not making up in dollars of gross profit for incremental volume, you're obviously having some incremental volume, but you're not making it up in, in dollars, and what -- you know, help me with the anniversary and what you expect to see, say, when you get to the September quarter and what will be the litmus test, if you will.

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

Your comments are correct. We are seeing a little bit more of a lift in those two states where we're doing the price test, but, yes, it is not so much so that it is offsetting the reduction in the margin. Now, it continues to grow, and I say the one-year anniversary, obviously as we get further into this, we get a clearer look, if you will, of the overall impact on the model. There'll come a point in time where all the units that are on rent or under a current rental agreement will be at this new pricing term, which does come at a lower margin, so we'll see where the gross margin lines settle in at. The cost structure is already embedded. Not much change there.

And, and part of it is just, you know, in fairness to the test, you've got to be able to go long enough, you know -- can we continue to add at the pace that we are or a larger pace than we are in the other stores, such that it gets us a higher revenue that leads to an equal to or greater than gross margin where at the end of the day the bottom line's not impacted negatively. Again, that was rolled out very late May last year, the end of the second quarter, by the time we get through the end of the third quarter we will have had a full quarter, year-over-year to look at those impacts, and, you know, there's a lot of things that we have to look at.

John Baugh - *Legg Mason - Analyst*

Sure.

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

It's not just one metric. Certainly you're going to start with the number of active agreements or customers, the implied revenue that then generates, the impact -- the margins that it's having on the gross margin line, we'll be looking at the average length of the rental agreement. Are they in fact staying out longer? Which means we're able to retain more customers which is leading to an increase in the number of agreements on rent and the corresponding revenue, et cetera. So there's a lot of pieces that have to be evaluated and some of it is, is encouraging but again, by lowering the rates and terms, the APU or the average revenue per unit is down probably 10, 8 to $10. About $8, $8 and change compared to the normal.

So how many more agreements do you have to get to get back to that revenue, then plus, some realizing that the cost is greater to the gross margin line, again to get back to that sum-zero gain. And, albeit trending there, it's, it's not at a level today that gives us, you know, where you would want to do something more with it but on the same hand, I think we need a little bit time -- more time before we make that final conclusion.

John Baugh - *Legg Mason - Analyst*

Mark, part of the theory, or hope, I guess, was that you would see a better keep rate. And you've referenced delinquencies or pickups going up both. Is that something -- I thought you maybe mentioned that you were seeing that in these states as well, or did I mis-hear that?

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

No, I -- I did say that. The delinquency in those two states, you know, one may be a little more than the other, is up over the historical like the rest of the country also, the keep rate is up very slightly compared to the normal. Not enough to -- I mean I wouldn't throw it out there as a big attribute at this point. We hope that will continue to grow as we go forward. It's up slightly right now. The fact is we are seeing a few more deliveries, their pickups are up a little bit from their historical. Not as much as the other states.

And that's why we're net-net gaining more than what we're seeing in the rest of the country but it's not all rosey, I guess. It's not as if the sales are dramatically up and the pickups are dramatically down and that they're staying on rent much longer and that their credit's lower.

John Baugh - *Legg Mason - Analyst*

Gotcha.

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

Not dramatic enough yet to make up for the lower margins.

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

Right.

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

We'll see if we can get to the that level. It leads to a conversation, you know, that we've, as we've been saying, and we, you know, we talk about the gas prices going up and one of the reasons that we -- we look at the macro environment that way is because we look at different states that are more competitive, less competitive than others, and the numbers are so similar, whether there's competition, whatever we're pricing at, you know, again, you know, northeast, southeast, west, wherever, whether there's competition, whether there's not, the numbers are so similar the way the stores are tracking that it leads you to believe it's more than anything -- obviously you look at internal operations.

Is there a part of the country we're not operating as well as? You look at, you know, management in that part of the country, which, those things just don't stick out in an area of the country where they're -- from an operational standpoint or a competitive standpoint and so forth, so...

John Baugh - *Legg Mason - Analyst*

Great.

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

Even in the pricing test it's not sticking out enough.

John Baugh - *Legg Mason - Analyst*

Thanks for that color. Appreciate it.

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

Thank you.

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

Thanks, John.

Operator

Your next question comes from Bill Baldwin of Baldwin Anthony Securities.

William Baldwin - *Baldwin Anthony Securities - Analyst*

Yes, good morning.

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

Hi, Bill.

William Baldwin - *Baldwin Anthony Securities - Analyst*

Robert, can you give a little insight as to the decision to prepay debt versus buy back stock in this latest quarter?

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

Yeah, I'll take that, Bill this is Mark.

William Baldwin - *Baldwin Anthony Securities - Analyst*

Hello, Mark.

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

You know, the Company has obviously a Board-approved stock repurchase program and we have opportunistically done that in the past and we've said that we would continue to do so in the future. We knew the first quarter there were going to be some abnormal cash requirements. The Griego settlement, one specifically, and we did obviously get the court approval and funded that, albeit we were able to -- you may recall that original settlement was estimated to be about $47 million.

There was a reversion the Company was entitled to based on those that submitted the claims that could be upward of $8 million and when that was court-approved and reached the final stages it was apparent that we were going to get that reversion and so we were allowed to fund only the net amount, the 37 or 38 million, $38.5 million. So it was a little less than we anticipated but we knew that our -- some of our cash needs were going to be pretty strong in the first quarter.

Mitch talked about some of the bulk purchasing decisions we were making, you know, to buy a little bit more favorably, strategically from the consumers perspective on pricing, the taxes, the legal settlement and so forth and candidly we simply made the decision that we wanted a little more time to evaluate what all of our uses and needs were going to be and having said that we didn't this quarter anyways, opt to do anything on the repurchase but that program is still available and, you know, would be looked at in the future as it has in the past.

William Baldwin - *Baldwin Anthony Securities - Analyst*

Now, Mark, there wasn't any obligation to do a prepay, though, on debt this quarter was there?

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

No it's just the revolver. I mean we can go up and down on that anytime. And not knowing, again, where the actual need for the cash was going to be and just trying to manage all of those pieces, you know, there was no point leaving it on our books earning nothing --

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William Baldwin - *Baldwin Anthony Securities - Analyst*

Right.

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

--so, I mean, you know, it was obviously to our benefit to pay it down as opposed to leaving it here earning whatever we get.

William Baldwin - *Baldwin Anthony Securities - Analyst*

Okay. You just want to retain some flexibility, then?

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

Yes, exactly.

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

You can get that back paying down the revolver.

William Baldwin - *Baldwin Anthony Securities - Analyst*

Exactly, exactly. I understand now. Okay. Okay, fair enough. Thank you.

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

Okay, Bill.

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

Thank you.

Operator

Once again if you would like to ask a question please press star then the number 1 on your push-button phone. Your next question comes from Patrick Flavin of Flavin, Blake and Company.

Patrick Flavin - *Flavin, Blake & Co. - Analyst*

Mark, given the duress amongst your coach customer bases you've gone through and the gas prices, et cetera, how do you square your comps with those of Aaron which have been consistently high and remain that way?

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

Well, I think there's a couple of things, frankly, Pat. And, you know, they've done a good job and have been growing their business. You know, overall we've grown it, obviously in the core stores. And part of it, no disrespect, we've said it before and I'll say it again, we look at it from the a maturity standpoint, where we are in our lifecycle, the numbers of stores that we have in our comp base and candidly, you know, I can give you a couple of examples, albeit, you know, when we have new stores come into our comp, it's so few, on a base of 2400, in by its self, it doesn't move the needle.

And even our acquisitions. I can give you one example,you know, Rent-Way, of course, the acquisition that we did almost two years ago, and of course, we left about a third of those stores open, we bought 300. About 90 of them remained open and are in our comp. Now, again, that's 90 stores on a base of nearly 2400 that are in the comp, but those stores I can tell you factually, for the quarter just ended comped positive 7.2%. Now again, part of that is where they are in their lifecycle under our business model, relative to the whole, where we've got 2300 stores that are probably on average 10 years old or eight years old and they're much larger in our base and, you know, we're not getting much of a benefit when new or acquired come in on such a large base and, and so consequent that's what we're experiencing.

And I'm not take anything away from them or any others, but, you know, if you've got 500 stores and 25% of those have been in the comp for only a year or two, and you've got 5 or 10% coming in a year or quarter, that's going to make a little bit of a difference, and that's candidly part of our issue, is we're just a very large mature organization that's got a lot of stores that have been out there long time and it's a little bit more difficult to move the needle, irrespective of what's going on in the economy.

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

Mark, you mentioned the rent way stores that we bought a couple years new stores -- you know, our new stores count, you know, their second year at 40 to 50%. But if it's only --.

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

but it's 10 or 15 a quarter or whatever, a quarter.

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

-- for the whole year, but in a quarter, yeah, if it's 20 of them coming in for the quarter, it doesn't move the needle the way if you had 25% of your stores being -- and again, I'd reiterate what Mark said, that's not to take anything away from the job Aaron's has done, but there's just a huge difference in terms of lifecycle.

Patrick Flavin - *Flavin, Blake & Co. - Analyst*

So what does one do in terms of the ability to add value in such an environment?

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

Well, we certainly look at growing the overall enterprise. We talk about continuing to open stores. There are market that are under penetrated or not served by us and so we'll continue our new store initiatives, we continue to look at opportunistic acquisitions that make sense. In terms of our use of our cash, again, we have been big buyers of our stock in the past. I appreciate we didn't do it in the last quarter. That was again, timing and maintaining some flexibility more than anything else and I'm saying that in the context we would certainly look at utilizing that in the future, whether it be in a share repurchase and or, again, other products and services that allow us to leverage our real estate, our customer base, and grow the overall proposition for the business.

And, you know, it's timing and finding those right deals. You know, I can tell you obviously, you know, we're spending an awful lot of time thinking through a lot of these things. I will tell you, candidly, I don't want to, oh, I guess -- an over reaction not the right word, but do something out of haste that we haven't given the proper time and diligence and so forth to make sure that for the long-term it is the right thing. Because we are in this for the long term and candidly, this has been a difficult issue for us for a while now, but I would say again, we still view this as a short-term issue and that, you know, be it the back end of this year the tides will turn and, you know, I'm convinced that other things will improve in the marketplace and we'll be able to get it turned around.

So, we just have to continue to, you know, manage our way through it in the interim.

Patrick Flavin - *Flavin, Blake & Co. - Analyst*

Given the characteristics of the Company as it stands then, Mark, you do have one huge thing going for you, at least one, and that is that you generate sizable amounts of free cash, and so a logical, perhaps, explanation in creating value, or a logical alternative, set of two alternatives, would be either in LBO of the firm or in discarding that and leaving it in its current form, would be to create value by distributing that income stream and becoming, in effect, then, an, an -- an income source. Does that make sense to you in terms of instituting a dividend policy to accomplish that?

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

Well, we've -- Pat, candidly, we have had those discussions internally over the past, not just recently, but, you know, even a year or two ago, and I think you make a fair statement, thus far we have chose to return that value and enhance the value to our shareholders through our share repurchase program, one example, again, coupled with investing in the business. And, as we've said in the past, and my position hasn't changed, we'll continue to invest for the long term and in this business. We believe there's continued opportunities, again, be it new stores and or acquisitions so we'll first and foremost invest in the business.

We will look at, again, the share repurchase program. I view that as a strength of the company, something that we'll continue to do in the future. You know, the idea of a dividend, probably has merit at some point in time. Candidly, I don't think we're there yet. I think, as we think about this customer, this unbanked, under banked, limited resources, and other products and services, is there a way that we could utilize that cash to bring alternative solutions to them that will create greater returns for all the shareholders? And, and we haven't, you know, explored all that to finality to where the decision is, no, the best thing is to do is to give a -- is to give a dividend.

I guess if and when that point comes, that's certainly something we would look at and would be a way to return shareholder value. But I think, between now and that time, you know, we're not convinced -- I'm not convinced that we can invest it in other ways that over the long term will give a better rate of return, and that's, again, how we're approaching the business as we sit here today.

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

Share repurchases, you know, give you greater flexibility to be able to --.

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

That's right.

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

-- you know, on and off. Like the first quarter where we have other cash needs. You know --

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

Or a dividend.

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

-- yeah, stock repurchase is much more flexible giving shareholder value that way than a -- than a dividend.

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

Fair comment. I hope that answers your question, Pat.

Patrick Flavin - *Flavin, Blake & Co. - Analyst*

Yep. Thank you very much.

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

Thank you.

Operator

You have a follow-up question from Dennis Van Zelfden of SunTrust Robinson Humphrey.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Yes, going back to the two-state pricing test, Mark, is it too early to just conclude that your customer is just not that price sensitive, or do you think that their high gas prices are limiting the test, i.e. is this preventing your customer from coming in and buying something at a lower price?

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

Well, I think it is a little too early to draw any defini -- definitive conclusion as to whether or not it's working. I do think it's showing or proving to us that gas prices are having an impact even in those states, again, irrespective of what the rental rates are. You know, I mean, how low do you go? And it, it kind of gets back to the delinquency. I mean the demand is there. Customers are coming in and wanting the products, and they're renting them.

We're finding is their inability to keep it and pay for it because of their financial burdens, and candidly, Dennis, and I can say it first hand, I was out traveling last week and hit several stores, and talking to customers and so forth, and we're hearing that theme rather often, that, you know, they're just having financial difficulties right now, and so, you know, the lift that we're getting in those states, again, albeit a little bit higher than what we're seeing in the others, it's not materially higher, at this stage anyways, and on the same hand, you know, I've got to put it in context, those states were a little below the Company averages when we started that test, in terms of the number of contracts on rent and the number of customers being served on a per-store basis.

So, you know, in fact, as we sit here today they're still not even up to the average although they're growing at a faster pace then the average, but it's kind of like back to that comp comment a minute ago, you'd expect a little more from a store that started lower to begin with and so, again, that's part of that time scenario where we need a little time to, kind of, you know, feed everything out, if you will, before we draw any concrete conclusions. Does that answer your question?

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Yeah, yeah, just given the pickups are greater than the deliveries, which I think is what you said earlier, right?

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

Yep. Yeah, last six, eight weeks they have been.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Okay, well, given that --.

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

Coupled with the payouts not the pickups in by themselves.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Right.

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

I mean we're still --

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

But I guess given that, and I know it's only maybe a six or eight week trend, but what gives you the confidence, or how much confidence do you have that the comps can turn positive late in the year?

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

Well, part of it, again, is the timing. It's getting over the negative stuff we had last year and, and as I said earlier, it's not all because we're sitting here thinking there's going to be a sudden up-shift, if you will, above and beyond what we're seeing right now. Part of it is, if you just carry out even the current trend, but on a comparative basis over the prior year, you know, we expect to see that turn and that's what's going to be part of it. On the same hand, it's kind of like, you know, when the gas prices went up again a year and a half ago, it had an impact for, you know, several months but the gas prices remained high even late into last year but as customers got acclimated in managing their money with their new costs that they had in place, we had a very strong fourth quarter. You know, the demand was up, the pickups were normalized, the payouts were down, credit was, you know, at normal levels and then here recently when we had this sudden spike again, we've seen a little bit of a shift again in the consumer behavior, and so part of it is based on what we've seen in the past and candidly, a larger part of it is simply it's a timing issue getting over, you know, the prior year.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Going back to that third quarter of last year when comps were down 5.5% or so is your customer base now larger than that was?

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

Customer -- in the aggregate?

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

In the aggregate, yes.

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

Yeah. Isn't it?

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Well I, I guess I should say on a comparable store, not aggregate.

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

There's a difference.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Right.

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

They're getting the detail here. It might be down slightly.

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

Just the overall customer based from last year in the third quarter, at the end of the first quarter, yes, our customer base is higher.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

In aggregate, or in comps?

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

In the aggregate.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Okay. Well, I'll follow up later on this. My last question is, you used to give the amount of cannibalization and the impact on comps. Do you have that, or do you give it out anymore?

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

I don't mind mentioning it. Dennis, we look at every quarter. It's still in that 1% range. You know, we've seen it, depending on the quarter as high as 1.5%. It's always between the 1 and 1.5% range. I think last quarter was about 1%. So, it's still there. It's still, you know, something that's planned as we add stores and, you know, you take a little bit out of the current stores in the market to fill in the market and -- not in every market, but where we do have an impact, overall, it relates to about a 1% impact on our comps.

Dennis Van Zelfden - *SunTrust Robinson Humphrey - Analyst*

Thank you.

Operator

Your next question comes from Michael Cresdadulu (ph) of Inwood Capital.

Michael Cresdadulu - *Inwood Capital - Analyst*

Good morning, gentlemen, you've referenced different age categories of your stores and clearly the law of larger numbers that's at work. Can you recap for us how many of the I guess, what, 2844 stores, 2400 are in the comp base. How many should be coming in over the balance of the year, and can you give us some sense of stores in the comp base under a year, and then one to three, then lastly, any particular regional differences you're seeing, pockets of weakness or strength, whether it's, you know, Michigan, because of lower auto production, or, you know, the southeast where the economy seems to be doing a bit better?

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

Let's see what we can give you on those questions, Robert can break out some of the comp --

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

Yes, in our current store count we've got 2850 locations roughly, 2350 are in the comp base. I would say that 120 of those are coming in at, you know, just over a year and a half old. or coming in for the first time. The 2003 acquisitions and opens in the rent way acquisitions those three combined -- that's 200 stores total [inaudible] Rent-Way. And there's about 200 stores that are less than two years old. The core stores, that's about 2125 locations, and those are, on average, to Mark's point earlier, eight to ten years old, been in the system many, many years. What we see coming in through the remainder of the year, the biggest impact will be the Rent Rite and Rainbow acquisitions probably 150 locations or so that'll come in to the comp for the first time in the third quarter of this year, and other than that you've got openings, you know, 10 to 15 a quarter throughout the remainder of the year, as well.

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

As far as regional differences, I mentioned that earlier, Michael, we've looked at that and we're not seeing geographical differences in performance related to the consumer, to your example, in Michigan, something like that, the competition, and we can't -- you know, it's pretty consistent. Now, the numbers aren't exact. You might have a 1% swing, 1.5% swing.

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

Ohio, Michigan, Illinois, probably a little worse than the Company as a whole.

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

Yeah.

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

And there are economic issues going on out there from a macro perspective. Unemployment, the manufacturing, and I know Ohio and Michigan specifically are worse than the Company average.

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

In the southeast probably, as I think about our -- think about some of our ports we've looked at, probably is running slightly ahead of average, but again Mike, I mean, you're talk in the 1 to 1.5% difference range, not where one has a positive comp and the other one's minus 50% or something.

Michael Cresdadulu - *Inwood Capital - Analyst*

So it's a pretty tight band, not a real wide dispersion?

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

That's a fair statement.

Michael Cresdadulu - *Inwood Capital - Analyst*

Thank you, gentlemen.

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

Thank you.

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

Thanks, Michael.

Operator

You have a follow-up question from John Baugh of Legg Mason.

John Baugh - *Legg Mason - Analyst*

Thank you. Any comment on the Dell experiment and how that's going in computers in general?

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

Yeah, I'll comment on that. We have -- for those of you that don't know we tested with Dell getting their turn-downs. We got 5,000 of them. Just finished in the last few weeks getting those 5000 turn-downs. Because they gave us a few hundred a week, or maybe like 500 a week through the first quarter and we're still analyzing how many we ended up renting to and how long they stay on rent and so forth, so we're probably another 30-60 days away from analyzing that and then sitting down to complete the analysis I should say, and then sitting down with Dell and figuring out where we go from here. We certainly have gotten some rentals on it -- out of it, looking at the preliminary information. Whether we've got enough to justify the expense to Dell, or not, we're still sorting through.

John Baugh - *Legg Mason - Analyst*

Okay. Computers as a whole, is it still moving up as a percentage of the mix?

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

Yeah, it's moved up to about 12% now. And part of that's also attributable to the fact that we introduced laptops for the first time last year.

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

Been a little longer.

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

It's been a couple of years.

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

But they are the growth part of the number.

John Baugh - *Legg Mason - Analyst*

And is that influencing the depreciation number at all, Robert?

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

Not as much as you might expect. The depreciation in the first quarter was 21.7. That's down from the fourth quarter at 21.9. You know, we talked about how the Rainbow and the Rent Rite inventory were coming in at lower margins. And we're still cycling through that inventory. So, when you look out on the horizon the 21.69 is where we were in the first quarter, the guidance we've given, 21.6 to 22 going forward is what we would still expect, probably at the lower end of that range.

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

That's all products across the board. Not computers specifically, computers are --

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

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

-- higher then that, partly because of, as I think you know John, that's the one product that we straight-line and depreciate, we don't extend the life because of technology changes.

John Baugh - *Legg Mason - Analyst*

Okay, but it's not --

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

Historical, I guess.

John Baugh - *Legg Mason - Analyst*

Gotcha. Thank you very much.

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

Thank you.

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

Thanks, John.

Operator

At this time there are no further questions. I will now turn the call over to Mr. Mark Speese for closing remarks.

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

Well, folks, again, we appreciate your time and interest. We appreciate your support of the Company. Again, our outlook for the long term remains positive. There are some consumer behavioral things that we're continuing to work through. We do believe we'll be successful in doing that. We appreciate your time in joining us today. As always we're available for any follow-up phone calls and we do look forward to reporting back to you this time next quarter. Thank you very much, have a great day.

Operator

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