FINAL TRANSCRIPT

Thomson StreetEvents℠

RCII - Q2 2004 Rent-A-Center Earnings Conference Call

Event Date/Time: Jul. 27. 2004 / 10:45AM ET
Event Duration: 36 min

OVERVIEW

RCII's 2Q04 total revenues increased by $19.7m. Diluted EPS rose to $0.62, the top end of the guidance range for 2Q04 of $0.60-0.62. Co. anticipates 3Q04 total revenues to be in the range of $585-590m and diluted EPS between $0.58-0.60. For FY04, Co. expects total revenues to be in the range of $2.36-2.38b and diluted EPS to remain between $2.62-2.70. Q&A Focus: Inventory situation, cash flow, bad debt and payout trends, and product categories' performance.

CORPORATE PARTICIPANTS

David Carpenter
Rent-A-Center, Inc. - Director of IR

Mark Speese
Rent-A-Center, Inc. - CEO & Chairman of the Board

Mitch Fadel
Rent-A-Center, Inc. - President & COO

Robert Davis
Rent-A-Center, Inc. - SVP - Finance, CFO & Treasurer

CONFERENCE CALL PARTICIPANTS

Arvind Bhatia
Southwest Securities, Inc. - Analyst

Dennis Telzrow
Stephens, Inc. - Analyst

Susan Jansen
Lehman Brothers - Analyst

Wendel Greider
SunTrust Robinson Humphrey - Analyst

Karen Miller
Bear Stearns - Analyst

PRESENTATION

Operator

Good morning and thank you for holding.

Welcome to Rent-A-Center's second quarter 2004 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, July 27, 2004.

Your speakers today are Mr. Mark Speese, Chairman and Chief Executive Officer of Rent-A-Center; Mr. Mitch Fadel, President and Chief Operating Officer; Mr. Robert Davis, Chief Financial Officer, and Mr. David Carpenter, Director of Investor Relations.

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

David Carpenter - *Rent-A-Center, Inc. - Director of IR*

Thank you, Mary Ann. Good morning, everyone, and thank you for joining us.

You should have received a copy of the earnings release distributed after the market close yesterday that outlines our operational and financial results that we made in the second quarter of 2004. If for some reason you did not receive a copy of the release, you can download it from our website at investor.rentacenter.com. In addition, certain financial and statistical information that will be discussed during the conference call will also be provided on the same website. Also in accordance with SEC rules concerning non-GAAP financial measures, the reconciliation of EBITDA is provided in our earnings press release under the Statement of Earnings highlights.

Finally, I must remind you that some of the statements made in this call, such as forecast, growth in revenues, earnings, operating margins, cash flow and profitability, and other business or trend information are forward-looking statements. These matters are, of course, subject to many factors that could cause actual results to differ materially from our expectations reflected in the forward-looking statements. These factors are described in our most recent annual report Form 10K-A for the year ended December 31, 2003 and our quarterly report Form 10Q for the three months ended March 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 conference call over to Mark. Mark?

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

Thank you, David. Good morning, everyone. As always, we appreciate your time and interest in joining us this morning, and we're pleased to report revenues and earnings in line with our expectations.

Now, while our same-store sales were lighter than expected, the overall results and the fundamentals of the business remain intact. We do believe that the higher fuel and energy costs are effecting our customer. Not surprisingly, this segment of the population is most effected and they simply have less disposable income in their pocket, and that is having some impact. So albeit a little challenging as of late, I want to reiterate and emphasize that the opportunities are still there and the business model still works.

Our new stores and the acquisitions continue to perform in line with our expectations. Of course you know Rainbow and Rent-Rite, both of those acquisitions were completed in the middle of May, and both have been fully assimilated or integrated into the Rent-A-Center business model. I'll remind you that accumulatively it was approximately 215 stores between both acquisitions, approximately 150 of those locations have remained open and rebranded under the Rent-A-Center brand name. The other 65 or so have been consolidated into existing operations. But, again, all of those have been assimilated, be it IT systems, people, rebranding, and so forth, and they are performing in line with our expectation as we speak today.

Going forward, we continue to -- expect to continue pursuing our new store initiatives. By way of example, in both the third and fourth quarter of this year, expect to open approximately 25 stores or so in each quarter. With regards to acquisitions, albeit there may be some small deals that will come on latter part of this year, we don't expect anything big like we just completed. We're going to let everybody settle in and take care of the business at hand, but there may be a couple of small acquisitions, and we'll continue to work the new stores as we've done thus far this year.

Of course, the strength of our balance sheet and our credit profile also allowed us to refinance our bank debt, and that provided lower interest rates, as well as improved covenants. Our cash flow has remained very strong. Obviously, that provides a lot of flexibility to the Company. As was also noted in the press release, the board has approved increasing our share repurchase authorization to $200 million. As you know, we've used our free cash flow in the past for the -- that purpose, for share repurchase. Additionally, we may repurchase stock in the future as opportunities arise as well.

We continue to invest in the Company for the future. Be that in technology, people, et cetera. On that front, we are also continuing to evaluate other products and services to bring to our customer that will allow us to utilize our cash and enable us to leverage our infrastructure and further monetize our distribution network. We do believe that there are other opportunities available to us.

With that, let me mention, I'm going to go ahead and turn it over to you, and ask you to give a little bit more of the finer details with the results.

Mitch Fadel - *Rent-A-Center, Inc. - President & COO*

Thanks a lot, Mark. Good morning, everyone.

Let me start by adding a little more color to that comp number. The minus 2.3% is slightly worse than our guidance of minus 1 to minus 1 1/2. Our comp continues to be affected by the unusually high number of paid outs from last year that have all not been replaced as of yet, the high fuel costs that are affecting our customers' disposable income, as well as by our planned cannibalization. We estimate the planned cannibalization is impacting our comp by about 1%. As you can see in our guidance, we do expect our comps to remain in negative territory into third quarter, but we do expect to get back to flat to slightly positive numbers by the fourth quarter.

As most of you know, comp sales are only one of the many ways we have to grow our business. Additional levers of growth include our highly successful new store and acquisition programs, which conversely affects the comp in a negative way, as it is in essence planned cannibalization. Now these 2 other growth levers, the acquisitions and the new stores, helped us grow our overall customer base by the -- in the quarter by 5.5%. Again, a great quarter, really, for overall growth, primarily the result of closing those 2 acquisitions that Mark mentioned, as well as the 25 more new stores.

Now, the acquisition stores have been integrated, as Mark mentioned, and we still expect to achieve the estimated $27 million of additional operating profit in 2005, just from those 2 acquisitions alone. As far as that new store plan, it continues to go well, with the addition of the 25 more stores in the second quarter. And our new stores, in general and on average, continue to run ahead of our new store financial model.

From a growth standpoint we do have numerous ways to grow our revenue. And even though the acquisition and new store growth levers affect our comps, due to that cannibalization, we will continue to use these growth vehicles to gain overall revenue and increase market penetration. Even though some of our negative comp is planned, via these other growth levers, we do we remain focused on getting it back in positive territory and keeping it there.

Along those lines, the advertising multivariable testing has been completed, and we have begun implementing some of the learning we got from that. For competitive reasons, we won't get into all the details of what we learned from that, but suffice it to say we believe that testing was very worthwhile, and we look forward to some positive results coming out of that learning. Additionally, our Human Resources Department that has been rebuilt over the last 18 months is supporting our field operations teams in a very significant and helpful way.

In summary, we're very pleased with the quarter in terms of our terrific cash flow, earnings being at the high end of our guidance, the way our acquisition and new store growth levers are working, and we look forward to continuing to provide value to our 15,000 plus coworkers, as well as to our shareholders.

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

Robert Davis - *Rent-A-Center, Inc. - SVP - Finance, CFO & Treasurer*

Mitch, thank you very much.

I'd like to just spend a few moments on some financial data pertaining to our income statement, balance sheet, and cash flow statement, after which time we'll open the call to any questions that you may have.

Regarding our income statement, total revenues increased during the quarter by 19.7 million to $573 million, or a 3.6% increase when compared to the second quarter of 2003. This revenue growth is primarily the result of revenues generated from new stores, acquired stores, and account buys, offset by the decrease in the same store sales of 2.3%, as Mitch outlined for us just a moment ago. As it relates to the growth in our store base for the second quarter, we opened 25 new stores, acquired 161 new locations, and had account buys from 63 additional locations. Obviously the bulk of that being the Rainbow and Rent-Rite acquisitions that Mark kind of gave us an overview of previously. For the last 12-month period ending June 30, 2004, we have opened 110 new stores, acquired 214 locations, and have had 113 account buys, while consolidating 45 stores into existing locations.

Diluted earnings per share rose 6.9% from the prior year when excluding our finance charges in 2003 to 62 cents, the top end of our guidance range for the quarter of 60 to 62 cents. EBITDA for the quarter equaled 105.2 million for a margin of 18.4%, a 20-basis point increase from the first quarter of this year. For the last 12 months, EBITDA is approximately 417 million for a similar margin of 18.4% as it relates to the balance sheet and the cash flows. But from a cash flow perspective, the Company generated approximately $42.3 million in operating cash flow during the quarter and a total of nearly 200 million for the first six months of the year, while ending the quarter with approximately $86 million in cash on hand.

Now, since beginning the year with nearly 144 million in cash, the Company has since utilized approximately 35 million in capital expenditures, almost 156 million in the acquisitions of stores and accounts, and over 77 million in stock repurchases. At quarter end, our consolidated leverage ratio was 1.49 times. Meanwhile, our interest coverage ratio increased or improved to approximately 9.5 times.

Debt to book cap at the end of the quarter improved by 50 basis points from the first quarter of this year, declining to approximately 44.7%. Our current outstanding indebtedness, after our refinancing, is about $700 million, 400 million in senior term debt, comprised of a $350 million term loan, and a $50 million -- of senior debt, drawn under our $250 million revolver, as well as 300 million of 7.5% subordinated notes.

Now, as Mark mentioned, we did refinance a portion of our balance sheet during the quarter by entering into a new senior credit facility. The new facility not only terms out our indebtedness in additional year, but we were also able to tighten our spreads by 50 basis points at closing and will be further reduced by another 25 basis points now that our leverage is below 1.5 times. Additionally, we've expanded our revolver capacity up to 250 million, among other items that have provided further flexibility. We have minimal near-term amortization on our senior indebtedness and are currently very comfortable with our capital structure and believe that our credit statistics will continue to improve and our balance sheet and cash flows continue to be strengths to the Company.

In terms of guidance, we anticipate for the third quarter of 2004 total revenues to be in the range of 585 million and 590 million, and diluted earnings per share between 58 cents and 60 cents, which excludes an anticipated non-cash charge of approximately 4.2 million that will be recorded in the third quarter related to our refinancing, which equates to roughly 3 cents in diluted earnings per share. For the fiscal year ending December 31, 2004, we expect total revenues to be in the range of 2.36 billion and 2.38 billion, and diluted earnings per share to remain between 2.62 and 2.70.

With this update, we would now like to open the call to any questions. Mary Ann, if you will compile the Q&A roster.

QUESTIONS AND ANSWERS

Operator

Thank you, sir. At this time, I would like to remind everyone in order to ask a question, please press star, 1 on your telephone keypad.

Your first question comes from Arvind Bhatia with Southwest Securities.

Arvind Bhatia - *Southwest Securities, Inc. - Analyst*

Good morning, guys.

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

Good morning, Arvind.

Arvind Bhatia - *Southwest Securities, Inc. - Analyst*

Couple of questions. One is on the inventory situation. I think if you look at the percentages up, versus what you historically have, and if I'm speaking to the House-For-Rent, I think it was 23 versus your historical 20. Was it just the acquisitions, mainly, or was there something else in that number?

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

Well, certainly, the acquisitions had a lot to do with it. It's probably, more than anything, simply timing, and when you compare a year over year, it's up about 1.5%. Certainly Rainbow and Rent-Rite completed the latter part of May, you know, 1/3 of those stores consolidated, put into the existing Rent-A-Center, all of that inventory put in there as well. It also has a little bit to do with prebuying, I guess in anticipation of the summer months, be it refrigeration or air conditioning, an example. Let me quantify it a little bit further for you, Arvind, or the benefit of the others that may be on the phone. When you compare it to the same period last year, and most people will recall we have mentioned that we try to maintain approximately between 160 and 170 pieces of idle inventory on hand at any given time. In the period last year, the average store had 165 pieces. In the current period this year, the average store had 173. So on a per store basis, it's 8 more pieces, but with 2900 stores, and -- it does have an impact. So it's not a big amount. We're not overly concerned about it. But yes, it has to do with Rainbow/Rent-Rite, as well as some prebuying for the summer, some of those seasonal products. And I -- in fact, I can go even further and tell you as of 2 days ago this past Saturday, the inventory levels were down -- I guess, if you were to do the math, it would equate to probably 100 basis points.

Arvind Bhatia - *Southwest Securities, Inc. - Analyst*

Okay.

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

So down to 22%, if you will. So, it's just timing more than anything.

Arvind Bhatia - *Southwest Securities, Inc. - Analyst*

And typically, your second quarter number does go up in preparation for the summer months, so that makes sense.

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

Yes.

Arvind Bhatia - *Southwest Securities, Inc. - Analyst*

And then, just the -- I guess from the cash flow side. Robert, I think last quarter you were mentioning that the goal was maybe on the cash flow from operations side, about 300 million, and you have done about 200 in the first six months. Should we extrapolate that trend? I mean, obviously if we did, then your cash flows are stronger than what you were modeling. Am I reading it correctly?

Robert Davis - *Rent-A-Center, Inc. - SVP - Finance, CFO & Treasurer*

You're reading it correctly, but I wouldn't take and extrapolate that. I think as I mentioned in the first quarter, you know, the strength in the cash flow from the first quarter, there was no tax payment in the first quarter, because taxes aren't due until April 15th. And so I think in the second quarter, you know, the 40 million plus, if you extrapolate that, you know, it's a 160 for the full year on a, you know, on a normalized basis. Albeit, you know, we're well ahead of that, I wouldn't say that we'd get to 400 million, but I think the 300 million is where we said last quarter, and that's what we're still comfortable with.

Arvind Bhatia - *Southwest Securities, Inc. - Analyst*

Okay, and then on the Canadian side, were there any new stores that were opened during the quarter?

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

No. We, of course, entered the market, I guess, at the very end of the first quarter with the 5-store acquisition. And since that time, we have really just been focused on getting the business model in place. And I'll tell you, we're very pleased with where we are. Albeit it's only 5 stores, they are performing well. We've got them all rebranded, remodeled. The advertising has been rolled out. We are currently looking at some new locations, and I expect that we'll have a couple more that will certainly come on the balance -- yet this year. Now, whether or not we'll get them in the third quarter, Mitch, I don't know. Maybe 1, might be a little optimistic, but certainly by the balance of the year, we expect to have a couple more come on up there. And then, obviously, we'll just continue to grow it from there.

Arvind Bhatia - *Southwest Securities, Inc. - Analyst*

When should we see a big step up as in, you know, you start opening 20 or 30 stores a quarter? You know, obviously with a large market in mind, and I think you mentioned you feel like you can have about 200 stores eventually. But what sort of milestone should we look for, and when should we expect a big increase there?

Mitch Fadel - *Rent-A-Center, Inc. - President & COO*

We're still not sure yet, Arvind. I mean, we've bought the 5 stores. As Mark mentioned, they are doing fine. We want to open a couple this year and see how we do with de novo openings up there in that market, and after we see how 2 or 3 or 4 de novo openings go, then we'll make a decision of growing even faster. But that's -- we're going to just -- we're going to go slow this year and see how the first few de novo openings go. If they ramp up the same as their -- what we're used to seeing them ramp up here in the states, and if they do, then we'll put a more aggressive plan together. So, it's just too early to tell.

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

And I think we also want a little bit more time to evaluate the overall results before we start thinking about or pursuing other acquisitions as well.

Robert Davis - *Rent-A-Center, Inc. - SVP - Finance, CFO & Treasurer*

Right. I mean, we've got the acquisitions. They are doing as expected or slightly better, but we don't have any new store experience up there yet.

Arvind Bhatia - *Southwest Securities, Inc. - Analyst*

Right.

Robert Davis - *Rent-A-Center, Inc. - SVP - Finance, CFO & Treasurer*

So that's what we need to balance.

Arvind Bhatia - *Southwest Securities, Inc. - Analyst*

Got it. And then how much of your potential buyback is already in the numbers that you guided towards for this year?

Robert Davis - *Rent-A-Center, Inc. - SVP - Finance, CFO & Treasurer*

In the second quarter -- well, I guess you're talking about forward-looking statement?

Arvind Bhatia - *Southwest Securities, Inc. - Analyst*

Yeah, third and fourth. I mean, as you give guidance --

Robert Davis - *Rent-A-Center, Inc. - SVP - Finance, CFO & Treasurer*

None.

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

What we've done to date.

Robert Davis - *Rent-A-Center, Inc. - SVP - Finance, CFO & Treasurer*

Yeah, none.

Arvind Bhatia - *Southwest Securities, Inc. - Analyst*

So, none?

Robert Davis - *Rent-A-Center, Inc. - SVP - Finance, CFO & Treasurer*

In other words, what we repurchased in the second quarter, you know, had some minimal impact in the second quarter. That is extrapolated out to the balance of the year, but as it relates to the new authorization from the Board, none of that gets factored into the balance of the year.

Arvind Bhatia - *Southwest Securities, Inc. - Analyst*

Got it. That's interesting. And then, any comments on the bad debt trend, anything from a [card close] standpoint that might be unusual?

Mitch Fadel - *Rent-A-Center, Inc. - President & COO*

Well the -- certainly in the summer it gets -- it gets a little tougher to hit our -- to keep those numbers. As I think you know, our goal is to be in the 5.9 range, 6% range of delinquency. It gets a little tough in the summer, it always creeps up a little bit. When I say up, you know, instead of 5.9, we might be 6.9. It doesn't go real high. But it will creep up a half to a percent. Certainly the acquisition stores are running higher than our goal rate right now, so overall, that's had an impact. You know, so they are running as expected. When you figure the acquisition store's in there running higher, when you factor them in, and the fact that in summer we're running slightly higher, but certainly nothing, nothing to be concerned with. We're not concerned with it. Our loss numbers are in line, but the delinquency is slightly higher than we'd want it, as it usually is, and again, when you factor in those acquisitions. And you know, we talked about the fuel costs effecting the comps. It's probably making collections slightly tougher and, you know, they are up slightly, but nothing we're overly worried about. And again, the loss numbers are staying in line.

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

And they're consistent with last year at this time.

Mitch Fadel - *Rent-A-Center, Inc. - President & COO*

That's correct. They crept up last summer as well.

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

Yeah, yeah. That's right.

Arvind Bhatia - *Southwest Securities, Inc. - Analyst*

Great. Thanks, guys.

Mitch Fadel - *Rent-A-Center, Inc. - President & COO*

Yeah.

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

Thank you.

Operator

Your next question comes from Dennis Telzrow with Stephens, Inc.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Good morning.

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

Good morning, Dennis.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Mitch or Mark, maybe you could comment about, you've talked consistently on this about the payout trends being higher or, you know -- I guess what it gets to is the inability to get that customer who has paid off to rent another item. Any comment on whether that has become more challenging or just exactly that issue?

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

Well, I think first of all, with regards to payouts, and I should have drawn that out, I apologize. Of course they were real high in the third quarter last year, the child tax credit. They had the normal increase in the first quarter that we have every year with normal income tax refund. I know on the last quarter conference call, we had begun to see a slowdown or normalization, if you will, of payouts the back half of the first quarter, and I can tell you that has continued as we sit here today. The second quarter has been at the normalized historical run rate, if you will, so -- and that's obviously very encouraging that they, as we expected they would, they have kind of gone back to historical levels. In terms of our ability to convert those, it's running about what it had been historically in terms of conversion. It might be down real slightly, but certainly not anything big. It's -- I think, you know, there has been a little bit of a slowdown, obviously, just, you know, the comp speaks to it, and we expected it. And still trying to get some of those customers back from, I guess some extent, the third quarter of last year, and then even further extent, the first quarter of this year, the income tax refund. But the conversion rate has really been pretty consistent as of late with what we've had in the past as well. And I think more importantly, we've seen the slowdown in the payouts, which we expected, but none the less, it's encouraging to see it as well.

Dennis Telzrow - *Stephens, Inc. - Analyst*

So shouldn't that have helped the comp number somewhat?

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

Well, no, because we had -- we were trying to replace all those that we ran in the third and the fourth, the third and the first quarter. And frankly, if you just have a normal conversion rate going forward, that's not going to get back what you had given up prior to that.

Mitch Fadel - *Rent-A-Center, Inc. - President & COO*

You've got to get out past that. You've got to get out a year past that.

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

You have to get past that.

Mitch Fadel - *Rent-A-Center, Inc. - President & COO*

Which, you know, obviously that's part of -- part of our optimism of being in flat to slightly positive numbers in the fourth quarter, is the tight numbers we would be comping over. So, in that sense, it helps -- you live with those extra payouts for a whole year before your comp, you know, before the comp settles back down. And obviously having said all that, there is, you know, demand is down slightly, because if we're -- you know, payouts have normalized, you know, and the comps are still negative, obviously demands's down slightly, but as Mark said, it's not -- it's not that we're not getting all those -- obviously we're not getting all those payouts back, we never do. But the percentage we're running is not significantly off historical levels. And, you know, obviously, summertime demand is always a little weaker anyhow, and we just are looking forward to it picking up this fall and --

---

Robert Davis - *Rent-A-Center, Inc. - SVP - Finance, CFO & Treasurer*

That, and the gas and the fuel.

Mitch Fadel - *Rent-A-Center, Inc. - President & COO*

And the fuel is certainly making this -- making the last few months tougher than a normal summer.

Dennis Telzrow - *Stephens, Inc. - Analyst*

When you look at top numbers by different markets where you have opened new stores or made acquisitions, can you make a legitimate decision that where we don't cannibalize ourselves or don't have new stores, comps are better?

Mitch Fadel - *Rent-A-Center, Inc. - President & COO*

Yeah, certainly they are better. As we said earlier, overall, the -- on an overall basis, the cannibalization, as I mentioned, is effecting us by about 1%, and we know who our customers are and where they are renting. So when we say estimate, we're not pulling a number out of the sky. It's specific. We can tell where the customers are going. So certainly that 1%, that's what the overall effect is. We're not opening stores everywhere, but obviously when we're not opening stores, the comps are better than when we are. But, you know -- as you know, Dennis, cannibalization is a touchy subject, because, you know, our average store at any one point in time has on average about 400 customers. And when we open another store, maybe in the same market, and it takes 10 or 15 customers out of that store, that can be 4 or 5% out of that store. Yet, we will continue to do that and end up -- if we end up with 2 stores with 390 customers, let's say, versus the one store with 400 customers, there's just a lot more revenue and profit in that equation, so. And it doesn't take very many. We're not opening stores where hundreds of customers are leaving one store and going to the next. We're opening stores where 10 or 15 stores is a big effect on -- I'm sorry, 10 or 15 customers is a big effect on the comp.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Okay. Thank you very much.

Mitch Fadel - *Rent-A-Center, Inc. - President & COO*

Thanks, Dennis.

Operator

Your next question comes from Susan Jansen with Lehman Brothers.

Susan Jansen - *Lehman Brothers - Analyst*

Well, good morning, all. I'm interested in what you have experienced really with Rainbow and Rent-Rite, and how those stores stack up relative to your existing stores. So I was hoping you might address such things as, you know, whether those stores have the 400 or so customers per store? Whether the average agreements per customer at those stores were, you know, in line with what you experienced at your core stores? And finally, you know, does the store model sort of measure up? I know you'll get it there, but has it gotten there yet?

Mitch Fadel - *Rent-A-Center, Inc. - President & COO*

I'll start with that. The -- the two different acquisitions from a revenue or customer account standpoint, the Rainbow stores were close to the size of ours. They are slightly smaller than ours from an overall revenue standpoint, but pretty close. I think they were averaging -- the last quarter they averaged about 68,000 per month per store, and we were 71 or 72,000 that quarter, going back to the first quarter. So slightly behind, but pretty much right on top of our stores from a revenue or a customer standpoint. The Rent-Rite stores were about 75% as -- of our store, so maybe 25% smaller would be a better way to say that, on average. Some of them were the size of our store, some of them were bigger. But on average, they were about 25% smaller than our stores on Rent-Rite. Maybe Rainbow, you'd say was 2 to 5% smaller than our stores, Rent-Rite about 25%. Certainly it -- we -- it would take -- normally when we bring acquisitions in, so let's say specifically the Rent-Rite stores, to get them up to our size is normally, especially when you buy them in Maine, you're going into the softer months of the summer, they're certainly not up to our size yet. They wouldn't be over the summer. But in that case, it's probably an 18-month range, 18 to 24 month range to get them up to our size.

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

I think we -- when we looked at both of those acquisition, Susan, they both presented two different unique opportunities. In Rainbow's case, Mitch is right. Revenues were very similar to ours. The opportunity play there was really more from the expense and leverage. You know, our size, infrastructure, buying power. We could leverage, take some costs out. And that's where we expect to get the opportunity. Not to say that we don't expect to get some top line growth. The play there is more from an expense or leverage perspective. With regards to Rent-Rite, it goes the other way and maybe a little more consistent with some of the other acquisitions. There is -- not to say there is not opportunity from expense perspective in a leverage, the greater opportunity there is the top line growth as we put our business model and get maturity and so forth out of those.

Susan Jansen - *Lehman Brothers - Analyst*

So what you're really saying is that the business models will get to, or you expect them to get to, exactly where you are on your core stores?

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

We don't see anything inherently different in either one of those that over time won't lead us to the same conclusion.

Susan Jansen - *Lehman Brothers - Analyst*

Perfect. Thank you so much.

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

Yeah. Thank you.

Operator

At this time, I would like to remind everyone, if you would like to ask a question, please press star, 1 on your telephone keypad. Your next question comes from Wendel Greider with SunTrust Robinson Humphrey.

Wendel Greider - *SunTrust Robinson Humphrey - Analyst*

Thank you. And congratulations on another great quarter.

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

Thank you.

Wendel Greider - *SunTrust Robinson Humphrey - Analyst*

I guess have I two questions for you. One would be, can you comment on the performance of any particular product categories or introduction of any new products that might be coming down the pipes here? And secondly, what's the status of any of the advertising or marketing tie-ins with -- I know you had McDonald's, among others.

Mitch Fadel - *Rent-A-Center, Inc. - President & COO*

Let's start with the -- on the new products. As you probably know, last -- last spring, it's been a little over a year now, we started buying only wide-screen, high-definition, 16 X 9 format high-definition big screens versus analog or 4 X 3 big screens, and those have done very well for us in replacing the analog big screens. We are just now, even enhancing that a little more, getting into something, a little higher technology of the projection TV, as some of the models that are called -- they are liquid crystal projection, the LP projection. They are not the flat screens or anything like that, but they are a thinner, big-screen TV, a little HD integrated, and so forth, a little higher end even than a typical HD integrated TV. We're rolling those out this fall. So another step up, if you will, from an HD standpoint.

Now computers over the last year, laptops have really grown in relation to the PC business. Not that they are growing, overtaking the PC business, but there has been a lot of growth in that category in the lap -- more growth in the laptop side than there has been on the PC side. Furniture is the type of products that we're always evolving with new fabrics, and so forth. Used furniture has probably been the largest growth category in furniture over the last year, and we've got a few new groups in our lineup for this fall. You know, things like -- we've started a DVD recorder, you know, that's a new product on the market. We probably started carrying those about 3 months ago. So all this great technology that's coming out, whether HD, you know, the recordable DVDs, and so forth, we're starting to carry those and would anticipate those to go real well for us this fall.

Your second question on the advertising and some of the partnerships, we've talked in the past about our McDonald's partnership where they get a discount. That has been about a year. We just renewed the program for another year. And it's starting to grow. It's not a big program for us, but we're getting a few hundred McDonald's employees a month out of the program. We -- we'd like to do better with that, and we've made some small enhancements to the program going forward on this following year. Again, it's a program that's no cost to us anyhow, so anything's good out of it, but we would like to get more than a couple hundred employees a month. But we've enhanced the program a little going into the second year to hopefully do that. The Jackson Hewitt program with the tax returns in the first quarter went pretty well. Probably not as well as we anticipated, but we look to make that a better program for this coming spring. Another new partnership from a coupon standpoint, we've recently done with Churches.

Church's Chicken, where they are going to -- where we're kind of doing a program, a coupon that they hand out to their customer and we hand out to our customers. So a little bit of a partner -- not a little bit, but a partnership with Churches. I started to say little just because when you compare them to McDonald's, it obviously doesn't have the penetration. But it's more their customer base versus the employee base. That's just starting this month, literally next week. So, you know, we don't expect huge things out of it, but a few hundred more a month, obviously, will help. So we continue to look for those opportunities. As we as, as Mark mentioned in his opening comments, looking at other products and services that we can add to our store to monetize our distribution network, if you will.

Wendel Greider - *SunTrust Robinson Humphrey - Analyst*

Thanks.

David Carpenter - *Rent-A-Center, Inc. - Director of IR*

Thanks, Wendel.

Operator

Your next question comes from Karen Miller with Bear Stearns.

Karen Miller - *Bear Stearns - Analyst*

Good morning. I wonder if you could just explain in terms of your guidance, looking at third quarter guidance, you talk about G&A expenses being between 3.2% and 3.4% of total revenue. And then for your full year fiscal 2004 guidance, that number is lowered at 3.1 to 3.3% of revenue. Is that a function of seasonality, or is that a function of just kind of working through the Rainbow acquisition costs?

Robert Davis - *Rent-A-Center, Inc. - SVP - Finance, CFO & Treasurer*

It's, it's a little bit of both. It was, you know, lower in the first half -- or first part of the year, in the first quarter. But as we -- as we fully, you know, rationalize the corporate headquarters from Rainbow and Rent-Rite -- you know, we closed those acquisitions in May, but there is obviously a transition period from a corporate headquarters standpoint to shut down the office. Some of that was impacting the second quarter, as well as will impact the third quarter to some degree, but it will essentially be gone by the fourth quarter.

Karen Miller - *Bear Stearns - Analyst*

Okay. That answers my question. Thank you.

Robert Davis - *Rent-A-Center, Inc. - SVP - Finance, CFO & Treasurer*

Thanks, Karen.

Operator

At this time, there are no further questions. Mark Speese will make some final remarks.

Mark Speese - *Rent-A-Center, Inc. - CEO & Chairman of the Board*

Thank you, Mary Ann. And as always, I want to thank everyone for your time and interest. We appreciate your support. We continue to work hard and execute our business model, and we certainly look forward to reporting back to you again this time next quarter. Thank you.

Operator

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