FINAL TRANSCRIPT

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RCII - Q3 2005 Rent-A-Center Earnings Conference Call

Event Date/Time: Oct. 25. 2005 / 10:45AM ET

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PRESENTATION

Operator

Welcome to Rent-A-Center's third quarter 2005 earnings release conference call. At this time, all participants are in a listen-only mode. [OPERATOR INSTRUCTIONS] As a reminder, this conference is being recorded Tuesday, October 25, 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 of Investor Relations. I would now like to turn the conference over to Mr. Carpenter. Please go ahead, sir.

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

Good morning everyone and thank you for joining us. You should have received a copy of the earnings release distributed after the market closed yesterday that outlines our operational and financial results that we made in the third quarter of 2005. 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 on Form 10-K for the year ended December 31, 2004 and our quarterly reports on Form 10-Q for the quarters ended March 31, 2005 and June 30, 2005 as filed with the SEC. Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statements. I'd now like to turn the conference call over to Mitch. Mitch.

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

Thanks, Dave. Good morning everyone. We certainly did have a lot going on in the third quarter. And as we discussed in the press release, we made significant progress on our store consolidation plan. We closed and merged 100 stores into nearby storefronts, leaving only 14 more to do in the fourth quarter. Of the other 48 stores that were identified but we didn't have a store nearby to consolidate them into, 14 of those have already been sold. So we're well on our way to completing the store consolidation plan.

Of course we had the two hurricanes in the third quarter. Overall, about 180 of our stores were affected by either Hurricane Katrina or Rita or in many cases both. We ended up permanently closing 15 stores in the New Orleans and Gulfport areas, and you can see the associated charges in the quarter on the press release.

Of course, the effect those hurricanes had on fuel and energy costs continue, and that's hurt us in a few different ways. Obviously there's the effect on our customers' disposable income and there's also the effect on our own operating costs as it relates to operating approximately 6000 delivery trucks. And Robert will talk more about that in a minute.

Staying on the subject of hurricanes, let me tell you what little we do know about Wilma, the hurricane that hit South Florida yesterday. We had about 75 stores close down there yesterday. Although it's pretty early to evaluate the total impact, based on the early reports I have received, it appears three or four of our stores may have significant damage. The big impact to us is when something like Katrina happens and the horrible flooding that followed that hurricane. It appears that Wilma did not cause that kind of severe flooding in South Florida, certainly not in the Miami and Fort Lauderdale areas it moved so fast through the state. So based on that we currently do not believe Wilma will have a material impact on the fourth quarter.

Our new store plan continues as we rationalize our store base. In the quarter, we opened 17 new stores, acquired 2, and bought accounts in 15 locations. We plan on opening 20 to 25 in the fourth quarter, and in general our new stores continue to perform at or above plan. We expect to open 60 to 80 more stores in 2006, and we remain very confident we can grow our store base 5% per year in 2006 and beyond as we'll continue to open those new stores and pursue opportunistic acquisitions of stores and accounts.

Switching over to inventory for a minute, our held for rent inventory came down from the second quarter almost $19 million as our held for rent percentage of our overall inventory came down from 25.6% to 23.8%. We expected this to happen as we moved through the inventory that was bulk purchased earlier in the year and we would expect this positive trend to continue in the fourth quarter.

On the collections size of the business, we ran about where we did last summer. The summertime is always the hardest collection time of the year and this summer was no exception. We averaged a weekly delinquency number of about 6.9%. Most of you know our goal is to be at 6% or less on a weekly basis. And that's accounts that are one day or more past due. So although we were slightly higher for the quarter at 6.9, it was no worse than last year, even with the escalating fuel costs affecting our customers' pocketbook.

We did improve our same store sales trend in the quarter with a better than forecasted negative comp of 0.4% as we continue to work diligently to get our mature stores in positive territory again. Along those lines, in an effort to drive more traffic to our stores, we are spending an additional $2 million in the fourth quarter, the quarter we're in now, to reach more of our target consumer with our advertising message and we're doing that with an increased TV and national radio spend. Additionally we continue to work on our operational execution, the training and development of our co-workers, as well as new products and services to drive more traffic into our stores. Mark will talk more about those issues in a minute.

Although we, like most retailers, were thrown a few curve balls in the third quarter with the hurricanes and the even higher fuel and energy costs, we feel good about our initiatives as we continue to work tirelessly on improving our financial results in this very tough environment. With that, I'll turn it over to Robert for a financial review.

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

Thank you, Mitch. Let me just spend a few moments updating you on our income statement, our balance sheet, our cash flow statement, after which I'll turn the call over to Mark Speese. I'd like to reiterate as always that much of the information that I'll be presenting here today, whether it's historical results or forecast results, will be presented on a recurring and comparable basis which will exclude the impacts of nonrecurring items such as restructuring plan and hurricane losses.

As it relates to the income statement as outlined in the press release, total revenues increased during the third quarter of 2005 by 0.7% with diluted earnings per share declining over 25% from the prior year to $0.35. As mentioned in the press release, we do estimate that our revenue was impacted negatively during the quarter due to the hurricanes, to the tune of about $1.7 million. This, along with the spike in gas and energy prices that in large part resulted from the hurricanes, increased our own delivery costs above our forecasts by about $1.3 million. Those two items together we estimate cost us about $0.03 during this quarter, which would have placed us within our guidance on a pro forma basis.

Now, on a reported GAAP basis for the quarter, the Company did earn $11.3 million or $0.15 per diluted share. The difference between the pro forma amount of $0.35 and the GAAP amount of $0.15 breaks down as follows. There was a $0.12 reduction related to our restructuring plan. As Mitch did mention, to date we've merged or sold 114 of the 162 stores since the inception of the plan. That was a total of $13 million in charges, about 6.5 million in lease terminations, 1.8 million in fixed asset disposals, a couple hundred thousand in other costs, 3 million in tax deductible goodwill and 1.5 million in nontax-deductible goodwill. All of these costs are included on a separate line item on the income statement titled restructuring charge, so that's the $0.12.

The other $0.08 was a reduction due to the hurricane-related charges. Again we've closed or merged 15 of the 180 stores impacted. That equates to about 7.7 million in writeoffs, approximately 3.6 million of inventory losses, 4 or 500,000 in asset disposals, fixed assets, 1.1 million in tax-deductible goodwill and 2.6 million in nontax-deductible goodwill. These costs are embedded in two separate line items on the income statement, 4.1 million of which is within the salaries and other category for the inventory and fixed asset disposals while 3.7 million is included in the amortization of intangibles line for the write-off of the goodwill.

The pro forma EBITDA for the quarter totaled nearly 67.5 million for a margin of 11.8%. For the last 12 months ending 9/30/2005, pro forma EBITDA has totaled approximately $340.5 million for a margin of roughly 14.5%, while we're projecting fourth quarter EBITDA of over 75 million or a margin in excess of 13%, over a 120 basis point improvement from the just-ended quarter.

From a balance sheet and cash flow standpoint, as indicated in the press release, we did generate over $87 million in operating cash flow during the quarter and nearly 144 million in operating cash flow since the beginning of the year. While we did begin the year with approximately 59 million in cash on hand, we've since utilized approximately 41 million in capital expenditures, over 35 million in the acquisitions of stores and accounts and nearly 84 million in share repurchases while ending the quarter with approximately 53 million in cash on hand. As always, our cash flow remains the strength of this company, and our balance sheet is just as solid.

At quarter end, our consolidated leverage ratio was approximately two times, well within our covenant requirements of 2.75 times. Meanwhile our interest coverage ratio was in excess of 7 times. Debt to book cap at quarter end totaled about 46.2% with outstanding indebtedness of just over 706 million at September 30. However, currently in the fourth quarter, our indebtedness is just over 691 million as we have repaid approximately 15 million in indebtedness since the end of the quarter. And our current debt levels are now 17 million lower than where we started this year.

So as it stands today, we have 345.6 million in senior term debt, 45 million drawn under our revolver, and 300 million of 7.5% subordinated notes. With the 45 million drawn under our revolver, we currently have availability within that tranche of about $101 million. So again our balance sheet remains very strong, providing us the liquidity and flexibility needed to address the current business climate and our long-term strategy.

From a guidance perspective, we anticipate for the fourth quarter of 2005 total revenues to range between 575 million and 583 million and diluted earnings per share to be between $0.43 and $0.47. This of course excludes any additional costs related to the hurricanes or the continuation of our store consolidation plan. For the full fiscal year ending December 31, 2006, we expect total revenues to increase roughly 2%, our same store sales to be flat and diluted earnings per share to be in the range of $2 and $2.10 which includes the impact of stock option expense. Now, as always, our guidance excludes any benefits associated with additional debt repayment, stock repurchases, or acquisitions completed after the date of this press release. With that financial update, I'd now like to turn the call over to Mark.

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

Thank you, Robert. Good morning everyone. Well, as you've just heard from both Robert and Mitch, there is an awful lot going on particularly in light of the store consolidation plan, the effects of the hurricane and the impact of high energy cost on the business in general. Having said that, and while the business environment remains challenging, I do believe we are making progress and moving in the right direction as we prepare to enter 2006.

The store consolidation plan that we announced in early September and that Mitch just spoke of allows us to rationalize our store base, eliminating many underperforming stores as well as enhancing the results of overpenetrated markets. As previously mentioned, we expect to realize approximately $1.5 million a month in operating income once all of the identified stores have been consolidated or sold. We will of course continue to closely monitor the results of all others.

On the expense side, while much of our cost is fixed, we are taking additional steps to control or manage as much as we can where we can. One example includes procurement outsourcing. This is to leverage economies of scale and improve the execution and control of noncore spend categories such as store and office supplies, fuel, et cetera. The Company recently engaged ICG Commerce, the market leader in the procurement outsourcing space for this initiative, and we expect to have the platform in place by the end of the first quarter. We believe once fully implemented this initiative could save a few million dollars a year. We are of course continuing to look at all other line items to ensure proper cost management as well.

As Robert mentioned, a key strength of this company has been and continues to be our strong cash flow. As in the past, we look to use that cash to invest in the business, be it in our new stores, opportunistic acquisitions, the introduction of new products or services as well as our share repurchase program. As mentioned in the press release, we generated over $87 million of cash flow in the third quarter, and during that quarter we repurchased 3.9 million shares of our common stock.

Strategically, as you know, we have talked about expanding our services to include financial products, specifically payday lending and the likes.

And on that front, the 27 stores that we acquired last quarter from one of our ColorTyme franchisees continue to perform well, and we are ready to begin introducing those services in our stores. Our expectation is to have approximately 25 additional Rent-A-Center stores offering those products this quarter. Now, again we'll be testing a couple of different formats this quarter inside the four walls where we'll simply expand the existing counter inside the store to offer those additional products and services. And additionally, we'll be testing the box in a box where we will be carving out some square footage and creating the appearance of a stand alone business with a separate entrance, demising walls, and so forth. We'll also be testing additional services such as bill payment, money transfer, and the likes with the belief that we will be able to add between 25 and 40 stores a quarter in 2006 and then ramp up further from there.

Now, while we still have -- while we have some revenue consideration for 2006, this does not impact EPS or EBITDA until 2007 and beyond. Obviously it's too early to say with any certainty how they'll perform, but I'll remind you that the 27 stores we acquired are averaging approximately 20,000 a month in fee revenue with minimal incremental overhead.

The addition of 150 Rent-A-Center stores offering these services, averaging 15,000 a month in fees with 50% flow through, would add $0.01 a month in EPS. And again, while we still have a lot of learning to do, we believe that our knowledge and relationship with this consumer demographic, our national footprint, and our management depth provide significant opportunity in this area for us.

Now, having said that, we continue to believe that the challenges and issues we've been facing can and will be overcome. The need for our products and services still greatly exists. Our customers -- we have previously mentioned -- have been impacted the greatest due to the rising energy costs. And while we don't expect that to subside any time soon or at all, we do believe they, like all of us, will adjust.

Our guidance for 2006 assumes the higher energy and fuel costs as well as inflationary costs in other operating categories. Our main focus, of course, remains on increasing traffic to the stores by offering products and services our customers want and need, effectively marketing and advertising to our consumer segment while providing exceptional customer service to them. The entire management team, including our 16,000 co-workers are focused on that. I appreciate their hard work and dedication as well as your support. With that, we're now happy to open the call up for questions.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS]

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

Go ahead. You can start.

Operator

Your first question comes from Dennis Van Zelfden with SunTrust Robinson.

Dennis Van Zelfden - *SunTrust Robinson - Analyst*

Mark, how many of your total stores do you think can accommodate these payday loans and other financial services?

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

As we've mentioned in the past, Dennis, there are currently 35 states that have favorable or enabling payday lending legislation. In those 35 states, we have in excess of 1800 locations. That is not to suggest that all of those could support the financial services. In other words, they may not be in the right neighborhood, if you will.

We have, the looks that we have taken, estimate that about 70% of those anyways, 1400 or so, could support the services. Now, it does go a little bit deeper in terms of the availability of the lease, et cetera, but again, as I think I've mentioned in the past, over -- nearly two years ago, we began adding additional language in the use clause that would allow us to offer financial services and so forth.

So as we sit here today, the short answer is we do believe that approximately 1400 of those 1800 we could offer those products and services in. Of course, as you look out further, we do believe that other states will also put in enabling legislation.

Dennis Van Zelfden - *SunTrust Robinson - Analyst*

Mark, do you think that offering these kinds of services, particularly the payday lending, i.e. the key word there being lending, would blur the distinction from the regulators' point of view between the rent to own transaction and lending in the same store?

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

Well, again, in the states that enable legislation, you're permitted to do that. The concept of the testing that we're doing, the box in the box and inside the four walls, what we have been able to learn and ascertain, if you will, is there is some overlap between those customers, but probably not as much as you may think. About 30% appears to be the common number that continues to come up from an overlap, and that's what we're seeing in the stores that we now have out there offering those products.

The concept, again, of testing the two different formats, the CapEx spend to put it in the back of the store, just adding the counter and the equipment and so forth, is in the neighborhood of $40,000. And then building the box in the box is more than that -- putting up demising wall and it's maybe in the neighborhood of 75,000.

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

It's about 45,000, Mark, when you average the two together. (multiple speakers) So 20 and 60.

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

All right. Well, there's the better number right there. So it's about 25 in the back and then 60 to build it out front. Again what we want to do is test what is the overflow in the back of the store as well as do we drive potentially a board (ph) business in the stand-alone. So again, we'll be testing both of those, but the fact is from a regulatory perspective where you have enabling legislation, you're able to offer that inside the four walls or not.

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

And they're both separate regulations, so if we just follow both regulations, we'll be fine. I think your point, Dennis, if we were to do it in those states without the favorable loan legislation or payday lending legislation, there probably would be some blur there. But sticking with those 35 states, or not expanding in those other states until they have favorable regulation, we believe we'll be fine.

Dennis Van Zelfden - *SunTrust Robinson - Analyst*

Just moving on to one other question. Mark, you talked about restructuring the store operations and closing a lot of stores, so on and so forth. Is there anything going on restructuring-wise or cost cutting in the G&A line? I ask because the G&A line kind of quarter-over-quarter for the last several quarters has increased -- I don't know, 4% plus when revenue has been, as we all know, pretty flat. Is there anything going on there?

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

This is Robert. I'll take that. Obviously that line speaks to the corporate office here as well as our senior management personnel that's out in the field. We call it Regional Directors, Senior Vice Presidents, and so forth. And obviously we're investing a lot here in the home office from a technology standpoint. And also there is some additional costs from some of the infrastructure that we're trying to put in place for these additional products and services. That's not a lot per se. But right now there's not really any cost cutting per se, if you will. And obviously, as a percent of revenue, it's obviously sticking out because of the decline in same store sales and so forth. We want to invest in the business and drive the business going forward because we believe in the long-term perspective, and so we want to be careful not to cut costs and maybe impact the long-term strategic opportunity that we believe we've got.

Dennis Van Zelfden - *SunTrust Robinson - Analyst*

Thank you.

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

Thank you.

Operator

Your next question comes from Arvind Bhatia with Southwest Securities.

Arvind Bhatia - *Southwest Securities - Analyst*

You guys talked about the trends improving in the third quarter, and you're also giving items of flat comps for the next year. Can you shed some more light on specifically improvements that you're seeing in traffic, how you saw that during the third quarter? Was it every month you saw? And then maybe this quarter so far what kind of traffic trends you are seeing. I notice you are still guiding towards negative comps in the fourth quarter, is that just because you have slightly more difficult comps in the fourth versus third quarter?

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

Yes. I'll take the comp in the fourth quarter and I'll let Mark or Mitch take the longer term traffic question. But the third quarter of last year, our comp was down over 5% or so, and in the fourth quarter it was down roughly 3.5. So the comp in the third quarter of this year was an easier comp to overcome so that's why on the guidance -- although we did a negative 0.4 in the third quarter, the guidance in the fourth quarter is projected down 1 to down 2 primarily due to the easier comp in the third quarter as it compares to the fourth from last year.

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

Arvind, this is Mitch, for the majority of the summer, I really can't stairstep it for you month by month and say it trended one way or the other, because there were some highs and lows based on our promotional activity, but in general it was a little bit summer than last year even with these higher fuel prices. Of course, certain parts of the country obviously struggled with being closed. So many stores closed down in Houston and along the Gulf Coast for many days. But in general the traffic was a little bit better than last year over the course of the summer. So far in October, it's been about where we'd expect. Nothing to write home about. But it's about where we'd expect. And I think Robert's point is why you're seeing the kind of guidance you're seeing, a little tougher number to comp over in the fourth quarter. But traffic was a little bit better this summer than last summer, even with the higher fuel prices.

Arvind Bhatia - *Southwest Securities - Analyst*

Got it. I guess more specifically, as gas prices have come down in the recent weeks or so, is there anything that points out that you are seeing some benefit or is that -- it can't be, we can't expect that to be that quick?

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

I would say you can't expect it to be that quick. We certainly in the last -- it's really been the last week or so it's dropped. We haven't -- I can't sit here and tell you we've seen that effect yet, but I wouldn't expect to see it quite that quick. I think as November comes, we'll just see how big of an impact that has when we hit the 1st of November and so forth, which -- the beginning of the month is always a busier time of the month for us anyhow.

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

Obviously it benefits us day one in terms of our own operating costs, but the consumer side it'll -- we expect it to have some benefit, but I think that's right -- you can't expect it to turn day one.

Arvind Bhatia - *Southwest Securities - Analyst*

Now, for next year's flat comps, I guess the logical assumption would be you assume sort of negative comps -- low, negative comps in the first half -- and then improving and positive comps in the second half. Is that sort of the way to look at it for next year?

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

As well as just cycling over the negative comps that we've experienced over the last, now, year and a half. If you go back to even the guidance we gave several quarters ago, our expectation was as we got into the back end of this year was that they would get close to flat, albeit a little behind at this point. Again, the big spike in the fuel cost has had some impact. But still getting fairly close to what our original expectation was and again going back a couple of quarters ago, the belief that beginning flat at the end of this year and then turning positive next year. So we've flattened that down a little bit because of what we went through here in the last month or two with the energy costs.

But, yes, we're expecting -- obviously the fourth quarter has always been one of our stronger quarters, and we're expecting that again this year. Then just the fact that we're comping over lower numbers has something to do with it as well.

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

Fourth quarter will be strong sequentially.

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

Yes, absolutely.

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

We have more traffic, even though we're still forecasting a slight negative comp relative to last year but it will be strong from a sequential standpoint.

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

Yes.

Arvind Bhatia - *Southwest Securities - Analyst*

Got it. Last question is on the payday loan business. Can you remind us if you're testing anything under both the bank model and the direct model or most of what you're testing or will be implementing this year is going to be the direct model?

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

It will be only the direct model, Arvind. The stores that we'll be introducing this into will be, again, in those states that have enabling legislation. We've got plenty of opportunities there. We don't need to be frankly, testing or, for lack of a better word, testing in states that don't have the legislation in using the bank model.

Arvind Bhatia - *Southwest Securities - Analyst*

Got it. Thanks, guys.

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

Thank you.

Operator

Your next question comes from Carla Casella with J.P. Morgan.

Carla Casella - *JP Morgan - Analyst*

Hi, I have two. One is a housekeeping item. Can you give us the purchases, rental merchandise during the quarter?

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

You got that there, Robert?

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

Yes, if you'll give us one second.

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

For the three months ended September 30, 2005 purchases were about $141 million, Carla.

Carla Casella - *JP Morgan - Analyst*

And then the number -- when you bring the payday lending in-house, how many additional people are added to your staff? And have you seen any trends in receivable risk in some of the stores where you've already operated it?

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

The stores from a staff perspective, it's about one and a half employees per location. And so it's not a big -- (multiple speakers) capital requirements.

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

They're not RTO. They're not people that we're bringing over from the RTO side. So the RTO side is staying fully staffed. It's 1.5 to 2 employees per location, the box in the box or in the back of the store in either case. From a receivable standpoint, obviously we're into this very early stages, but we haven't seen any risk associated with -- from a receivable standpoint at this point.

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

And that franchisee that we acquired those from had been offering those services for several years and have been really quite consistent in that as well.

Carla Casella - *JP Morgan - Analyst*

Great. So do you have to do separate training then for them or is there a certain background where you hire people from for those positions?

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

Yes. The training, we try to bring people on in advance of a store opening 30 days for an entry level employee, 60 to 90 days for the manager of the loan store. And obviously all the training's in-house. But customer service oriented people, maybe former bank tellers, things of that nature are the kind of people that we're targeting.

Carla Casella - *JP Morgan - Analyst*

And then lastly skips and stolens, where does that stand?

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

I talked a little bit about the credit earlier, Carla. The credit ran consistent with last summer. Skips and stolens were slightly above where we ran last summer but not an overly alarming number, but slightly above last summer. Even though the credit, the overall collections numbers on a weekly basis stayed in line, our skips were just a little bit higher than last year.

Carla Casella - *JP Morgan - Analyst*

That would be aside from anything related to the hurricane or lost?

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

Yes. Correct. Correct. We would -- you know from our 10-Ks in the past, we've averaged between 2.3 and 2.5% on skips and stolens on an annual basis. Pretty consistent -- well, very consistently over the years. And as we look at the fourth quarter and project the fourth quarter we'll be on the high side of that number for the year. The summer is always a little higher anyhow. But as we look at the year we'll be in that 2.5, maybe 2.6 range but again right in line, albeit on the high side of where we've run over the years. We should come in right around that 2.5 number for the year.

Carla Casella - *JP Morgan - Analyst*

Great. Thank you.

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

Thanks, Carla.

Operator

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

Dennis Telzrow - *Stephens, Inc. - Analyst*

I wonder if you've actually opened any of your own payday locations in your own stores yet.

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

Actually had one open this week. Last week I guess. And we've got six more or so that are expected to come on here in the next week or so. And then about, again, 15 to 19 more through November and December.

Dennis Telzrow - *Stephens, Inc. - Analyst*

And, Mark, you mentioned opening 25 to 40 next year each quarter. Is that how I read what you said?

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

That is correct. That's our expectation at this point that we'll start ramping in 25 to 40 a quarter through '06 and then obviously we can take it up quite a bit further, '07 and beyond.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Last question. I assume from an operating standpoint you have a point of sale system that guides that person through and that point of sales system makes the decision -- that they're not (ph) making the loan decision, but that system or whatever you're using does it for you?

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

That is correct.

Dennis Telzrow - *Stephens, Inc. - Analyst*

And then on a collection standpoint, are you doing it in the store or centrally?

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

Doing it in the store at this point, and that's our expectation certainly initially going forward. Almost like the rent to own, they'll be handled at the local level.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Thank you very much.

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

Thank you.

Operator

Your next question comes from Mark Kaufman with Gradient Partners.

Mark Kaufman - *Gradient Partners - Analyst*

I just had one question, and that is has there been -- how is the effect of the higher energy prices on the cost of running your stores?

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

It's been pretty dramatic, as you might imagine. In fact, in this last quarter, sequentially our delivery expense was up $2 million. Our utility expense was up about -- well, of course it always goes up a little bit in the third quarter anyway. So I don't -- but it was up $2 million. Our service expense, which is -- includes the repairs but also the delivery side, because they run to all 2800 stores every week, was up about 1.6 million, $1.5 million. So it's had a -- needless to say a pretty significant impact.

Mark Kaufman - *Gradient Partners - Analyst*

Thanks very much.

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

Yes.

Operator

Your next question comes from John Baugh with Legg Mason.

John Baugh - *Legg Mason - Analyst*

I noticed in the Q from June your cash taxes were still behind your reported taxes. And I know you had that catchup this year. Does that happen in the third quarter, or does that happen in the fourth quarter?

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

John, there's a -- when we were going through the final state and federal returns, we file extensions every year and try to true things up in the third quarter. But part of the reason why you're seeing that is we were in a prepayment position at the beginning of the year, and so a lot of the cash that may have went out the door last year were overpayments. And so we were about $20 million, I believe, that we were able to apply to this year's cash tax obligation. And so it will run behind or it has run behind thus far.

John Baugh - *Legg Mason - Analyst*

So help me with the delta for '05 and then maybe '06 between what reported taxes and cash taxes is likely to be, just a ballpark.

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

For reporting purposes--.

John Baugh - *Legg Mason - Analyst*

I think it was going to be 55 million originally wasn't it?

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

Taxes are going to be around $85 million. Cash taxes are going to be more like 120 million, roughly. That's a $40 million delta. Next year we believe our book tax and our cash tax will be in line with one another, around $90 million.

John Baugh - *Legg Mason - Analyst*

Okay. Great. That's helpful. Do you have yet the skips and stolens figure for the third quarter? I know you put that in your Q. And you also have a line item other inventory deletions, do you have those figures yet? I know you said they were up slightly or something but--?

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

I don't think we have those in front of us, but the Q will be filed hopefully on Friday.

John Baugh - *Legg Mason - Analyst*

In the hurricane writeoff number, you mentioned you closed 15 stores. Is all of the expense, all of the $0.08 just on those 15 stores or does that also include -- 165 other stores were impacted to some degree, some inventory loss in other stores?

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

John, the majority of that, I'd call it 90, 95%, is related to those 15 stores. There may have been additional inventory losses from other stores in the surrounding areas. But the vast, vast majority of it's all related to those 15 stores.

John Baugh - *Legg Mason - Analyst*

Great. Thank you. That's all my questions.

Operator

Your next question comes from Susan Jansen with Lehman Brothers.

Susan Jansen - *Lehman Brothers - Analyst*

Good morning. Couple of questions if I might. First of all on the closed stores, have you exited all of the rental agreements or do you still have some dark stores where you're paying rent?

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

Well, on the lease agreements of our stores, we've exited them, but we're still paying rent. That was a big part of the charge. Taking that charge, 6.5 million in lease terminations, though from a cash standpoint we have not made a deal with every one of those landlords and done a buy-out yet. So in some cases we're still paying the rent and negotiating buyouts of those. That charge is for the amount left on the leases. But now we'll negotiate with the landlords and see what we can get out of those leases for.

Susan Jansen - *Lehman Brothers - Analyst*

About how many buyouts do you have left out of the 114? Is it a majority or is it half or?

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

I'd say the majority.

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

Greater than half.

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

Probably 75% or so are still being negotiated.

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

And those vary, again, just for what it's worth, 90% of our leases have less than five year terms at the time of execution. These leases probably average less than two years or maybe two years.

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

Well, 6.5 million in lease terminations on -- what, 114 stores. So we're talking about $60,000 or so apiece.

Susan Jansen - *Lehman Brothers - Analyst*

Right.

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

They're not big leases. You just try to negotiate out if you can on average give the landlord 40 or 50,000. Obviously the lower the better. But these lease termination charges are the whole amount. And depending how successful we are in buying out some, there may be a reversal of some of that amount as we go forward.

Susan Jansen - *Lehman Brothers - Analyst*

And then the inventory held for rent, as you end the fiscal year or move towards the end of the fiscal year, do you expect that to come back into line with where you were at the end of last year?

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

We certainly expect it to go down from the 23.8 at the end of the third quarter. And at the end of December we'll be lower than the 23.8. Whether it will be exactly as low as last year with the, what were we (multiple speakers) 21.4, with the -- we'll get the inventory levels down to where they were last year. That's -- but obviously the on rent number -- if the on rent number is lower because of the negative comps, the percentage will probably be higher than where we ended last year, because that's -- you can control your inventory, but if the -- what would that be, the denominator is lower, it's going to make the percentage higher.

So I think, with the on rent number being lower, we won't get to that 21.4, but we'll certainly be better than the 23.8 that we ended the third quarter in.

Susan Jansen - *Lehman Brothers - Analyst*

Great. My last question is by my calculations under your debt agreements, you have about 111 million left that you can use to repurchase stock. Is that approximately right?

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

That's approximately correct. However, our authorization under our Board -- the $400 million Board authorization, we've got about 78 million remaining under that authorization. Not that that's difficult to change or increase, but currently it's a little bit less than the bank covenants. And you're right, it's about 110, 115 million.

Susan Jansen - *Lehman Brothers - Analyst*

Thank you very much.

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

Thanks, Susan.

Operator

Your next question comes from Dax Vlassis with Gates Capital Management.

Dax Vlassis - *Gates Capital Management - Analyst*

Yes. I was curious if you could review the lease terms generally for the remaining leases. And when you enter into a new lease how those are generally set up.

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

Typically they're five-year leases, sometimes a little shorter. Three- to five-year leases but the majority do hit five year leases. On average our square footage is about 42, 4300 square feet, typical rent factor is going to be 4500, 4600 a month. So an overall lease, the whole five-year lease might have a $0.250 million value to it or cost I guess over the five years. Sometimes they're triple net. Sometimes they're just gross numbers. Just depends on the landlord. We don't do any percentage rents.

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

You want to buy them from us, Dax?

Dax Vlassis - *Gates Capital Management - Analyst*

And the other question I had was, after taking into account the lease terminations when this is all said and done, what will be the total lease expense? I think it was 180 million last year in the 12/04 year.

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

What do we (multiple speakers) -- the last 12 months, lease cost was about 158 million, so about 4% of our store base is what's identified in the store closing plan. So it would be about 4% less.

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

But then you would have to add to that the normal inflation -- lease. Mitch mentioned five-year terms, but they all have options to renew. Some of those leases may have annual rent escalations. Others may be just simply tied to the option period. But suffice it to say that -- there are several -- maybe 500 or 700 leases a year that are having a customary rent escalation.

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

Some of that 4% is decreased because of the comp (multiple speakers) -- offset by rent increases. And of course new stores opening next year as well.

Dax Vlassis - *Gates Capital Management - Analyst*

(multiple speakers) What is your CapEx plans for this year now and next year?

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

This year, I think the estimate's around 60, $62 million. Next year that goes up to about 71 million. As it stands today, about 5 million of that increase to 7 million of the increase is part of the payday lending rollout, the 45,000 a store on average being rolled out next year as well as new stores coming on next year, too. So around 60 this year, up to about 70 next year.

Dax Vlassis - *Gates Capital Management - Analyst*

I think Jeff has a question.

Jeff Gates - *Gates Capital Management - Analyst*

Yes. It's Jeff Gates. Just a question on product deflation in some of the equipment and electronics that you rent and what effect that's having on you guys and how that works through your accounting.

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

On the smaller items, as we've talked about in the past, smaller TVs and video equipment, we've had quite a bit of deflation and lost quite a bit of rental opportunity on those smaller items because they're so inexpensive to buy from a retail standpoint. They're not really a rental item anymore. We feel like those smaller items we're at or very close to bottoming out on them. We pretty much lost what we're going to lose on the video equipment, the $50 DVDs and so forth.

On the higher end, the deflation in a lot of ways is helping us right now where 42-inch plasmas are now a rental item where a year ago the cost was too high and now we can rent 42-inch plasmas. We're buying some this fall. The 60-inch high definition, integrated high definition TVs are now a price range that our customer can afford. So it's helping us on the high end.

I think on the low end it has -- we've already taken the vast majority of the beating on the low end. On the high end, it's helping us right now bring those products into the rental customer's price range.

Jeff Gates - *Gates Capital Management - Analyst*

I'm just wondering how fast those turn. Like if you buy a 42-inch plasma and it's worth half here, what period would you amortize a plasma over?

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

We'll amortize it over the life of the agreement. Generally the higher end TVs go out for 24 to 30 months. We'd amortize it over that. If a year later -- based on the way we depreciate, a year later on our books it's going to be worth close to half of what we paid for it so we kind of run in line -- not that those are going to deflate 50% a year going forward. They have deflated quite a bit.

But we've -- we just started buying them. When a new product like that comes out -- that's why we didn't buy them two years ago when they were $3000 to buy. We probably could have rented some of them. But we have to wait until they come down to a point -- not that they're not going to deflate any more, but when we feel -- on any of those new products, when we feel the deflation is at least going to slow down a little bit going forward. That's why we just started buying them. For that exact reason.

They'll depreciate over 24 to 30 months on average. A year from now, it's not like a plasma is going to be worth half what it is today but our cost will only be half of what it is today based on our depreciation schedule.

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

Jeff, I don't know if this is really where you're going with this, but when you evaluate our entire product mix, not just the plasma screen TVs and others but our entire product mix, we would still anticipate about half of our inventory to turn each year. We're not going to start extending our products out to where they're not turning as quickly as they have historically. So from an inventory obsolescence perspective or standpoint, we would not anticipate any change in the overall turns of our product.

Jeff Gates - *Gates Capital Management - Analyst*

Thanks.

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

Thank you.

Operator

Your next question comes from Craig Hoagland from Anderson Hoagland & Co.

Craig Hoagland - *Anderson Hoagland & Co. - Analyst*

Just following up on the deflation question. Last quarter on the call, Mitch, you mentioned that at one point the low end electronics had been about 25% of your inventory. Do you know what that number is more recently?

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

It's certainly stabilized. I don't have those numbers in front of me, but it has stabilized (multiple speakers) as its low point.

Craig Hoagland - *Anderson Hoagland & Co. - Analyst*

Are we talking more like 10% of inventory or?

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

Yes. It's probably 10%.

Craig Hoagland - *Anderson Hoagland & Co. - Analyst*

Okay.

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

It is half of what it was a couple three years ago.

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

Half or a little less than what it was.

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

(multiple speakers) three years ago -- it's half of what it was three years ago.

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

25% down to 10 is roughly three (indiscernible).

Craig Hoagland - *Anderson Hoagland & Co. - Analyst*

And then also last quarter, there was a rough characterization that the bulk of the negative comp had been due to this electronics issue and that other items had in fact been comping positively. Would that characterization hold for the third quarter as well?

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

Yes. We continue to see -- in fact, in the last quarter, we talked about an increase in the big screen TVs, appliances, computers, and the likes, and that continues to hold true. We are actually up in those product categories.

Craig Hoagland - *Anderson Hoagland & Co. - Analyst*

Okay. And then just -- I know there's no share buyback assumed in your guidance, but could you just tell us what the Board's attitude is about further buyback at this point?

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

Well, I think our history speaks volumes to that. Going back not just in this past quarter but really for the last several years, we have been pretty aggressive in the open market (technical difficulty) opportunistic share repurchases. Again, 3.2 million from the recent quarter just ending. I guess it was about two quarters ago that the Board increased the authorization from the then 300 million to the current 400 million which Robert mentioned there is about 75 million or so still available. And we've been buyers at significantly higher levels than the current. Our belief is still very strong about the long term prospects for this business. So I think we're all fine in how we value that.

Craig Hoagland - *Anderson Hoagland & Co. - Analyst*

I know you're not at this point yet, but have you thought forward to, if you can't come up against the repo limits in your debt covenants what your options are at that point?

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

Yes. We've -- obviously, from our current debt structure, we've got some floating rate, fixed rate debt. Obviously we always have the option of looking out and seeing if there's a different mix or how we want to go about that. I think we're comfortable with where we are today. But if we start bumping up against that, I wouldn't have any hesitation. If from a cost standpoint it made sense to -- going back and asking for increased limits if necessary.

Craig Hoagland - *Anderson Hoagland & Co. - Analyst*

Okay. And then the last question. Did you give any traffic counts for the third quarter? I may have missed that.

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

No. We don't report traffic counts. Just the comp.

Craig Hoagland - *Anderson Hoagland & Co. - Analyst*

You're not reporting that. Thanks, guys.

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

Thanks, Craig.

Operator

Your next question comes from Michael Christodolou with Inwood Capital.

Michael Christodolou - *Inwood Capital - Analyst*

I wanted to go back to the 280 underperforming stores that you talked about in the second quarter. Clearly you've addressed what, 162 of those and you're saving about 18 to 19 million a year. I guess there were -- the balance of those stores, the other 140 or so, is it fair to assume that they were just stores that you'd opened that hadn't matured yet and that those are still on path to mature?

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

As a mix of those.

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

Yes. They're either in that maturity curve, Michael, or on the acquisition curve. So they're either new stores or acquired stores that we need some time to get them positive. There's probably a few in there that are just underperforming. But for a variety of reasons as we looked at them and looked at the demographics of the market felt like -- and again this would only be a handful out of them where there was management and that we could improve that and rather than just close it. So it was a combination of those three issues, the majority being that just, we need more time and some of those other ones from a maturity standpoint, they're either new or recently acquired.

Michael Christodolou - *Inwood Capital - Analyst*

Fair enough. And if I look at your guidance, so let's say you do 1.90 this year and you're guiding to a mid point of 2.05 next year, that's $0.15 which looks like that's the entire impact of saving 1.5 million a month from these 162 stores that you're addressing.

So have you built any -- I guess where I'm going, is I'm trying to understand what you've left out of the guidance out of conservatism. The 3.5 million or so of losses annualized from these other 140 stores, are you just assuming that that pool kind of always stays about that size because you'll be opening new stores and some of those will be in the maturation curve?

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

I think that's part of it. Certainly there will be other new stores that are dilutive at the beginning. You got to keep in mind on that guidance that it includes stock options expenses about $0.04 that wasn't in this year besides the $0.15 increase you have in stock options. Obviously we're going to need the comp to be better than flat to have upside in those numbers. With a flat comp, there's--.

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

It's really offsetting inflation and then the increase in fuel and operating costs and whatnot.

Michael Christodolou - *Inwood Capital - Analyst*

Right. So you're assuming flat comps. No reduction. No subsidence in energy cost to your customers. No -- nothing abnormal in terms of maturation of these 140 stores. No buyback, no debt repayment, and no cost -- no income benefit from the rollout of the payday lending. Is that--?

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

The only thing you missed is that, when you said no subsiding of the current higher costs, we are actually forecasting higher than current costs from a heating and oil standpoint to keep our stores warm in the winter months (multiple speakers) on the utility side. So versus other current run rate and even what we did last year, there is some additional expense associated with that that we're forecasting in our guidance.

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

The only other thing I'd add, when you say no revenue impact of the payday loans, there's really no EPS impact of the payday loan in the first year, but there's a little bit of revenue in the guidance. But the first year, they're kind of break even from an EPS standpoint.

Michael Christodolou - *Inwood Capital - Analyst*

On that, can you explain that 50% flow through? You were suggesting that the 27 ColorTyme stores were doing 20,000 a month kind of free and clear to the bottom line, but you were using only a 50% flowthrough for your tests? Is that--?

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

Well, I was simply trying to draw out -- again, we've got some learning that we have to do yet. We're just getting into rolling them out in our stores. And I was simply trying to draw out an example that if we were to get to 15,000 in fees and had about 50% flow through, again we're going to have one and a half to two people. You'll have your other normal operating expenses.

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

The losses are about 20% of the fee revenue but about 4% of the outstanding loan receivable. So there's a cost associated with that as well.

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

So when you embed all that in there, again assuming we get to a 50% flow through, just trying to draw out what the impact could be--.

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

The 20,000 on the ones we bought, Michael, was their revenue, not their profit. That 20,000 is not flowing through at 100%.

Michael Christodolou - *Inwood Capital - Analyst*

Okay. Very good. And the last question just on the marketing and the media buy. Can you give us some sense for the breadth of advertising and your initiatives? Is there any particular channels or segments that you're targeting?

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

The extra $2 million that I mentioned that we're going to spend in the fourth quarter is split between additional television advertising that we've been doing, just additional reach and frequency, with -- but about half of it's going to be on national radio which is pretty new for us. We've done a little bit of local radio in the past but the radio addition at about $1 million is new for us. When I say we had $2 million, I mean, that gets us to -- from an overall scope, we're in the 17 to $20 million range a quarter from an advertising standpoint, 17 million or so. So it's -- 2 million's about a 10% -- at least a 10%, maybe 15% increase in the fourth quarter to try to drive more traffic. That's kind of the breadth of it.

Michael Christodolou - *Inwood Capital - Analyst*

Thank you very much.

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

Thanks, Michael.

Operator

Your next question comes from Patrick Flavin with Flavin, Blake & Company.

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

Mark, I was wondering if you could revisit the issue of returning shareholders or capital to shareholders exclusively through the share repurchase program. Just using this year as an example, you've returned on that basis $84 million to shareholders, but because of the declining stock price in essence 12 million of that has disappeared. And it strikes me over the last two years with the declining share price what that is is a perpetual subsidy to shareholders who want to leave rather than those who want to stay.

And the flip side of paying that 84 million for more shares at $20.5 a share would have been, if you wanted to, to simply declare it as a dividend. If you did that, that would be roughly $1.50 a share for the whole year if you used it for the whole year. That would have been like an 8% yield on the stock at present. Can you revisit the efficiency of returning capital to shareholders exclusively by repurchasing stock rather than dividending it to them?

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

Well, of course the benefit of 20/20 hindsight I guess your analogy is correct -- it's $16 a share. And I guess I would candidly tell you, Patrick, a couple months ago or certainly even at the beginning of the year I wouldn't have anticipated it being at $16 a share. So had I had the benefit of that 20/20 hindsight, perhaps we would have done something differently.

As we've always said, as we -- and again, a strength of this company has been our cash flow generation. And my outlook hasn't changed. First and foremost we invest in the long-term for the business, be it in the new stores, opportunistic acquisitions, the other products and services and so forth. We have been big supporters of our stock through our share repurchase program over the year albeit more in a opportunistic venue. We have done in the past -- a couple of years ago we did the large dutch tender. Does something of that nature have merit?

The dividend concept -- and again, I know you and I have had this discussion before. Doing a one-time dividend itself obviously would be viewed differently than introducing a dividend and having it in place on a continual basis. Again, I see it in the context -- I still believe that there's better ways to deploy that cash, to enhance the long-term shareholders' return versus an ongoing dividend.

Where we go from here, again we -- in the first quarter, there wasn't much activity in the share repurchases, but we had a lot of other needs and uses for our cash flow. There was some legal settlement and things of that nature, tax payments, et cetera. Obviously this quarter, with the large cash flow generation and having the availability of that cash, we put it to work in the share repurchase program. Whether or not we'll do a one-time dividend -- and I know you've brought that up on more than one occasion and certainly when you view the stock in its current levels, you think about things differently, and you've got to look at it in the present context. And so we'll do that. But I guess you'd probably like to see that I guess is what you're--.

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

No. I definitely would not like to see a one-time dividend, because I agree with you a one-time dividend would carry no continuing benefit to it. However, a maintained dividend would in fact -- it would return efficient -- look, this is my opinion.

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

Yes.

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

I would urge you and your Board to review this issue. It would return efficiently the capital to the shareholders, and they can do what they want with it. They can turn around and buy more stock. But when -- over this last two years -- and agreed it's hindsight, but we've been talking about this for part of that two years -- a good portion of the capital that you're returning to the shareholders is in fact going as a subsidy to those who depart because they're getting the high price.

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

That's a fair statement. That's a fair statement, and I do appreciate that. Again, it gets back -- I guess the other underlying question is we look out in the future and think about our cash flow and then uses and needs and particularly as we think about the financial services and what the ramp up of that may be and how we think about the return on that investment relative to a dividend. I mean, that's one consideration that obviously we'll have to -- again, what is the best use of that cash to return shareholder value over the long-term? If it gets to a point where we've grown maybe not as big as we can but the growth is going to slow down considerably on all fronts with that cash flow generation I do agree and I think your point's a valid one that there should be some consideration on how to return that. I again, still believe that particularly as we think about these other products and services and specifically the financial services, could that cash be deployed in other areas that will garner a greater rate of return over the long run for those that are supporting the Company. And at this point, I would answer that yes. So we'll need to vent through that a little bit more here over the next several quarters as we roll these out.

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

Okay. Thank you. I just commend it to your continuing evaluation.

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

I do appreciate that. Thank you.

Operator

Your next question comes from Evan Marwell with Criterion.

Evan Marwell - *Criterion - Analyst*

A couple of quick questions. What was the CapEx in the quarter?

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

The quarterly CapEx was about $17 million.

Evan Marwell - *Criterion - Analyst*

And what was the dollar amount spent on the share buybacks? You mentioned a number of shares, but what was the dollar amount?

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

3.9 million for approximately $80 million.

Evan Marwell - *Criterion - Analyst*

Okay. Great. And then my third question is, if you had not closed the stores that you closed, what would you have seen in terms of the same store sales? And I guess what I'm just trying to understand is are we through -- by getting rid of that group of stores, are we now sort of back to a group of stores that has significantly better trends than we'd been seeing historically?

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

Evan, those stores were small revenue stores and losing money from a profitability standpoint monthly. They were losing money monthly. That's why we closed the majority of them. But they weren't necessarily the ones that were the worst of the negative comp ones. They're small stores. They were slightly worse than average, our comp might have been a tenth better without them. We've looked at some of those numbers and it might have been slightly better without them, but I wouldn't say that that's going to make a huge difference going forward. They were an underperforming source but not necessarily from a comp standpoint. A small revenue $35,000 a month store losing money. [MULTIPLE SPEAKERS] -- it was just a small revenue, so it was losing money. So I wouldn't use that as a springboard to think the comps that that by itself was going to make a material impact to the comps.

Evan Marwell - *Criterion - Analyst*

So they were closed because they were losing money, not because they were subject to particularly worse comp store sales trends than others?

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

Exactly.

Evan Marwell - *Criterion - Analyst*

Great. Then my last question is, as you think about your guidance for the fourth quarter and into next year, how are you thinking about the impact of heating oil for your customers in terms of -- we've seen the impact of gas prices but we haven't really yet seen the impact of increased fuel, winter heating costs. How did you factor that into your guidance?

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

Well, that's a great question, and certainly from our own operating cost perspective we've tried to embed where we believe that it's going to go based on everything you hear and the public documents. You hear increases 40 to 90%, some extremes, and we've taken that consideration at least in terms of our own operating costs. As it relates to the customers, we can't sit here with absolute certainty and tell you what's going to happen and how they're going to behave and what impact. We've had, again, 20/20 hindsight, we know what the impact of $3 and change fuel costs has had on our business. And to put that into perspective, that's been a 50% increase from where it was six months ago or nine months ago. And of course nearly a 100% increase from two years ago. If utility bills go up 40 or 50%, how does that play out? Essentially we have tried to be conservative in our growth expectations. Again, the fourth quarter is seasonably one of our strongest quarters in terms of demands and ending number of units on rent. We do expect to see a lift. But I think it's fair to say we have taken a somewhat conservative approach to what that lift may ultimately end up being.

Evan Marwell - *Criterion - Analyst*

Do you have any idea in terms of sort of share of wallet for your customer base what gas represents versus what utilities represent?

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

Oh--. We've done that, Dave. Can you--?

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

No just assume the 30 -- our typical customer household income is in the $35,000 a year range, and I guess you could--.

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

They're taking home a couple thousand a month.

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

You could back in the numbers based -- using the 35,000 gross household income number.

Evan Marwell - *Criterion - Analyst*

Great.

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

If the average person is spending a couple of hundred dollars a month in gas, then the question is is what is the average monthly heating bill. And that's where you're going with it. Is it 300 which is 50% more and then what impact does that have. Those numbers I threw out I don't think probably are too far off.

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

Well, the majority of our customers are in apartments so they're not going to see some of the same heating bills that those of us in homes might be anticipating this winter in larger homes and so forth.

Evan Marwell - *Criterion - Analyst*

Okay. But you think you've taken a conservative approach to this in terms of your guidance?

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

We're certainly cognizant of it, and, yes, we've sat here and forecasted out. We've tried to assume that impact as well as all the others.

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

We haven't assumed the price is coming down any, and we also -- I think as Robert mentioned earlier, certainly have it in our guidance from our own cost standpoint of heating our own stores this winter.

Evan Marwell - *Criterion - Analyst*

Great. Thanks very much, guys.

Operator

Ladies and gentlemen, we have reached the allotted time for questions and answers. Gentlemen, are there any closing remarks?

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

Well, again, folks, as always, we appreciate your time and interest in joining us this morning. We appreciate this last quarter we've got a lot of moving parts with the restructuring, the hurricanes, and so forth. We feel very good where we are as it relates on both of those fronts, the consolidation plan and how it's moving and again, getting close to bringing that to closure, the hurricanes albeit destructive, we believe that we've come through that generally unscathed. Of course, as Mitch alluded to in his comments, we -- Wilma are still have to vet through but don't think that will have a material impact in the fourth quarter. Again, we realize we've got a lot of work to do. We feel good about where we are currently and how we're positioning ourself to go into '06 but realize again there's much work that still needs to be done, and we're focused on doing that. So again thank you for all of your time and interest. As always, we're available for any follow-up comments. Please feel free to give us a call. Thank you very much.

Operator

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