FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning. Thank you for holding. Welcome to Rent-A-Center's third quarter 2009 earnings release conference call. (Operator Instructions). 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 of IR*

Thank you, Chris. 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 were made in the third quarter. 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. 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 forecasts, frozen 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 the earnings release issued yesterday, as well as our most recent quarterly report on Form 10-Q for the quarter ended June 30, 2009. Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statements. I would now like to turn the conference call over to Mitch. Mitch?

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

Thanks, Dave. Good morning, everyone, and thanks for joining us on our third quarter earnings call. We're very pleased with our third quarter results, as our revenue came in within our guidance. Our earnings came in above our guidance through our continued focus on managing our expenses across the board. Our same-store sales number remains under pressure due to customers renting less units per rental agreement, as well as the anticipated effect of the 2007 store consolidation plan.

However, we are encouraged by the positive trend in our customer traffic as both our customer count and our deliveries per store outperform the comparable period in 2008 for each month during the quarter. In other words, traffic remains strong. As a result, as you can see in our guidance in the press release, we are forecasting improved same-store sales going forward both in the fourth quarter and on into next year. We will focus on driving more traffic by continuing to make strategic bulk purchases that create strong values for the consumer, while continuing to target our advertising and our marketing accordingly. Our customers are renting less units per agreement, so we've also heightened our focus in the area of add-ons. We've done a complete product review of our add-ons, come up with new POPs to enhance this area, put in new execution validation programs and so forth, all in an effort to turn around that metric.

Now, on the collections front, our operations team continues to execute well there. Our third quarter delinquency average was again the second lowest in five years, while our customer skips and stolens percentage of store revenue was the lowest of any third quarter in the last five years, coming in at 2.4%. Our inventory remains in good shape, with our held for rent percentage of 24.3%, or 130 basis points lower than it was a year ago. Our inventory's in much better shape coming out of the summer this year than it was last year. And speaking of inventory, as I mentioned last quarter, we continue to roll out our new inventory management tool, which will allow for a more centralized purchasing approach. It's the software and program that we expect to make us even better at having the right merchandise in the right stores at the right times. We have it in about 275 stores now and we anticipate the rollout to be completed by the end of the first quarter next year.

On financial services, we continue to make progress there as well, as we did make a little bit of profit in the quarter in that business and as you saw in the press release, we're now comfortable in moving forward in adding approximately 50 more kiosks next year. In summary, we're pleased with our customer traffic in this difficult economic environment. Our targeted marketing and advertising promotions are working well. We continue to focus on enhancing the overall customer experience. Our cost control programs, maintaining control of delinquencies, improving the managing of our inventory, all while improving our margins and increasing profitability. I would like to thank our 18,000 coworkers for a job well done and for their continued execution of our business. With that, I'll turn it over to Robert.

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

Good morning. Thank you, Mitch. I would like to spend just a few moments updating everyone on the call, on our financial highlights during the quarter. I'll then turn the call over to Mark for some closing comments. As always, I would like to mention that much of the information that I provide, whether it is historical results or forecasted results will be presented on a recurring and comparable basis. So as outlined in the press release, total revenues for the quarter were $671.3 million, down $37.5 million as compared to the third quarter last year. This decrease was primarily the result of a reduction in our same-store sales comp of 6.1% for the quarter, essentially in line with the lower side of the guidance that we previously provided and was largely the result of a decrease in the number of units per customer, as well as the average -- the anticipated revenue attrition from the restructuring plan in the fall of 2007. Despite a decline in our revenues, our operating profit margins improved quarter-over-quarter by 130 basis points, which is now the fifth consecutive quarter of improved operating margins over the respective comparable period.

These enhanced margins are primarily due to the continued positive results in our expense management initiatives. Translating into earnings, the net earnings and diluted earnings per share as adjusted were $36.8 million and $0.55 respectively, an increase of approximately 25% in both cases. Our third quarter EBITDA came in at around $81 million, a slight increase from the prior year, while the EBITDA margin increased 70 basis points in the period to 12.1%. We continue to post strong results in both actual EBITDA and margins, which ultimately translates into our strong recurring cash flow generation. In fact, our operating cash flow was approximately $88 million during the third quarter alone. And now rests at approximately $300 million year to date through September 30th. As a result, we have been able to reduce our outstanding indebtedness as follows. $117 million in the third quarter alone. $288 million of reduced indebtedness year to date. And over $542 million in reduced indebtedness in the last 24 months. Additionally, since the end of the third quarter, we have optionally prepaid a further $10 million of senior indebtedness and now rests at approximately $649 million of outstanding term debt. So as a result of the reduction in our debt level, our leverage ratio at the end of Q3 was well below two times, at 1.84. This is significantly lower than our 2.59 times leverage a year ago, or an improvement of nearly 29%. This positions us significantly below the floor on our covenant requirement of 3.25 turns within our existing senior credit facility.

At quarter end, net debt to book cap equated to 33.1%, down from 43.7 a year ago, an improvement of over 24%. These debt reduction efforts we believe have further strengthened our balance sheet and we believe we are well positioned in this continued period of economic uncertainty to manage the business for the long-term. As always, we intend to continue to utilize our cash prudently and we currently feel comfortable with where we are today in regards to our leverage, liquidity, and cash flow. In terms of guidance, we anticipate for the fourth quarter of 2009 total revenues to range between $662 million and $677 million. With same-store sales expected to decline between 3% and 5%, an improvement over the last couple quarters, as Mitch indicated. As for diluted earnings per share, we are guiding the fourth quarter to a range between $0.55 and $0.61, which at the midpoint would equate to over 23% earnings improvement to the $0.47 posted in the fourth quarter of last year.

With this release and conference call, we are now initiating our annual 2010 guidance for the first time and as such, we currently expect total revenues for 2010 to be within a range of $2.736 billion and $2.796 billion. We expect our same-store sales for 2010 to be essentially flat, a significant improvement over 2009. Overall, diluted earnings per share for 2010 is expected to be in the range of $2.30 and $2.50. In terms of EBITDA and free cash flow, the company expects EBITDA to range between $330 million and $350 million, with free cash flow expected to be in the range of between $125 million and $145 million. That's down from 2009, as we have some deferred tax liabilities turning and we'll have a higher cash tax obligation next year as compared to 2009. As always, this current guidance excludes any potential benefits associated with potential stock repurchases, changes in our outstanding indebtedness, or acquisitions or dispositions completed after the date of this press release. So with that financial update, I would now like to turn the call over to Mark.

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

Thank you, Robert, and Mitch. Good morning, everyone. Thank you for joining us today. I'll be brief, as you just heard Mitch and Robert provide a good overview of how things are going. And I will say that all in all, I am quite pleased with our overall performance and how we are positioned. As Mitch alluded to, the customer traffic remains up and ahead of previous years. We believe the convenience and flexibility of our transaction is appealing to more customers and we believe that that trend will continue. Certainly, we continue to face some pressure on top line revenue, due to consumers renting fewer units. That results in a lower monthly rate per agreement. However, we do believe we will be well positioned when consumer confidence returns, or more discretionary spending takes place, as we are now serving more customers. In the meantime, as Mitch mentioned, we continue to be aggressive with our marketing initiatives and product offerings, and believe we are well positioned to capitalize on that in the future. As Mitch also mentioned, our collections remain at historical lows, inventory is in very good shape, and our expense controls have been very strong. So again, I'm quite pleased with our overall rent-to-own performance.

Regarding the financial services, I'm quite pleased here as well. Certainly we can continue to improve the results from here, but given where we were nine months ago and the fact that we are now making some profit shows that we are executing our business model. We are experiencing positive loan growth and control of expenses, and we've done a good job of integrating it into the rent-to-own business. At the same time, we've been developing the management team and bench and as such, we believe we are in a position to begin modest growth. That said, our expectation is to open approximately 10 during the fourth quarter and then an approximately 50 next year. Of course depending on the results and growth of those stores, we may increase those numbers in future periods. But again, a nice improvement over the last several months.

And finally, given our overall performance, as Robert shared with you, we've been able to further strengthen our balance sheet. I'm comfortable with our debt levels and leverage ratios, now under two times, and again believe we are in great position to execute our business plan going forward. So all in all, a good quarter, some positive trends taking place. I appreciate all of the efforts of our coworkers as well and your support. And with that update, we would like to go ahead and open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from David Burtzlaff from Stevens. Your line is open.

David Burtzlaff - *Stephens - Analyst*

Good morning, guys, and congratulations on a great quarter here.

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

Thanks, David.

David Burtzlaff - *Stephens - Analyst*

Robert, what -- the number of agreements per customer, what is that now and compared to what it has been? You talk about them being down.

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

I'll take that, David. This is Mitch.

David Burtzlaff - *Stephens - Analyst*

Okay.

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

Not so much the number of agreements per customer. It's the number of units on each agreement. And that's why we talk about the add-on unit. It's the difference between renting the couch, but not renting the coffee and end tables. Or renting the television and not renting the game system to go with it. So it's the units per agreement that's down. Over the last year or so, the number of agreements per customer has been pretty steady. But the actual number of units on each agreement is down in that 6% range. Let me think a minute. I should translate that to a percent. In that just about 6% range, it's down as much as the, as the comp number is.

Of course, we had other, we had other loss from the attrition of the 2007 consolidation plan, but primarily -- that's the majority of it, is that unit number. Actually the customer count and the core price per unit is actually helping the comp a little bit. Let me try to summarize that a little bit for you, David. The actual pricing per unit of the core item is up a little. We've lost, we've lost a couple of percent, about 2% out of that 6% in the same-store sales is out of the attrition from the 2007 plan. And then about, between 5% and 6% negative is that unit count per agreement. So unit count per agreement's, almost all of it. A little more on the consolidation plan. Actually being made up for, offset a little bit by the fact that the price per core item on an agreement is up a little bit. I hope that made sense.

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

The other way, might add a little bit that I think will maybe give you a little more color, you've heard us talk in the past about, well, APU is what we refer to. And you've heard us in the last several quarters talk about our APU declining. And where it was at a high of over 124, so 15 months ago, maybe somewhere maybe even a little further back than that. Our APU today, the average pricing per agreement is down a little over 5% from that number. Or it's 118. I'm using round numbers here. Then that speaks to what Mitch said. It's the add-on that would have reconciled that.

David Burtzlaff - *Stephens - Analyst*

Okay, okay. So then the core rental revenue guidance for next year, I mean seems to be very little growth or more downside. Is that more because of the unit count then, or what kind of other assumptions do you have for the consumer for next year?

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

It's really kind of steady state. It's a, it's based on the way things are today. Certainly if we get that unit count back up, the units per agreement, then there would be upside to that number. If we get that 5% or 6% back in that number, but the rest of it's just based on the traffic we're seeing today and the -- it's not based on that unit, the number of units per agreement going back up to historical levels. If it does, that's the upside to the numbers, David.

David Burtzlaff - *Stephens - Analyst*

Okay.

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

It's traffic, not price driven.

David Burtzlaff - *Stephens - Analyst*

Okay, and then on the expense side, it appears you get some more deleveraging on the flat comp. Are you kind of limited in your cost cutting, or additional cost cutting for next year?

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

Yes, David, this is Robert. I think the way I would summarize overall we've been successful the last couple quarters as we indicated in our results from some pretty good success on managing our costs. We expect that run rate to continue. However, there is inflationary expectations that we have in our numbers. One example is gasoline prices. We've got gasoline expected on average next year to be up 15% over the average for 2009. Now, obviously, there's some seasonality combined in there, but overall, some inflationary expectations across all of our expenses, even though that's from the run rate where we are today and then with the kind of flat to slightly up revenue expectation, that's where the earnings guidance kind of comes in line with where we are today, what 2009 results will be.

David Burtzlaff - *Stephens - Analyst*

Okay, and then lastly on the same-store sales, assume that in the back half of the year, you turn positive?

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

Yes, I think that's, I think that's the right assumption because when you look at the fourth quarter negative 3% to negative 5%. So if you use the average of that, negative 4%, and our internal model coming out flat for next year, it's not flat from day one. So it's obviously -- doesn't go from negative 3% to negative 5% in the fourth quarter to flat in the first quarter. It trends upwards throughout the year, so if it's ending flat, yes, the -- somewhere midyear third and fourth quarter are positive.

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

Starting out the first quarter -- the last two quarters it's been down 6%. Fourth quarter, we're estimating down 3% to 5% or call it 4%. That trend will continue through next year and we expect it to be down 1% to 2% in the first couple quarters and then positive 1% to 2% in the back half. That would equate to an overall comp of flattish for the year.

David Burtzlaff - *Stephens - Analyst*

Okay. Thank you very much.

Operator

And next question comes from Bud Bugatch from Raymond James. Your line is open.

Bud Bugatch - *Raymond James - Analyst*

Good morning. I want to add my congratulations on the execution below the revenue line and balance sheet and cash flow. It is the revenue line that has me most confused, particularly in --

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

Having a hard time hearing you, Bud. Can you speak up a little bit?

Bud Bugatch - *Raymond James - Analyst*

Can you hear me now?

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

That's a little better. Thank you.

Bud Bugatch - *Raymond James - Analyst*

Okay. Congratulations on the execution. Certainly below the revenue line and I just want to kind of -- but I do want to dwell a little bit on the revenue line because I am a bit confused, particularly as you look at this in light of the only public comparable that we're able to look at. Can you kind of -- maybe quantify for us a little bit more specifically what you think is the key drivers of that difference, particularly we've seen some deflation in at least referenced in electronics as well. So when you said you had inflation, that was kind of confusing as well.

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

Let me start with that one, Bud. As far as comparing our numbers, I guess the only thing I would say, as we pointed out before, is the difference in the age of the stores is much different in their lifecycles of what the same-store sales would be. Not taking anything away from our competition, they have done a nice job from a top line standpoint, but the age of the stores is the biggest difference between the two companies. And then more specifically about us, the -- yes, there is deflation on the electronics side. We primarily, Bud, have handled that through reducing term and not rate.

Bud Bugatch - *Raymond James - Analyst*

I understand.

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

So something that used to run for two years maybe now is 18 months, so we have not lost -- we have not had the deflation in our core averages on electronics because we've handled it through the term and not the rate. Where all of our drop has been besides the anticipated effects of the consolidation plan of 2007, all the rest of the drop has been in a drastic drop-off over the last year in the add-on units. Things like games going with TVs, coffee and end tables going with living rooms, even mattresses not going out with as many bedrooms as they used to, things like that.

Bud Bugatch - *Raymond James - Analyst*

So when you look at it--

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

You might consider some of those discretionary items to some extent and people are less inclined to get them today.

Bud Bugatch - *Raymond James - Analyst*

So when you look at going forward, I think you said that traffic was up on the order of about 200 basis points, but then you had the drag of the average AAPU and the consolidation impact, if I understood the components, at least I heard on the previous question.

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

Correct.

Bud Bugatch - *Raymond James - Analyst*

Did I get that right?

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

Yes.

Bud Bugatch - *Raymond James - Analyst*

And how about going forward, if you look at Q4, what are your estimates on those different parcels, and how does it play out into the first quarter of next year and through the balance of next year?

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

Well, we have, we have assumptions based on the traffic we're seeing today. We have very little assumption in there for getting all the unit for agreement, that 5% or 6% back on the add-on units. We have little very of an assumption figured on getting those back. If we get that 5% to 6% back over the next year and traffic stays where it is today, that it would be real strong numbers. That's all I could say.

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

And I think the best way to think about the 3% to 5% comp guidance relative to the last couple of quarters and the impact of the consolidation plan, we expect that negative drag on the comp relative to the consolidation plan to have less and less of an impact going forward. So if it costs us 2% in the third quarter, we're expecting it to cost us less than that in the fourth quarter. And that's playing into that guidance of 3% to 5%.

Bud Bugatch - *Raymond James - Analyst*

I see. And the consolidation plan for next year is how many stores?

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

Immaterial amount. Might be 20. It will be historical averages.

Bud Bugatch - *Raymond James - Analyst*

I've got you. Could you give us a little bit of some additional color on financial services and what the improvement was in that particular sub segment this quarter?

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

Well, the loan portfolio's growing. We've done a good job of expenses there as well, cutting out that run rate earlier in the year, at the end of last year, about $1 million a month. It's been growing the loan portfolio and reducing the expenses. The losses, Robert, in the quarter were, what, about 21%?

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

21%.

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

Yes, 21% for the quarter. So overall, though we've always, probably always will say we've got more work to do there, we're pretty pleased with the results.

Bud Bugatch - *Raymond James - Analyst*

Was it profitable?

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

I think it's -- yes, Bud, for the quarter, it was profitable and I think what's important to highlight here for everyone's understanding is as we indicated earlier in the year, we were losing about $1 million a month in that business, call it $12 million over a 12-month period. And now we're expecting through all of 2009 to basically break even. We had some drag in the first couple quarters. That's going to be offset by the positive contributions in the third and fourth quarter. So breakeven for the year. So we picked up $0.12 roughly in earnings in 2009 compared to last year.

Well, when you think about going forward to 2010 to duplicate a 12% improvement in that business, over time we can get there, but that's not how we're forecasting the business at this point in time. And there will be a couple of cent drag in earnings next year in that business relative to the new stores we're planning to open. So we've made great improvement and that's showing in the overall numbers, but 12% -- $0.12 acceleration in 2010, we're forecasting a little bit more modest growth as opposed to acceleration on the top line in that business.

Bud Bugatch - *Raymond James - Analyst*

And how should we think about the returns on capital in that sub segment?

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

We've always forecasted the business that ultimately if we were able to achieve a top line of roughly $20,000 a month in revenue, we would end up with 40% flow-through. The overall returns are better than a new RTO store, but that's because you're leveraging a lot of cost from an occupancy standpoint and so forth. So 40% -- 30% to 40% flow through on $20,000 a month in revenue is the way we would model it longer term. And the fact that we're making money now with the cost basis of roughly $10,000 to $12,000 indicates that we're right around $13,000 a month in revenue. So to the extent we're able to accelerate that up to $20,000 a month, we would be able to achieve those kind of flow-through numbers.

Bud Bugatch - *Raymond James - Analyst*

My last question is regarding the deferred tax issue that's been mandated through I think this year. What's the status of that legislatively? What's the impact on you next year if that's not extended?

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

Well, as you may have heard in our opening comments, our free cash flow expectation next year is $125 million to $145 million. That's down pretty dramatically from 2009, primarily due to us having a turn in our cash tax obligation of about $100 million. We are going to be a $60 million cash taxpayer in 2009. Next year we're forecasting $170 million cash tax obligation. And so our free cash flow will be negatively impacted in 2010, but $125 million to $145 million of free cash next year gives us a significant amount of room to manage the business and meet our mandatory debt obligations. And that impact kind of wanes pretty dramatically in 2011 and going forward. That's kind of the bulk of it's hitting in 2010.

Bud Bugatch - *Raymond James - Analyst*

Thank you very much, and congratulations, and good luck for the balance of the year.

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

Thanks, Bud.

Operator

Your next question comes from Arvind Bhatia from Sterne Agee. Your line is open.

Arvind Bhatia - *Sterne Agee - Analyst*

Thank you, good morning.

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

Good morning, Arvind.

Arvind Bhatia - *Sterne Agee - Analyst*

I want to make sure I understand this correctly. I know people have asked this in different ways, but just as you bridge the gap on same-store sales from the negative 5% to getting to flat numbers, so what you're saying is the units, you're still assuming a negative impact of something like minus 5%, and you will get a positive benefit of traffic, which would be, what, 1% or 2%, and then you would get some benefit on the ASPs, and so that's one part. And then the consolidation of stores, you will not have the negative impact, so you'll pick up, say, a couple of percent there. And then financial services would be, what, 0.5% or so? Just trying to see if those are the main building blocks for us to get to the flat comps.

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

Sounds pretty close.

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

You're right on target with that, Arvind.

Arvind Bhatia - *Sterne Agee - Analyst*

Okay, fair enough. And just on the regulatory front I just want to see if there's anything you can comment on what's going on out there, any kind of update you can provide us.

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

In terms of -- well, the rent-to-own, of course I think everyone knows that there is a bill that has been introduced in both the House and the Senate that the industry favor and support. Not a lot of activity on that bill right now in light of the other things that are being worked on, which is specifically the Consumer Financial Protection Act, the CFPA. And as it relates to that, again, I think everyone knows that continues to get a lot of work and talk, attention, and then that was a by-product of the credit crisis and all that went on and how do they bring more transparency and control authority around that, if you will. As it sits today, as we look first of all at that CFPA in its current format, knowing that it has moved a couple of times already, but as we sit here today on its face, it does not appear that we are affected or covered by that bill.

At the same time, we recognize that the Act gives the regulators unprecedented authority, if you will, to interpret or make rules under that Act. So as you might suspect, we and many other industries are looking to clarify how that would treat us and so that's kind of where we are as it relates to that, but again, on its face, we don't believe that we would fall under that definition as it exists today. In terms of that RTO legislation that's been introduced, again, that we support, as I said, there's an awful lot of support in both the House and Senate. I believe the House is around 110, give or take, and the Senate is in the neighborhood of 15 co-sponsors, but again, I can't tell you at this point where that may go any time in the near future. But nonetheless, there is a lot of support and is being worked on and very well could be introduced. The financial services, there's not a lot going on, other than, again, how that might end up falling under the CFPA. And that one, by definition is more likely than not is going to.

Now, what does all of that mean and how does that play out beyond that? I can't, I can't tell you at this point because none of those final decisions or clarity has been made, but on its face, that one does appear as if it would fall underneath the scope of the regulators. So outside of that really things are pretty good and favorable.

Arvind Bhatia - *Sterne Agee - Analyst*

And one final question, I want to go back to the units and rent question. Is there any difference in the categories when you talk about units of rent declining, is furniture more affected than electronics? Is there any kind of trend to read there?

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

Yes, the largest effect has been in furniture. The add-on products in furniture whether it be coffee and end tables, lamps or mattresses, more so than the electronics -- all of our add-ons are down, but it is skewed higher towards furniture than the other categories, Arvind.

Arvind Bhatia - *Sterne Agee - Analyst*

Sorry, one more, I just remembered, Texas, is there any impact that you are seeing in the Texas markets overall in your business? And I say that because one of the companies, not particularly in your space, but related had indicated some pressure in their business because of pressure in the Texas economy. I wonder if there is anything to read there.

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

No, we have not seen that.

Arvind Bhatia - *Sterne Agee - Analyst*

Great. Thank you, guys.

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

If you look at our losses and delinquencies, what we just reported, the lowest in 5 years, that's really throughout the organization. So I wouldn't point to anything here.

Arvind Bhatia - *Sterne Agee - Analyst*

Great, thank you.

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

Thanks, Arvind.

Operator

Your next question comes from the line of Ike Burochow from Cowen. Your line is open.

Ike Burochow - *Cowen - Analyst*

Hi, good morning, guys. I'm calling in for Laura this morning. Wanted to talk about the comp. The units per agreement down 5% to 6% this quarter. Can you talk about the trend of that, that's had throughout this fiscal year, meaning what was that number in Q1 and Q2?

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

Yes, keep in mind when we talk about being 5% to 6%, we're talking about the same-store sales comparison, so really that's accumulated over the year, right, because we're comparing that to a year ago. So the 5% to 6% has been over the year. I would say it's trended, it's -- the last quarter -- we haven't stemmed the tide. It's been consistently dropping on the add-ons.

As I mentioned in my prepared comments, we're working on a lot of things to try to stem that tide and new point of purchase materials, some different pricing and so forth to incent more add-ons and -- but it's been -- it's trended pretty consistently down over the last year. The last -- towards the end of the third quarter really put a big focus on it, looked at some pricing. As I mentioned, and we do see numbers over the last couple of weeks that say we're stemming the tide. It's a little too early to jump up and down yet, but we do feel like some of our initiatives, they certainly look like they are going to work. And if that works, a year from now we're talking about the fact we got that 5% to 6% back, then as I mentioned earlier, that's the upside in the numbers.

Ike Burochow - *Cowen - Analyst*

Right, and then your guidance for next year and your flat comp outlook, I'm assuming that that's baking in the units per agreement staying down in the mid single-digit range, is that correct?

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

Right, offset by the traffic we're seeing and the elimination or the impact of the consolidation plan you've had.

Ike Burochow - *Cowen - Analyst*

Right. And on the financial services, just want to make sure I heard you correctly that you think you'll be basically break-even for fiscal year '09.

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

That's correct.

Ike Burochow - *Cowen - Analyst*

And did I hear that you think in fiscal year '10, that that's going to turn back dilutive?

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

No, no, no. Let me clarify that. We're going to make money in 2010, but the overall business and financial services will be negatively impacted from the 50 stores we plan to open next year. There will be a new store drag. If we're at 350 stores a day and we end up with 400 stores at the end of next year overall we're going to have made money in those 400 stores, but not as much as we would have had we not opened the 50 stores due to the new store drag.

Ike Burochow - *Cowen - Analyst*

I've got it. And last question, in you $125 million to $145 million of free cash flow guidance for next year, can you give us a CapEx number to go with that?

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

Yes, we're anticipating CapEx roughly around $75 million next year.

Ike Burochow - *Cowen - Analyst*

$75 million. Okay, thanks a lot, guys. Good work.

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

Thank you.

Operator

Your next question comes from Mike Smith from Kansas City Capital. Your line is open.

Mike Smith - *Kansas City Capital - Analyst*

Good morning.

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

Hi, Mike.

Mike Smith - *Kansas City Capital - Analyst*

I wonder if we could take a longer term picture, talk about, let's say beyond 2010. Where do you see this coming going and how -- do you have any other growth initiatives that you can put in place?

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

Well, there's several things that we're working on, even as we speak, Mike. I guess the first one I would point to is the financial service business, and albeit one that we've struggled some with up to this point, always believe that there was an opportunity there and that if we could get the model right, that we could scale it. We're in a position to make that effort again and hence we're going to start to open those and again we'll see how we do with this round. I do think that -- still believe that that's a business that creates an opportunity for us, there's a need there, there's value for it and that we will be able to make it work. And so that is certainly one that we're pushing quite a bit. I don't -- I think most of we have talked about Home Choice Get It Now, our retail model that we use in Minnesota and Wisconsin, a hybrid model due to the lack of legislation in those states, continuing to get some learning out of there.

We are testing that format outside of those two states. I think we discuss that last time. Still too early into it to say conclusive how that may play out, but that's an example of, again, thinking about other services or businesses that we may be able to introduce and leverage or core infrastructure and strengths. So -- there's a couple of others along that line and maybe for different reasons that we're not going to go too much into, but suffice it to say that we are looking at other things also that hopefully could create opportunities for us in a bigger way in the future as well.

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

Yes, Mike, the retail business, as Mark said, we're virtually forced into a buy here/pay here model in some states and it's worked well. We're trying it in the rent-to-own state of Illinois now to see how it works, where there is rent-to-own competition. As Mark said, it's too early to tell, but that's an interesting initiative to say the least, as far as what the potential of that could be, if we can pick up a different customer in those stores and what that can mean to us to spread those nationally. So too early to tell there, but that's certainly an initiative. As Mark mentioned, we got a few others that are in the early stages and not really things we talk about. But international, certainly international expansion is another one that we have talked about in the past, as far as more square footage in the rent-to-own concept because we're, we're going to -- we're at about 3000 stores now. You've probably heard us say that 3400 store range being the top for the US, but then international expansion adds square footage there. The biggest one's, financial services, the retail initiative, international initiatives and so forth and a few others we're working on that are a little too early to talk about.

Mike Smith - *Kansas City Capital - Analyst*

Your cash flow next year, I think you indicated was going to be $125 million to $145 million after CapEx?

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

Correct.

Mike Smith - *Kansas City Capital - Analyst*

And that's going to be $70 million--

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

$75 million. So--

Mike Smith - *Kansas City Capital - Analyst*

After tax, right?

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

Right. So operating cash flow would be in the $200 million to $220 million range, whereas this year we're at $300 million through nine months. Again, a large Delta, or change between where we are this year and next year is over $100 million more in cash taxes that we'll pay in 2010 compared to this year.

Mike Smith - *Kansas City Capital - Analyst*

On a go-forward basis, once you get beyond 2010, do you have -- what kind of attitude do you have towards dividends?

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

Well we obviously chosen not to do those in the past or at this point, always believing that we could invest that money in other ways to get a greater return for the shareholders and whether that was opportunistic acquisitions, new businesses, i.e. financial services, obviously we've done share repurchases. I think as everyone knows. I wouldn't say it's off the table, but as we sit here today, it's not on the table.

I guess I would have to say, but a year and a half from now, we'll have a better sense for the core business, the financial services, the retail model. And then you just really have to kind of take it into consideration with everything else and what makes the most sense both near and long-term, right? And so I can't tell you you would never do it, but as we sit here today, we're not ready to do it.

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

In the past when we've looked at that, we've certainly gone the route of stock purchases rather than the dividend. Obviously in the last 18 months or so, we focus more on eliminating the debt with the debt markets being what they are. But as we get down to the levels we are now and get more -- a clearer picture there, certainly stock repurchases may come back into play that's always been our, that's been our first choice over dividends for probably some obvious reasons, it's more flexible and so forth, really provides better shareholder return in our calculation.

Mike Smith - *Kansas City Capital - Analyst*

Now that you're expanding the Advantage thing, I wonder if you could refresh us with what the economics are on a per store basis.

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

You're referring to financial services and so high level, the way we model the business, you're talking about a $50,000 roughly CapEx going into it from a technology standpoint, kiosks and so forth and signage. Ramping it up over the course of about 18-month period of doing 300 loans at maturity, which we model around 18 to 24 months, 300 loans per location at an average face value of $300 per loan, $15 per hundred, just kind of the rate on average across the states.

That, along with other fees translates into roughly $18,000 to $21,000 the month in revenue, you have some costs from labor standpoints and depreciations, some advertising, roughly $8,000 a month to $10,000 depending on location, and that off of the $18,000 to $20,000 in revenue gets you to 40 %to 50% flow-through. So that's kind of the way we've modeled it. We're not there yet. Where we are in terms of our existing stores, but we're making progress in that direction and we like the progress we're making and feel comfortable expanding from where we are today.

Mike Smith - *Kansas City Capital - Analyst*

Thank you.

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

Thanks, Mike.

Operator

Your next question comes from John Baugh from Stifel. Your line is open.

John Baugh - *Stifel Nicolaus - Analyst*

Good morning. Nice expense control line, guys. Three questions. First, on the CFPA, you made the comment that it doesn't appear you're included. Is that based, Mark, on the 90 day or less transaction verbiage that's in there or something else?

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

John, could you repeat your question? You broke up a little bit.

John Baugh - *Stifel Nicolaus - Analyst*

Okay. My first question's on CFPA and your comment that it does not appear that we're included in that. I was curious, is that because of the verbiage in the draft that's come out that says transactions less than 90 days, and if you could relate that comment both to the payday lending as well as rent-to-own.

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

Well, that is the first thing you would point to, absolutely and the current draft, a lease with a term more than 90 days falls in. Less than would be excluded. I think everybody knows, these are cancelable leases with no minimum obligation and in effect can be terminated after one week. And so that is the first thing that we look to and there's others, but that would certainly be the first and most significant one. You said how does that apply to the financial services? I'm not sure I understand your question there.

John Baugh - *Stifel Nicolaus - Analyst*

Well, I'm wondering, is there language in there that speaks specifically to a loan, which is what a payday loan is versus the rent-to-own, which is a lease.

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

Yes, that's exactly right. It's -- how do you define credit? And the loan, it falls under that definition the way it's described. And the rent-to-own, with a lease term less than 90 days falls outside.

John Baugh - *Stifel Nicolaus - Analyst*

Okay, and then hope this doesn't happen, but if, say tomorrow, you had to shut down financial services, what rough financial impact would that have in terms of, I guess, a write-off? Sounds like you're breaking even more or less, so there wouldn't be an ongoing P&L impact. But would it be sort of that $50,000 number times the 350 stores you have?

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

Yes. A little less than that. Obviously that CapEx going in, there's been some depreciation posted against it the last few years, so it would be less than that. But essentially, yes, we're breaking even. It would be more the write-off of the fixed assets than anything else. We would collect on the outstanding loan balance out there and feel like they would be able to break even on that. But it's a small impact in the overall scheme of things, bottom line.

John Baugh - *Stifel Nicolaus - Analyst*

Okay, and then last question, any material change in the number or positioning of regional end or district managers? Is that part of the expense control going on here? I would assume with a smaller store count, you've got to adjust there as well.

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

Well, from the consolidation plan in 2007, we reduced some head count there in middle management, John, but not since then. So, no, that's not really part of the expense initiatives this year. Again, when we close the 300 stores, roughly 300 stores in '07, we had some head count drop there, but not since then, no. It's been other items not taken out any middle management.

John Baugh - *Stifel Nicolaus - Analyst*

Would you just give us two or three of the top examples of the expenses and where you are getting headway.

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

This year it's really across the board. Losses is number one as far as where the improvement's been. Labor and managing overtime has been another one. Fuel, being lower than last year would -- comes to mind. Supplies with our e-procurement program, where supplies are purchased through the home office, through a home office program versus walking next door to Staples like we did a few years ago. Nothing against Staples, they are actually a vendor we get our products from, but it's through a nationally negotiated program versus just walking next door and paying retail. And lot of controls through that centralized purchasing approach of supply. So those are the three or four that come to mind first. Robert, anything else?

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

Yes, and just a little clarity on the gasoline comment. Albeit Mitch is right, in that there's been -- gas prices are down, but I think we've mentioned this on a call or two ago, that we took the initiative late last year to change our fleet by, instead of having two cube trucks were store, we went to one cube truck and one van, which is more economical, less maintenance costs, and so forth. That was completed in the first quarter of this year. And so albeit Mitch's comment about delivery costs or gas being down is not just the fact that the retail price at the pump is lower. It's also impacted by us being more efficient with our vehicles that we outfitted our fleet with and the lower maintenance costs associated with that.

John Baugh - *Stifel Nicolaus - Analyst*

Right. Thank you for that color.

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

Thanks, John.

Operator

(Operator Instructions). Your next question comes from Bill Baldwin from Baldwin Anthony Securities. Your line is open.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Good morning, gentlemen.

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

Good morning, Bill.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Most of my questions have been asked, but Robert, if you would, just remind me what your mandatory payments are in 2010 on the debt obligations.

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

Yes, as in our current agreement, we've had minimal obligations up to this point, but in 2010, they do start to ramp up a little bit. They are around $92 million of mandatory obligations in 2010 and obviously with our free cash of $125 million to $145 million, we've got quite a bit of room between that number and our free cash flow forecast, as well as we've got a $400 million revolver that has about 275, 230 of capacity when you eliminate the letters of credit that are posted against that revolver. So as we sit here today, that is the outlook or the, the mandatory debt requirements in 2010.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Robert, is there any additional deferred tax payments that you make in 2010?

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

Yes.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

You already alluded to that.

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

That's okay.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

No, you've already talked about that. I've got that down here. And then what happens in 2011 on the debt principle repayments and any further deferred tax payments required?

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

Yes, in 2011, that $92 million of mandatory obligations ramps up to $239 million, $240 million. And as we sit here today feel like we need to be thinking about at some point looking at a refinancing. But we haven't gone to market yet and so want to just make sure that as we think about our cash flow going forward, 2011 is more of a year that would concern us than 2010. The impact of cash taxes in 2011 is about $55 million less than 2010, so our cash taxes will go down from $170 million in 2010 to $115 million in 2011, which then provides more cash to manage some of that amortization in 2011. I will tell you, as you think about the $240 million in 2011 of mandatory debt payments, it's heavily back end loaded. The last two quarters of 2011, and so as we think about the next 24 months, we're very comfortable with where we are between now and kind of the first half of 2011 in terms of cash flow relative to debt requirements.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Plus your talk of free cash flow this year of $125 million, assuming everything's flat, you had--

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

Our cash flow next year and '11 combined are about the equivalent of the payments in '10 and '11 also, pretty close with what we have this year yet.

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

Free cash flow is here, $125 million to $145 million, Robert, then you put deferred taxes down $55 million for '11, so you're $180 million to $200 million in '11. $125 million to $145 million this year. $180 million to $200 million, '11.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Then the extra capacity on your revolver if you need it.

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

Right.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

If worst comes to worst, you really could get by without a financing.

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

We're in pretty good shape certainly as we sit here today. We're in full cognizant of it. We're looking long-term and looking at all of our options, but the fact is we don't have to do anything today.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

If the window opens, obviously you guys will go through it.

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

That's right.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Okay. That's helpful. Thank you very much.

Operator

There are no further questions at this time, so I would like to turn the call back over to Mr. Mark Speese.

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

Folks. Thank you very much for joining us today. As always, we appreciate your support and interest. Again, we're pleased with how we performed in the third quarter and how we're positioned in the fourth. I believe there's still some opportunities obviously for us to work on, but think we've got some pretty good initiatives in place. So we look forward to reporting back to you next quarter. Thanks again. Have a great day.

Operator

This concludes today's conference call. You may now disconnect.