FINAL TRANSCRIPT

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RCII - Q3 2004 Rent-A-Center Earnings Conference Call

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OVERVIEW

RCII reported 3Q04 total revenues of $570m, up 3.6% or $19.8m YoverY. New and acquired store revenues were offset by a decrease in same store sales of 5.5%. Diluted EPS totaled $0.47, down 17.5% YoverY. In 4Q04 RCII expects total revenues to be $583-588m with diluted EPS of $0.55-0.57. Total FY05 revenues of $2.4-2.43b are expected with same store sales flat to down 2%. FY05 Diluted EPS should total $2.30-2.40. Q&A Focus: cash flow, testing, same store comps, and competition.

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Mitch Fadel
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Mark Speese
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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Welcome to Rent-A-Center's third quarter 2004 earnings release conference call. At this time all participants are in a listen-only mode. Following today's presentation, we will conduct a question-and-answer session. If you have a question, you will need to press star 1 on your push button phone. As a reminder this conference is being recorded today, Tuesday, October 26, 2004. Your speakers today are Mr. Mark Speese, Chairman and Chief Executive Officer of Rent-A-Center, Mr. Mitch Fadel, President and Chief Operating Officer, Mr. Robert Davis, Chief Financial Officer, and Mr. David Carpenter, Director of Investor Relations. I would now like to turn the conference over to Mr. Carpenter. Please go ahead, sir.

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

Thank you, Jamie. Good morning everyone and thank you for joining us. You should have received a copy of the earnings release distributed after the market close yesterday that outlines our operational and financial results that we made in the third quarter of 2004. If for some reason you didn't 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 and revenues, earnings, operating margins, cash flow and profitability and other business or trend information are forward-looking statements. These matters are, of course, subject to many factors that could cause actual results to differ materially from our expectations reflected in the forward-looking statements. These factors are described in our most recent annual report form 10-K/A, for year ended December 31, 2003. And our quarterly report form 10-Q/A for the 3 months ended March 31, 2004 and our quarterly report form 10-Q for the 6 month period ending June 30, 2004, as filed with the SEC. 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 Robert. Robert?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

Thank you and good morning. Thanks David. I'd like to spend a few moments on certain detailed, financial data, pertaining to our income statement, balance sheet and cash-flow statement, as well as our guidance and expectations before I turn the call over to Mitch for an update on operations. I'd like to mention that much of the information, whether it is historical results or forecasted results will be presented on a recurring and comparable basis. Which will exclude the impact of the litigation settlement, as well as the write-off of financing fees in both 2003 and 2004 as a result of our recapitalizations in both years.

As it relates to the income statement total revenues increased during the third quarter of 2004 by 19.8 million to roughly 570 million or a 3.6% increase when compared to the third quarter of 2003. As mentioned in the press release, this revenue growth was primarily the result of revenues generated from new and acquired stores offset by the decrease in same store sales of 5.5% during the third quarter of this year. As it relates to the growth in our store base for the third quarter we opened 22 new locations, acquired 3 stores and had account buys from 11 additional locations. While consolidating 11 stores into existing store base. For the last 12-month period ending on September 30, 2004, we've added approximately 10% to our store base, through new store openings and acquisitions.

Diluted earnings per share declined 17.5% from the prior year of 47 cents. As we talked about in the past, our business model is such as there is significant flow-through as you grow your revenue stream due to the fixed costs inherent in the model. Conversely the impact of declining same-store sales has a negative impact to earnings as well. Which is what is reflected in our current earnings release. EBITDA for the quarter totaled 86.6 million, for a margin of 15.2%. And for the last 12 months EBITDA totaled approximately 402 million in a margin of roughly 17.6%.

As it relates to our balance sheet and cash flows, from a cash flow perspective the Company generated 84.4 million in operating cash during the quarter and a total of over 284 million for the first 9 months of the year. While ending the quarter with approximately 65 million in cash on hand. Since the beginning of the year, with nearly 144 million in cash on hand, the Company has since utilized approximately 53 million in CapEx, almost 159 million in the acquisitions of stores and accounts and nearly 170 million in stock repurchases through September 30, 2004.

At quarter end our consolidated leverage ratio was 1.67 times. Meanwhile our interest coverage ratio increased or improved approximately 10.5 times for the period ended September 30. Debt to book cap at the end of the quarter improved by 50 basis points from the prior year ago period by declining to approximately 47.3%.

Our current outstanding indebtedness is as follows: Just over 699 million, broken out between 300 million in 7.5% senior subordinated notes and just over 399 million in senior term debt. Our capital structure continues to remain a strong point of the Company and we believe that this allows us the flexibility to continue to be opportunistic in managing the enterprise.

In terms of guidance, we anticipate for the fourth quarter of 2004, total revenues to be in the range of 583 million and 588 million and diluted EPS to be between 55 cents and 57 cents. For the fiscal year ending December 31, 2005, we expect total revenues to be in the range of 2.4 billion and 2.43 billion as outlined in the press release an increase from 2004 of roughly 4% to 5%. With an expectation that same-store sales will range from being flat to down 2%. We expect diluted earnings per share to be in the range of 2.30 to 2.40 next year. So this guidance reflects an increase from 2004 in a range of roughly 1% to just over 5%. This forecast does include the benefits associated with the acquisitions of Rainbow and Rent Rite closed in May of this year. However, our outlook for same-store sales are offsetting much of the benefit, as well as the normal inflationary impact on our cost structure.

Furthermore, our guidance does include the negative impact of roughly 100 new store openings in 2005. But does exclude, any benefit associated with additional stock repurchases or acquisitions completed after the day of the press release. For 2005 we anticipate an EBITDA margin between 15.5% and 17% an improvement from the quarter just ended and an operating cash flow assumption ranging between 170 million and 180 million. Now this cash flow assumption is largely the result of an increase in our cash tax obligation in 2005 related to the reversal of our deferred tax liabilities associated with the tax initiatives that President Bush signed into law in 2002 and 2003 which was previously disclosed in the liquidity sections of our 10K's and 10Q's. We are diligently working to positively impact our same store sales. And now I'd like to turn the call over to Mitch to update you on our operation’s initiatives.

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

Thanks a lot, Robert. Good morning, everyone. We are attacking the same-store growth problems in a variety of ways. As we noted in the press release, we are implementing new marketing and advertising initiatives based on what we learned in test and earlier testing. Now, this isn't an increase in spending, it is rather a tweak in how we spend it and how we execute our advertising dollars. We are also using the same type of multi variable testing to test some operational variables in the hopes of improving our store operations and finding things to help drive those comps. And that testing in going on in the forth quarter on the operational side. Now for competitive reasons we're not going to get into the details on the things that we're implementing on the advertising side or the things that are being tested on the operational side. But we believe these new initiatives will go a long way in turning our accounts back into positive territory.

The 2 state price tests continues and the fourth quarter will be a good indicator of that additional test. Again our key metric on this is not necessarily whether we can grow our customer base, it's whether we can grow it profitably. For this test to work, we have to grow our customer base enough to make up for our lower margin pricing format. Again in 2 states about 5% of our stores started this past summer. And as I said the fourth quarter will be a good indicator of that additional test and we'll just keep you posted on that one.

Additionally we'll be running a pilot program with Dell this fall where we'll be getting some of their credit turn-downs and trying to convert them into rental contracts. We'll potentially also be testing this with another large PC manufacturer this fall. And we also are continuing our evaluated additional traffic generating thoughts and opportunities similar to those in some other avenues. Now those are just some of the highlights of the initiatives we have going on to turn these comp numbers back into positive territory. And let me assure you we're aggressively attacking this issue and our team is working tirelessly on it.

Our new store growth plan continues and remains a solid part of our performance as they continue to run slightly ahead of our internal model. As stated in the press release, we will continue pursuing our long-term strategic initiative of increasing our store base 5% to 10% per year as well as continuing to pursue competitor account buys. The summary on our growth story is our acquisition and de novo opening growth levers remain a strength of this Company. And as I stated earlier we're working very aggressively to fix the mature store growth at issue.

A couple of last points: On the collections front, those results remain consistent. In fact our third quarter delinquency numbers trended slightly better than last summer. And lastly as I'm sure most of you realize we normally see an uptick in our business in the fourth quarter. And I'm pleased to say that here in the first few weeks of October we are seeing that expected seasonal lift. Now with that, I'll turn it over to Mark.

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

Thank you, Mitch and Robert as well, good morning, everyone. As Mitch just mentioned the Company is working on several initiatives to drive business as well as identifying areas to improve the business. Now while we remain positive about our business model and the long-term prospects, the fact is that we have ground to make up. While we're seeing the expected increase in demand for this time of year as Robert shared with you, because of the fixed cost nature of our business, the negative comps we experienced this year will have an impact on earnings growth through next year. The negative comps as Robert mentioned have eaten up much of the incremental revenue from the new stores and acquisitions. Having said that, we continue to generate industry leading EBITDA margins and strong cash flows.

With regards to the announced prospective settlement of the Griego litigation, let me remind you this was a case that was filed in January of 2002 in California, challenging certain of the Company's business practices and certified as a class in December of 2003. The Company reached a prospective settlement over this weekend, with the plaintiff's counsel, subject to the parties entering into a definitive settlement agreement and obtaining court approval.

Now this settlement, $37.5 million in cash, a possible reversion of up to $8 million, 2 weeks' free rent on a new rental agreement plus legal and administrative fees would cover the class period from February of 1999 through October of 2004. And while this is a very large sum of money, the Company is not admitting liability for its past business practices in California. Given the uncertainty of litigation, we view this settlement in the company's best interests. We do anticipate entering into the definitive settlement agreement in the near future and obtaining court approval shortly thereafter. At which time the settlement would be funded. As we have said before, we believe that the business model and the long-term prospects remain positive. The rent-to-own is an exciting business with plenty of growth opportunities and that this is a short-term situation that we will grow out of.

We continue to invest in and for the future, be it in information technology, training and development or back office support, et cetera. As Mitch mentioned, the entire management team is focused on this. I appreciate the hard work and commitment of all 16,000-plus co-workers and your support as well. With that we would now like to open the call up for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. [Caller instructions.] Your first question comes from Arvind Bhatia from Southwest Securities.

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

Good morning, guys. My first question is on same-store sales. Is it possible to break it down between the different causes for the decline in same-store sales? Could you say, you know, half of that is coming from pressure on, you know, consumers because of higher fuel prices? Maybe half is coming from your own, what you call, self-cannibalization as you open new stores around existing stores? And I don't know if you can quantify how much competitive issues, you know, how much competition you might be facing from people like Aaron-Rents? If you can break down the same-sale stores to the best possible that would be great.

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

Well, let me take a shot at that, Arvind. We can't give you definitive numbers on things like how much the gas prices are affecting the demand of our customers. We can tell you that when we look at our planned cannibalization, that that's in the - - it is similar to what we commented in the past last quarter in the neighborhood of affecting our same-store sales by 1%. And that's going to continue, like I said, it is planned. It is a matter of filling in these markets, it is affecting us by1%. As we look at - - We're still doing some work on it. What we did so far on like stores that have a competitor, don't have a competitor, who the competitors are, and those kind of things, we have done some work on that. It is ongoing. But honestly so far we see very slight differences between the stores that have competition and the ones that don't. Not - - it is not a big difference. It is not like the stores that don't have a particular competitor, don't have any competition at all, are plus and the ones that have competition are minus. They're actually pretty close together when we look at the numbers. As I said we're still doing some work on that. So it is hard to break it down.

We know -- it is not that we don't think competition matters. I mean, we pay attention to the competition. We obviously are doing a price test that's more similar to the pricing model of one of our competitors. So we're testing that. So we don't have our head in the sand when it comes to the competition. But honestly, as we look at the numbers, you know, we don't have numbers that show that our comps are materially different in markets where there is a particular competitor or not a particular competitor. So I don't know if that answers your question but that's about the best I can do.

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

Okay. So for next year, minus 2% to flat. If you take the midpoint of that, minus 1, is that just planned cannibalization, then, i.e., or given that fuel prices, the anniversary of the impact from this year and therefore you are not modeling any impact from - - on that front? Would that be accurate.

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

I think that would be. As you pointed out we'll be anniversarying the higher gas prices. We would anticipate in that number to continue to have negative 1% from planned cannibalization.

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

Got it. And then any other lawsuits that we should be monitoring in terms of any progress that's been made where you know expect some sort of resolution in maybe the next 1 or 2 quarters? Also, why was the - - just curious why you took the charge in the third quarter, when you were saying that you just settled it about a week ago I think you said?

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

This is Mark. With regards to your first question in terms of other, there are a couple of other cases disclosed in the risk section. And obviously we viewed this one as certainly the most significant case outstanding. You know, there are your everyday I guess, or some others that are meeting the test from a disclosure standpoint, though we don't view them as significant, and certainly this one was. In terms of disclosing or taking the charge on this one, there is certain criteria that has to be met or established when that charge is taken. Probable, estimatable and so forth. And given the advancement we've made in the negotiations on this case over the last several weeks and essentially agreeing to this settlement, it merited us disclosing it and taking the charge in the third quarter.

There are some details that have to be worked out with the significant matters, you know, have been resolved. There are some administrative, you know, how the class will be administered and the notices and so forth. But we don't view those as problematic in terms of bringing it to final resolution when the definitive agreement is signed. And again we expect to do that in the near future. So given all of that knowledge, and what we have accomplished, it did rise to disclosing and taking the charge in the quarter just mentioned.

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

I noted there are 3 overtime losses in various states and a lot of companies have been in those lawsuits, but anything that is similar to what you settle? I guess is my question.

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

No, no, you are right, there are 3 different cases outstanding along the West Coast, Washington, Oregon and California, same plaintiffs' attorneys in those cases. The implication there is that the employees were worked off the clock. We don't view -- first of all, that those cases have gone through various stages thus far. The Company has been victorious in its claims. We have had class certification denied, and our motion is granted. There is still appeal processes and there's still things going on out there. But at the end of the day we view that we'll be victorious in those claims. And we certainly don't view them at the scale and as great from a monetary standpoint or anything else. So certainly we have to deal with them and bring them to closure which we believe we will be able to successfully do. But we don't view them anything like this.

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

And then the 140 stores in the 2 markets, you know, you've lowered prices on those. I imagine there is some impact, whether it is either you're not seeing any - - I mean, what is the result of that? Are you seeing pickup in volume but just not enough? Or you're not seeing any difference? Just give us some feel for that, if you can?

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

Sure Arvind, this is Mitch, we are seeing some impact in business, on a positive manner. It just takes longer than 90 days to look at the overall impact. Because if you were just - - I mean, if we were just sitting here and we wanted to grow our comps whether - - just to grow customer base and grow our comps whether it was profitable or not, we could run forward. But we have to see what the impact is on the profit of those stores. Are they doing enough new business to cover so we make more profit dollars even if it is at a lower percentage? So it takes some time for the margins to work out. Because as you know we turn our inventory - - or the average contracts on rent 4 to 5 months. And so you have to have some time to turn all of that over so that you can see what your actual margin is. Starting it in the summer, of course you're not turning over as much of your inventory, doing as many new deliveries as you do in the fall. So the fall is a better indicator. So it takes some time.

I would also tell you that if we're sitting here on January 1 and feeling like it is very successful and the margins look - - we've made up for the margins through more volume, it is probably isn't the kind of thing that then goes to 2700 other stores. It is the kind of thing that goes to a few other states. And we're going to be very methodical on this price testing stuff. And we already are. Like I said, it's been out there about, oh, I guess 4 months, and we're just watching it and we'll see how the fourth quarter goes. And like I said, the first of the year we don't have the targets that we're rolling or not rolling. It is going to be a very methodical analysis and then rollout if it rolls out at all.

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

Last question is for Robert. Robert, can you walk us through the free cash flow assumptions, 405, and that's excluding what you might end up paying for this lawsuit settlement? Just kind of your big picture what you're looking for, cash flow from operations, maintenance, CapEx, et cetera, et cetera?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

If you look at this year, so far through the 9 month period we've talked about the 284 million in operating cash flow. Our assumption right now is that our cash flow will be fairly break-even in the fourth quarter, given the normal uptick in inventory purchases. So we would expect end of the year somewhere in the similar range with where we are today. Next year we're talking about 170 to 180 million. So the difference there is the fact that in 2004 we're going to spend about 75 million in cash taxes. However, next year, that obligation increases to 185. So on an apples to apples basis, you know, that 285 is where we are now, backing out the 100 million or so from cash taxes next year gets you down to that $170 to $180 million range.

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

And then maintenance CapEx?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

Maintenance CapEx we're anticipating about 60 million next year. We've got 70 million probably forecasted for this year, however, there's been some investments in hardware and safes and things that were one time spends this year that are not recurring next year.

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

Got it. Thanks, guys.

Operator

Thank you. Your question comes from John Baugh of Legg Mason.

John Baugh - *Legg Mason Wood Walker, Inc. - Analyst*

Can you - - I don't know what that was. Can you tell me precisely when the 5% store test occurred? Was that in June, July, May?

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

It was middle of May. Middle of May, John.

John Baugh - *Legg Mason Wood Walker, Inc. - Analyst*

Middle of May. And the lawsuit in California, what were the 1 or 2 or 3 key issues with your business practice? Was it the, you know, imputed rate of interest? Or something else?

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

There were a couple of different allegations in that suit, John. One dealt with the setting of cash price. A second dealt with the club program that we were offering during that time. Specifically as it related to the extended warranty that was offered as part of that club program for customers that paid out. And then there were some, I guess, what you would consider technical violations. By way of example certain aspects of the rental agreement required the 9 point print size and it may have been a 10 point, or vice versa. Another example I think we were using "pre-leased" for the product description and it was supposed to say "used." And so those were essentially the matters that gave rise to the suit. And really, again, it was more the setting of the cash price, and again --

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John Baugh - *Legg Mason Wood Walker, Inc. - Analyst*

Are you not free to set your cash price?

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

That is obviously a point of contention in this. I mean, there is legislation in California. And it does speak to the setting of cash price. And it becomes an interpretation of what that says. And by way of example, what other vendors may sell like merchandise for in the marketplace, the MSRP or 2 times your landed costs. And it speaks specifically to electronics and appliances. And in that case, I think as most people know we have used the 2 times landed costs to set the maximum cash price. And again becomes interpretation and plaintiffs' counsel challenging that the interpretation should have been the lesser of, as opposed to either/or. And those were the essence - - the essential points of it. One program we've discontinued, the extended warranty piece of it. We've made all the technical corrections and so forth. And so again as we sit here today, I believe we've essentially with the settlement we will resolve the open issues.

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

As well as done a full review of every other state for any other potential technical violations that may have been out there that we're unaware of. You know, using the same contract for years. You know, it may be obvious to you, if it is not. We have gone through all of the other states to ensure this kind of liability is not hanging out there in other states.

John Baugh - *Legg Mason Wood Walker, Inc. - Analyst*

How many stores do you have in California roughly?

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

Approximately 170, 160.

John Baugh - *Legg Mason Wood Walker, Inc. - Analyst*

Okay. Maybe a question for Robert. Depreciation on rental merchandise in fourth quarter's guidance, I don't know, several basis points lower than the third quarter. I think roughly 30, 40, something like that. Could you discuss what's going to drive that or why you're forecasting that?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

Well, I think the third quarter comes in around 21.7% or so. And the guidance that's outlined in the press release is 21.3 to 21.7. We believe the 21.7 is kind of the high water mark as a result of the full impact of the merchandise acquired through Rainbow and Rent Rite. We brought those into the system at a higher margin or --

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

Higher cost.

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

Or lower profit margin. And those items are continuing to roll off and out of the system. And so the guidance that we've given, the high side, is kind of where we are today. But believe that can improve in the future.

John Baugh - *Legg Mason Wood Walker, Inc. - Analyst*

Okay. And the last question, I notice the account buys and store acquisitions were awfully low in the third quarter. Now I realize you made 2 sizeable acquisitions in the second quarter, as well as a fair number of account buys. Was that just timing? Or is there something else going on in there? Is it harder to find account buys and acquisitions, in other words? Or is this really you were focused on that in the second quarter and focused elsewhere in the third.

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

That was it, John, just focused on the 2 large buys by 215 stores or something at mid-second quarter. So it is just a matter of focus, not any change of strategy or change in pipeline or anything like that.

Operator

Your next question comes from Alan Rifkin of Lehman Brothers.

Alan Rifkin - *Lehman Brothers - Analyst*

Yes, a couple of questions, if I may. If I recall on your last conference call held in early September, you indicated at that point that comps were down 5. You reported a negative 5.5, which would imply that business weakened a little bit in the last few weeks for you. But yet you said earlier in the call that business is picked up. Can you maybe address that? That's number 1. And then number 2, if you don't mind, according to your guidance of next year, which includes 56% to 57.5% in terms of store salaries, at least according to our model, implies either, you know, flattish number there or deleverage of as much as 150 basis points. If in fact you do think that '05 could be a little bit challenging as indicated by your negative 2 comp expectation, could you just maybe share with us like why going into the year you may not be able to get better leverage on the store salary expense line? Thanks a lot.

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

Alan, this is Mark. I'll take your first question with regards to the comp guidance and then the actual. And as you alluded the revised guidance in the first of September we set approximately negative 5% and of course it was a negative 5.5. And more than anything we can point to, the weather events throughout the month of September in south Florida. And I know in that last call I had mentioned the weather as being a little bit, but not the key issue and that we were not falling back on the weather. But the fact is that it did have an impact. Specifically Florida. But not limited only to Florida. As everybody I think knows, you know the weather pattern and hurricanes caused a lot of flooding and damage in various parts of the country. But I can tell you that specifically in Florida we lost in the neighborhood - - I say lost - - some of it was deferred. You know, we had to work with the customers and extend and so forth their inability to pay. But about $1 million of rental revenue that we did not collect because of that. And obviously we also incurred losses about $300,000 or $400,000 of our own losses in our stores. Flooding, roofs, you know, caved in, merchandise damaged and so forth. And so more than anything, that half a point difference, that would attribute to the weather. Your other question in terms of the guidance and in terms of the salary and other and so forth, Robert you want to?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

Yes, if I understand the question, Alan, you know, right now we're forecasting salaries and other for the year to be roughly 56%, 56.5% for this year. But in next year's range we're saying 56% to 57.5%, and quite candidly with the - - you know, with the flat comp but rising, you know, costs in your business, from normal inflationary matters, whether it is gas and oil or occupancy costs or service costs, whatever, your normal ordinary cost of doing business is going to have more impact on those margins with a flat comp. And that is embedded in our forecast and in our model. So we do anticipate increasing costs in our structure. And that's kind of the guidance that we've outlined. I don't know if I answered specifically to your question, but if I didn't, let me know.

Alan Rifkin - *Lehman Brothers - Analyst*

No, right, I mean obviously they're embedded, you know, acceleration in costs on the salary line. But I was just figuring if going into the year you believe it will be, you know, not, you know, not the best of the year as indicated by your guidance, you know, is there anything that maybe you could do in a proactive manner on the salary line? And it kind of sounds like you're addressing that.

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

Well, I would say that you know, for those who have been around for a while, back in 2001, we had a lot of low-hanging fruit in the infrastructure in the business where we could take a lot of the cost out. We've addressed that a couple of years ago. We continue to address that on a daily basis or normal course of doing business. So I wouldn't say there is a lot of low-hanging fruit as was the case a couple years ago.

Alan Rifkin - *Lehman Brothers - Analyst*

Okay. Thank you very much.

Operator

Thank you. Your next question comes from Dennis Van Zelfden from SunTrust Robinson Humphrey.

Dennis Van Zelfden - *Suntrust Robinson Humphrey - Analyst*

Good morning everyone. How many shares have been repurchased year to date?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

I think it is just over 6 million shares, Dennis.

Dennis Van Zelfden - *Suntrust Robinson Humphrey - Analyst*

That's as of September 30?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

Yeah, and I'm not quite sure, you know, in the press release we said 6.044 million and we purchased another 150,000 or so since September 30. But, you know, that number, you know, is not material in the grand scheme of things when you compare it to the 6.044 million.

Dennis Van Zelfden - *Suntrust Robinson Humphrey - Analyst*

So of your roughly 100 million in availability you've got about 96 million left or so?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

Exactly.

Dennis Van Zelfden - *Suntrust Robinson Humphrey - Analyst*

Okay. Thank you.

Operator

Your next question comes from John Amerk with [Vicola] Capital.

John Amerk - *Vicola Capital - Analyst*

Sorry to re-ask Arvind's question. The cash from operations, cash flow 170 to 180 for next year is that cash from operating activities or free cash flow?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

That's operating activities. And then when you back out the maintenance CapEx that Arvind was asking, the 60 million, you get down to free cash of 110, 120 million.

John Amerk - *Vicola Capital - Analyst*

Got you. It is a little thing but looks like the number of franchisees which had been steady for the longest time was down 6. Did we buy them or did they fold up shop? What happened there?

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

Let me think a minute. I think we bought out some of those. Yes, we - - I mean, the Color Tyme franchisees cannot sell without our right of first refusal. And the ones that have sold - - might have been, John, 1 or 2 of those might have been closed and consolidated with that franchisee's other store. But as our - - as I recall, off the top of my head, the majority of those 6 we bought.

John Amerk - *Vicola Capital - Analyst*

Okay, and lastly, the earnings guidance for next year does not anticipate any further stock repurchases?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

That's correct.

John Amerk - *Vicola Capital - Analyst*

What is your current authorization and where do you stand on debt covenants and such regarding future stock repurchases?

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

Our Board authorization right now is more restricted than the credit agreement or indenture. And as Dennis mentioned, we're roughly around 95 million in availability, left in authorization from our Board. And just to I guess highlight the impact of that, if we were to utilize, you know, that full 95 million just, you know, throughout next year - - well, I guess.

John Amerk - *Vicola Capital - Analyst*

I can do the math.

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

Okay. Fair enough.

Operator

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

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Good morning. A couple of items here. Can you relate to what your APU looks like here in the third quarter and how that might compare with a year ago?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

It's down, Bill, about 1% or a little less than 1% from a year ago. The majority of that is the impact of the Rainbow and Rent Rite acquisitions. You know, those stores came in with lower APU's than the Rent-A-Center locations. So that's kind of what you're seeing in the APU category associated with the Rainbow and Rent Rite acquisitions. It is not a major decline, but something that we obviously always monitor and try to improve on by offering the latest and greatest products.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

So you think, then, really without the 2 acquisitions Robert we might be looking at kind of flattish APU numbers year-over-year?

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

Yes.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

And what is your BOR's per store look like on a same basis year-over-year?

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

Well that is where - - the APU is about flat so all of the negative comp is coming from the things that make up the comp is customers/BOR, and then, you know, the APU. So the APU is flat. So all the negative comps coming from BOR, balance on rent, for those of you who don't know what that means. But the balance of agreements on rent we call BOR. So it's all in the BOR category, which translates to the customer category. But the ratio of accounts per customer has been pretty consistent.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Okay. So BOR's are down about 5.5% in the quarter?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

Correct.

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

Year-over-year.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Okay.

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

Yes. Not sequentially but year-over-year. That's correct.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Mitch, have there been any particular product categories that have been impacted say more than others by the environment out there?

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

No.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Do you see kind of people's product that you might classify as people's wants, more than people's needs maybe being more impacted here by returns and demand for the product and so forth?

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

No, we don't, Bill. Our percentage in each category has been pretty consistent. Appliances were down slightly at 1 point in the year but they've reversed and are growing pretty strong now. So short answer is no, it is pretty consistent through the categories.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Do you have any specific product category promotions and/or new products coming down the road that you can talk about at this point in time?

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

Well, we, you know, we're - - the high-definition big-screen category is continuing to grow for us. The 16 by 9 format, high definition ready TVs are replacing the 4 by 3 analog TV's and that's been going on now for about a year and a half. We continue to add, as Robert mentioned, some higher-end, latest and greatest products into that. Like a product we recently introduced. The Hitachi - - what is called an LCD projection TV. It has the LCD technology inside the projection TV, which is a 50 inch TV that weighs about 110 pounds. Things like that that will help generate more APU cause it's a higher end TV.

We've in the last 30 days rolled out the i-Pod as a rental item. And let me think, constantly upgrading, the DVD's are now recordable DVD's. They were with a VCR in the same deck. Things like that. You know, down the road there is probably a day where the flat-screen TV's, when they get in the right price, whether it's plasma or LCD technology, LCT technology. Something in the flat screen as those prices come down. It is an exciting opportunity down the road, because obviously our demographics are going to struggle to buy those TV's there at the high end of the range. We're waiting for the prices to come down a little more in evaluating whether those TV's hold up in a rental environment and so forth. So that is not an opportunity in front of us today but it very well may be next year as you look at what's going on in technology.

You know, the furniture side of the business, we're constantly changing our looks of furniture. Like any furniture store, just keeping up with different trends and styles. And youth furniture has grown well for us. In the last year we've added more youth into the mix. And so it is kind of a constant evolution of product on the furniture side. The electronics side has some fun, exciting, expensive products coming down the road for us.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

One last question, Mitch, do you find that different layouts, different looks to the interior part of the store has an impact on your business, you know, your business volumes? In other words, can you tell the difference between stores that are laid out and look one way versus another? And are there some gains to be had maybe by, you know, adopting best practices among your store base?

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

There may be. I have 2 different answers to that. One as far as overall square footage, we have stores that range, our average size store is about 4,200 square feet and we've got them that range from probably 2500 square feet to 6,000 or 7,000, just depending upon availability. And interestingly enough, you've probably heard us say this before, we don't find higher volumes - - the square footage to matter based on the volume of the store; that the 4,200 or 4,400 square foot store does as well or actually does better than either being smaller or being bigger. But as far as how we lay out the store, I mentioned earlier that we're testing some operational variables with a multi variable testing company by the name of QualPro. That's actually one of them, some different layouts in the store. So we're testing that right now to see if that matters.

Bill Baldwin - *Baldwin Anthony Securities - Analyst*

Okay. Thank you for your time.

Operator

Next question comes from Rachel Golder of Goldman-Sachs.

Rachel Golder - *Goldman Sachs - Analyst*

Yes, thank you. Actually most of my questions are just re-asking old ones to make sure I understood you. On the share repurchase, can you tell me what the current limitations from the bond indenture is for further share buy-backs?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

On the bonded venture it is about through the third quarter of this year, about 119 million.

Rachel Golder - *Goldman Sachs - Analyst*

Great. Thank you. And the remaining approval by the Board you expect to be utilizing that over the course of the rest of '04 and '05? Or when would you think you might go back to the Board for another--?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

Obviously in utilizing our cash, we have to evaluate all of the opportunities presented before us. And we believe that the price right now is at attractive prices for us to continue to be opportunistic in our share repurchases. But we can't commit to the fact that we will spend all the reigning availability in 2005 not knowing what other opportunities might be out there for the Company to capitalize on.

Rachel Golder - *Goldman Sachs - Analyst*

It's curious at this point in the economic cycle to be seeing the same-store sales slow down based on consumers being pinched by gas prices and the like. Do you have a sense of whether there is any significant portion of your clients that are actually moving to purchasing elsewhere rather than renting through you as the cycle is actually strengthening?

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

No, we don't have any statistics or knowledge or feedback from the field that that's happening.

Rachel Golder - *Goldman Sachs - Analyst*

Okay. And then do you perform analyses of your store base by year, class? And what the performance of your most recent couple of years' store openings is compared to the new store openings of say '99 and 2000?

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

Yes, we do compare that, internally at least we compare them. We don't compare the age of the stores publicly. But I did mention our new stores, and I'm talking about new stores going back, we started opening new stores in the fall of 2000. And there had been a few years before that where we hadn't opened any new stores because we're - - we had in summer of '98 we bought a large company. And so we really hadn't done much until the fall of 2000, So once we started in the fall of 2000, looking at those stores, and what has that been, Robert, about 300 stores?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

Yeah.

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

In the fall of 2000, and in each year of those year, they're ahead of our internal model. Whether they're in the first - - the end of the first year, second year or third year. In each case they're on that upper model.

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

I mean, we've talked about this before on prior calls that the stores that we opened up early on, you know, the learnings that we got from those helped us improve the way we went about opening the stores in the future period. So when you talk about breaking them out by class, to Mitch's point in the aggregate, they are all on average ahead of plan. But in the early goings in the fall of 2000, those were not performing as well or didn't get out of the gate as well as some of our more recent new-store openings.

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

The first few, anyhow.

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

Yeah.

Rachel Golder - *Goldman Sachs - Analyst*

Great. And one last question, if I may. Account buys, are those stripped out when you do your same-store calculation? And can you say how much of the 159 million of acquisition year to date was actually in the account buy category?

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

We do pull those out from the comps, very conservative in the way we calculate comps. We pull out account buys, we pull out -- the press release shows 11 consolidations, where we reduce our expenses and maybe we have a store right on the same block and we put the revenue in one store. That store is now pulled out of the comp so it is a very conservative way of calculating the comps. As far as the dollar amount of the account buys, I don't have that in front of me. Robert is looking right now.

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

We have to get back to you on that number.

Rachel Golder - *Goldman Sachs - Analyst*

That's fine. I'll give a call later. Thank you very much.

Operator

Next question comes from Andrew Eppersall of KDP Investment.

Andrew Eppersall - *KDP Investment - Analyst*

Most of my questions have been answered but I was hoping to find out what the availability under your revolver is after considering letters of credit?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

Yes, it's roughly 100 million. Slightly less than that.

Operator

Thank you. Your next question comes from Rick [Vantessin] of Zion Capital.

Rick Vantessin - *Zion Capital Management - Analyst*

Good morning, guys. You mentioned in your opening remarks that you guys are attacking this comp issue with new marketing advertising testing for some '05 improvement. But you know a lot of this sounds like similar comments you guys made last year. And you know we take a step back and we're down 20% this year, and I'm just wondering why now is it any different?

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

Well, I would say last year we started this test - - we started our multi variable testing last fall, I think it was November. We tested through June. And the implementation started at the beginning of October, because once you take the learnings from the test and then of course a lot of our print material and television buys were already done. So it was fourth quarter before we could implement them. So the difference is that in the first we're just talking about testing, in the fourth quarter we're actually implementing the advertising and marketing initiatives. The things - - with that same company we are taking some operational things like the question earlier about how you lay out the store, it happens to be one of them. You - - we're using that same company to test operational variables here this fall. But the advertising ones were tested between November and June. And they're being implemented in the fourth quarter. That's the difference. And the testing is now turned over to the operational side.

One follow up question could have to be why would it take 7 or 8 months for that kind of testing? It takes a long time to test the advertising variables especially because once you test them and something proves out to be successful, then you retest it. You confirm before you change everything you're doing as it relates to maybe your flyers or how you're buying your TV, so that is what took so long in the testing. The short answer is the difference between last year is we're implementing in the fourth quarter, we're not testing in the fourth quarter when it comes to the advertising variables.

Operator

Your next question comes from Craig Hoagland of Anderson Hoagland and Company.

Craig Hoagland - *Anderson, Hoagland and Company - Analyst*

Hey, guys, just to follow up on the same-store sales, Mitch if I followed you right, the whole comp problem then is in the mature store base, the pre-2000 stores?

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

That's correct.

Craig Hoagland - *Anderson, Hoagland and Company - Analyst*

Is that correct?

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

Yes. That's a fair statement.

Craig Hoagland - *Anderson, Hoagland and Company - Analyst*

And have you looked, I mean, is there more - - can you peel the onion further in terms of are there stores that are very old that are the problem? Is it just that whole class of more mature stores?

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

It is within that class. And of course in that class you have stores that are still growing. You got stores that are flat, you've got stores that are down, you know. Obviously at any time you have a group of about 2,000 stores there is going to be about a hundred that you really focus on. That kind of thing. So it pretty much goes across the board. As I mentioned earlier, we're not finding variables like part of the country, region of the country, who the competitor across the street may or may not be. We're not finding those kind of variables. It is more as we attack those, let's say the bottom hundred, it is more operational, what is going on with the staff, and those kind of things. But it is not related to how old they are. Once they're over maturity, is in that 3 to 4 year range. But it is not like the ones 9 or 10 years old are doing worse or better than the ones that are 7 or 8 years old.

Craig Hoagland - *Anderson, Hoagland and Company - Analyst*

Well, thanks for fielding all the questions.

Operator

Next question comes from Peter Park of Park West.

Peter Park - *Park West - Analyst*

Hi, a few questions. Can you tell us what your comps were by month for the third quarter as well as what your comps in October are looking at so far? I know that you said that some of the programs you had were helping improve. Can you talk about that, first?

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

Peter, we don't report comps by month. And the reason we don't is most of our customers pay on the weekend, Friday and Saturday with even more on Saturday. And you just take a look at October, there is 5 Saturdays in October, and so if there wasn't 5 Saturdays last year in October, the number would be meaningless. We would be up 15% and then November would be down 15%. So we don't report those.

Peter Park - *Park West - Analyst*

Got it. But if I'm trying to back into it, then. If I look at the guidance you guys had on September 9 for the fourth quarter being something like 57 cents, I think. If I look at the guidance now, then you're down about 3 cents give or take relative to that. Is it fair to say that September was worse than August? In just thinking about how it trended sequentially throughout the quarter. And then if you could possibly give us a sense on how October was on a comp basis? I know that you said that it was improving seasonally as you'd seen in years past. But on a comp are we still in that negative 5% ballpark range for October? Is it better or worse?

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

Couple answers. I think when you talk about the guidance for the fourth quarter, it is 2 or 3 cents lower if you use the low end, and it is on what we said if you use the high end. So that it is just a range issue. No, I would not say that September was worse than August. September was about what we expected. Mark already alluded to the fact that the hurricane took some revenue out of the third quarter. And obviously there is still some recovery to do in Florida. And as far as October, no, we don't feel like we're still in the negative 5% range. We feel like we'll be in that negative 2.5% to 3.5% range that we've got in the guidance. For the quarter.

Peter Park - *Park West - Analyst*

Great. In thinking about the deferred tax asset I just wanted to make sure that I understood it properly. The entire amount of the deferred tax asset is $100 million, that is what is going to reverse in '05. And then going forward accrued versus cash is going to be fairly consistent?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

Well, the deferred tax liability, again, was primarily the result of the tax laws put into place in '02 and '03 that allowed companies to record bonus depreciation for tax purposes and lower their current tax obligation. We disclosed in our K's and Q's we estimated that amount through the prior period to be approximately $100 million benefit that would roll off over a 3 year period beginning in 2005. The 2004 tax - - cash taxes that I mentioned earlier, roughly 75 million, that would probably normally be higher than 75 million. But we had a refund from the prior year given the fact that the tax law was signed, you know, signed in '04 as well to allow us to go back and recapture some of that. So the 75 million on a normalized basis is more like 120 million or so, not the 75 million.

Peter Park - *Park West - Analyst*

Okay. I understand. But for '05, what's the difference - - how should I think about '05, '06 and '07 in the terms of the difference between cash and accrued taxes? Is it $100 million cumulatively? Is it all in '05?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

No it's not all in '05. It is over a 3 year period beginning in '05 the majority of it being in 2005.

Peter Park - *Park West - Analyst*

And that total amount is about 100 million?

Robert Davis - *Rent-A-Center - CFO, SVP-Fin., Treasurer*

Roughly.

Peter Park - *Park West - Analyst*

Are your competitors doing anything interesting regarding pricing?

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

No, I would - - nothing different. They have been pretty consistent for years. I mean, our largest competitor, Aaron's pricing model has been that way for years and years. And really similar. They're using similar models as they have been. We haven't seen any change there I guess is the short answer.

Peter Park - *Park West - Analyst*

Got it. Thanks very much. Good luck.

Operator

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

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

Thank you very much. Ladies and gentlemen, thank you for your time today and your interests. We appreciate your support, as always. We realize that we've got a lot of work to do. I want to assure you that the management team and all of the support of the co-workers are aggressively doing that. Again we believe in the long-term prospects and feel that it is a short term situation that we'll be able to work ourselves through. We look forward to reporting back to you on the next quarter's results. Thank you again. And as always we're available for any follow-up comments you may have.

Operator

Thank you. This concludes today's conference. You may now disconnect.