FINAL TRANSCRIPT

Thomson StreetEvents℠

RCII - Q3 2007 Rent-A-Center Earnings Conference Call

Event Date/Time: Oct. 30. 2007 / 10:45AM ET

CORPORATE PARTICIPANTS

Mark Speese
Rent-A-Center - CEO

Robert Davis
Rent-A-Center - CFO

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

Mitchell Fadel
Rent-A-Center - COO

Multiple Speakers
Rent-A-Center - Organizer

CONFERENCE CALL PARTICIPANTS

Dennis Telzrow
Stephens Inc. - Analyst

Henry Coffey
Ferris, Baker Watts, Inc. - Analyst

John Baugh
Stifel Nicolaus & Company, Inc. - Analyst

Arvind Bhatia
Sterne, Agee & Leach - Analyst

Carla Casella
JP Morgan - Analyst

Justin Boisseau
Gates Capital - Analyst

Shannon Ward
AIG - Analyst

Lance Ettus
Bonanza Capital - Analyst

Robert Straus
Merriman Curhan Ford & Co. - Analyst

PRESENTATION

Operator

Good morning and thank you for holding. Welcome to Rent-A-Center's third quarter 2007 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 one on your push button phone. As a reminder, this conference is being recorded, Tuesday, October 30, 2007.

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 Investor Relations*

Thank you, Valerie. 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 of 2007. For some reasons you did not receive a copy of the release, you can download it from our web site 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 web site. Also in accordance with SEC rules concerning nonGAAP 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 on 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 factor that is could cause actual results to differ materially from our expectations reflected in the forward-looking statements. These factor are described in the earnings release issued yesterday as well as our most recent annual report on Form 10-K for the year ended December 31, 2006, and quarterly reports on Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007 as filed with the SEC. Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statements.

I'd now like to turn the conference call over to Mitch. Mitch?

Mitchell Fadel - *Rent-A-Center - COO*

Thanks, David. Good morning everyone and thanks for joining us on our third quarter earnings call.

As you can see in the press release, total revenue and diluted earnings per share for the quarter before the $0.4 benefit from the settlement with some ColorTyme franchisees were both within our guidance. Our same store sales came much our same store sales came in at a negative 1.8%. I'll remind you that there was a shift in the third quarter calendar resulting in one less Saturday than in 2006. The one less Saturday is what resulted in our negative count, as we believe we would have been about flat if we had the same calendar as '06 and because of that calendar shift, our guidance was flat to negative 1% and we are just slightly below that guidance with a -1.8. However, customer demand was lower than expected in the quarter leaving us with fewer agreements on rent at the end of the quarter than was anticipated. Having said that, we are encouraged so far in October as we are seeing an uptick in demand and we are hopeful the worse of the low demand is behind us, and we also believe we are starting to see some benefit from our operational and marketing initiatives.

One initiative that we touched on last quarter that has started to positively impact our business is our reemphasis on collections and account management. Although we cannot control the macro economic environment, we can execute on collection and we certainly did so in the third quarter. Our average Saturday night delinquency numbers were about 70 basis points lower than last year and although our skips and stolens were higher in the third quarter than they have been historically, we believe these lower weekly delinquency numbers should get us back to historical loss numbers beginning in this fourth quarter and we were very happy with the job, the field operation has done on the collection side for the last few months.

Additionally in late September, we rolled out our Worry Free Guarantee. The Worry Free Guarantee highlights the benefits of our program and focuses on overcoming any objections that the customer may have. Our Worry Free Guarantee offers our customer a piece of mind when they rent. It offers piece of mind by the fact that we will match any competitor's price and if a customer is not satisfied for any reason within their first week of renting something, [they] will get a full refund. We know our stores are excited about it and we believe the Worry Free Guarantee will help stimulate and capture customer demand. Now withstanding the pressure on our customers, we believe that the better October we are experiencing is being helped by the lower delinquency numbers we are now running as well as by the Worry Free Guarantee roll-out.

Our inventory held for rent ended at 24-1/2 for the quarter slightly above our normal range of 20% to 24%. However, we believe we will be back inside those normal ranges in the fourth quarter. This is obviously something that we managed through our purchases and combined with the increased demand in the fourth quarter, we anticipate being back under that 24% number by the end of December.

In summary, the core business has been challenged by the macro economic environment resulting in slower consumer demand in the third quarter but we are encouraged by the pick up in business so far in the fourth quarter. We are also encouraged by how our initiatives are working, specifically the tighter collections execution and the roll-out of the Worry Free Guarantee, and we will continue to focus on improving execution in these and all of our operational initiatives at the store level.

I would like to take this opportunity to thank our 20,000 coworkers for those execution efforts and for all the hard work and with that, I would now like to turn the call over to our Chief Financial Officer, Robert Davis.

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

Thank you, Mitch.

I want to spend just a few minutes updating you on few of our financial highlights during the quarter and then, I will turn the call over to Mark for some further update before we open the call-up questions.

As outlined in the press release, total revenues increased during the third quarter by 20.9% with net earnings and diluted earnings per share increasing 0.4% and 2.8% respectively from the prior year. $25.3 million and $0.37 per diluted share which as mentioned includes a $0.04 benefit related to accelerated royalty payments with certain ColorTyme franchisees. Our EBITDA for the quarter increased 1.1% from the prior year to 82.6 million, and a margin of roughly 11.6%. For September year to date for nine months, the EBITDA equaled roughly 309.5 million or an increased of 18.5% from prior year. This is translated nude generation of over $270 million in operating cash flow during the first nine months of this year. As a result, we were able to reduce our outstanding indebtedness to the first nine months of the year by over $91 million and our leverage ratio at quarter end was 2.75 times.

Additionally, since the end of September, we have further reduced our outstanding indebtedness by over $36 million for a grand total of approximately $127 million in reducing indebtedness so far this year through the date of this release. Our current revolver and line of credit capacity is roughly $280 million, so our liquidity remains very significant.

Additionally, during the third quarter, we utilized over $45 million of our cash flow to repurchase approximately $2.3 million shares of our outstanding stock, bringing our total share repurchases for this year, 2007, to $3.6 million shares or just over $80 million. Our remaining capacity for share repurchases relative to our board-approved plan of $500 million is approximately $59 million of remaining capacity. We believe this combination of debt reduction or $127 million so far this year and share repurchases or $80 million so far this year, for a total of over $207 million throughout the year between debt reduction and share repurchases has been a prudent use of our strong recurring cash flow. Because of our solid balance sheet and strong recurring cash flow remained strength to this company even during times of softness or slow down, we continue to remain committed to the long-term prospects and outlook of our company and we will continue to manage our capital accordingly. Our quarter ending cash balance was just over $100 million and net debt to book cap at quarter end equated to 53.6%. So at quarter end, our debt levels were approximately $902 million in senior term debt and $300 million in subordinated notes.

I would like to remind everyone that we do anticipate utilizing existing cash on hand along with our revolver, the [Hilda] Perez settlement later this quarter and as such, we anticipate a slight uptick in our outstanding indebtedness at year end.

In terms of guidance, we anticipate for the fourth quarter of 2007 total revenues to range between $708 and $723 million on same store sales that are expected to be flat with diluted earnings per share ranging between $0.38 and $0.44, and with that same store sales guidance of flat in the fourth quarter that would equate to approximately a 1% comp for the full year 2007, as we did have a 1.4% comp through the nine-month period of September. In terms of next year, for all of 2008, we expect total revenues between $2.92 billion and $2.96 billion with same store sales between a range of flat to a positive 2%. Additionally, we are projecting 2008 EBITDA of approximately $385 million in a margin around 13%. Diluted earnings per share are estimated to be in the range of $1.95 and $2.10. As always, this current guidance excludes any potential benefit associated with potential stock repurchases or acquisitions completed after the date of this press release.

With that update, I'd now like to turn the call over to Mark.

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

Thank you, Robert and Mitch, and good morning everyone.

While the summer and the third quarter itself proved to be challenging for us as Mitch stated, we are beginning to see improvements and lift from some of the initiatives that we have been focused on. Certainly, our customer has been and still remains under some economic pressure. Yet at the same time as we've improved our focus and performance in several key areas, we are seeing stabilization and improved results from it. As Mitch mentioned, on the collection front, we have return to do historical numbers, in fact, even better. Our average weekly delinquency for the last three months, August, September and October to date are the lowest they have been in five years and a comparable basis, averaging less than 6% weekly delinquency.

As Mitch also mentioned, we expect that to translate to lower total losses in the current and future quarters, expecting customer losses to return to historical levels of less than 2.5% of revenue. That same intensity and focus has been placed on sales and customer service. Mitch talked about the Worry Free Guarantee that we recently rolled out and with our collections now being more favorable, additional time is available and being spent by store personnel focusing on sales and service. Light collections, we are beginning to see favorable results there as well.

With fewer returns due to the lower delinquencies, fewer payouts due to the smaller portfolio and now increased deliveries, we are experiencing our best October to date in three years. That being said, we do have a hole to climb out of. As we mentioned on our last call in late July, it was at that time and continued to be a very challenging summer for us. At the same time, I'm encouraged by what we are seeing currently. It will simply take sometime to recapture the business we have lost over the summer. I am cautiously optimistic that most of the shake-up involving our customers has taken place. With regard to financial services, that same intensity and focus on performance is in place there.

During the third quarter, we added cash advantages to 61 locations ending the quarter with 282 stores offering those products and services, and while demand remains strong for our loan products, those stores face collection challenges and experienced some increased losses similar to what we saw on the reckoned operation. While our long-term view has not changed, we remained confident about the future prospects of that business and our ability to execute successfully given the customary slow down and demand during the first quarter in that business rather than focusing on opening another 40 or so now, the balance of this year, we've chosen instead to focus on those that we already have open. We are going to continue to fine-tune processes, further develop the management team and improve their overall results. As a result, we expect to only open a handful of new cash advantage or financial service business locations through the balance of this quarter, ending the year with approximately 285 locations versus the original estimate of approximately 300. Now let me add, it is our expectation to be able to open approximately 200 or so next year and we'll begin opening those up late in the first quarter.

In summary, I am cautiously optimistic. We have faced some headwinds but we are beginning to see positive improvements on many fronts. The management team is intensely focused. As Mitch said, we continue to look at and evaluate all aspects of our business looking for additional ways to improve results and realize efficiencies. All the while, we believe we will continue to generate significant cash flow and maintain the strong balance sheet. Bottom line, we are deeply focused on managing what we have and we believe we are positioning ourselves for improved performance going forward. As always, we appreciate your support.

We now would like to open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Again, ladies and gentleman (OPERATOR INSTRUCTIONS). Your first question comes from Dennis Telzrow.

Dennis Telzrow - *Stephens Inc. - Analyst*

Good morning, Mark, Mitch, Robert.

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

Good morning, Dennis.

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

Hi, Dennis.

Dennis Telzrow - *Stephens Inc. - Analyst*

Mark, is the October trend that you're seeing sort of consistent with your guidance of flat up too?

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

I'm sorry, is it consistent with the -

Dennis Telzrow - *Stephens Inc. - Analyst*

The guidance on same store sales of flat up, 2%?

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

Yes.

Dennis Telzrow - *Stephens Inc. - Analyst*

Okay.

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

Yes, I mean obviously the October is near conclusion and we've got the benefit of that hindsight and that is factored in our expectation.

Dennis Telzrow - *Stephens Inc. - Analyst*

And with regard - I didn't catch it, you launched the Worry Free, was that late September?

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

Yes, the last [week] of September we launched that, Dennis.

Dennis Telzrow - *Stephens Inc. - Analyst*

And at one point for next year, I think there was some discussion that Rent-Way would add, you know, so much to their earnings. Is that obviously factored in and just part of what's going on with the business.

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

Yes, it is. That's factored in. That probably, you know, like the rest of our stores slightly behind that number after the summer we've had, but they are still accretive and that has factored in. Yes.

Dennis Telzrow - *Stephens Inc. - Analyst*

And last question, Robert, what is available to buy back on the stock per year, I guess your credit covenants?

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

Right now Dennis, as I mentioned, the board improved plan is $59 million. The credit facility right now where we are today is currently unlimited. The leverage test is senior debt to EBITDA. It has to be below 275 and we were right around 202 at the end of the quarter, so from a senior leverage standpoint. So right now, we have an unlimited basket for share repurchase within our credit facility.

Dennis Telzrow - *Stephens Inc. - Analyst*

Okay. Thank you very much.

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

Thank you.

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

Thank you.

Operator

Your next question comes from Henry Coffey.

Henry Coffey - *Ferris, Baker Watts, Inc. - Analyst*

[One] - I'm looking at what looked like kind of your revised '07 guidance and that looks down and then I'm looking at the '08 guidance which is pretty conservative. Where is this - and looking at some of the revenue figures, you know, this is kind - this is sort of reply of what have we talked about in June where the revenue is still basic there will but the slippage appears to be occuring in operating metrics at store level. Can you - and then you are fairly rosy about October. I'm having trouble reconciling all these. Maybe you can give us a sense of what do you think is going to wrong in '08, say versus where your numbers were in '06 and kind of give us a little more perspective on why the numbers are falling the way they are.

Mitchell Fadel - *Rent-A-Center - COO*

Henry, this is Mitch. Good morning.

Henry Coffey - *Ferris, Baker Watts, Inc. - Analyst*

Good morning.

Mitchell Fadel - *Rent-A-Center - COO*

We finished the quarter behind where we thought we would be on agreements on rent and from a revenue standpoint, the rental and fee revenue at the store level is down from we had forecasted earlier, and - and -

Henry Coffey - *Ferris, Baker Watts, Inc. - Analyst*

Because you went in - because you went in with lower balances.

Mitchell Fadel - *Rent-A-Center - COO*

That's right, that's right. We ended the quarter with lower balances and that translates, you know, if you're 30 or 40,000 less agreements which is only about 2% of our agreements on rent lower than we thought we'd be, that translate to $3 or $4 million a month, you know, which takes a lot of pennies away by the time you annualize it.

Henry Coffey - *Ferris, Baker Watts, Inc. - Analyst*

Right. And there seemed to be, I know, back in '06, the store - operating costs of the store were running at around 57.9 and now you're looking for something in the neighborhood in '08 of closer to 58.5 to 60. This, which again, you know, that knocks a lot of pennies out of the numbers.

Mitchell Fadel - *Rent-A-Center - COO*

It's not like the expenses are going up at the store level, it's a matter of the revenue being flatter or slightly down, and then you know, relatively fixed cost business.

Henry Coffey - *Ferris, Baker Watts, Inc. - Analyst*

Right.

Mitchell Fadel - *Rent-A-Center - COO*

And - and the leverage works really well when you have a positive comp and not so well when you have a negative comp. That doesn't mean we are not looking for more efficiencies within our operation to try and get that number back down. I'd say a relatively fixed cost business and that is not a lot we can take out but we are in the process of analyzing what we can take out because we are not going to just sit here and say, well, we can't take any expense out, so we are in the processing of evaluating it if we can make that any better.

Henry Coffey - *Ferris, Baker Watts, Inc. - Analyst*

Just two other questions, Rent-Way, I know it sounds like the contribution is going to be down consistent with what's going on at the other businesses. Can you put some numbers on that versus, you know, kind of where you were and where you are today?

Mitchell Fadel - *Rent-A-Center - COO*

We're not - we're not - you know, when we build our internal models, we've got them all merged together now, not split those numbers up.

Henry Coffey - *Ferris, Baker Watts, Inc. - Analyst*

No, that's fair.

Mitchell Fadel - *Rent-A-Center - COO*

You know, roughly - you know, we had sat around $0.15 the first full year being next year contribution. It will be slightly less than that. It's, you know, it's less than that but not like it's closer to zero. It's still close at 15s. It's probably in the $0.10 range, you know, consistent with what's going on in the rest of the business.

Henry Coffey - *Ferris, Baker Watts, Inc. - Analyst*

Are you making money this year or still losing money in the pay day loan product.

Mitchell Fadel - *Rent-A-Center - COO*

We're still losing money this year in the pay day loan product. We talked about last quarter roughly $0.8 cents to $0.10 cents for '08 or '07. It's probably, you know, a penny or two worse than that now given the higher losses that we have experienced in the third quarter that Marked mentioned. Next year, we anticipate financial services to be, instead of neutral, down $0.05 or $0.06 next year, and part of that has to do with the fact that we are slowing down, openings this year to focus on our core business, the stores that are there. And so where we might have some offset at the back end of '08, in other stores that we otherwise would have opened this quarter, that's not going to be there next year to help offset some of that dilution. And then also just some of that middle management leverage that we talked about on the call last time.

Henry Coffey - *Ferris, Baker Watts, Inc. - Analyst*

Right.

Mitchell Fadel - *Rent-A-Center - COO*

Until we get those stores open, that has an impact as well.

Henry Coffey - *Ferris, Baker Watts, Inc. - Analyst*

And then on the buy back, I was listening to your answer to Dennis' questions but I'm guessing it sounds like you have about $70 or $75 million of capacity left on your lines?

Mitchell Fadel - *Rent-A-Center - COO*

There is two - I'm sorry if I confused. There's two different baskets that I was referring to, the $500 million approved authorization from the board, there's about $59 million remaining.

Henry Coffey - *Ferris, Baker Watts, Inc. - Analyst*

Right.

Mitchell Fadel - *Rent-A-Center - COO*

However, we are unlimited in our senior credit facility right now.

Henry Coffey - *Ferris, Baker Watts, Inc. - Analyst*

And that would be a fairly substantial number then if you were to exercise all of that?

Mitchell Fadel - *Rent-A-Center - COO*

All of?

Henry Coffey - *Ferris, Baker Watts, Inc. - Analyst*

If you were to use your senior line facility to buy shares.

Mitchell Fadel - *Rent-A-Center - COO*

Oh, I'm sorry. Yes. There's $280 million in inutilized revolver right now.

Henry Coffey - *Ferris, Baker Watts, Inc. - Analyst*

That right. You know, the - this detail is very helpful. I know you are facing some tough challenges but I appreciate the focus here as well as the information that you're sharing with us so thank you.

Mitchell Fadel - *Rent-A-Center - COO*

Thanks, Henry.

Operator

Your next question comes from John Baugh.

John Baugh - *Stifel Nicolaus & Company, Inc. - Analyst*

Thank you, good morning.

Mitchell Fadel - *Rent-A-Center - COO*

Good morning, John.

Multiple Speakers - *Rent-A-Center - Organizer*

Good morning.

John Baugh - *Stifel Nicolaus & Company, Inc. - Analyst*

Really nice cash flow generation. My questions are centered around, when did you close the Rent-Way transaction again?

Mitchell Fadel - *Rent-A-Center - COO*

November -- mid, late November last year.

John Baugh - *Stifel Nicolaus & Company, Inc. - Analyst*

Okay. So I had somewhere in my files a pro-forma inventory on rent number for the year ago, third quarter, of around 800 million. Is that correct? And where I'm going with this is, there's a 9% reduction if that number is right in the inventory on rent at the end of September year-over-year pro-forma, and I guess that speaks to your, you know, lower agreements. I'm sure your store count is down from closing some Rent-Way stores and I'm just trying to get a feel, because I don't really like comps, I'm trying to get a feel for, you know - I don't know, agreements on rent in terms of numbers year over year or BOR or whatever metric that may be a better way to at, you know, how much decline there has been, you know, and trying of course to take out the store closings that would uninfluenced that number as well.

Mitchell Fadel - *Rent-A-Center - COO*

You know, John, it's probably, it's -- I don't remember those numbers you're referring to right in front of me but that 9% sounds right and Robert is shaking his head yes, so that's counts right. That is about 9% but with the store count and not just closures this year but a lot of mergers. We (inaudible) Ren-Way last year when we bought it. That's going to be - that going to be at least half of that number, and to think that business so far this year from an agreement on rent standpoint, you know, down in that 3% to 4% range is a reasonable assumption. Now that, we are not showing that kind of count number down because we've got higher average revenue per agreement to get us back towards that flat number, but if agreements are down 3% to 4%, we are making that up on the - I'm just using round numbers here, but if we were down 3% to 4% on agreements, we are making up that up on average revenue. Those Rent-Way stores that we have a lot of opportunities to raise the average revenue per agreement when we put our product mixed in there, so hopefully that clears it up for you.

John Baugh - *Stifel Nicolaus & Company, Inc. - Analyst*

That does. Thank you, that's terrific additional color. Do you have any guess as to how many stores, you know, closed in '08 at this point?

Mitchell Fadel - *Rent-A-Center - COO*

No, we are going through that process right know to figure out what - now that we have Rent-Way in our system for about a year. We are evaluating those stores and there will be some more closures. Don't have the exact number yet but we're going through that kind of rationalization analysis right now.

John Baugh - *Stifel Nicolaus & Company, Inc. - Analyst*

Good. I'm curious, is there impact to revenue agreements on Rent and what - are you at the front end in terms of the approval, making it tougher? I understand your collections are a lot better and that's obviously working with existing customers. I'm curious at the front end whether you are doing anything differently to maybe keep that marginal customer who might go delinquent from renting in the first place.

Mitchell Fadel - *Rent-A-Center - COO*

Actually, when you put an additional focus like we had in the past three months on account management if that tightens up a little bit, so I would say that we're - we've tightened up a little bit. Of course, it depends on where we're talking about. We can be a lot of tighter in the inner city than we will be in a rural store but with the focus on collections and account management, the intensity level is increasing in the last three months. We have not changed policies or anything but I would say the intensity level at the store level of ensuring those procedures and the evaluation of the customer, the qualification of the customer is a little tighter than it was 90 days ago.

John Baugh - *Stifel Nicolaus & Company, Inc. - Analyst*

Okay. Thanks. And then on the skips, loss, stolens, what was the number for the quarter? Am I right assuming that's in the salaries and other numbers? I'm interested in kind of percentage year over year.

Mitchell Fadel - *Rent-A-Center - COO*

It is in the salary and other number that ran high that we run on an annual basis historically between 2.3 and 2.5. The summer is always our worse quarter. Last year was 2.8 and this year was 3.2. So it's 40 basis points higher in the, on the skips and stolens side, from 2.8 to 3.2. For the year, it's about 2.8 for the year versus a 2.4 last year, and we'd anticipate that 2.8, you know, we think in the fourth quarter -- it will be back around that number and as Mark pointed out that with these lower delinquency numbers, we would anticipate being back in that 2.5 range or lower beginning next year.

John Baugh - *Stifel Nicolaus & Company, Inc. - Analyst*

With that though, the fourth quarter still be a little bit of a drag year over year in comparison?

Mitchell Fadel - *Rent-A-Center - COO*

Maybe slightly. I would anticipate it being pretty close to last year in the fourth quarter because our delinquency has been great now for 90 days.

John Baugh - *Stifel Nicolaus & Company, Inc. - Analyst*

Okay. Well, congratulations on that. Thanks for answering my question in detail.

Mitchell Fadel - *Rent-A-Center - COO*

Thanks, John.

Operator

Your next question comes from Arvind Bhatia.

Arvind Bhatia - *Sterne, Agee & Leach - Analyst*

Thank you, good morning.

Mitchell Fadel - *Rent-A-Center - COO*

Good Morning, Arvind.

Multiple Speakers - *Rent-A-Center - Organizer*

Good morning.

Arvind Bhatia - *Sterne, Agee & Leach - Analyst*

First question is on the [sales] for sales guidance for next year flat to + 2%. How much of that do you think is coming from Rent-Way and how much of that is do you think, you know, your best guess on help from financial services business? I guess trying to get a number for the core business. What your assumptions are given what you've talked about on the trends? And then you talked about the financial services business being, I think you said, $0.05 to $0.06, Robert, negative impact. How much do you think of that is lower store openings and how much is just, you know, assumptions on, you know, higher delinquencies and what not? Those are good two first, you know, questions.

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

You want me to answer that comp question first?

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

Sure.

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

Flat 2 percent, of course the Rent-Way kept open stores will come into the comp for the first time in the first quarter of '08. Right. And again it's in the neighborhood of 600 or so locations and our expectation at this point much like we've seen with all past acquisitions when they typically come in given the level they started out at the time of acquisition, we are expecting pretty close to a double-digit comp number for those stores. So, you know, that's 20% or 25% of the whole and they are coming, you know, in strong single digital, low double. What impact does that have on the whole? Obviously, that's driving a fair amount of the total. In terms of the cash advantage or financial services, they continue to be adding about a 0.5%, if you will, uninfluence on the overall comp.

Arvind Bhatia - *Sterne, Agee & Leach - Analyst*

Am I expressing that right? You know, I would be (inaudible) so if it was a negative 1.8, it would be a negative 2.2 or so without it.

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

Hey, Arvin, let me try to add a little bit more color there. The Rent-Way stores obviously, the kept open stores Mark was referring to that has the benefit of the higher comps when they come in. We also have the merges yet that takes into consideration when offset the merge stores there's a rationalization process where you anticipate to lose some of that business in the first 90, 120 days or so. The zero to 2% comp has about a 1% benefit from Rent-Way I would guess, about a half percent from financial services and the other half percent core business if you're trying to get to the 2% total.

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

And the 1% Rent-Way, Robert, was the kept open stores being kept open stores being offset by the merged stores, that (inaudible) only get about 1% bump there out of the two and the other half for financial services and the half in the core. Right. That's a good breakdown. And then in terms of Financial Services, 5% to 6% just to kind of clarify - $0.05 to $0.06 next year, just to clarify, you know, Mark's allude to his opening comments, losses are a little higher in the third quarter than anticipated. We are talking about $500,000 roughly. The percentage is a lot higher just given the age of the stores than we modeled, we modeling around a 20% to 22% loss factor in those stores. We would anticipate that to be the case next year. We are seeing some improvements there thus far this quarter. So out of that five to $0.06 cents dilution, I would expect, you know, the vast majority of it to be related to not opening the stores in the fourth quarter and hitting the leverage in the middle management more so than the losses that we experienced in the fourth quarter having that dragged.

Arvind Bhatia - *Sterne, Agee & Leach - Analyst*

So the 20% to 22%, how is that running right now or the last three months performance?

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

The first quarter we were around 19%, the second quarter we were around 20%, the third quarter was 34%, but again that 34% from the 19% or so in the second quarter we are talking $500,000. It sounds significant when you think about it on a percentage-wise but on a gross dollar percent - gross dollar basis it's $500,000 higher.

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

(inaudible) small revenue-wise but doesn't take much for that percentage to drive up. You are already seeing trends coming back down on the fourth quarter on their delinquencies, so we were comfortable with that forecast of 20% to 22% for '08.

Arvind Bhatia - *Sterne, Agee & Leach - Analyst*

Last quarter you guys touched on the price changes that went into effect in the lower cash prices but rentals were higher. Can you help us understand what then was the reaction from customers, was it pretty much what you expected? And I see the merchandise sales number was up nicely, so I suppose that's where the cash sales are being reflected? Just put some color what really the reaction of the customer was to that - to those changes?

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

On the reaction of customers, we had almost none. They are very diminimus increases on a weekly rate and the overall rent-to-own prices and cash prices being lower. It's almost none. It is helping our average revenue per agreement fine but almost no reaction from the customer, again, they are pretty diminimus, weakly increases but the overall price coming down is a positive thing. So if anything, it was a positive reaction but pretty minimal on either side of the coin.

On the merchandise sales that's not related to the price increases, Robert, do you want to explain why the merchandise sales is up?

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

Arvind, as you know when we bought Rent-Way, we also acquired as a majority own the BPI business that Rent-Way had. As the business has gone throughout the year, we need reclass the way we are accounting for that. Whereas most of that revenue and cost were being netted in our other revenue line, we broke that out in the third quarter between other, up to merchandise sales and the cost of that would be down in cost of merchandise sold. That was a cumulative adjustment for the nine-month period. On a run rate basis, merchandise sales will be about $4 million higher in the quarter but for the nine-month period it's like $12 million because we reclassed it in the third quarter.

Arvind Bhatia - *Sterne, Agee & Leach - Analyst*

I see.

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

So BP I is driving merchandise sales, not the customer in the store. It is the reclassification of BP I stuff Avind.

Arvind Bhatia - *Sterne, Agee & Leach - Analyst*

Got you. My last question is on geography. Last quarter, I think you guys had indicated not much difference across the country. Your competitor on the call recently said Florida was worse. Wondering if you had anything, you know, any similar experiences or not?

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

Of course, you know, being in all 50 states and Puerto Rico and the District of Columbia, we certainly got some variations in our numbers as they are not all - they weren't all exactly a negative 1.8% in comp last quarter, so there were some ups and downs from that but there's no one part of the country that is dragging it down or anything like that.. There's variations - slight variations but again, there's no one part of the country dragging it down.

Arvind Bhatia - *Sterne, Agee & Leach - Analyst*

Great. Thanks, guys.

Multiple Speakers - *Rent-A-Center - Organizer*

Thank you.

Operator

Your next question comes from Carla Casella.

Carla Casella - *JP Morgan - Analyst*

I'm wondering if you can comment on any regional differences you're seeing and either delinquencies or just in same store sales?

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

As I just mentioned, no. We certainly had some variations in our same store sales. Every state, they run 1.8% but there's no one part of the country dragging us down or lifting us up. There is some slight differences but, again, there is no one past of the country dragging us down.

On the delinquency very, very consistent there as well. It's our standard delinquency is to be at 6% or less every week and we are generally speaking hitting that everywhere.

Carla Casella - *JP Morgan - Analyst*

And then it's not in the concentrated in any one product area as well?

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

No, it's not. It's, unlike a few years ago where, you know, we had some electronics loss on the low end electronics with the deflation, our numbers are pretty consistent throughout the categories from a percentage on a rent standpoint.

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

Were you are talking delinquency losses, Carla? Or -

Carla Casella - *JP Morgan - Analyst*

Right, delinquency, I don't know if there's any on any specific type of --

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

No, I don't so.

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

Sorry, I misunderstood the question. Just on rent the percentages are staying pretty consistent but also on the delinquency side as well.

Carla Casella - *JP Morgan - Analyst*

Okay and sorry for the review. I'd hopped off for a second. Thank you.

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

No problem, Carla.

Operator

Your next question comes from, Justin Boisseau.

Justin Boisseau - *Gates Capital - Analyst*

Hi, thanks. Could you give us the cash flow from operations expected for 2007 to 2008, and also the CapEx numbers you estimate from two years.

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

For 2007, the operations cash flow is going to be around 200 million now. That does have anticipated funding of Perez in the fourth quarter, about $100 million which is offset by, you know, the charge we took in the first quarter, so roughly $250 million in operating cash for '07 when you backed out those one time items. We anticipate a similar number next year, $250 million operating cash flow. CapEx for '07 roughly $95 million and then CapEx for '08 roughly $70 million.

Justin Boisseau - *Gates Capital - Analyst*

Okay and then can you talk a little bit about the seasonality in the business and how we should think about it on a quarterly basis going forward? It maybe seems - maybe a bit more pronounced, maybe that's due to macro issues this year in particular but what sort of seasonalities you expect on a quarterly basis?

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

On a rent-to-own business, the third quarter has always been our, I guess, most challenging if you will. The demand is the lowest and delinquency historically tends to run the highest. This year, as you said, given some of the macro economic things were going on, it proved to be even more so. With regards to the financial services business, it is typically the first quarter from a demand standpoint that tends to be the slowest, and again, if you think of who this consumer is and getting income tax refunds and so forth, they've got more cash readily available therefore the demand is not as strong and that's again been our experience in the past and our expectations going forward as well on both of those.

Justin Boisseau - *Gates Capital - Analyst*

Okay. And then lastly, can you talk a little bit about the long-term outlook for margins whether it's EBITDA or otherwise? It seems like the trends has generally been down over the last several years, whether it's its a positive comp year or negative comp year. What sort of external pressures do you think are causing that and where do you think it starts to level out longer term? Thanks.

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

Our EBITDA margin that I alluded to in the opening comments anticipated for '08 is around 13%, consolidated EBITDA for 2008. That's down about 1% from 2007 and you know, when we looked at EBITDA margins a lot of that, you know, is a direct result of the cost structure in the business and how we get leverage through the top line. And so as mentioned - alluded to the fact that, you know, we ended the quarter with lower agreements on rent than we otherwise anticipated, that has a direct impact on margins. Obviously, you know, we are not satisfied with 13% EBITDA margins. We would like to get back to where we had been historically, in the you know 15% plus rang and our focus is on looking at and growing the top line, but at the same time on rationalizing the cost structure, you know, be it at the store levels or otherwise. Our focus long-term is to have EBITDA margins in the 15% plus range and that's where our focus is at today.

Justin Boisseau - *Gates Capital - Analyst*

And you said you think you will get there through a combination of positive comps and then additional cost cutting. Is that right?

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

Correct. I mean cost cutting, you know - we are not out looking to just cut costs. What we are talking about is looking for ways to be more efficient in the way we operate the business and I indicate either at the store level or otherwise whether it's, you know, G&A costs or you know overhead, so store rationalization, et cetera, but more focus on the top line because that's what drives this business, BOR, customers, average revenue per agreement, and I think what we've seen here in the last few quarters is how, you know, a softer comp or negative comp in the third quarter which was anticipated given the guidance we gave has a direct correlation on the margins.

Justin Boisseau - *Gates Capital - Analyst*

Right. Thanks.

Operator

Your next question comes from Shannon Ward.

Shannon Ward - *AIG - Analyst*

Hi, good morning. Your guidance for cash from ops in '08 is a little higher than I thought, the $250 million. Can you just fill in the blanks between EBITDA and cash from ops with what you are going to spend on taxes, and I assume the interest expense number is what it is, in your $90 million-ish.

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

You are referring to this year or -

Shannon Ward - *AIG - Analyst*

No, '08.

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

'08, EBITDA roughly $385 million, working capital investment approximately $30 million, taxes approximately $50 million, CapEx is $70 as I indicated and yes, interest is what it is, $85 million. Free cash flow is in $140 to $150 million range and so operating cash of $250, CapEx of $70 million gives you down to about $180 million range, and the real flux number there is in our working capital as well as our taxes, so I walked, you know, through an EBITDA reconciliation and got you down to $140. Operating cash minus CapEx gets you down to $180. It will be in that $140 to $180 million range, as we flushed through the working capital and the cash tax number. The CapEx and interest numbers are once - are pretty solid.

Shannon Ward - *AIG - Analyst*

Okay. And the reduction in CapEx in '08 versus '07, is that because you're anticipating fewer financial product launches or is that a small piece of that?

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

The majority of that reduction is due to moving into our new headquarters facility. A lot of that CapEx was booked in the first quarter of '07; about $9 or $10 million of that, $95 million for 2007, and then as you think about rationalizing, you know, the store-based and the Rent-Way stores that we converted, there was a lot more capital spent in 2007 on rebranding and showrooms and signage and so forth and that's not recurring in 2008.

Shannon Ward - *AIG - Analyst*

Okay. Thank you. And then the two pieces, I guess that are unknown for '08 is what you are going to do with regarding share repurchases and acquisitions. Can you comment on your plan for both of those?

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

Well, acquisitions are not forecasted in the expectations we gave. They never are just because you can't, you know, predict timing, size, you know, contribution, et cetera. In terms of share repurchase, I think we will continue to evaluate that as we always have and I would like to just remind everyone that going into 2008, our leverage debts with our covenants in our senior credit facility dropped from 4-1/4 to 3.5 turns. So there will probably be larger emphasis and focus on debt reduction in 2008 and perhaps just a little bit smaller focus on share repurchase but there will be a balance still. In 2007, you know, we reduced debt $120 million to $130 million, and $80 million in share repurchases. So, you know, I would anticipate, you know, maybe more of a focus on debt reduction and still some focus on share repurchase but probably not $80 million worth.

Shannon Ward - *AIG - Analyst*

Okay. Sorry, the covenant on the senior facility, that's a total leverage covenant, right? And you said, goes from what to what?

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

It goes from 4-1/4 down to 3-1/2.

Shannon Ward - *AIG - Analyst*

When does that step happen?

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

It will happen in 12/31 of this year.

Shannon Ward - *AIG - Analyst*

Okay. And then in terms of share repurchases, when was the last time you actually bought a share of stocks?

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

The last share repurchase we did was in August of this year. The open window period. Generally, we have an open period every 72 hours after our conference call that continues through the end of that current month, so by way of example, if we were going to beery purchasing shares after this call, it will be after the month of November.

Shannon Ward - *AIG - Analyst*

Okay. And do you have plans for the remainder of the year in terms of share buy-back? I know you have the capacity of $59 million but what's your intension?

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

We can't commit to that. We are always evaluating use of capital and again, you know, we've repurchased $80 million worth this year and I will be an option on the table as we go into this fourth quarter but, you know, we are not anticipating or committing to anything at this point other than focus on the business and if this demands continues to be an uptick like we think, hopefully most of our cooperate will be deployed into merchandise purchases and satisfying the customer demand.

Shannon Ward - *AIG - Analyst*

And I thought that the EBITDA guidance for the full year of '07 was 410. Is that still in effect or is that no longer the case?

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

It will be down slightly from that. It will be closer to 390-ish, if you will, kind of flat what have our expectation is for next year.

Shannon Ward - *AIG - Analyst*

Okay and the cash you've got on your balance sheet now $100, is that - you know, what would you say is that the comfortable amount that you would like to have or need to have just to run or operate, any excess in that $100 million?

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

I would say about half and half. About $50 million is tied up in, you know, working capital and the other $50 million is deployable.

Shannon Ward - *AIG - Analyst*

Okay, so we, you know - we shouldn't expect to you stay on this $100 million number, that's a little bit high and maybe it is planned to be.

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

No, Shannon. As I alluded to we have since reduced indebtedness since the end of the quarter, that $20 million or so.

Shannon Ward - *AIG - Analyst*

And then my last question is just turning to put to the needs of cash that you have in the fourth quarter, both for the Perez settlement and also the California AG-thing. Can you walk through what cash needs you'll have in the fourth quarter?

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

Right, now we are expecting about a $50 million negative cash flow from operations that's being impacted by the Perez settlement and the AG settlement. So without those two numbers, which is roughly 110 and 115, between the two of them, cash flow from operations would have been roughly $55 million and then with CapEx roughly $20 million expected in the fourth quarter. Apart from the settlement, we would have expected free cash flow in the fourth quarter of roughly $30 million.

Shannon Ward - *AIG - Analyst*

And then just do the math for me, what does that make you end up at in terms of total debt at the end of the year?

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

About $50, I would say maybe $20 million higher than where we are right now.

Shannon Ward - *AIG - Analyst*

Okay, that's not as much as I thought. The $20 million increase from here to the end of the year? Thanks very much for all of my questions. Your welcome.

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

Okay. Thanks very much for all the questions.

Operator

Your next question comes from Lance Ettus.

Lance Ettus - *Bonanza Capital - Analyst*

Just had a question as far as I know that you are talking about lowering costs and I think you came out a good program about a year ago and that was a lot of sort of fuel cost and different things you could kind of change for the business but if you looked at just sort of cutting headcount in corporate headquarters, at the corporate level, and also if you looked at, I know you looked at the Rent-Way stores but if you looked at potentially closing down some underperforming core Rent-A-Center stores, and what are the potentials from there?

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

Lance, this is Mark. We, first of all I don't mind, I would tell you very candidly, we run a pretty lean organization and always have. At the same time, it's fair to say that not just now but we always look at our infrastructure and our cost structure and where might there be ways or it make not sense. We are looking at it now but again I say it in the context we always look at it, don't have any drastic plans as we are sitting here? No. I think, again, we run a pretty lean and efficient corporate office and most of the cost that's in place is necessary. And again, I think the other thing that you have to balance is we are facing some headwinds, we are seeing some positive trends, we believe we will come out of it. We have been through these kind of experiences in the past and we are wanting to go manage the business for the benefit of the near term as well as the long-term. What I don't want to do is anything drastic today that could have other repercussions in the future and is there opportunity in the field and synergies whether the consolidation? I know that question was asked earlier by somebody, if you look at us historically we've always consolidated, maybe 20, maybe two dozen stores a quarter. So we are always kind of evaluating the performance in the field of individual stores and where they are and might it make sense to rationalize the store base, that's ongoing and I think Mitch mentioned we continue to look at that and we'll do so. It is generally fixed cost. There is some opportunities and I think it's just fair to say that we are looking at all of that but I wouldn't, at this point I don't expect anything dramatic and we are certainly not anticipating anything dramatic at this point.

Operator

Next question, Alex (inaudible).

Unidentified Participant - - *Analyst*

Good morning, guys.

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

Good morning.

Unidentified Participant - - *Analyst*

Just a couple quick questions with some clean up stuff. The $70 million of CapEx, can you tell me how much that is on your kiosk additions for the major service at that time for this core business, you know, maintenance CapEx? It is for the '08 number.

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

The $70 million for '08. There is about 10 million for financial services.

Unidentified Participant - - *Analyst*

It is the same 50,000 kiosks or whatever?

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

Right. 50,000 in 200 locations, $10 million, and then the rest is kind of maintenance on the RTO side, a few new stores but not many.

Unidentified Participant - - *Analyst*

Okay and then I - you kind of went quickly on the free cash flow for '08, $385 EBITDA, $30 million working capital investment, $70 million Capex and $85 in interest. How much was taxes?

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

Sixty.

Unidentified Participant - - *Analyst*

5-0?

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

6-0.

Unidentified Participant - - *Analyst*

Okay. Great. And then on the covenant stepping down to 3-1/2 at the end of this year, it seems like with the Perez settlement, it may be a little bit tight kind of in '08. Are you guys - how comfortable are you with the covenant levels where they are?

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

Of course, we were at two and three quarter turns at the end of this quarter and that's kind of a debate that we are starting from going forward, so we are not uncomfortable where we are today.

Unidentified Participant - - *Analyst*

I'm kind of performing it for what you have to pay out for the litigation, but its - I'm not saying you're close but if you kind of project EBITDA as kind of go down. I mean you kind have $4 million (inaudible) and kind of projecting a $20 million decline next year.

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

We're forecasting EBITDA to be relatively flat in '07.

Unidentified Participant - - *Analyst*

Right.

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

And given the free cash flow expectation for next year, our ability to reduced indebtedness is pretty significantly, next year. We are not uncomfortable with the leverage debt to move forward.

Unidentified Participant - - *Analyst*

Okay, that is fair. I mean it seems like, you know, the cash that you are going to spend paying down debt and you guys will likely kind of maintained your conservative acquisitions stance you had this year.

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

It is fair [evaluation].

Unidentified Participant - - *Analyst*

On the ligitation, on the best reading of the case of the (inaudible) and stuff it, it seems like you guys have cleaned up basically all sort of a dig litigation that standing. Am I missing anything? (inaudible) horizon that you have disclosed that you see kind of superior?

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

No, I think, your evaluation is right. We have made a pretty good progress, not that it hasn't come with a price in some cases obviously but as you alluded, all the material as we sit here today, any material litigation has been disclosed and then, I feel pretty comfortable with how we are doing on that front and it's obviously something we were very mindful of and hope to be able to frankly improve even further as we go forward.

Unidentified Participant - - *Analyst*

I know you disclosed it but is there anything else out there that you may be selling. I mean I've kind of gone through the docks and I can't find the lock that you have to settle in for.

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

On the materials, no. I guess, your ordinary course stuff that's not disclosed but it's ordinary course if you will.

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

I think the question is behind those if you look at our litigation profile given where we've been the last few years and where we kind of head of, I think there is a lot of things are getting cleaned up the way we want them to and get them off the dock so to speak.

Unidentified Participant - - *Analyst*

Your right. Okay, that's great. And I have one final question, someone talked about margins earlier and I know they've kind of been close to 20%, in kind of '02, '03 time frame and like you say they are going to trend back down towards like the 13% range. How can I think about you guys more longer term? Do you have sort of a base business going to be sort of 0% growth over kind of a core business 0% growth and is going to trend up and so margins over time should go down and you have offset that by buying lower margin businesses and improving that? How should I look at your margin profile Juan sort of a margin business this?

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

I think what you're referring to, we were posting roughly 19, 20% EBITDA margins in '02 and '03. Obviously we went through headwinds and challenges in '04 and '05 and we came out that due to realization and expectation that 20% is most likely not something - that is something that could be a consistent margin going forward. We kind of lowered our expectation to high teens, 15% to 17% range just given the large base of stores and we are more focused on profit dollars and margins, if you will. And so if have you three or four stores in the market as opposed to two, your margins will most likely be less than they otherwise could be but the overall profit dollars could be higher. So coming out of the headwinds that we faced in '04 and '05 we kind of have given guidance to 15% to 17% EBITDA margins going forward. That's what we are focused on today. Yes, we are anticipating 13% margins and in 2008 and EBITDA perspective but longer term from a financial services business is no longer a drag and actually contributing as well as getting some of the business that we lost in the summertime period. We are not uncomfortable thinking that our EBITDA margin or margin profile is a 15% to 17% margin company going forward. As we've always said we need a one, 1-1/2% comp to kind of break even on a margin perspective or earnings perspective and anything above and beyond that there is significant leverage and flow through. So if we were able to go into kind of a steady state period and post comps 3% or 4% then get the mortgage expansion above the high teens.

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

Even at the 1 to 2, Robert, without the drag of the financial services, we at least hold the margin like you said at 1 to 1-1/2 and 2% to 3% you have margin enhancement to get back at 15, 16, 17% range. And once we don't have the drag of the financial services, once they are up and running and the once that we've opened this year offset the future openings and that's not a drag, we can get back to those margins.

Unidentified Participant - - *Analyst*

You guys have spent like close to $1 billion in acquisitions over the last four years or so and I assume they were all lower margin businesses than you guys had, so I would expect sort of an initial hit to margins but I would think that kind of the next couple of years margin would improve substantially. So I guess the time will itself on Rent-Way in the next couple of years.

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

Of cours, we are not giving guidance beyond '08 now. I think we would anticipate over the course of the next two to three years to be back in that 15% plus range.

Unidentified Participant - - *Analyst*

That's great. Just on the financial services, is that goes flow through your rental and fees on the income statement? Like core is actually the revenue that you guys are bringing at.

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

The majority of that revenue is in the other line in the income statement.

Unidentified Participant - - *Analyst*

Okay, got you. And where does it flow through on the expense side?

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

It would be imbedded in the (inaudible) in other line.

Unidentified Participant - - *Analyst*

Okay, great. Thanks so much for answering my questions, guys.

Multiple Speakers - *Rent-A-Center - Organizer*

Thanks, Alex.

Operator

Your next question comes from Robert Straus.

Robert Straus - *Merriman Curhan Ford & Co. - Analyst*

Hi, guys, just one quick question. Regarding your worry-free guarantee program, could you just talk to us a little bit about the trends within that area and especially as that relates to the match that people are coming in for?

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

Well, the - and from a match standpoint we don't have to use it very often. As I said earlier, the worry-free guarantee is really a -- it focuses our salespeople as well as the customer -- focuses our salespeople and gives them an ability to overcome objections in a very clear way. It's packaged very well and the benefits and the transaction and we use those to overcome the objection whether it's well I'm not really sure, of course then you'd use the money-back guarantee because you might as well try it for a week and we'd give you your money back anyhow.

If they can find it somewhere else for less money then we'll match that price so it really gives them the piece of mind. You know, to some people the fact of what happens if it breaks is their biggest worry and, of course, we include all service while they're renting as well as a loaner whether if we have to take this out of the home and fix it. So each customer has their own -- might have a different worry and we use the worry-free guarantee as -- to overcome any of those objections because there's nothing we can't overcome in our program. Any concerns the customer has especially when you talk about if you try it and you're not satisfied, you get your money back. That pretty much overcomes any objection, but from a match standpoint, we're not having to use it very often but it's there as the tool to use when a customer does find it less expensive somewhere else or is wondering if they could find it somewhere else. That just gives them the piece of mind that if they do, we'll match the price.

Robert Straus - *Merriman Curhan Ford & Co. - Analyst*

Thank you. Good luck.

Multiple Speakers - *Rent-A-Center - Organizer*

Thanks.

Operator

We have reached the allotted time for questions. Mr. Speese, do you have any comments?

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

Well, as always, we want to thank everyone for your time and support. As we mentioned, while the quarter itself proved challenging, we are very encouraged by our current trends and the tone of business, if you will. As we also said, we are intensely focused on continuing to improve all aspects of our operations, and I would say we remain optimistic about the long-term process and we'll continue to manage for the long-term benefits as well. So, again thank you for your time and support. We look forward to reporting back to you next quarter with our current results. Thank you very much.

Operator

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