

FINAL TRANSCRIPT

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RCII - Q3 2008 Rent-A-Center Earnings Conference Call

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PRESENTATION

Operator

Good morning and thank you for holding. Welcome to Rent-A-Center's third quarter 2008 earnings release conference call. (OPERATOR INSTRUCTIONS) Your speakers today are Mr. Mark Speese, Chairman and Chief Executive Officer of Rent-A-Center, Mr. Mitch Fadel, President and Chief Operating Officer, Mr. Robert Davis, Chief Financial Officer and and Mr. David Carpenter, Vice President of Investor Relations.

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

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

Thank you, Darlene. 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 were made in the third quarter. If for some reason you did not receive a copy of the release, you can download it from our website at investor.RentACenter.com. In addition, certain financial and statistical information that will be discussed during the conference

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call will be provided on the same web site. 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 the earnings release issued yesterday as well as our most recent quarterly reports on form 10-Q for the quarter ended March 31, 2008 and June 30, 2008. Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statements.

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

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

Thanks, David. Good morning, everyone and thanks for joining us on our third quarter earnings call. As you've seen in the press release, we met our guidance in the quarter for same-store sales, revenues, when you factor in the impact of the two hurricanes, we also met our guidance on earnings. Our customer on agreement accounts held up okay in July and August but have fallen below our expectations in September, and so far in October, which has led us to lower fourth quarter guidance. As we talked about last quarter, our indicators continue to show an increase in customers and higher income categories. Apparently the result of the tightening credit markets.

However, we're losing more on the lower income side. We're also seeing a little bit of trading down toward the lower price merchandise, therefore affecting our average price per agreement which contributes to lower revenue. To mitigate customer loss, especially on the lower income side, we've been promoting what we call Super Value products. Some of the trading down effect is self-inflicted by having the options available but in the long run, keeping the customer renting something is still better than losing them altogether, even if it does impact revenue and earnings in the short run. As we move through the recessionary times, we'll continue to promote our Super Values to try to stop some of the customer drop-off. We'll also gear additional efforts toward attracting more higher income customers who are being squeezed out of the credit markets into our non-credit transactions.

Our operations seem to continue to perform well on the collections side. Our average delinquency for the quarter on the RTO side was our second best third quarter in the last six years. We're seeing the benefits of that in the skip and stolen losses as our losses in the quarter were 2.6%, down from 3.2% the same quarter last year and our best third quarter loss number in the last four years. So, the collections end remains very strong.

Our inventory held for rent is higher than it normally is for two reasons. First, the third quarter's usually our highest number due to seasonality. Second, it is a little higher this year because we locked in a couple of special buys for our fourth quarter advertising. They came into inventory the last week of September. Those two special buys totaled about \$14 million worth of inventory, thereby inflating the number at quarter end. All in all, our inventory for this time of year is at a comfortable level and about where we would expect it to be.

We continue to work on various initiatives to improve our operations. For example, we have an inventory purchasing initiative being worked on that will more centralize our purchasing. This is an initiative that will roll out in phases in 2009. We're pretty excited about the potential there is with this more centralized approach. We believe enhanced inventory management will help us take advantage of a higher percentage of rental opportunities by more often having the right merchandise in stock at the right times. Therefore, having a positive effect on our top and bottom line.

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As always, we'll continue to look at different expense reduction initiatives and be prudent in the management of our expenses and our resources. Accordingly, we're in the process of fully integrating financial services in our core rent to own business. Mark will speak more about financial services in a moment.

In summary, we're in a challenging economic environment. We're working hard to improve our operational execution, our margins, drive more traffic as this credit crunch makes RTO a more viable alternative for more and more Americans as well as enhance the way we manage our inventory and our resources. I would like to thank our 18,000 coworkers for all of their hard work and for a job well-done in the face of this tough economic environment.

With that, I'll turn it over to our Chief Financial Officer, Robert Davis.

Robert Davis - Rent-A-Center - CFO

Thank you, Mitch. I'm going to spend a few moments updating you on financial highlights during the quarter then I'll turn the call over to Mark. I would like to mention that much of the information I provide, whether it is historical results or forecasted results, will be presented on a recurring and comparable basis. So, as outlined in the press release, total revenues were \$708.8 million during the third quarter of 2008. Essentially flat as compared to the third quarter of last year despite having 10% fewer stores in the period as a result of the consolidation plan announced last fall.

We did post a positive same store sales comp of 3.4% for the quarter. And as mentioned by Mitch within our guidance range of 3% to 4%. Net earnings were \$29.4 million and diluted earnings per share were \$0.44 increases of 16.2% and 18.9% respectively from the year ago period. Again, we estimated the hurricanes of Gustav and Ike negatively impacted our quarterly results by approximately \$0.02.

Our third quarter EBITDA came in around \$80.5 million, a margin of 11.4%, a 30 basis point increase over the third quarter of last year. For the nine months ended as of September, 2008, we have posted EBITDA of over \$280 million with a margin of 12.8% and our LTM EBITDA as of September 30 was \$363 million. These positive results in terms of profitability and EBITDA continue to lead to strong, recurring, cash flow generation. As we all know in this environment, cash and liquidity are precious and we continue to demonstrate the ability to generate cash, a true strength of our company and business model.

In fact, our positive operating cash flow was over \$101 million during the third quarter alone and has now equated to approximately \$315 million during the first nine months of 2008. Our strong recurring cash flow has historically provided us with many options and opportunities in managing our capital structure. As such, and in particular, in this uncertain economic environment, we have more recently focused primarily on continuing to enhance our balance sheet.

During the third quarter, we have seen a net reduction in our senior debt of approximately \$34 million as well as a reduction in our subordinated debt of \$30 million. For a total debt reduction of approximately \$64 million in the last 90 days alone. These third quarter debt reduction amounts now bring the total reduced indebtedness thus far during 2008 to over \$265 million. These efforts, we believe, have positioned us well to manage through these challenging times. Now, additionally, during the first nine months of the year, the company has expended over \$41 million in CapEx as well as deployed just over \$8 million in the acquisition of stores and accounts and over three million in share repurchases.

As a result of our reduced indebtedness, our leverage at quarter end was lowered to 2.59 times. Down from 3.08 times or an approximate half turn decrease since year end. This positions us comfortably below our covenant requirement of 3.25 turns as of 12/31/08 which is the floor, in terms of our leverage, until the expiration of the facility in June of 2012.

At quarter end, net debt to book cap equated to 45.9% down 1100 basis points in nine months, since year end 2007. So, at quarter end, our debt levels now equating to less than \$1 billion were made up of the following amounts. Approximately \$754

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million in senior term debt and \$240 million in 7.5% subordinated notes while ending the third quarter with a cash balance of roughly \$100 million.

Our cash flow continues to remain strong and leverage levels are healthy and continue to improve. We feel comfortable with where we are in regards to our leverage, liquidity, cash flow and generally our overall capital structure in this period of economic uncertainty. As always, we'll continue to prudently utilize our cash resources going forward.

In terms of guidance, we anticipate the fourth quarter of 2008, total revenues to range between \$698 million and \$713 million. On same store sales that are expected to be in the range of flat to 1% with diluted earnings per share ranging between \$0.44 and \$0.49. This range equals an expected increase of between 5% and 16% over the fourth quarter results of 2007.

For the first time, we're now initiating guidance for fiscal 2009 and expect for all of 2009 our total revenues to be within a range of \$2.83 billion and \$2.89 billion. We expect our same store sales for 2009 to be essentially flat. We're also projecting 2009 EBITDA of approximately \$375 million and diluted earnings per share to be in the range of \$2.10 and \$2.30. As always, this current guidance excludes any potential benefits associated with future stock repurchases or acquisitions completed after the date of this press release.

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

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

Robert, thank you very much. Mitch, also, good morning, everyone. Thank you for joining us.

As you've read and have just heard, we have seen and are seeing both some positives and some negatives or headwinds taking place and perhaps not surprisingly. Overall, the third quarter itself was not bad. As mentioned, we are seeing a shift in the customer demographics with higher income consumers making up a larger percentage of our mix. Unfortunately, not at the same pace of the lower income customer falling off. At the same time, Mitch mentioned we're seeing customers rent more of our Super Value products. These are products with perhaps less size, feature or quality and rent at a lower price point. In fact, that's had a much larger impact on our APU which is the average monthly price than we originally anticipated. In fact, over the last 90 days or so, the average monthly APU on the entire portfolio is down approximately \$1 and that in and by itself is nearly a couple of million dollars a month in revenue.

That said, and while it is one of the key drivers of the lower revenue and EPS guidance, we do believe having a larger selection of value priced products, particularly in this economic environment has and is allowing us to rent to customers we may not have otherwise. I am also pleased with the collection performance in the RTO business, particularly in this environment as the stores continue to manage generally within the company guidelines. We believe that that positive trend will continue.

With regard to the balance sheet, as Robert mentioned, our cash flow banking and liquidity needs are strong and I'm quite comfortable with where we are. Again, as Robert mentioned, we have generated over \$300 million of cash flow through September. That's allowed us to reduce our indebtedness by approximately \$265 million. With our current leverage ratio at 2.59 and the covenant requirement of 3.25 at year end and for the remaining term of the facility, I believe we're financially sound and in a good position to manage the business for both the short and long-term. That said, we're very mindful of the current environment and uncertainty of the future or when things may improve so we'll continue to make the balance sheet a top priority.

Let me spend a few minutes on financial services. When we spoke last, I mentioned that we were nearing completion of the various work streams that were identified to allow us to have a scalable platform and that we were ready and beginning to open additional stores. And in fact, we have opened 55 since July. The work streams are essentially done and performing as designed. However, the operating results are not in line with our expectations. And in fact, worsened during the third quarter

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with our delinquencies having increased and our losses nearly doubled during the quarter in financial services having averaged approximately 36%.

Bottom line, we're not pleased with our current results concerning financial services and realize we must improve and as such, we will not be opening any additional financial service locations until the total results of those are in line including revenue, delinquencies and profits. I remain optimistic that we can do so but unfortunately, we're not currently. I'm not going to guess as to when we'll resume but only to say not until we have those stores profitable.

Now, as you also know, in Ohio, we and other industry participants joined together to support a referendum initiative that would allow the voters to decide whether house bill 545 becomes law which would essentially eliminate payday lending as we know it in that state. We have obtained the necessary number of voter signatures and as such, the matter is on the November 4th election ballot. Now, the citizens of Ohio will determine whether or not payday lending as we know it will be permitted in that state. There's no assurance we'll be successful but we do believe our message is resonating with those voters. Of course, we will know the outcome of that in one week.

Yes, there are some headwinds. We know the lower end consumer is under pressure. We know consumers in general are concerned and uncertain about their future. Being fears of layoff, access to credit, the volatility of oil and the impact it has on nearly everything else. I continue to believe that over time, our proposition will become more appealing to more consumers. As access to credit continues to tighten, the cost of credit rises and with the uncertainty of the future, the flexibility of our transaction offers can and should become more appealing to a larger segment of the population. We believe we're seeing early indications of that today. But again, not at the pace that the lower end consumer may be falling off.

I also think the recent reduction in gas prices should help alleviate some of that. That aside, I believe we're positioned to weather whatever may come our way. Our balance sheet is in good shape. We continue to generate strong cash flow. We're focusing our operational resources on doing a few things very well as opposed to many things. All the while, we continue to work on initiatives to drive additional traffic to the stores and enhance the customer experience. I appreciate all of our coworkers' efforts and commitment and we thank you for your support as well. With that, we would be happy to open the call up to questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Your first question comes from the line of Dennis Telzrow with Stephens, Inc.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Good morning, Mark, Robert and Mitch.

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

Good morning, Dennis.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Robert, you addressed EBITDA for next year. Any sort of brackets on free cash flow next year?

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

Free cash flow next year, Dennis, as you know, part of the significant cash flow that we've enjoyed this year is a one-time benefit associated with the tax associated with the economic stimulus act passed in February. Part of that is a deferred tax liability that will turn a portion of that next year so next year's free cash flow estimate is around \$110 million, \$120 million. And the way you get there is starting with \$375 million of EBITDA about \$55 million in cash interest \$60 million to \$65 million in CapEx, about a \$5 million investment in working capital.

Then our cash taxes next year will be about \$140 million, that will get you to the \$110 million to \$120 million. Normally, just to clarify, normally those cash taxes would be in the \$70 million, \$75 million range and so free cash flow on a normally recurring basis is \$180 million to \$200 million. Next year it will be about \$110 million.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Does that cash situation taxes look back in 2010 to more normal?

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

About 75% of the benefit is turned in '09. 20% will turn in 2010 and the rest in 2011. So, the majority of that is next year.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Ok. Obviously this year you've done a prudent job of reducing debt. Any comment on debt repayment versus share repo given the current environment and asset prices?

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

I think, you know, we've obviously focused on the balance sheet and reducing indebtedness thus far this year. In our prepared comments, we talked about balance sheet as top priority. Obviously we have to weigh that with everything else going on and you know, where the price of the shares are trading. We'll continue to evaluate that but going into this call, our anticipation was focusing on the balance sheet. At 2.5 times leverage or 2.59, we're well below our covenant requirement 3.25 so, we feel very confident with where we are from a liquidity and leverage standpoint but we'll weigh those factors going forward.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Ok, thank you.

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

Thanks, Dennis.

Operator

Your next question is from Arvind Bhatia with Sterne Agee.

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

Hi, guys.

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

Good morning.

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

First question is, can you be more specific on the rent to own business, when you started to see the pressure on that business I guess was it towards the very end of the quarter, beginning of this -- this quarter, et cetera. And then just a flat comp assumption for this year, what does it imply for the core rental business? And my third question is on the financial services side, given your comments, should we assume that that had a bigger impact, negative impact on the quarter than you had modeled. Those are my initial questions.

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

I'll start with that, Mark. Good morning, Arvind. On the RTO business as I commented, our traffic and our agreement levels at the end of August were materially on our internal projections. They're pretty darn close if not right on top of it. Then September and October have been obviously quite a bit behind our projection and therefore, when we factor that in, you know, and you take that going forward, plus the APU drop that Mark talked about, that could be a couple of million dollars a month on the APU drop as we mentioned. Then if it is another couple million a month being behind the BOR over the course of September and October, that's the kind of run rate that comes out of future guidance. The short answer to your question is, yes, September and October have been where the falloff has occurred.

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

What's the APU now, Mitch? The dollar is -- you know, what is the dollar amount right now?

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

From an ideal standpoint, our portfolio of agreement, the average per agreement is about \$122. Of course, we don't collect all of that because there's free time and there is delinquency in there and it runs about \$110 as far as a collected number. As far as the flat comp for next year, that really is primarily the core rental business. And based on what we project the BOR to be going into the year, we think we can have it at least a flat comp in that range anyhow. But that is primarily the core business. The Rent Way stores came into the comp what, two quarters ago. And next year, for the consolidation program in the fourth quarter of '07, those stores that got accounts that come back into the comp next year, they'll come in negatively as you know because we plan on losing some of that BOR, about half of that BOR or agreements on rent. We lose about half of it when we merge the stores so when those come in, they'll have a negative impact, the 300 or so stores that got accounts when they come back in next year. So, when we take that negative impact of those against the rest of the core stores, we come out about flat for the year.

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

Let me clarify what Mitch is talking about, Arvind so you can reconcile it. We have seen that financial services has a positive impact on our comp, about half a percent. That will be offset next year by the negative impact associated with the mergers

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coming back in that Mitch just mentioned. That gets you to the core rental business which is essentially flat. Positive half a point from the financial services. Negative half a point from the mergers coming back in. Rest of the core business is flat.

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

That leads into -- the third prior question on financial services. As Mark pointed out, the performance with the loss on that side of the business was worsened in the third quarter which is why we decided to stop opening them until we get that profitable. Your specific question on the earnings, yeah, right now, it is about a run rate of losing a million a month in pretax or about \$0.01 which translates about a \$0.01 a month. The run rate is a \$0.01 a month. We won't open anymore until the run rate is zero rather than take that \$0.01 a month dilution all the way through. So, that's the update on the financial services.

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

What should we expect next year? You're saying, what's the implication? Should be better than 2008 then, right?

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

Absolutely. You know, again, we can put a time line on when we can get that to zero to open more stores but certainly our goal internally is to get that breaking even at some point next year and how fast we do it, obviously that has an impact on the earnings. The faster we do it the more it helps the profit and the more you're toward the higher end of the guidance we put up for next year. If it is slower doing it, then you're closer -- you move toward the lower end. How fast we do it will impact our earnings next year.

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

It is fair to say you can assume that when we begin opening we've achieved it.

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

That's right.

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

One question on that-- given the regulatory environment for that business is changing rapidly, how tied are you to that business and are you running scenarios of potentially not being in that business or on the other side, expanding more rapidly. This would be the time you would really go aggressively after that business if you are thinking longer term given the turmoil of that market place. So, just kind of wondering what your long-term thinking is on that business. Do you see changes in that business that make you maybe rethink the strategy at all?

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

I think that's a good question. There's obviously a lot of moving parts going on right now, Arvind. First, the short answer, there is a need for the product and service. We know the customers appreciate the proposition and the value in it. Certainly one could surmise given what's going on that the need for it would only get stronger. And I think that, in fact, is or would be the case. At the same time, I think we realize that you know, to grow simply for growth's sake, if you're not managing it right or profitably, is not the right thing to do. So, first thing we need to do is establish a business model that gives us comfort that we can grow it and get the rate of returns that we need and/or would expect. From the regulatory standpoint, there obviously are a lot of

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things going on, pros and cons on both sides of that. It is fair to say we and others will learn more from a perception standpoint, if you will, here in the not-too-distant future. Next week, at least in a couple of states. Arizona, Ohio are two states that this is on the ballot for the citizens. And I think that will resonate the outcome of that, will have some impact, positively or negatively.

And so, suffice it to say, we'll learn more in a week and we'll also have to take that into consideration either in terms of getting better quicker and/or doing something differently with it. You know, we had mentioned in the past and I think everyone knows our investment in that business, not material. It is certainly a fair amount of money. But the fact that we're leveraging real estate and we've got about 40,000 of CapEx expense on average in that business, and to the extent the proposition is not offered in a state, most is transferable if we wanted to move it into another state that had enabling legislation and we felt comfortable and we were in a position to start opening again, we could utilize that. First thing's first right now is mitigating the million dollar loss. And so that's where the focus is.

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

And I guess that's probably obvious, Arvind, if we can't do that you do get out of the business. Right? You quit doing it. That's probably obvious to everybody, if you can't stop the million dollars a month of losses. Conversely, we're confident we can do that and once we do that, we'll decide how fast we're going to grow from there. This is really the first opportunity of the operations side-- stop worrying about opening stores. We stopped a few times because we've had some IT issues and working on some stuff but it has been temporary and they've still been out working on new locations. At this point, it is stopping worrying about new locations, it's working on the operations. So, we're confident we can get it done. Obviously if we don't, the results of that are probably obvious if we can't get rid of the million dollar month loss.

Arvind Bhatia - Sterne, Agee & Leach, Inc. - Analyst

Sorry- jumping around a little bit-- but going back to the RTO business, the lower APU items you guys mentioned, is the margin on those any different. Is there a change in the pricing model?

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

The margin percentages are the same, the four turn model. But it drives less profit by dollars but the margins are the same.

Arvind Bhatia - Sterne, Agee & Leach, Inc. - Analyst

Ok. So, you're not really seeing any competitive pressure that's making you change your pricing structure at all?

Robert Davis - Rent-A-Center - CFO

No. It is not a competitive issue at all. It is where the economy and the recession that we feel the need to do that. Not competitive issues.

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

The other thing, I think everyone is aware there is some deflation going on in general. You know, a lot -- there is already a lot of talk about what some of the flat panels, LCDs and the likes may sell for during the holiday season. Manufacturers backing up on inventory, consumers not spending, how do you stimulate that? That's both good and bad frankly. As prices come down, it is a great thing for us but part of that deterioration in the APU is certainly self- inflicted as we do the promotional or the Super Value product but we're also in a good way realizing cost coming down on some of the other products but that also comes

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sometimes with a lower APU. You have got to outrun it with more business. That's what you got to do. You got to do more if you're getting less out of per unit.

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

The margins are in tact on them but it is less revenue and we just have to do more to make up for the lower APU-- 1% or so off of the average revenue. We have to do that much more business and we haven't seen it yet. Obviously or we wouldn't have reduced our guidance in the fourth quarter.

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

Last question, on gasoline, what's the presumption for the fourth quarter as well as 2009 on retail prices?

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

Retail prices embedded in our model right now are between \$3.05 and \$3.10. Prices right now are \$2.70, \$2.80 retail across the U.S. So, there is a little bit of room there. Obviously that will change the outcome of the results if gas prices go up or down from here.

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

Thank you, guys.

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

Thank you, Arvind.

Operator

Your next question comes from the line of Mike Smith with Kansas City Capital.

Mike Smith - *Kansas City Capital - Analyst*

Good morning.

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

Good morning, Mike.

Mike Smith - *Kansas City Capital - Analyst*

Arvind got most of the questions but I still have a couple left. As I heard you going through the financial services, you indicated your loss had gone up to 36%. I think what you were budgeting for this, it was 22% and that's kind of a standard for the industry. What are you doing wrong, do you think?

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

Well, actually, our -- the industry has been around 22%. We had previously been actually running a little lower than 20%. And felt we could continue to do that. Why the sudden increase, that's a great question-- one of the things we struggle-- we opened up quite a few again. I think we've had some concerns about the verification, frankly. The initial verification as to how much money you're loaning. We need to enhance the collections side of it. When you think about the rent-to-own business, if the customer has an inability to pay, there is a tangible asset that can be given back or taken back. In this case, it is very different. If you don't have money, you don't have anything. And we've -- in a couple of areas in particular, it's gone up a little bit everywhere. There are a couple of areas that we just -- the training, the quality of the loans on the front end, the verification process and then working them more diligently when they became past due I think has been part of the problem.

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

Certainly starts with the underwriting. That's where we're tightening up. Part of stopping opening new stores is getting that right, getting the underwriting standards right on the front end and that's what we're working hard on.

Mike Smith - *Kansas City Capital - Analyst*

Those geographies where you specifically identifying problems be Ohio and Arizona?

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

No. In fact, Ohio actually continues to run pretty well. Arizona -not related to where it is on the ballot.-

Mike Smith - *Kansas City Capital - Analyst*

And if the ballots were to go against you in those two states, would you have a write-down you would have to experience?

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

We're not sure yet. Certainly in Ohio, there's other products we've looked at. We would -- we were in a process of evaluating that. Whether we would stay there and just switch to a lower margin product, we may try it for awhile. The lower margin product and see if we can make it up by doing more business. We may not. We really haven't decided yet what we'd do. But if we did leave there, the write-down at 50 stores in Ohio and probably average about 40,000 in CapEx is about \$2 million.

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

Really what you would need to write-down is the signage because some of that could be reutilized. So, \$200,000 probably in terms of a write-down.

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

Certainly not a material write-down, Mike.

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Mike Smith - *Kansas City Capital - Analyst*

Help me make sense of this. You indicate you're getting a higher income customer which is what I would expect in this kind of an environment. But those higher income customers are more bargain shoppers and they're going for the lower price stuff or why wouldn't it be the other way around?

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

Not necessarily those customers. What we're trying to do with our Super Value product is -- is mitigate any loss on the other end of the spectrum. That's where the lower APU is coming from is again, the lower income customer that's under a lot of pressure. Obviously, we've lost more on the lower income end than we've gained on the higher income end. When you think about higher income customer, it is not like the shift has gone 100%. As we look at the numbers in the categories, the higher income categories are up I don't know maybe 10% in the higher income categories versus lowering categories being down 10%. It is not like every customer coming in is the higher income customer that's now squeezed out on the credit side. So the Super Values are really about saving for customer and that's what we need to do and make the higher income customers squeezed on credit be growth rather than just replacing what we're losing on the bottom end.

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

I think it is also fair to say though, Mike, any consumer buying anything is more conscious about what they're paying and what they really need. You know, even us perhaps going to dinner. Go to this restaurant and buy that or maybe go here and buy something a little less. Frankly, irrespective of the economic demographics. It is a little bit of all of that. The real answer as Mitch said is fewer of the higher income relative to the lower end being pressured at this point.

Mike Smith - *Kansas City Capital - Analyst*

Thanks. One other question. You mentioned you were centralizing your purchasing. How is that a change?

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

Good question, Mike. We're working on it. We have a project with the new program where right now, off of our approved list which is centralized, our proof product list but the Manager and multi-unit Manager in the field drives the order for the most part. In certain cases like I mentioned, the \$14 million worth of inventory we sent in late September to support the October advertising. But for the majority is local management driving the purchase based on their needs-- and there is approval processes and if they've got too much of a certain part of inventory, they can order it and there are all of those kind of controls, still, it is driven from the field. What we're going to do is centralized purchasing is driving the order from here on a much more analytical basis, that's the Software implementation is the analytical part, still letting the manager and local management approve the order and say, "No, here's why I don't need that", so the control will be on the other end of a Manager trying to correct something that may be in the analytics we don't know about because there's something going on in that particular area that, particular week and so forth. It is a matter of us pushing with making suggestions and pushing to the manager versus the Manager or District Manager driving it from the other end.

Mike Smith - *Kansas City Capital - Analyst*

Thank you.

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

And just to finish that point, we think that our investment is on the analytical side that we can get smarter about our inventory needs and have any retailer has product outages when the demands there and you don't have a product. If you can reduce those by getting smarter from analytical standpoint with the IT investment we're making, then that's how we think that can help us and make it worth the investment.

Mike Smith - *Kansas City Capital - Analyst*

Right products at the right time.

Operator

Your next question comes from the line of John Baugh with Stifel Nicolaus.

John Baugh - *Stifel Nicolaus - Analyst*

Good morning.

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

Hi, John.

John Baugh - *Stifel Nicolaus - Analyst*

I wonder if we could try to get into the guidance numbers and I'm going to focus on the rental and fee line which I think in the fourth quarter is guided down about 4%. Yet it sounds like you're guiding next year flat. And you know, you've got BOR down. I know you've reduced store count. You've got deflation and APU going the wrong direction. I would have assumed that in order to get back to flat year-over-year, you have to have some uptick in business. It strikes me as though unemployment is getting ready to go through the roof and we'll lose more low end consumers-- so can you provide more color on how you think about the numbers that drive both the fourth quarter and then '09, rental and fee ?

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

I'll take the first shot at it, John. First of all, when you say guide down about 4%, that was off a forecast, not necessarily the comp. Our fourth quarter comp is also flat to 1% which in next year, we're saying flat. The comp is consistent from the fourth quarter to next year.

John Baugh - *Stifel Nicolaus - Analyst*

I'm not looking at the comp, I'm looking at total revenue dollars rental and fee line, year over year-- fourth quarter.

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

Certainly --

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

We had an extra business day last year in the fourth quarter.

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

I think there was an extra business day last year. But the thing that happens in the fourth quarter, John, is that we do grow. Even in October, we'll have a little bit of agreement in customer growth just below what our expectations were bringing down the guidance. We will grow in the fourth quarter. Even in this environment. Now, how much is the key, right? But we'll grow in the fourth quarter. We'll start next year with more agreements on rent than we have today. The best time of the year for us to grow is November through March, our best five months of the year.

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

The other big thing when you look year over year, John, again, I'll remind the consolidation plan we did 300 stores, those were all in, even though we closed them in the fourth quarter last year, we had all of the revenue in the fourth quarter of last year. And as you know, our expectation is we're going to lose half of that over time. So, again, you got to discount a big portion of that because of the 10% less stores.

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

If you lose half of the agreements over time, that's 5% of our revenue right there. That fourth quarter, the first quarter of next year will be the first time that we're looking at revenue against the base of stores where they've already been closed because they closed late in the fourth quarter last year to March 20.

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

Does that make sense, John? Do you understand what I am saying?

John Baugh - *Stifel Nicolaus - Analyst*

I do. Maybe - a different way to come at it would be I think your inventory on rent, year over year at the end of the third quarter is down 15%. Is that accurate?

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

I looked at that earlier. I thought it was about 13%. Somewhere in that range.

John Baugh - *Stifel Nicolaus - Analyst*

So, I guess the question, you know, can we walk through the various drivers that year over year cause rental and fee or '09 to be guided fairly flat to '08 in light of the fact taking seasonality out because we're looking at third quarter end vs. third quarter end -- the 15% down number. That's what I'm struggling with.

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

Let me take the first shot that also. First of all, the 13%, 15% comes from the issues we're talking about. The store consolidation plan, the deflation of the product cost, and what we're bringing in also on the Super Value's. Keep in mind, you're looking at an inventory dollar amount that won't translate to rental and fees because in most cases, I would say we, as we bring in a product at a lower cost, we leave the monthly or weekly price the same and lower the term. Probably more than half the cases, at least. So, if a product goes down from \$450 to \$400 over time, doesn't mean that our revenue per month is less. We just shortened the term. The lower value won't translate directly to revenue.

John Baugh - Stifel Nicolaus - Analyst

Ok.

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

The other thing that's in the rental and fee, albeit we're not opening any more financial services from this point forward, I guess those are below. Those are just the RTOs.

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

It is really because we're not cutting the rate as much as we cut the term.

John Baugh - Stifel Nicolaus - Analyst

Did you have any early payout issues with the stimulus checks?

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

Well, the second quarter was the majority of stimulus checks but the payouts were running higher on a year-over-year basis. They're running higher. You'll recall we had a really good year in 2006 until about April or May of last year. When you have a good run, you have payouts 12 months to 18 months later. Our payouts are running pretty high. That's part of that dropping. But again, the reason that won't translate to rental and fee. You won't see 15%, or 13% drop, in inventory followed by a 13% drop of rental and fee because we're reduced the term, not necessarily the price.

John Baugh - Stifel Nicolaus - Analyst

Would you be willing to discuss what, in September or October, were your net customer agreements or BOR, some kind of metric to speak to the decline that you saw?

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

I would just say that September, we lost agreements with customers and certainly more -- we expected to lose some, not as many as we lost. October is normally a month where we start to gain, and again, October through March, really November through March being the best months for this business. For us at least with October being some gain--we will have some gain in October but not as much as we had anticipated earlier in our modeling. Even though it is behind our forecast, we will end up by Friday night with a gain of business for the month, not just not what we anticipated.

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John Baugh - *Stifel Nicolaus - Analyst*

Ok.

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

One thing I might add, John, you raised the question about payouts and Mitch said and they are actually up a little bit year over year and have been for the last several months. Our deliveries and traffic is actually up a little bit year over year also. It is not up at the pace we would like it to be up, given we have more payouts. So, on one hand, our traffic is up. Our deliveries are up year over year. Our returns are down. Those are both positive. The payouts are up also. And you would expect traffic to be up at a higher rate than what it is. Even though it is up. So, it gets back to what Mitch just said. Lost a little more than what we thought in September, we'll gain in October, probably not the amount, not the amount we originally expected.

John Baugh - *Stifel Nicolaus - Analyst*

Lastly on the financial services really quickly, we've got a very negative picture developing on the congressional front. And legislative front I would think. And we've got consumers losing jobs and your losses double. I'm wondering if-- obviously depending what Arizona and Ohio do, but at what point do you say we're not going to lose a million dollars a month, we're done. Is there a game plan that you can tell us, you know, in terms of the time frame when we're going to be losing only half a million a month or just going to be out and take the write-off? Is there any kind of time line on the level of losses that you are willing to sustain?

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

Well, setting the legislative part aside for a minute because that could make a decision for you, irrespective of how you're doing. Looking at it purely from the operational results side. Obviously, to some extent, enough is enough now. In terms of not opening more until we start improving in getting the desired results. I have an expectation to see improvement as we move forward. I don't expect that to change overnight. I expect us to get better every month. If we're sitting here six months from now and we're still losing a million dollars a month, I've had enough.

John Baugh - *Stifel Nicolaus - Analyst*

So, in your guidance --

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

I don't think that's going to happen but we're not going to sit here and that's the first thing we did is well, we're not going to -- let's give it every chance to be successful. Let's not put more on our plate. Let's go back and redefine the underwriting and the training and the collection process and so forth but if five or six months from now, we're no better and we're still having these kind of challenges then yeah, we're going to have to make some very difficult decisions at that point in time.

John Baugh - *Stifel Nicolaus - Analyst*

Mark, what would be in the guidance if we're going to lose \$0.12, \$0.13 cents this year, in your guidance next year, what's the assumption for financial services?

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

You know, our internal goals, John, are to get that to break even at some point next year. So, if I was modeling, I would probably model it toward breaking even. Certainly by the end of next year at the latest. If we're not there, we wouldn't be in the business anyhow.

John Baugh - *Stifel Nicolaus - Analyst*

Thank you very much.

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

Thanks, John.

Operator

Your next question comes from the line of Shasad Ali with Shadocus Capital.

Shasad Ali - *Shadocus Capital - Analyst*

Hi, guys. Thanks for taking my call.

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

You bet. Good morning.

Shasad Ali - *Shadocus Capital - Analyst*

Good morning. Just real quick on the debt pay down for next year, I know it is kind of a high priority for you guys. But is that built into the guidance of \$2.10 to \$2.30 on the EPS line?

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

Yeah, right now the way we model the business is all excess cash flow above working capital needs are paying down debt. The assumption of paying down debt. So, there is some of that built into the expectation of the guidance we've given already.

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

There is an interest amount in the guidance as well.

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

Right.

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Shasad Ali - *Shadocus Capital - Analyst*

Perfect. Thank you. And I guess can we talk a little bit about the DPI business. Kind of a hot button on the last call. We haven't talked about it much on this call. What's the view on the business and how did it do during the quarter and do we actually see this as a growth initiative for the next year or are we going to exit DPI--what's the opinion?

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

As we talked about last quarter, there was a couple of cent impact in the second quarter related to some of the volatility in energy pricing. One of the things that we did in the third quarter to mitigate that volatility was to lock in our energy buy for the balance of the year which we have done and also believe that going forward, we would break even for the balance of the year. The third quarter has small impact, couple of hundred thousand dollar loss, essentially break even which is what we expected and what we continue to expect. We said then, and we continue to say, that our view on that business will make a longer term decision at the end of the year as we see how the customer behaves over the last six months of the year and we're a little bit more comfortable with that business but haven't made any long-term decisions at this point.

Shasad Ali - *Shadocus Capital - Analyst*

Ok. And that's both -- is that material to EPS next year in terms of the guidance?

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

No.

Shasad Ali - *Shadocus Capital - Analyst*

Ok. , ok, well, thanks. That's all of my questions.

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

Thank you.

Operator

Your next question comes from the line of Joel Havard with Hilliard Lyons.

Joel Havard - *J.J.B. Hilliard, W.L. Lyons, Inc. - Analyst*

Good morning, everybody.

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

Hi, Joel.

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Joel Havard - J.J.B. Hilliard, W.L. Lyons, Inc. - Analyst

I hate to focus on today's numbers, but Q3, the salary-related--was up a bit. Was that really hurricane-related, moving people around, dealing with stores? Or was there something extraneous in there and then, as a follow-up, do you feel adequately/properly staffed at the store levels going into this tougher environment?

Robert Davis - Rent-A-Center - CFO

As it relates to the salary and other line, there was a few hundred thousand, maybe closer to a million dollars associated with the hurricanes. Other portion of that comes from the rental side. So, we talk about \$0.02, there is a portion of that from the rental side and a portion of that from the losses we write off, for the inventory. Costs associated with cleaning up the stores, et cetera, et cetera-- so there was a portion of that. Also, the losses that we experienced in the third quarter associated with financial services that doubled. That drove that number up some. And so-- issues like that, we're in that number.

Joel Havard - J.J.B. Hilliard, W.L. Lyons, Inc. - Analyst

Putting them in -- that would probably be the relative proportion to them. Is that a good read that it is storm-related, cleanup related and then financial services is that a right rank order?

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

Yeah. There was one more -- there was one more business day in the third quarter compared to the second. I think you're talking sequentially, Joel.

Joel Havard - J.J.B. Hilliard, W.L. Lyons, Inc. - Analyst

That's correct.

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

So, there is actually one more business day in the third quarter. So, you have to think about another day's worth of labor and all of the other. So, that's another piece, I guess of the other things you identified.

Joel Havard - J.J.B. Hilliard, W.L. Lyons, Inc. - Analyst

Ok, good. Then going to -- looking into the deteriorating environment, again, do you feel that this is the right range of staffing at the store level?

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

Yeah, absolutely. I guess, you know, unfortunately or fortunately, one of the benefits of the economy, staffing actually today is easier than what it was a year ago.

Joel Havard - J.J.B. Hilliard, W.L. Lyons, Inc. - Analyst

My concern is that you're not going to make some radical cut and wind up being understaffed and that we would risk facing some sort of service degradation.

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

We certainly feel comfortable with the staffing levels today.

Joel Havard - *J.J.B. Hilliard, W.L. Lyons, Inc. - Analyst*

Thanks, guys. Best of luck.

Operator

Your next questions comes from the line of Brian Shane with West Coast Investors.

Brian Shane - *West Coast Investors - Analyst*

Good morning. Thanks for taking my question.

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

Good morning.

Brian Shane - *West Coast Investors - Analyst*

I just had a question on the political front. From current polls, it looks almost certain that Schumer will be the next Chairman of the Finance Committee in the Senate. And a couple of years ago, he proposed S4307 which would regulate the rent to own business under state consumer credit laws. I was just wondering if that were to happen, how would your business change if you were regulated by state consumer credit laws?

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

If that were an outcome, it would have an impact. The way he defined the bill it was really characterized as a credit sale and we would fall under the credit leasing which is a pretty material change. I will tell you, Brian, that yes, he has, over several years, has proposed a bill that has never gone out of committee. Has never had any sponsors, co-sponsors, or supporters. I only say that, of course, we on the other hand, I think you and others may know, have also been working on a positive federal bill, the RTO business and albeit has not been passed at this point we have had very strong bipartisan support in both houses. In fact, the bill that was out this year has over 25 sponsors in the Senate and over 100 sponsors in the house. Pretty evenly split between the parties. There is a lot of strong support for the bill and more importantly, there are 47 states today that have enacted enabling legislation that's worked very well in this space. To suggest that all of that be undone, it is not to say it couldn't happen but it seems very unlikely to us.

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

As Mark was pointing out, Brian, a bill that we would support, a consumer bill that works in concert with the 47 states that Mark was referring to, has over 100 sponsors in the house and over 20 sponsors in the senate, conversely, the bill that Schumer proposed never got any cosponsors so, we're not overly worried about the -- something to stay in front of. We're not overly worried about the political landscape on the RTO. We talked earlier about financial services. There is certainly some volatility

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there that concerns us a lot more, but the RTO states, you know with the 47 states, with the legislation in place as long as it has been in some cases, 25 years, that's not something that keeps us up at night.

Brian Shane - *West Coast Investors - Analyst*

Ok. Thank you.

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

Thank you.

Operator

Our next question comes from the line of John Curti with Principal Global Investors.

John Curti - *Principal Global Investors - Analyst*

Good morning.

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

Good morning.

John Curti - *Principal Global Investors - Analyst*

I have two questions. First off, I was wondering if you could give us maybe some additional details in terms of the -- your higher end customer versus the lower end customer that's falling out in terms of a number of units or items on rent and the average revenue per month there.

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

We don't have the detail at that level that you're asking, John. We do know that the average number of units that the customers are renting is down from high at one time of about almost 1.6. Today, it is about 1.5. And that has actually declined to the current level over the last couple of years. I don't want you to think that that's happened in the last quarter. But there's been some deterioration on the number of units per customer seen over the last couple of years. It is at its lowest level that we've seen in a number of years, probably ten frankly, at the 1.5. I can't break out for you the mix between the demographic customer demographics as to what that mix is. The same holds true with the APU. We don't have that level of detail obviously other than to know that it is in the aggregate down a dollar.

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

We know that our mix of customers, the higher income categories are making up a higher percentage-- of the customer mix. But anymore detail than that, we don't have. And also, as you get those customers in, John, it would take awhile for those numbers to be meaningful certainly on the number of agreements per customer because at first, most of them only get one. Then you build that relationship over time and add a second or even a third one to certain customers. So, when you're first

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getting the customer in, it would be running behind the core customer anyhow because most people start out with one and then establish it over time. It would take awhile before that was a meaningful number anyhow.

John Curti - *Principal Global Investors - Analyst*

Then as the lower end customers fall off, they're literally just returning the merchandise to you?

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

In some cases, you know, Mark mentioned earlier that the paid in full, the payouts being higher.

John Curti - *Principal Global Investors - Analyst*

Ok.

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

It is really a matter of not re-renting as much as anything at this point until they know where their life is going. If their hours at work come back--gas prices certainly there's been good indication but that's been real recent. It will take awhile for them to feel confident about those staying there. So it's a matter of, in some cases returning it, but more often, it's a matter of, once they're done with that agreement, being a little scared to add commitments at this point.

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

That 1.9, excuse me, 1.59 falling down to 1.50 speaks to the core customer that we've served over the last multiple years more so than the new customer. That gets to the heart of what Mitch just said. More often than not, renting less. Certainly some not renting at all. More than that not renting as much.

John Curti - *Principal Global Investors - Analyst*

Certainly, earlier in the year, your customer was being hit by dramatically higher gas prices. And food prices and electricity, et cetera, all their living expenses going up. We've seen some easing on some of that. Obviously as the economy has deteriorated and the unemployment rate begins to go up, it would seem like, you're going to have more pressure on that low end customer and them falling out and not enough on the higher end customers coming in on the top end. That's why I'm still a little curious as to how you think you can get to kind of flat comps next year and kind of more or less flat revenues. It just seems like --

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

There's a lot of pressure on the lower end consumer. Fortunately, gas prices have come down. I don't think we can say the same with the other associated costs. You hear that "sticky" word used a lot now. Why haven't some of the food costs, the other costs come down that's affiliated because of the high energy cost. Setting that aside, hopefully gas will stay where it is, at least for some period of time. That will certainly help us. You know, the fact is-- I mean we're losing some customers. We're gaining others. We have customers that, you know, you still have needs and wants and while they may not be working, if they're on unemployment and frankly, we have customers on unemployment and if they need a refrigerator and this is the means in which it allows them to get that, we're going to get that customer. And we do get that customer. We continue to believe that, again, as things deteriorate and access to credit tightens and goes higher and higher and other retailers are clamping down and again, there's been talk of that here as of late. Some of the other merchants raising credit standards, tightening down on the amount

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of credit extended, the point there is consumer are going to have less options, generally speaking, and does that, in and by itself create a larger audience for us to serve than what we're doing today.

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

We're already seeing it. So when we factor in what we're losing on one end and what's coming in on the other end, without being overly optimistic looking at next year, comes out to about a flat comp. We're not expecting, you know, some big turnaround. It is just kind of what we expect down the middle of the fairway with some dropping in and some falling off.

John Curti - *Principal Global Investors - Analyst*

Would it be fair to say that the current conditions are somewhat unique probably over what you've seen over the past 15 or 20 years? I mean obviously the economy has ebbs and flows but given the nature of what has caused this, that maybe that does give you hope that as credit does contract, that you see more of the higher end coming down and needing your services.

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

It is certainly different than I think most people have certainly seen. You've probably got to go back maybe 25 years. I guess you could go back to the earlier mid '80s. Maybe that's the closest thing when interest rates were 15%, 18%. Unemployment was I think double digit. Nearly. Certainly the mid '70s we know it was bad. The early to mid '80s had a similar cycle. I'm reflecting. Again, I've been in this business since '79 so I missed the mid '70s period. I pretty strongly remember the '80s. And now, albeit, of course, we started this company in 1986 and I don't want to associate one with the other. It is a brand new start-up. We're doing gangbusters now. Was part of that fueled by what was going on? Perhaps. Certainly part of it was where we were from an infancy standpoint. Even prior to that with the other firm, I know that the '80s were pretty strong for the original Rent-A-Center during that period also. Not just opening new stores but the performance of the stores that were in the portfolio. In fact, that company went public in 1983 during all of that and now it sold in '86 to a British company but there was a few years there as a public company in the early and mid '80s where there is certainly data and they were doing quite well as I recall.

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

With all of the negatives we could talk about in the economy, just have to keep in mind also that the credit crisis and the credit card debt crisis will help our business. Now, to what extent, you could argue. But there's no question that a tightening credit market is good for our transaction that doesn't involve credit. We've seen that already. We've seen that in the numbers. It is helping. It hasn't offset the loss yet. Although as I mentioned earlier, even though it is below our expectations, and we lowered guidance, we're going to grow customers and agreements in October. So, this is not a business that's deteriorating in October, in fact, the earnings estimates for next year are, Robert, you mentioned in your prepared comments, 10% to 15% higher than this year. Below expectations but certainly not deteriorating below where the business is falling apart.

John Curti - *Principal Global Investors - Analyst*

At some point, you begin to anniversary the falloff on the lower end.

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

That's right.

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

Exactly.

John Curti - Principal Global Investors - Analyst

All right. Thank you very much.

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

Thank you.

Operator

I would now like to turn the call back over to our speaker Mr. Mark Speese.

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

Thank you very much, folks, as always, we appreciate your time and your interest and your support. We realize again there are some headwinds. We believe we have a plan in place that will allow us to overcome it. As I mentioned, I think we're prepared to handle both the short and the long-term. We feel very comfortable with our balance sheet, continue to generate very strong cash flow. We believe that gives us a lot of flexibility to handle whatever may come our way. We've got some work to do. Particularly as it relates to financial services. Again, believe we have a good plan in place to handle that as well. As always, we're available for any follow-up comments and more importantly, we look forward to reporting back to you next quarter with this quarter's results. Thanks again.

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