FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning, and thank you for holding. Welcome to Rent-A-Center's first quarter 2008 earnings 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. (OPERATOR INSTRUCTIONS). As a reminder, this conference is being recorded April 29, 2008.

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 Investor Relations*

Thank you, Ranelle. 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 first quarter. If for some reason you did not receive a copy of the release, you can download it from our website at investor.rentacenter.com.

In addition, certain financial and statistical information that will be discussed during the conference call, will also be provided on the same website. 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 forecasts, growth and revenues, earnings, operating margins, cashflow 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 annual report on form 10K for the year ended December 31, 2007. 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 first quarter earnings call.

As you can see in the press release, total revenue, same-store sales, and both reported and adjusted diluted earnings per share for the quarter, exceeded our guidance. A very good quarter for us, including the 2.8% same-store sales, which was primarily the result of higher merchandise sales revenue, as more customers than we anticipated exercised their purchase option in the first quarter.

These extra sales as well as getting some of the expense benefits from our store consolidation plan earlier than expected, drove our revenue and our earnings above our guidance. And traffic was okay for the quarter, as we continue with our worry-free guarantee advertising campaign.

Collections continue to improve. Our average weekly delinquency number on customers one or more days past due was right at our goal of 5.9%, down 46 basis points from the last quarter, and 17 basis points better when you compare it to the first quarter of '07.

So very good results there, and they are translating to better results on the loss line. In fact, our customer skips and stolens as a percent of revenue was 2.6%, down 20 basis points from last quarter, and down 60 basis points from our high level last summer.

Our inventory held for rent metric came down nicely to 20.9%, a 70 basis point drop from the fourth quarter, and comfortably within our range of 20 to 24%.

The store consolidation plan that we announced in early December is substantially complete. And as I mentioned earlier, we've recognized some of the expense synergies from that plan earlier than expected, and we are on track for the $2.0 to $2.5 million of monthly operating profit from that initiative, beginning in the second quarter.

With regard to the economic stimulus act, where the additional tax refunds start this week, in fact they started yesterday and run through mid July, we've developed a well thought out plan to benefit from the tax refunds through additional advertising and additional operational efforts. So, we're pretty comfortable with our plan there.

In summary, the quarter was a very good one for us, as we continue to focus on driving traffic through our various marketing and advertising initiatives, continuing to control our delinquencies, our losses and our inventory levels. I'd like to thank our 20,000 co-workers for their execution of that plan, and for their continued commitment to our success. Robert?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Thank you, Mitch. I want to spend just a few moments updating you on a few of our financial highlights during the quarter, and then I'll turn the call over to Mark.

I would like to mention that much of the information I provide, whether it's historical results or forecasted results, will be presented on a recurring and comparable basis.

As outlined in the press release, total revenues increased during the first quarter of 2008 to $756.6 million, supported by a positive same store sales comp of 2.8% that Mitch just spoke to. Adjusted net earnings and diluted earnings per share were $38.2 million and $0.57 respectively, and exceeded our guidance range for the quarter of $0.47 to $0.53.

As reflected in the press release, our reported GAAP earnings for the quarter were impacted negatively by approximately $0.03 or $2.9 million, as a result of finalizing the previously announced restructuring plan. The benefits of which include approximately $2.0 to $2.5 million in incremental monthly operating profits.

And as Mitch alluded to, we do believe that our ability to move with the appropriate level of speed and diligence in executing our restructuring plan, has enabled us to capture some of the benefits much sooner than originally anticipated. And as such, is reflected in our first quarter results, as well as our forward guidance for the balance of the year.

Our first quarter EBITDA came in around $103.6 million, and a margin of 13.7%. That's a 220 basis point increase from the fourth quarter of 2007.

Our operating cashflow has remained very strong and was over $128 million during the first quarter. As a result, as of March 31, we were able to reduce our outstanding indebtedness since year end by over $134 million.

Leverage at year-end equated to 2.84 times. Down from 3.08 times, or a quarter turn decrease since year end while debt-to-book cap equated to 53.3%, down 250 basis points from a year ago. At quarter end, our debt levels broke out as follows, approximately $825 million in senior term debt and $300 million in our 7.5% subordinated notes, while our first quarter ending cash balance was just over $78 million.

Additionally, since March 31, we have further reduced indebtedness by approximately $11.7 million. Our cashflow and leverage levels are healthy, along with our inventory levels, and so our balance sheet remains very strong.

Going-forward, we will continue to utilize our cash to invest in the business, de-lever the balance sheet, as well as make opportunistic share repurchases.

In terms of guidance, as outlined in the press release, we anticipate the second quarter of 2008 total revenues to range between $701 million and $716 million on same store sales that are expected to be flat, with diluted earnings per share ranging between $0.53 and $0.59.

For all of 2008, we continue to expect total revenues between $2.868 billion and $2.908 billion, with same store sales between the range of flat to positive 2%. Additionally, we are projecting 2008 EBITDA between $390 and $410 million, and free cashflow between $230 and $250 million. Diluted earnings per share are estimated to be in the range of $2.17 and $2.32 .

As always, this current guidance excludes any potential benefits associated with potential stock repurchases or acquisitions completed after the day of this press release. With that financial update, I would now like to turn the call over to Mark.

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

Thank you, Robert and Mitch. And good morning, everyone. Well, as you've just heard, and read, all in all, I'd say a pretty good quarter for us. I must say I'm not only pleased with the overall performance, but in particular, some of the operational improvements that Mitch mentioned: our weekly delinquencies and customer losses returning to historical levels; the inventory held for rent, as well as the overall mix of inventory, in good shape, and certainly the store consolidations and our ability to realize the expected synergies from that plan. Not only a good quarter from a top and bottom line perspective, but as Robert also mentioned, a very strong quarter for cashflow, which allowed us to further strengthen our balance sheet.

Let me add, I'm very comfortable with where we are in terms of our capital structure, be it our current debt levels, the leverage ratios, our future needs and so forth.

With regard to the financial service business, as we discussed in our last call, we were addressing some back office issues, essentially the buildout of automation to give us a scalable platform that would allow us to efficiently and cost effectively reach mass. We have made significant progress to date, having completed several of the identified initiatives, and are in the testing stage of the remaining enhancements. Our current expectation is to have all systems in place by the end of May or early June.

Now, that said, we are opening a couple of dozen locations as we speak. And we'll use these stores as a test for the system enhancements. Expecting no significant issues, we'll begin accelerated openings in July, expecting to add approximately 150 locations for the year. I'll also add that the operating results of those in place continue to improve and give us further comfort in our ability to execute the business model, as well as support the need for those services.

In summary, it was a good start to the year. We have and continue to make improvements to many aspects of our business. At the same time, we're very mindful of the macroeconomic environment in which we live and work, and remain focused on those things within our control, the customer experience, the value proposition, our collections and inventory, maintaining a solid balance sheet, and managing our resources wisely.

We appreciate your support, and with that update, we would like to open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). And we'll pause for just a moment to compile the Q & A roster. Your first question will come from the line of Dennis Telzrow from Stephens, Inc.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Good morning, Mark, Mitch and Robert, great quarter.

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

Good morning.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Mark, I guess the guidance on same store for the second quarter is driven by, more your thoughts about what merchandise sales will be given you had such a robust first quarter, and I guess I'm a little, maybe scratching my head with the second stimulus package, thinking that may give you a little more oomph in merchandise sales, any thoughts there.

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

The first quarter, Dennis, you're right, it was enhanced quite a bit by the accelerated number of sales and EPO's that we had in the first quarter that drove the comp to the level that it was.

As you know, that recurring revenue associated with those agreements is gone. You have to replace those, so there's the falloff of the payouts that we experienced in the first quarter. We are expecting some benefit if you will, from the payouts that may come in the second quarter. I don't expect it to be near the level that we saw in the first quite frankly, and it's really hard to estimate, there's a lot of -- depending on who you listen to, a lot of the commentary today, what you're hearing from the consumers is that they'll use that money more often than not, you're hearing to buy essentials or pay off current debt. Does our agreement fall under that? That's really hard to, frankly, estimate, so we have a little bit of an uptick expected in our sales, but certainly not at the level that we saw in the first quarter.

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

Yes, I'd agree with you, Mark, it's just more of an unknown, Dennis, because we know what to expect in the first quarter, because we have that every year, this year was a little higher than we expected and that helped drive the comp above our guidance, it was up to 1%. But it's just more of an unknown, so where we'll really focus on -- if it brings a lot more sales than we think, then revenue will be higher than we think.

But what we're really focused on is making sure we convert the ones we haven't converted yet from the first quarter as well as convert those who do come in and payout, that's really what we're focused on from an advertising and operational standpoint. Like I said, it's more of an unknown so we don't have a lot baked in, we have a little uptick. But just, with it being so much of an unknown. If it's anything like the first quarter, we'll have more revenue than we're anticipating.

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

Long term you hope it's not an abnormal amount of payouts and/or to the extent it is, you obviously want to be able to re-rent to them or get them into a new agreement so you have the annuity, if you will, in the forward months or quarters.

Dennis Telzrow - *Stephens, Inc. - Analyst*

And the last question, any particular geographic disparities given the -- disparities we see in various states, Florida, California?

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

Not -- I mean, they all vary a little bit, but I wouldn't say materially there's -- I know there was discussion about Florida, in our case, last quarter and one of the others, and Florida's a little behind. But not to the extent that the other mentioned in terms of the overall, but I wouldn't say there's any state that is materially different than what we've been seeing or what our expectation was.

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

There certainly is variances, but nothing that's really affecting, no one region of the country is materially affecting our numbers.

Dennis Telzrow - *Stephens, Inc. - Analyst*

All right, thank you very much.

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

Thank you.

Operator

Your next question will come from the line of Arvind Bhatia with Sterne, Agee.

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

Thank you, good morning guys. Good quarter. My first question is, am I reading this right, that your free cashflow guidance is now gone up from what it was before, and I say that as I'm looking at your most recent discussion on that topic, and I'm adding the bonus depreciation mentioned in your 10K. It looks like your free cashflow guidance is now higher than what it was before. Robert, is that accurate in the context of what you guys are supporting.

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Yes, Arvind, the free cashflow I mention in the opening statements of $230 - $250 million does include the benefit associated with the tax law that was signed into place in the first quarter of 2008. We anticipate not being the cash taxpayer this year, so that's kind of a one-time benefit, temporary benefit this year. Obviously, that's a deferred item that we'll end up paying in forward years, but for this year, we will have about a $65 - $70 million benefit associated with that.

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

Okay, got it. Then, was there any difference in the bad debt rate in the financial services business, did you see kind of a stable environment there? Because I know one of your -- I guess one player in that space I think recently came out and indicated there was some deterioration, I wonder what your experience was in that?

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

Yes, Arvind, this is Mitch. The first quarter was good from a delinquency standpoint, both on the RTO side and the financial services, came down and you'd expect that really in the first quarter. I don't know the details, I heard a little bit about what you're talking about, but I don't really know the details behind it.

In our case, the first quarter, you'd expect to be better with the income tax money on the street and it was, down at 15% range, and some months even lower than that. But in the ballpark of 15%, where our goal is to be under 20%.

In the course of the year, you would expect the first quarter to be lower, and sure enough it was. That was brought under control, and we were very pleased with our first quarter results from a delinquency standpoint on the RTO side and the financial services side. So, we didn't see any problem with that.

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

And losses too, Mitch, not just delinquencies.

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

Right, translates to the lower loss, good point.

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

Got it. And then, the gasoline prices, obviously that's a headwind for everybody, but what are you assuming in your thinking for the year, the trends in gasoline prices, you think we go to $4 and stay there, kind of -- what's baked into your thinking?

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

Well, that's from a model perspective, we are assuming that essentially going to the $4. There's been all kinds of talk about that, we know we're at $3.60 or $3.70 today, and we have assumed an increase driven by everything that's being said. Hopefully it doesn't go any higher than that, I don't know -- but the assumption from an expense standpoint as well as how do you think about pressure on the business if you will, for lack of a better word, we have that thinking, we believe correctly embedded in our assumptions.

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

Really through, passing through the summer, and -- It's not as if we brought it back down in the fall, thinking it would go down, most of the time they do, but we really have that baked in and just figuring it stays there, and anything that comes down after that is just -- will be to our benefit.

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

The cost part is obviously much easier to capture and that assumption's imbedded in there , but in terms of what overall impact it may have on the consumer end or demand obviously is a little bit harder to theorize, but again, we have our best shot at it if you will.

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

The store consolidation as you guys said again this morning, that you'll start to get, you'll pick up about $2 to $2.5 million in operating profits a month, sequentially that will be $0.06 to $0.07, but you're saying that you started to get some benefit in the first quarter, so you actually did start to get some benefit in the March timeframe, is that the way to read it?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Yes. Arvind, it's Robert. If you look at the guidance that we gave at the end of the fourth quarter, relative to margins on salaries and other lines, compared to overall revenue, obviously we were somewhat better than that.

And that's due to the fact that we're able to get some of those synergies quicker than expected. It probably came late February, but then all of March, we had a few stores that we're still working through in the first quarter, and then making sure that we were able to move quickly and with the right amount of diligence to get that wrapped up as soon as we could.

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

A penny or two maybe in the March quarter benefit from that?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

$0.02 to $0.03 maybe in the first quarter.

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

Got it. So there's nothing else in the second quarter from a seasonality or calendar standpoint that's unusual, right? We talked about the merchandise sales and how that's not predictable. But outside of that there's nothing else that -- that's different?

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

No, I think that's right. A follow on point, I think you understand, but, the benefits that we received in the first quarter relative to the consolidation plan, obviously came a little quicker, I'll remind everyone that we expected to realize all of that the second quarter forward. So those were already embedded in our guidance, we just got a little bit on the front end. It doesn't change what we expect now going-forward.

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

Last question, is there a way to think about the first quarter without the extra benefit of merchandise sales. Meaning, if the merchandise sales came in on plan, what would the comp number have been in that situation?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Yes, Arvind, the overall comp of 2.8%, about half of that came from merchandise sales, so about 1.3, 1.4%. When you think about the way we spoke to the sales and the consolidation plan driving the results higher than expected, we're really referring to the merchandise sales driving the comp and the consolidation plan helping drive the earnings a little bit.

If you look at the margin on the merchandise sales in the first quarter, at least gross profit dollars, the margin was not as good as it normally is in the second, third and fourth quarter. Excuse me, it was not as good as we would have expected. If you look back to the first quarter, I think we made about $22 million in gross profit. You compare that to the first quarter of '07, that was a similar number, $22 million in gross profit. So, the extra merchandise sales really didn't drive the profits as much as it drove the comp.

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

And the comp, as you said Robert, would have been in the 1.3% range anyhow. And with the -- with that, and our guidance was flat to 1%. So it would have been on the high end, so Arvind, you think about that translating to the high end of earnings in the $0.53-$0.54 range, and then the $0.02 to $0.03 on the expense side that Robert talked about on the consolidation, getting the synergies from the consolidation plan early, and then you're up to that $0.57.

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

Again, I think that's why I think people are wondering about the second quarter same store sales number, because even without the merchandise sales benefit then, I guess your trend, why would it be any different in the second quarter? Your comparison is very similar in the second quarter, and I think we're all just trying to understand if you guys -- you usually tend to be conservative, if that's what this is, or is there anything else. It doesn't sound like there is anything more.

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

Well, I'd say two things, we're not sure what the impact of the stimulus package with extra tax returns are. We don't know how much, that's kind of an unknown, but also the extra payouts going from that comp of 1.3 to 1.4% range to 2.8%, that takes some recurring revenue out of the next quarter, right, when they pay out their agreement.

And we have to convert those customers, we do convert, as you know, and you've read in our K, we have about 75% repeat business so, we do convert, it just doesn't all happen day one. We have to get those people back on rent. So the extra payout that drove revenue in the first quarter actually takes on the recurring revenue as the second quarter.

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

But you guys are doing some special advertising and promotions, you pointed out, to convert many of those customers back on rent?

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

Yes, we are.

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

Okay, thanks, guys, good luck.

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Thanks.

Operator

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

John Baugh - *Stifel Nicolaus - Analyst*

Thank you, good morning, good quarter. The first question is, to quantify what the experience of early payouts was in the first quarter, year-over-year?

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

Well, the additional payouts drove the comp, about half of the comp difference. So figure about 1 -- yes, the 2.8% as Robert just said, about half of that was driven by the extra sales, so 1.5% on our comp stores, or if you just take 1.5% overall, it would be the increase on sales. You're talking about dollars, John?

John Baugh - *Stifel Nicolaus - Analyst*

Yes, just trying to get a feel for why -- the dollar amount, year over year in the first quarter of early payouts, and then maybe some color on why that occurred, if you could guess.

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

You really see it, you know, if you look at it -- if you look at the earnings statement, the last page of the press release, the sales were $85 million versus last year being $68 million, so there's a $17 million increase in sales there, which is about 25%. And I think that translates to the numbers of payouts were a little less than that. And the dollars would be about 25% higher.

It's also sales off the showroom floor is built into there. So our payouts ran, what Robert, about 15% higher than the year before, and then the dollars as you can see in here when you add sales off the showroom floor, run about 25% higher.

Why? John, the sales off the showroom floor, to some extent a little bit on the early purchase options, and we had a lot of inventory, we did get backed up in inventory last year. On the Rent Way product and the bad summer that we had, we got backed up. Of course the consolidation plans, when you close almost 300 stores, we had a lot of product to move, and we moved it.

You see the movement -- if you look at the inventory held for rent over the last three or four quarters, it's come down, since last summer, every quarter. It's really, really in good shape now at 20.9%, that's our lowest number looking back over six or seven quarters.

So, we had a lot of inventory, so we probably drove some of that John, by moving out that inventory. Why the consumer might have acted a little differently and paid out more, I don't know if their tax returns were higher than in past years or about the same. I think a lot of it would be us getting that inventory held for rent number down.

John Baugh - *Stifel Nicolaus - Analyst*

Would that explain the margin on the merchandise sales being so low, and how would I think about that Q2 through 4.

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

It absolutely would explain the gross margin numbers you're seeing, and we, for all the reasons I already said, we worked hard to get that inventory in line. We've done it, we believe that from a margin standpoint that's -- we've hit the low water marker or high water marker, however you want to say it. But the lowest we'll see that margin and it will start to come back now that we have our inventory in line as we go through the rest of the year.

John Baugh - *Stifel Nicolaus - Analyst*

Okay. Is there a targeted debt-to-cap or debt-to-EBITDA level that you want to get to this year, given all your free cashflow? What's sort of the general game plan?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Well, consistent with prior years, our target is -- we're very, very comfortable around two times leverage ratio, we're at 2.84, but Mark alluded to in his opening comments, he's very comfortable now. Long term, we were at 2 turns a couple years ago, and just remind you that the cash that we paid down in the first quarter was primarily a revolver and we drew on that in the fourth quarter to pay on the Perez litigation. A lot of that debt reduction in the first quarter was just getting back to where we were before we had to fund that settlement.

John Baugh - *Stifel Nicolaus - Analyst*

And have the settlements now, the litigation settlements on a cash basis, been paid out, is there additional in any Q2 through Q4?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

I would say that there's probably about $10 million roughly, of additional cash that's expected to be paid out for litigation. As you recall, the California AG has already been accrued for and provided for in the balance sheet. That's not been funded yet.

The Johnson Shafer Schneider case has been accrued for and provided on the balance sheet. Has not been paid yet. Those combined is roughly $20 million, we do anticipate getting approximately $8 million back from the Perez reversion, that has not come back in yet, so net net, maybe another $10 to $12 million of cash this year to fund the litigation.

But really that -- that really cleans up a lot of the litigation that we had out there in prior years, and we feel very good about our litigation profile and where we are right now.

John Baugh - *Stifel Nicolaus - Analyst*

Great. And lastly, the restructuring charge in the first quarter, did that come as a surprise to you -- and I'm trying to relate that to your guidance? And then, do you expect any lingering charges in Q2 or beyond?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

No, that doesn't surprise us, from an accounting standpoint, we could only accrue for stores that are actually closed in the period. We accrued a majority of that in the fourth quarter, but there were a few stores that were still hanging out in the first quarter that we had to wait for those stores to actually close and get the inventory out and then approve for the leases fixed asset disposal and so forth. We don't anticipate any lingering charges in Q2 going-forward, but what we saw in the first quarter was expected.

John Baugh - *Stifel Nicolaus - Analyst*

So you got all the stores closed more or less now, and lastly, real quick, a franchise store count total?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Yes, I think there's one more to do this quarter and maybe there's one more in the plan, in the original plan that will be later in the year as leases get worked out, so there's one or two more.

John Baugh - *Stifel Nicolaus - Analyst*

Great. And what's the franchise store count?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Franchise store count he asked.

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

It didn't change much in the first quarter. It's, what, 214.

John Baugh - *Stifel Nicolaus - Analyst*

214, thank you very much.

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

I think it was 220, 225 or something, at the end of the first quarter, yes.

Operator

Your next question will come from the line of Henry Coffey with Ferris Baker Watts.

Henry Coffey - *Ferris Baker Watts - Analyst*

Good morning everyone. Hope there's not too much background noise here.

I hate to ask such an obvious question, but given that you're pretty much into the first month of the first quarter, how solid are you on that $0.57, and how would you sort of gain the system in terms of trying to guess what the up side would be if the $600 rebates translate into more sales, and if your payday loan business performs a little better than you thought?

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

I'd say certainly our guidance is what we expect? You know, better performance on the income tax checks as far as -- not only if more of them get cash in our stores, as well as more revenue from the payout again, the key to the whole year would be how many we convert. You know, of course, if the payday loan business does better than we forecast, then we'll do better than we forecast. But certainly we feel like this -- this is the -- down the middle of the fairway guidance, and there's always up side just like if gas prices were $10 a gallon, there would probably be a down side.

Henry Coffey - *Ferris Baker Watts - Analyst*

How is the payday loan business performing now that you have your arms around everything?

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

It's improving every month. And we're real -- our folks are doing a great job on getting these scalable systems ready to go, so we can really start putting in the stores every month, starting in July as Mark had mentioned, and the little bit of a slowdown giving the operation side of that business time before they open a lot more stores is really starting -- we're really starting to see that in delinquency numbers and staffing and those kinds of things. So I think it's been a blessing in disguise that we slowed down in a lot of ways.

Henry Coffey - *Ferris Baker Watts - Analyst*

Yes, I would agree with you on that. When do we start seeing separate revenue numbers out of that business, so we can get a sense of -- you know, exactly what it's contributing?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Well, you know, we'll probably at some point in the future, want to do that from a desire standpoint, obviously we're not required to do so according to SEC rules and accounting rules at this point until it becomes 10% or more of your business, be it asset sales or income, but I think it's fair to say at some point in the future, as we ramp up these stores, we'll want to provide more and break out more information for you, provide more color, either on conference calls or in the K's and Q's.

Henry Coffey - *Ferris Baker Watts - Analyst*

Thank you.

Operator

Your next question will come from the line of Emily Shanks with Lehman Brothers.

Emily Shanks - *Lehman Brothers - Analyst*

Hi, good morning. I just had a couple follow-up questions specific to the financial services business. I wanted to see if you guys had a breakout of what percent of that business right now is coming from Social Security checks?

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

I'm not sure I understood the question. What percent of the business is --

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Emily Shanks - *Lehman Brothers - Analyst*

Meaning, do you have people utilizing their Social Security checks to come in and rent items from you?

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

The rent to own business, not much. I don't think we can quantify it, but --

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

Well, the demographic is certainly a younger demographic than traditional Social Security, although you might have some people on Social Security maybe from a disability standpoint, you might have a few of those, but it would be a real, real small part of our business.

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

The vast majority of our customers are working individuals.

Emily Shanks - *Lehman Brothers - Analyst*

Okay, and I guess also on the payday lending side, you don't see people coming in and trying to cash their Social Security checks with you guys, then?

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

It's very rare.

Emily Shanks - *Lehman Brothers - Analyst*

Okay, okay. And then, I'm sure you probably saw Wal-Mart coming out and saying that they were going to cash the rebate checks that were coming in and require no purchase at the store. What are you guys doing in terms of that cashing rebate checks, et cetera?

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

In the 280 stores where we have the financial services, we're advertising those local communities and so forth that we're there to cash the checks. I -- because they have the cash to do it in those stores, the typical rent-to-own store, without the Cash

AdvantEde program in it, and the security systems that are in the Cash AdvantEdge stores, they don't have the cash or the means to secure enough cash that they have that much for check cashing, so we would be doing that, but only in the stores where we have the 280 Cash AdvantEdge kiosks.

Emily Shanks - *Lehman Brothers - Analyst*

Okay, that's very helpful. If I could, just one final question. Have you been contemplating repurchasing your bonds at all?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Well, obviously those don't mature until 2010, and as always, we evaluate our entire capital structure and think about ways to deploy our cash, and as you may read in our K's and Q's, we leave it open to management's discretion, whether it's opportunistic share repurchase, debt reduction, repurchasing our subordinating notes, and so forth. All options are on the table and we'll evaluate it as we move forward.

Emily Shanks - *Lehman Brothers - Analyst*

Okay, thank you.

Operator

Your next question will come from the line of Carla Casella with JPMorgan.

Carla Casella - *JPMorgan - Analyst*

--did you also mention delinquency rates and if you're seeing any change there?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Carla, we heard the last part of your question, could you restate it please?

Carla Casella - *JPMorgan - Analyst*

Any changes in delinquency rates or trends in delinquencies?

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

They've actually improved. Mitch mentioned the weekly delinquency in the first quarter was at our stated goal of 5.9%, which was actually below both the fourth quarter as well as last year. Customer losses continue to improve, they were 2.6% in the first quarter, which was down 20 basis points from the fourth.

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

And 60 basis points from last summer.

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

60 basis points from our high last summer, so we have the losses, you may recall we typically say we like to see that at 2.5% or under, so it's maybe slightly above, but it's trending the right way. So all in all, I'd say we feel real good with it.

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

And then the loan business really had a good quarter on delinquency in the first quarter as well.

Carla Casella - *JPMorgan - Analyst*

Okay. Great, and then on the rebate checks, can you -- I may have missed this, did you talk about what your past experience has been with how much of that goes into prepayment on merchandise or just new customers coming in? Have you been able to track at all when there's been past rebates?

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

Well, we know -- we know what to expect in the first quarter, it does increase our sales and our purchase options go up. And it's also a good time to -- it's a good time to rent too, because consumer confidence is higher with our consumers when they have more money in their pockets.

As far as it being in the second quarter, the May through the middle of July, we don't have much experience with that. There's a -- somewhat similar package back in '03, of course, that's been 5 years since we've had one other than the first quarter, the February, March stuff, so we're not positive what to expect this quarter, because this is more of a one-time event. But we're ready to convert those customers, as well as advertising towards doing some extra advertising to convert them if they do pay out their unit.

As well as just get new customers into the stores from an advertising and from an operational initiative standpoint. It's a little bit of an unknown as we go into this, unlike what we kind of know what to expect in the first quarter every year.

Carla Casella - *JPMorgan - Analyst*

Okay, great. And then one last question, what percentage of your merchandise now are flat screen TV's?

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

You know, I don't have that in front of me. The electronics percentages are going up, we were around 40 to 41% of our business a few years ago in electronics, it went down into the 32 to 33% range, and now it's come back to the 34% range, so it hit bottom. It's coming back up, and that's largely due to the flat panel TV's, so electronics are coming back, probably gone up again from 41%, down to 32% and now it's back to 34%. Largely driven by the flat panel TV's and we expect that to continue. I don't have specific numbers.

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

I don't know, Carla if part of your question is, you say what percent of your TV's is flat panel. If you're talking about what's in inventory, essentially everything we're ordering today is flat panel technology.

Carla Casella - *JPMorgan - Analyst*

Oh, it is,okay.

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

And the vast majority of the inventory that's in the system falls within the flat panel. But it's fair to say that we have other inventory in the system from maybe a year or so ago, because the average product's in the system two years. So there may be some of that older, but 98% of that is already on rent and under agreement, if you will, so anything that's in idle and anything that we're buying is certainly all the new technology.

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

Very, very little old technology still remaining in stock.

Carla Casella - *JPMorgan - Analyst*

And then, have any of your stores tried or are they renting game boxes like your PlayStations or the Wii.

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

Yes, we've been in that for a number of years, with the Xbox and the Playstation 3, the most popular one right now is the Wii, they're a little hard to get. If we could get more every month, we'd be happier. We rent what we can get, and hopefully as we get closer into the fall and Christmas, the availability of those will free up a little more. But there's a large demand in the rental business for those as well.

Carla Casella - *JPMorgan - Analyst*

Okay. Great, thank you.

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

Thank you.

Operator

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

Joel Havard - *Hilliard Lyons - Analyst*

Thank you, good morning. The employee numbers, just looking at the K, looks like it's going up despite the store count going down with the consolidation, is that a function pretty much of the financial services desks that are going into these few hundred stores yet? Or is there kind of a mixed shift, between full time and part time equivalents? How would that work?

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

Partially because of the, adding the financial services in the stores, but also in the K, those numbers, when we did the consolidation plan, announced it last December, the -- one of the reasons we said the synergies wouldn't start until the second quarter is that we didn't lay anybody off when we closed those stores, we combined the staffs because we kept the accounts and moved the accounts into other stores, combined the staffs, which left us with more people than we needed but we let attrition handle that falloff. So that will come down over the course of 2008 rather than a one-time layoff of a whole bunch of people in '07, we didn't lay anybody off.

Through attrition, we won't hire as many in those markets where we closed stores going forward, but you'll see the number coming down more in the first quarter then the second quarter.

Joel Havard - *Hilliard Lyons - Analyst*

Okay, so the trend is getting back closer to -- I want to say it's about 5 folks on an average store?

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

That's correct.

Joel Havard - *Hilliard Lyons - Analyst*

Okay, and you're probably closer to six at year-end. And again, no shift in how -- in the way you're staffing between full-time, part-time, there's no plan underway there particularly?

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

No, and we have no -- essentially we don't have any part time equivalents.

Joel Havard - *Hilliard Lyons - Analyst*

Coming back to the financial services, should we think of that in terms of more like one or maybe more like two or three full-time equivalents per store to man that for the proper number of hours?

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

The average -- it's between one and two. The average is probably close to two. Because as we open those, we had two employees to the stores, they level off in revenue, in some cases, one employee will be able to do it, it will average somewhere between one and two when it all levels out. Probably close to, really more like between 1.5 and 2 is what the average would be.

Joel Havard - *Hilliard Lyons - Analyst*

Okay, and then circle back where we started then guys, do you think that by year-end '08 you'll be back to where you were historically on a store staffing basis?

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

I think probably before that. Relative to the consolidation plan, probably by the middle of summer, it will be the level with where we were on a per-store basis.

Joel Havard - *Hilliard Lyons - Analyst*

That's a lot of attrition. How do you -- are you -- is there something encouraging these folks to leave, or is there just not enough opportunity to go around on the sales floor? How does that work?

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

No, I mean, it's retail, and our turnover's in that 60% range. It's gotten better the last few years, but it's in that 60% range, so with that kind of turnover and multiple numbers of stores in a town, where if we close one store in Dallas and there's all these other stores, you only need to have a little bit of attrition to be able to get back down to that level.

Joel Havard - *Hilliard Lyons - Analyst*

That makes sense, great, thanks, guys, good luck.

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

Thank you.

Operator

Your next question will come from the line of Simeon Wallace with Evercore Asset Management.

Simeon Wallace - *Evercore Asset Management - Analyst*

Good morning, can you break out or have you broken out the financial services expense in the latest quarter?

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

No, we don't. We haven't reported those numbers separate. We will be at some point as we get more material, but at this point we don't report the revenue or the expenses separately.

Simeon Wallace - *Evercore Asset Management - Analyst*

Okay, so if I'm looking at your income statement. Where would you recognize it currently?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

The revenue's embedded in the other line, and then the cost is in the salaries and other line.

Simeon Wallace - *Evercore Asset Management - Analyst*

Okay, because addressing what the caller before asked, your average stores are down about 9% for the year, and at the same time, the store salaries are roughly flat. Is the difference there entirely due to the financial services initiative, or have you just not been aggressive enough in consolidating the stores and employees?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Well, if you look at the salaries and other line, it's down $7 million from the fourth quarter of last year. Normally the first quarter is higher due to payroll taxes and so forth.

Simeon Wallace - *Evercore Asset Management - Analyst*

Well, I was looking at it year-over-year, so I was looking at the fourth quarter of last year -- excuse me, the first quarter of last year.

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Okay, well, it's down $3 million from the first quarter of last year, and we've added 100 or so financial services stores last year, the consolidations that took place, as Mitch mentioned, the attrition and costs associated with that, we really aren't starting to realize that or benefit from that until late first quarter, second quarter going-forward.

Simeon Wallace - *Evercore Asset Management - Analyst*

So would you assume then in the second quarter we should probably see that more in line with the decline in the number of stores year over year?

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

Well, you've got inflation that you have to include in the salary and other, that includes obvious salary, but then all the other line items, and fuel is one example of that. Even if you just think of a 1.5 or 1% increase in cost of doing business, but, yes, we would expect that to come down a little further. I'm not sure it will equate to your store analysis, if you have 7% less stores, you can't assume it will be 7% less expense. We got the added cost of Cash AdvantEdge going in. You have inflationary growth, et cetera.

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Our guidance right now assumes that the salaries and other line will be less each quarter, second, third and fourth, relative to what the first quarter came in at. And so that's picking up the additional synergies going-forward that we talked about. We got half of that or a portion of that in the first quarter, we expect a full amount of $2 to 2.5 million in the second quarter going-forward. Salaries and other, the highest it will be will be the first quarter of this year.

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

Even though we're adding financial services.

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Right.

Simeon Wallace - *Evercore Asset Management - Analyst*

Okay, so, on an absolute basis, the first quarter's the highest you're saying.

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

That's correct.

Simeon Wallace - *Evercore Asset Management - Analyst*

And how come on the G & A line you really didn't see any change though you have fewer stores?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Well, the G & A line, we're talking about the corporate office back here and senior management in the field, senior vice presidents, regional directors and so forth, really wasn't a lot of change there related to the store consolidation plan, but coupled with that is the changes and investments that we're making in technology to put the back office platform to allow us to grow more efficiently.

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

And also, Robert, on a year-over-year basis there's no change, but sequentially from the fourth quarter we went down from 4.3% to 4.1%.

So it went up last year as we put in the systems for Cash AdvantEdge and so forth. And went back down in the first quarter after the -- a little bit from the consolidation program. So year-over-year's the same, which for the gear-up on Cash AdvantEdge is pretty good. And we're able to keep year-over-year the same because some expense on the consolidation program offsetting the growth in Cash AdvantEdge.

Simeon Wallace - *Evercore Asset Management - Analyst*

Okay, thank you very much.

Operator

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

Mike Smith - *Kansas City Capital - Analyst*

Good morning.

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

Good morning.

Mike Smith - *Kansas City Capital - Analyst*

Just a couple questions that I have. When you decided to look at the cash business or the financial services business, what kind of an internal rate of return did you calculate your return on investment target to be?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

It's roughly 75% ROI. That assumes that we're doing $20 to $22,000 a month in revenue, $20,000 to $22,000 a month in revenue, with about 40% flow through. Again, we're leveraging our square footage, and so additional occupancy costs, we're not having to expend that capital for that purpose. So really, you're talking about a couple of employees and losses are really the cost drivers in that business, but otherwise 40 to 40% flow through on that kind of revenue, with an original Cap Ex investment of roughly $50,000 to $60,000generates at 70 to 75% ROI.

Mike Smith - *Kansas City Capital - Analyst*

In that figure, what do you calculate or are you guessing your losses will be?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

20 to 22%.

Mike Smith - *Kansas City Capital - Analyst*

That's a little bit lower than the industry, isn't it?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Yes, it is.

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

Yep.

Mike Smith - *Kansas City Capital - Analyst*

The other question I had was, I wonder if you could add some color to your marketing program, whether that's going to be directed more towards the rental side of your business, or more towards the sale side of your business as you try to garner your part of the rebate checks.

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

Certainly the rental side. We have some targeted mail that goes to consumers that are more apt to pay out using those checks, that would drive the sale. But our marketing to them is all about getting them in another rental unit versus selling some products, we did sell more in the first quarter, because we had some backup inventory from last year, but at this point with our inventory levels, it's all towards renting them another item.

Mike Smith - *Kansas City Capital - Analyst*

Thank you very much, and thanks for helping out a newbie.

Operator

Your next question will come from the line of Shannon Ward with Oak Tree Capital Management.

Shannon Ward - *Oak Tree Capital Management - Analyst*

Will $12 million of debt repayment in the second quarter, was that also to reduce the term loan? You have no borrowings under the revolver now, right?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

We had about $5 million paid down on term loan B, the rest was in our line of credit with our -- we have a $20 million line of credit outside of our revolver, with our treasury bank and we were a little bit drawn in that. So, a portion of that went to pay off that line of credit, the other portion went to pay down the $5 million or so, to paydown the B line.

Shannon Ward - *Oak Tree Capital Management - Analyst*

And what is your borrowing -- what is your interest expense on the B, can you just remind me, libor plus what?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

I think it's libor plus 1.75 right now. And on the A and the revolver it's libor plus 1.50.

Shannon Ward - *Oak Tree Capital Management - Analyst*

Okay, great. And do you have a -- or can you share with us your guidance for what you expect to spend on purchases of rental merchandise in the full year?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

We expect a working capital investment of about 20 - $25 million this year. Purchases for the year are estimated to be in the $770 - $820 million range roughly.

Shannon Ward - *Oak Tree Capital Management - Analyst*

How about what you purchased in the quarter, the Q1, for rental merchandise purchases.

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

About $215 million.

Shannon Ward - *Oak Tree Capital Management - Analyst*

All right. Thank you. And the tax law changes that you spoke about earlier, can you just give me more detail on that, is that just a delay, a timing issue, or are you actually having -- it looks like, in your free cashflow, you're building in zero cash taxes. Can you help me understand that.

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

That's correct, the economic stimulus act that Bush signed on February 13 of '08, to invigorate the economy if you will, not only for persons but also businesses, allows companies to accelerate their depreciation, they call it bonus depreciation, they get a 50% additional benefit in depreciation.

Our real merchandise falls into that category. So from a cash tax standpoint we do not anticipate being a cash taxpayer in 2008, and so it's a temporary benefit. Obviously, we'll need to pay that back starting next year and going-forward. For this year, we'll have a $65 million to $70 million benefit in our free cashflow from that event.

Shannon Ward - *Oak Tree Capital Management - Analyst*

Would it be wrong to just assume then that next year in '09 you'd have that much more in the way of cash taxes?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Well, obviously, taxes are very complicated, it's not necessarily one-to-one, so we try to provide a little bit more color on that in the Q, and I just don't have the specifics on how that breaks out going-forward at this point.

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

Certainly over three years, starting with '09, you would expect to pay it back. I don't know how much would be 2009 versus 10 and 11, but certainly over three years you'd factor that back in.

Shannon Ward - *Oak Tree Capital Management - Analyst*

Okay, and then lastly just walking through your guidance for free cashflow of $230 to $250 million. It looks like it's pretty simple, it's the $400 million, taking the middle range of your EBITDA -- less around $80 million of interest expense, around $70 million of Cap Ex, and then something around the $20 million of working capital that you just mentioned, is that it? Is there anything else in there that I'm missing?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

No, you're in the ballpark.

Shannon Ward - *Oak Tree Capital Management - Analyst*

Okay, thank you, gentlemen.

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

Thank you.

Operator

Your next question will come from the line of Andrew Berg with Post Advisory Capital.

Andrew Berg - *Post Advisory Capital - Analyst*

Hi guys, just a couple of maintenance questions, what was Cap Ex in the quarter?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Cap Ex for the quarter was approximately $15 million.

Andrew Berg - *Post Advisory Capital - Analyst*

And any chance we can just get break out on a couple of the current liability lines, AP or accrued liabilities? Do you need to wait for the Q?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

The Q will be filed on Friday, I don't have those numbers broken out specifically in front of me right now.

Andrew Berg - *Post Advisory Capital - Analyst*

Okay, I'll just wait until Friday then. And then, just going back to Shannon's question, what was the dollar amount of availability on your revolver at the end of the quarter?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

$270 million.

Andrew Berg - *Post Advisory Capital - Analyst*

Great, and then lastly, as you think about that free cashflow and the balance sheet, between debt reduction, investment in the business and stock buy backs, can you weight those as to how you think the capital's going to get used. You're doing a great job so far of de-levering the balance sheet.

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

I can't tell you with certainty. I mean, if you look at historically, we've done all of those things, be it debt paydown, share repurchase, I think it's first and foremost, we invest in the business and will continue to do that. Obviously the first quarter, we chose to pay down debt, but as Robert alluded, really 98% of that was simply to pay down the revolver that we had to draw against in the fourth quarter to fund the settlements.

So going-forward, we'll continue to evaluate all of the various opportunities, which one makes the most sense in terms of enhancing shareholder value as well as giving us the flexibility that we believe we'll need to continue to execute the business for the long term.

Andrew Berg - *Post Advisory Capital - Analyst*

As I recall, under your restricted payments basket on the bonds, you still had a pretty significant ability to buy back stock, is that correct? The several hundred million dollar range?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Yes, under the indenture, it's over $120 million, right now under the senior credit facility. Our senior leverage ratio is right at two times, as long as we're below 2.5 times from a senior leverage perspective, it's unlimited. Right now we're primarily restricted from a covenant standpoint under the indenture, which again is over $120 million, the Board authorized amount from our Board approved plan, we have about $55 million remaining under that plan, obviously that's a lot easier to change and manage than going back to getting additional flexibility. We certainly don't need the senior credit facility right now.

Andrew Berg - *Post Advisory Capital - Analyst*

Thanks, guys. Appreciate it.

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

Thank you.

Operator

Your next question will come from the line of Jordan Hymowitz with Philadelphia Finance.

Jordan Hymowitz - *Philadelphia Finance - Analyst*

Couple questions, first of all, your guidance assumes what libor, is at what?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

That it's consistent roughly with where it is now. Which is about 2.9%, close to 3%. We do anticipate it coming down a quarter of a point at the next fed meeting, which I think is this week, and then kind of staying there, and -- for the balance of the year.

Jordan Hymowitz - *Philadelphia Finance - Analyst*

So when you last gave guidance, you assumed a 5.25% libor. I would have thought that with rates coming down, that would have added like $0.15 to your earnings, so is there something that's offsetting that $0.15 benefit?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Well, if you look at our first quarter guidance, we gave an estimate for interest expense of $70 to $75 million, our current guidance is estimated in interest expense to be roughly $65 million. So that's about a $5 to $10 million benefit. We're not going to sit here and try to manage the business on interest rate fluctuations, so we're hedging a little bit in terms of what interest rates may do.

Jordan Hymowitz - *Philadelphia Finance - Analyst*

So you said it would be $65 million for the year?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

That's the guidance that we're giving, yes.

Jordan Hymowitz - *Philadelphia Finance - Analyst*

Okay. And then my other question is, you said before it's a $0.05 to $0.07 loss this year for the payday business. It's doing a little better, is it still $0.05 to $0.07 loss would you say?

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

Yes, the expectation from accretion and dilution hasn't changed. But it is, in terms of what we're seeing operationally, we feel a little better. And again, it's really about building out the back office piece to go forward. But we're not changing the dilution expectation at this point.

Jordan Hymowitz - *Philadelphia Finance - Analyst*

Okay, and just from looking at your notes from last quarter, you said 5 -- it's $65 million now and it was $70 to $75 million before.

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Correct.

Jordan Hymowitz - *Philadelphia Finance - Analyst*

And that $5 to $10 million would be offset in which category would you say?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

I'm not sure I understand --

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

I don't know if it's offset. We had an annual guidance, had a range, and that hasn't changed. You can debate where we might be within that range, I guess, but --

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

The $5 million would translate to about $0.05, Jordan, and our earnings range for the year is the $0.15 range, so we didn't change it based on $5 million.

Jordan Hymowitz - *Philadelphia Finance - Analyst*

It may have taken the estimate a little bit -- my last question is, you had a bunch of stores that came into the comp this quarter from Rent Way, can you quantify how much that contributed to the same store sales?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

Yes, we were anticipating those stores to come in, comping around 7, 7.5%, and they were in that range, and that benefited the overall comp by close to 1%, which was anticipated and expected in part of our original guidance.

Jordan Hymowitz - *Philadelphia Finance - Analyst*

So the other way to look at it is that the 2.8% comp would have been 1.3 to 1.4 X merchandise sales, and about 50 basis points X that, so basically you are assuming zero to 1% core comps on the existing businesses so to speak?

Robert Davis - *Rent-A-Center - EVP Finance and CFO*

I think it's fair to say that the core stores, without the merchandise sales and the benefit of Rent Way, would have had a flat comp in the first quarter.

Jordan Hymowitz - *Philadelphia Finance - Analyst*

Okay. Thank you.

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

Thank you.

Operator

Ladies and gentlemen, we have reached our allotted time for question and answers. Mark, are there any closing remarks, sir?

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

Ladies and gentlemen, as always, we appreciate your time and interest. We were pleased to spend this morning with you, again, feel pretty good with the quarter, how we started the year. Again, we're mindful of what's going on in the economy, realize we've got a lot of work to do, but believe we're positioned to capture some of those benefits and we look forward to reporting back to you next quarter. Thank you for your time.

Operator

Ladies and gentlemen, thank you for participating in Rent-A-Center's first quarter 2008 earnings release conference call. This does conclude today's conference call. You may now disconnect.