

FINAL TRANSCRIPT

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RCII - Q1 2006 Rent-A-Center Earnings Conference Call

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- Chairman, CEO

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Stifel Nicolaus - Analyst

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PRESENTATION

Operator

Good morning, and thank you for holding. Welcome to Rent-A-Center first quarter 2006 earnings release conference call. [OPERATOR INSTRUCTIONS] As a reminder this conference is being recorded today, April the 25, 2006. 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 call over to Mr. Carpenter, please go ahead, sir.

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

Thank you. Good morning everyone and thank you for joining us. You should've received a copy of the earnings release distributed after the market closed yesterday, that outline our operational and financial results that we made in the first quarter of 2006.

For some reason if you did not receive a copy of the release you can download if from our website at investor.rentacenter.com. In addition, certain financial and statistical information that will be discussed during the conference call will also be provided on the same website. Also, in accordance with SEC rules, concerning non-GAAP financial measures, the reconciliation of EBITDA is provided in our earnings press release under the statement of earnings highlights.

Finally, I must remind you that some of the statements made in this call, such as forecast, growth and revenues, earnings, operating margins, cash flow and profitability, and other business or trend information are forward-looking statements. These matters are, of course, subject to many factors that could cause actual results to differ materially from our expectations, reflected in the forward-looking statements. These factors are described in our most recent annual report on form 10-K for the year ended December 31, 2005 as filed with the SEC. Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statements.

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

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

Thanks, David, good morning, everyone. As most you have already read in the press release we had better than expected first quarter results. Our first quarter comp of 1.8% was primarily related to the continuation of being less promotional in our offerings as we were in the fourth quarter as well as the slight increase in customer traffic. That 1.8% comp is a total store revenue comp which includes rental revenue and merchandise sales and other income and fees. The more recurring rental revenue comp in the first quarter was a bit lower at 1.1%.

Since rental revenue is more recurring in nature and therefore the main driver of our overall comp, coupled with concerns about rising fuel costs and its impact on our customers we're forecast our second quarter guidance as flat to 1%.

We will continue to be a little less promotional in the second quarter, which we believe will help drive more revenue for delivery and help drive another positive comp. Now some other items that we believe will help drive growth in the future, include things like our stores now having the ability to match any competitor's price. Our new home package program that allows for discounts on larger rentals of three or more core products, as well as new product technology, specifically flat panel televisions. We already have 42" flat TVs in our stores, as well as 32" flat panels as part of a home entertainment center and by the end of the second quarter we'll have 32" and 37" flat panels available for rental by themselves.

As we've talked about before, as pricing comes in line on smaller size flat panels like the 26" models, we'll be adding those as well and we see that as an opportunity to get back that small TV category that has evaporated on over the last few years. On the collections front, we remain very consistent our numbers for the first quarter were pretty good morning, right in line, actually with an average week ending closeout of all accounts past due, one day or more of under 5.8% and a quarterly loss rate on skips and stolens as a percent of revenue percent -- 2% revenue of just 2.1%.

As you can see on our balance sheet information in the press release our inventory held for rent came down to 19.9% of our total inventory, which reflects very strong inventory management. At the same time, the first and fourth quarters are usually the best two quarters in terms of that percentage and so, although we feel very good about our inventory management programs, we've would expect that number to be seasonality higher by the end of the second quarter. On the expense side, we feel good about our controls in general and we feel good about the new procurement program for operating supplies and fuel and so forth that we're in the process of implementing. We believe that this new procurement program will help our expense

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control even further. All in all, much better than expected quarter. Fueled by better than expected comp, strong collections and strong inventory controls and an awful lot of hard work from our 16,000 co-workers and we thank them for that.

With that I'll turn it over to Robert for our financial update.

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

Thank you, Mitch, I'm just going spend a quick few minutes updating on our income statement, some balance sheet items and some cash flow items after which I'll turn the call over to Mark. I would like to reiterate that much of my comment in the information that I will provide is shone on historical on a recurring basis whether historical results or forecasted results. Again on a recurring and comparable basis.

As it relates to the income statement, as outlined in the press release total revenues did increase during the first quarter by 0.9%, with diluted earnings per share increasing 1.8% from the prior year to \$0.57 which exceeded the high side of our forecast by nearly 10%. EBITDA for the quarter, the margin there came in at 14.8% and totaled nearly \$90 million. And for the last 12 month period pro forma EBITDA has totaled approximately \$324 million for margin of roughly 13.8%.

As it relates to our balance sheet, in cash flows, from a cash flow perspective, the Company did generate over 61 million in operating cash flow during the quarter. And we expect nearly 200 million of operating cash flow for the entire year of 2006. While beginning the year with approximately 58 million in cash on hand, we have since utilized about 16 million in capital expenditures. Just over 2.5 million in acquisitions of stores and accounts, close to 5 million in share repurchases or total of just over 200,000 shares during the first quarter and have reduced our outstanding indebtedness as of March 31, by over 56 million, while ending the quarter with approximately 46 million in cash on hand.

At quarter end, our consolidated leverage ratio was down to approximately 2.2 times while our interest coverage ratio stayed around 6 times. Debt to book cap at quarter end equated to 43.5% a reduction from 46.8% at year end. Without standing indebtedness overall it just over 667 million at March 31. So at that point and time at March 31, our debt levels were comprised with the following components about 344 million of senior term debt, 23.7 million that was outstanding under our revolver and line of credit, which at this point in time at March 31, our revolver availability was over 124 million, available under our revolver. Also, \$ 300 million of our 7.5% subordinated notes remain outstanding and currently as it relates to some of our covenants and baskets and so forth we have approximately \$39 million in availability remaining under our border proof stock repurchase plan. Although the senior credit facility in the indenture have restricted payment baskets to around 120 million each or just about as much as the revolver availability is.

Once again, our balance sheet continues to remain strong and healthy, providing us an awful lot of flexibility and liquidity, needed to continue to invest for the long-term as well as capitalize on short-term opportunities as well. In terms of guidance, we do anticipate for the second quarter total revenues in the range between 578 million and 586 million, diluted earnings per share to range from \$0.50 and \$0.54. For the full fiscal year ending December 31, 2006, we expect total revenues between 2.338 billion and 2.368 billion, with our same-store sales approximating 1%, positive. Additionally, we are projecting a 2006 EBITDA margin between 14 and 15%.

Diluted earnings per share are estimated to be in the range of \$2.00 and \$2.10, which does include the impact of adopting FAS 123R share based payment, which we now estimate will have a \$ 0.06 to \$ 0.07 dilutive impact to earnings during the year. As always our current guidance excludes any potential benefits associated with additional debt repayments, stock repurchases or acquisitions completed after the date of the press release. With that update, I would now like to turn the call over to Mark.

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Mark Speese -- *Chairman, CEO*

Thank you, Robert and Mitch and good morning, everyone. While suffice it to say, I'm very pleased with our performance this past quarter and what has now been 5 or 6 months of improved results. Certainly the thing that's Mitch spoke of, being a little less promotional, the introduction of new product offerings, along with some operational enhancements and focus, coupled with the lower energy cost last quarter and candidly simply comping over less desirable results from a year ago, has led to these improved numbers. Of course the store consolidation plan has also approved to be valuable for us and I believe it's fair to say we're realizing the expected savings or additional EBITDA contribution of roughly 1 million to 1.5 million a month.

I will remind you on that front that plan was essentially completed late last year. There are only a handful of stores that are still being evaluated or considered as we speak. In terms of growth, we did open 10 new rent-to-own stores in the quarter and they, like the others before them, continue to perform in line with our expectations.

On the financial services or pay day loan front, we added those services to an additional 17 stores, and in the quarter with 56 stores providing those services, and expect to add an additional 80 to 100 stores through the balance of this year. We're obviously still in the early stages of this new service, but are encouraged by the early results and feel comfortable with our original expectations, be it the number of stores we can add, their expected performance, operating results, et cetera. Simply put, nothing has come up that has changed our view or outlook concerning that business.

Let me spend a moment, I want to comment briefly on the recent New Jersey Supreme Court ruling in the Perez versus Rent-A-Center litigation. Because this is an ongoing litigation, I can not comment in much detail on future aspects of the case, but having said that you may know that was a lawsuit that was filed against us in 2003 in the Camden County, New Jersey Trial Court. Asserting that our rental agreements where credit sales governed by the New Jersey retail installment sales act, and as such were subject to an interest rate cap of 30%. In the trial court, we won our motion for summary judgment on all issues, that decision was appealed to the New Jersey Appellate Court and the appellate court unanimously affirmed the judgment again in our favor. The plaintiffs then filed a appeal to the New Jersey Supreme Court which on March 15, reversed both lower court decisions. It should also be noted that this ruling is limited to New Jersey only. This is one of three states that's has no specific Rent-To-Own legislation in place, and we operate 43 stores in that state.

At present we are reviewing all available legal options and intend to on vigorously defend the case when it goes back to the trial court for further proceedings. In the meantime, we have made changes to our current practices in New Jersey, including the setting of our prices in a matter that we believe complies with the supreme court's ruling. Obviously, we anticipate that these changes may have a negative impact on our margins and may cause us to consider further changes to our business model in the state much like we to in Wisconsin but again this is limited only to New Jersey where we have 43 stores. With regards to our guidance, while we are pleased with recent results and trends, I am concerned about the recent spikes in fuel and energy costs the talks of continued increases, and the potential impact that it may have on our customers as well as our own operating costs. Having said that, and while I believe our guidance has taken into consideration the potential impact of our cost, it is difficult, if not impossible, to quantify the impact on our customers and as such, we're leaving our annual guidance as originally given, \$2 to \$2.10 per share. As Robert mentioned, our cash flow, balance sheet and capital structure remain very healthy and gives us the flexibility necessary to continue executing our plans. As always, we're focused on enhancing our results further by growing the business, managing costs, and expanding our products and services. We appreciate your support in that regard and will now open the call up for questions.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS] We'll pause for just a moment to compile the Q&A roster. Your first question is from Dennis Telzrow with Stephens, Inc..

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Dennis Telzrow - *Stephens, Inc. - Analyst*

Good morning, gentlemen.

Mark Speese - *Chairman, CEO*

Good morning, Dennis.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Excellent quarter.

Mark Speese - *Chairman, CEO*

Thank you.

Dennis Telzrow - *Stephens, Inc. - Analyst*

Mark just two quick questions, have you seen anything in April, which either make you feel better or worse about your comment about the fuel prices?

Mark Speese - *Chairman, CEO*

Well, of course they started going up the 1st of April. We're continuing to run ahead of how we performed last year, and of course, our guidance speaks to that. I think it's fair to say it's -- well, I wouldn't call it material by any stretch, but I guess maybe slightly down from what we might have expected but again still within our comfort zone of guidance we have and everything but it's probably candidly a little too early to say in that gas has really gone up in the last two weeks. Obviously, we've got a little concern given how we've seen it behave in the past, but I'm not inclined to say much more about it at this point. I think it's too early to say .

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

This is Mitch. As we go into summer, things slow down when we come out of the first quarter, and that's normal and we're seeing that and nothing really outside of what we expect maybe slightly, as Mark said, maybe -- it hasn't been great but it's pretty much what we expected, maybe slightly on the left side of that, but nothing surprising.

Dennis Telzrow - *Stephens, Inc. - Analyst*

And ahead of last year.

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

Yes.

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Dennis Telzrow - *Stephens, Inc. - Analyst*

Okay be last question, could you comment a little more you mentioned a new procurement plan and how that works and how far along it's been rolled out through the store chain.

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

I'll take that, Dennis, this is Robert. We briefly touch on it last quarter. And the concept is with 2800 locations across the country, prior to partnering with this third party procurement provider we had the local operators really going off on their own to buy office supplies, store supplies, things of that nature and we're leveraging our size in volume to try to negotiate contracts and get best pricing and reduced rates and we're in the rollout phase right now. We're not -- I would say not even 20% there in terms of rollout, but it's something we do intend to have in all stores by sometime mid to early to mid third quarter. So, and what we talked about last time is that's not something that's going to save a ton of money but it certainly increases productivity in the store and does take some costs out, roughly, \$5 million plus is kind of what we're estimating for the year. So -- but it's just one more way for us to try to manage costs and not let them get away from us.

Dennis Telzrow - *Stephens, Inc. - Analyst*

All right, thank you very much.

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

Thank you.

Operator

Your next question comes from John Baugh with Stifel, Nicolaus.

John Baugh - *Stifel Nicolaus - Analyst*

Nice quarter.

Mark Speese - *Chairman, CEO*

Good morning, John, thank you.

John Baugh - *Stifel Nicolaus - Analyst*

I think it was 0.7 difference between the comp and the total revenue. Is that all difference explained by the financing business or were there other fees or something that was up?

Mark Speese - *Chairman, CEO*

No, John, the financing business was only 56 stores operating in the quarter would be a real negligible amount of that. It's a combination of the other fees and the sales. Combination of all of those things but financial services would be the smallest part of that with only 56 stores.

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John Baugh - *Stifel Nicolaus - Analyst*

Okay and explain again how the less promoting what you're doing and how that influences revenue currently and how that's going influence revenue over time.

Mark Speese - *Chairman, CEO*

Well, we're just offering less free time on the front end of an agreement, kind a trial offer. Where we might have offered a couple of weeks free if you tried one of our products maybe when you pay the week you've got a week free. If you paid two weeks you get two weeks free. We had all kinds of promotions like that and in some cases even maybe you didn't have to pay anything and you just got first week as a trial offer on. We're still doing that but on a more limited basis and the good news is we're not seeing a negative effect on our growth, it's just adding more revenue at time of rental.

Mark Speese - *Chairman, CEO*

I think it's fair to say -- we're really going back to the way we applied that in the past. We got candidly a little loose with it last year.

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

Chasing the business as business got softer. We start odd getting more promotional thinking that was -- that we needed to drive more traffic and drive more closings in the store you can close the sale with the customer and it really didn't work and we're back to --

Mark Speese - *Chairman, CEO*

Clamping down on it.

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

As Mark said as the way we ran the business as we tried to chase it last year it's working like the way it used to.

John Baugh - *Stifel Nicolaus - Analyst*

Great. Can you comment on APU and is there anything going on yet, is it too early with flat panels to drive that number up.

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

I would say it's too early on the flat panels to drive that number up. They certainly will help I mentioned the home package we put out there which is a discount when someone rents kind of a whole apartment of stuff, three units or more and that hopes the APU because even through there's a discount for the customer because we're renting so many item it's still a high average per ticket.

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

Agreement.

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John Baugh - *Stifel Nicolaus - Analyst*

And lastly, I think that the Jersey supreme court thing was relating to Rico, but when or what would have to happen for you to be up a reserve for that trial? What is the operative event?

Mark Speese - *Chairman, CEO*

Well, first of all. Let me clarify, it did not apply to Rico. This applied to Risa. The New Jersey installment sales act and New Jersey being one state, one of only three that has no legislation, but in terms of a charge, the fact is what this ruling means is that it goes back to the trial court. No class has been defined or approved at this point.

No actual charges have been filed against the company and so until or unless something like that were to happen. You wouldn't even consider it and then it's a case of how do you try to quantify what are the allegations, who maybe in that, what is the probability. Is it estimatable, et cetera. There's a lot of things that have to happen before we get to that point. The timing of that is uncertain. As it develops or however it develops we'll keep you abreast but I don't see anything on that front in the near future.

John Baugh - *Stifel Nicolaus - Analyst*

You have converted the stores in New Jersey to installment sales business?

Mark Speese - *Chairman, CEO*

No -- again what we've done. We have not gone to the New Jersey model at this point and again, Or excuse me, the Wisconsin model. That would be predicated, if it were to happen on the outcome of the case itself. What we have done, again, is given the supreme court ruling we have changed the price as such that it complies with their ruling. The way that the cash prices and the total rent-to-own cost whereby if you were trying to compute an interest rate it stays within the New Jersey installment sales act provisions. And we'll continue to operate under that for some period of time until we get either the case resolved or further clarification on what we can do or if absent us deciding to come up with something else between now and that time.

John Baugh - *Stifel Nicolaus - Analyst*

So, if I could use some numbers. If you had \$1,000 wholesale cost TV and you're pricing formula was 2X2 your retail cost is \$2,000. Now what you're doing is taking only a 30% imputed straight off of \$2,000, is that right?

Mark Speese - *Chairman, CEO*

Essentially, yes you have to back off such that the implied interest rate does not exceed 30% off that cash price that you have.

John Baugh - *Stifel Nicolaus - Analyst*

Great, perfect, thanks for answering my questions.

Mark Speese - *Chairman, CEO*

Yes.

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Operator

Your next question comes from Henry Coffey with Henry Coffey.

Henry Coffey - Henry Coffey - Analyst

Good morning, everyone and great quarter. Two questions, first just so I understand this properly. You've got \$39 million of capacity, maybe you could just articulate your situation on the buyback as it stands to either capacity or the limitations of your loan facility.

Robert Davis - Rent-A-Center - CFO

Sure. Henry, this is Robert. What I was trying to allude to in my prepared comments was that some time ago the board did authorize up to \$400 million of availability under stock repurchase plan we've utilized all but about \$39 million of that board authorized amount. However, we're also restricted by our covenants in our senior credit facility in our bond indenture both of those baskets up around \$120 million. The implied is that we could repurchase up to \$120 million of stock if we in fact could get board to increase that limit, which is a lot easier to do if the banks --

Henry Coffey - Henry Coffey - Analyst

What is the board's disposition towards repurchasing additional shares? Given where your stock is and how great you're doing.

Mark Speese - - Chairman, CEO

I can our history speaks to that in some regard, that \$400 million Robert alluded to was originally \$100 million increased to \$200 million increased to \$400 million we've now got about \$40 million left under that \$400 million. So, again, I think everyone knows the company has been supporters of buy backs of our stock and generate cash flow we were able to buy a little bit in the first quarter and again that's consistent with what we've done in the past. I think it's fair to say history is a pretty good indication or gives you our view or perspective on it.

Henry Coffey - Henry Coffey - Analyst

In the New Jersey model, we'll call it that for now. Is it possible that you would simply raise your cash price and perhaps realize less cash sales and be able to hold onto a little more rent to own margin or are you going to stick by the two buy pricing plus the allowable fees.

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

We're evaluating all that right know and in some cases the cash prices have gone up and in some cases they've gone down it's not as simple as a two time formula. The cash price. On some cases they're going to be higher and will give us a higher margin than just a two time cash price. So, it's kind of across the board. Suffice to say if we're not going have lower margins they're not going total our four time model they're not going to be across the board.

Henry Coffey - Henry Coffey - Analyst

Will those stores still be profitable.

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

We believe so, we believe so, and too early to say. It probably is too early to say. We think we can squeeze a profit on that model but if not that's what Mark was talking about whether there were other models, like Wisconsin.

Henry Coffey - *Henry Coffey - Analyst*

When did you put this into effect. Already.

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

Just in the last couple of weeks.

Henry Coffey - *Henry Coffey - Analyst*

Well again, great quarter and thank you very much.

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

Thank you.

Operator

Your next question is from Susan Jansen with Lehman Brothers.

Susan Jansen - *Lehman Brothers - Analyst*

Good morning everyone. Going back to your comps you gave a number of reasons why comps increased including additional traffic, less promotions, ability to match price, new technologies, could you sort of bucket for us which were the larger contributors to the comp increase and which might have been the smaller contributors.

Mark Speese - *Chairman, CEO*

She was asking the break down on the comp, what might -- the contributors between traffic and technology, new product offerings et cetera, et cetera.

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

It's I don't have the specific breakdown in front of me. A lot of it is ticket when you compare year-over-year, the home package. We don't get -- because we've changed our packaging in the way we offer those discounts, we don't get too hung up on whether it's actually agreements or the ticket because in a lot of cases where customer maybe needs two agreements or three agreements and now it's one agreement. So we don't look at that breakdown a whole lot because we've changed the way we actually count our own agreements but it is a combination of having more customers on rent as well as the ticket prices.

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Susan Jansen - *Lehman Brothers - Analyst*

Great, and so are you seeing any regional discrepancies, any strengths or weaknesses in any of your specific regions -

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

No,.

Mark Speese - *Chairman, CEO*

Yes, no,. Not really. And that's -- we look at that quarterly, monthly, and spend a lot of time obviously the last couple of years giving some of the thing that's were going on and the fact is now, much like then, it is not much disparity across the board. They're all within a pretty tight range, be it positive, or slightly down if they are, whatever the case may be. So there's no back row economic thing going on in a particular part of the country that's having a more favorable or less favorable impact that another place.

Susan Jansen - *Lehman Brothers - Analyst*

Great, well that's good news. Finally, you consolidated 14 stores and sold 3 stores in the quarter. As you look forward over the remaining 3 quarters of the fiscal year, do you expect that run rate to continue. Or should those numbers go up or down.

Mark Speese - *Chairman, CEO*

I don't think it would be much more than that on a quarterly basis. As I alluded, most of that, the consolidation plan, has been handled there. Were a few stores that we were still looking to either buy someone in the marketplace to enhance ours or to sale our stores and those are still being looked at. You close to it Mitch, I don't think it would be much more than what we experienced this last quarter.

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

I think the second quarter would probably be pretty comparable with the first. I see it down probably later in the year as we're all done with the plan and a few other stores we're looking at.

Susan Jansen - *Lehman Brothers - Analyst*

Great, thank you very much.

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

Thank you.

Operator

Your next question is from Arvind Bhatia Sterne, Agee.

Arvind Bhatia Good morning, guys.

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Mark Speese - - *Chairman, CEO*

Hi, Arvind.

[Arvind Bhatia I would like to add my congratulations as well.

Mark Speese - - *Chairman, CEO*

Thank you.

Arvind Bhatia First question is on store closings that you have done the last part of last year. Can you talk about what the impact of that might have been on comps or EBITDA or APS, just how that impacted general your numbers. And then second question is on financial services. I know you were look at two different formats and my question is is there any more clarity in your mind as to which format might end up being a better format or you really need more time, maybe a couple more quarters to determine that.

Mark Speese - - *Chairman, CEO*

Your first comment in terms of the store closings as it relates to comp they have absolutely no impact in that all of those stores are excluded from the comp. So, to the extent we closed a Rent-A-Center and merged it into another store that store is moved out of the comp. So, what we reported. The 1.8 is obviously stores that have been there in their entirety, year-over-year and have had no benefit of store account buys, consolidations or anything else.

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

In addition to that market, they also -- they weren't stores that were before they closed them it's not like those were store that's were necessarily negatively affecting the comp, they were smaller stores. They weren't unprofitable stores but they weren't stores necessarily down on a comp basis. We've got rid of our worse comp stores. They were our smaller stores probably had very little on the comp because the smallest revenue stores they weren't growing but they weren't really affecting the comp so not only is there no effect of pulling them out, there's no positive affect of the source that got in the comp.

Mark Speese - - *Chairman, CEO*

Exactly.

Arvind Bhatia - *Sterne Agee - Analyst*

How about the EBITDA and EPS.

Mark Speese - - *Chairman, CEO*

From an EBITDA contribution again we originally expected 1 to \$1.57 million a month from contribution from that and we feel very comfortable that's in fact what is happening that we're getting that kind of contribution. So, again, I think the plan worked extremely well and obviously, believe we're a much stronger company today because of it. Your comment on the financial services, frankly your last comment is the right one. It is simply too early to draw any definite conclusions between the two be what we call in store back to the existing store next to the current transaction counter versus box in the box where we built out in the front, separate entrance demise wall and so forth. Nothing has really jumped off the page in either one of those. The

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stores that have been open now 4 or 5 months and there's a combination of both of those. At this point, the results are fairly consistent or pretty similar between the two whether you're looking at the number of loans, the revenue, the fees, the delinquencies, et cetera, et cetera. And we anticipated that it would take a little bit more time and that is frankly, the answer. We're probably -- I might almost say another two quarters out before we've got enough base in both of them and enough history to where we can start drawing some definitive insights that tells us if one is materially better than the other or what ever the case may be.

Arvind Bhatia - *Sterne Agee - Analyst*

Is there any difference in the losses in either format meaning the format where a rent to own customer coming into your store there's particularity with the customer so maybe the losses are different or less is this any trend there.

Mark Speese - *Chairman, CEO*

Again, I've got to throw that in with everything else that there's nothing jumping off the page on either format that is eye opening or again, might lead you to one versus the other. But again, I also, I have to preference it in that I think it's just too early. But the answer is no.

Arvind Bhatia - *Sterne Agee - Analyst*

Okay. Thanks, guys and again, congratulations.

Mark Speese - *Chairman, CEO*

Thank you.

Operator

Your next question comes from Michael Christodolou with Inwood Capital.

Michael Christodolou - *Inwood Capital - Analyst*

Several quick questions on financial service use realize it is too early for you to be definitive is there anything else you could offer us as to whether adding financial services is driving traffic or any kind of cross sale or attach rates with rental contracts and also how are you advertising it when you put it into a new store?

Mark Speese - *Chairman, CEO*

Well, I would like to tell you, yeah, it is but again it's too early but I can't. In terms of driving more traffic one into the other or so forth. We just don't have enough data at this point to draw any conclusions. From an advertising perspective, I guess we're doing a couple things, the brochures.

The normal Rent-A-Center brochures that are distributed monthly for the stores that are providing those products have the financial service offerings included on the brochures. And those of course are getting distributed through the normal channels, be it Admiral and so forth through the surrounding stores in that marketplace. We are adding some product offering description on the fleet of trucks. Again in those stores as being worked on as we speak.

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

And the financial services business itself that has their own flyers. So we're not only doing their own advertising but we're leveraging the Rent-A-Center flyers as well besides the trucks that Mark just mentioned. Pretty much a direct mail system but one that kind of -- not only for the financial services but in leveraging the Rent-A-Center flyers, gives them twice the amount of advertising. And then we're adding decal to the trucks that are in those markets.

Michael Christodolou - *Inwood Capital - Analyst*

Are the original two dozen color time stores that you bought that the franchise stores that you bought, which had the financial services, are they still running about 20,000 a month or have you seen any variations in the last three or four months with the change in the bankruptcy laws.

Mark Speese - *Chairman, CEO*

They're continuing to perform quite well. In fact, I think we may have alluded to in the last call. We were actually able to bring the losses down a little bit from where they were running pre the acquisitions. So, we've not had any impact from the bankruptcy laws in any of the areas. Actually still running that or greater than those kind of levels.

Michael Christodolou - *Inwood Capital - Analyst*

Do you think you're seeing any traffic drive at all from the change in bankruptcy laws.

Mark Speese - *Chairman, CEO*

No, it's obviously very hard to quantify. Mitch, can you speak, I can't.

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

I mean that definitively added on. Traffic as we talked about was better than the first quarter than we anticipated. One of the drivers of the comp being better than we anticipated but the exact reasons for that I can't tell you.

Michael Christodolou - *Inwood Capital - Analyst*

All right, and my last question. Are you seeing any shortages in flat panel TVs I've heard it in various places not widespread but I would be curious if you're seeing any.

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

Not shortages. It's a product you have to forecast farther out. A couple years ago when we needed two TVs, if we forecasted a certain number for the month and ran out there was always it two TVs in warehouses from around the country from our vendors like Mitsubishi and Sony and Phillips and Zenith and so forth the flat panels have to be forecasted and made and so forth. If you don't forecast enough, they're not just laying around. So they are in short supply but I wouldn't say we've seen a shortage. It's just a little tougher forecasting issue because they're not just laying around in warehouses like the 2 TVs used to be.

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Michael Christodolou - *Inwood Capital - Analyst*

Great, keep up the great work.

Operator

Your next question is Evan Marwell with Criterion.

Evan Marwell - *Criterion - Analyst*

Good morning, thanks for taking the call. Two questions. First. Could you tell us a little bit about what you ended up having to do in Wisconsin when you had a similar issue that you have in New Jersey. I haven't followed the Company long enough to understand that and second on the gas price issue. Gas prices have been pretty high now for a while. Why do you think that the recent run up could have an incremental impact on your customers?

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

This is Mitch, I'll start with Wisconsin what we ended up doing in Wisconsin. What we're doing now is a retail transaction. A straight installment sale. And where we add interest. Where as in New Jersey. We switched to at least right now is still a rent-to-own transaction, a lower margin that complies with the New Jersey. In Wisconsin it's a straight retail transaction. We saw the product, set up receivable and carry our own paper.

Mark Speese - *Chairman, CEO*

And those stores operate under the name Get-it-Now, they're not Rent-A-Centers.

Evan Marwell - *Criterion - Analyst*

Are those stores still profitable enough that it makes sense to be in the business there and everything and so should we expect the same anything New Jersey, even in the event that you have to change way you do business there?

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

The Wisconsin stores are profitable and the retail transaction plus interest that they're operating under now.

Mark Speese - *Chairman, CEO*

Profitable to stay up there in business.

Evan Marwell - *Criterion - Analyst*

Okay. Okay.

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Mark Speese -- *Chairman, CEO*

Your comment on the gas prices, you say they've been high for a while now. I mean you're right if we're comparing it to a couple years ago but I think everyone would agree, of course in the third quarter of last year, we hit unprecedented levels averaging \$3 or so a gallon. They since resided or went back down to call it \$2.30. And in the last three or four weeks they've shot back up to \$3 again. We've gone through these hurdles before. If you want to go back a couple of years from \$1.50 they shot to \$2. Stabilized a bit and shot up to \$2.50 shot to \$3, came back down, et cetera. As we've gone through those initial spikes.

Obviously, there's a settling in an adaption period if you will and obviously our customer is -- I think fair to say one that is most greatly impacts having little disposable income. And we've done some analysis that we've shared with others in the past. I think Dave, you may recall when it went to the \$2.30 to \$3 we were calculating and they were spending on average \$15 or so a week more on fill up their tank. And so, again, when you just think about who our average customer is in terms of this lower income unbanked consumer. It's a big impact.

Whether it means that they only rent one in instead of two or they have difficulty holding onto the one there is a transition period that impacts us and given what is going on in the last 3 weeks with this big spike again. Again, I think everybody know we've gone up about \$0.50 in the last three or four weeks. So, and of course there's talks it may continue to go further from there and so that continues to cause us to be a little cautious and one of the reasons we weren't looking to change our guidance at this point given the strength the first quarter.

Evan Marwell - *Criterion - Analyst*

But has it generally been a transitional thing where maybe it hurts in the short run, sales a little bit but people start to figure it out and figure out because they still want the flat panel TVs be furniture and everything else. Is it more a transitional kine of thing or have you seen a real, sort of elasticity of gas prices versus your own sale?

Mark Speese -- *Chairman, CEO*

Well, I guess it's, again, everybody is a little different in their own personal situation. I think it's fair to say over time everybody adapts but I guess you have to define what kind of time frame are we talking. Obviously I think it's fair, when we look at our results over what has been the last 5 or 6 months and frankly in an environment where the gas prices went down. A couple with some of the other things we have been working on but the fact is we've seen increased traffic. And so, how long does it take before everybody adjusts and they're back to where they can comfortably afford it? I frankly don't know I could answer that.

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

To adapt and we did see that in third quarter as we went into the fourth quarter and even though they went down but the \$2.40 level was still higher than it was 18 months ago. Business was good. So people adapt it's hard to forecast how long it's going to be take for people to adapt this go around we don't know where the prices are going to end yet. If it's \$4. That's a whole different story then if they level off at \$3.

Evan Marwell - *Criterion - Analyst*

When you guys saw the last spike up, did your traffic go down. Did you sort of see the traffic go down as a result of the gas prices.

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Mark Speese - - *Chairman, CEO*

Yes, we did.

Evan Marwell - *Criterion - Analyst*

There does seem to be some kind of correlation between traffic in your stores and what is happening with gas.

Mark Speese - - *Chairman, CEO*

Yes, in fact, the other thing we alluded to when we had that last big spike. Again, just traffic went down a little bit and our delinquencies went up a bit and their inability to pay for it at that point and time.

Evan Marwell - *Criterion - Analyst*

Great, thanks for the help today.

Mark Speese - - *Chairman, CEO*

Thank you.

Operator

Your next questions from Alan Rifkin with Lehman Brothers.

Priya Ohri-Gupta - *Lehman Brothers - Analyst*

This is actually stepping in for Alan. I was wonder figure you would provide a little more color on the first quarter comp and just kind of walk us through how the trends changed over the quarter and whether this is the entire driver to you kind of narrowing the full year comp range to 1%.

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

Well, let me see if I can answer that I'm not sure I totally understood the question. The breakdown of the comp. As we talk about. The rental revenue part was 1.1%. And that's the majority of the recurring comp with all of the contacts out there, agreements out there as we go into the second quarter, that's really a more important number to us on a go forward basis than the 1.8 was in the first quarter. So, when we think about the rental revenue comp being 1.1 and the overall comp being 1.8 and the fuel prices going up. That's why we're in the second quarter flat to 1% and over the course of the year more like a 1% comp versus talking about a 2% comp.

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

And I think it's fair to say also, Mitch, that first quarter comp last year was down 5%, second quarter was down a couple -- 2.5% or so. As we go through the year, the comp's going a little tougher than it was the prior year. That, in addition to what Mitch was saying, the recurring comp was more around 1% is leading us to in addition to gas prices that Mark talked about in his opening comments is leading us to forecast the entire year about 1%.

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Priya Ohri-Gupta - *Lehman Brothers - Analyst*

So, if we start to see some relief in gas prices, could we potentially see that comp revised upward. I guess what I'm trying to get at is what are your underlying traffic assumptions and I guess the rental revenue comp assumption going forward that's based into your full year number. Are you just assuming that the traffic stays slightly ahead of last year as it was in the first quarter. Are you expecting it to improve. Are you expecting it to deteriorate given higher gas prices.

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

I think it's fair to say that we think that traffic will be slightly ahead of last year as it has been thus far. There will be some increases in the ticket that Mitch alluded to earlier the home packages we did in the first quarter will continue later in the year as well as well as the introduction of the flat panel TVs in the summertime and some of the ones we've already got in place. The overall APU will also be a driver, but that is being somewhat impacted by the overall concern about gas prices. But traffic a little ahead of last year in APU or average price per rental agreement per se being up as well. So, those are the kind of the underlying assumption that's go into our forecast.

Priya Ohri-Gupta - *Lehman Brothers - Analyst*

Just one more question if I may. I was wondering if you could possibly quantify the percentage of revenues you're seeing derive the newer items that you're introducing like flat panel TVs are you seeing a big shift to revenue from those items from other items?

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

Don't have those revenue numbers in front of us. But certainly those are hot products when they hit the store and they're running rapidly the 42" plasma when they came in, rented hotter than most products in the store but I don't have a revenue -- we just got into them so the revenue percentages would be pretty darn small at this point.

Priya Ohri-Gupta - *Lehman Brothers - Analyst*

Okay, thank you very much.

Operator

Your next question is from Henry Coffey.

Henry Coffey - *Henry Coffey - Analyst*

Just a follow up on your financial services initiative. You obviously still experimenting. You're opening stores in Alaska and Hawaii if I understand correctly?

Mark Speese - *Chairman, CEO*

Those are -- yes.

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Henry Coffey - *Henry Coffey - Analyst*

What's, if we could roll the clock forward by 2 or 3 quarters when you're really have a good grasp of this product and you know what to do, you know how you want to offer it and control it. What's next?. Do you continue to roll out 40 or 50 stores or do you kind of jump forward with a really heavy driving initiative in this area?

Mark Speese - *Chairman, CEO*

Our original plan. Which at this point, I'm still comfortable with and not looking to change it materially one way or another was that this year we expect to open between 100 and 160 total for the year.

Henry Coffey - *Henry Coffey - Analyst*

Mmm-hmm.

Mark Speese - *Chairman, CEO*

And again I feel comfortable with that realizing what we did in the first quarter and expecting to open all of the 80-100 the balance of this year. Next year, again, to your point, assuming everything we're comfortable with the business model and all of the aspects that you alluded to, our belief is that we can and will ramp that number up to approximately 250 in '07 and beyond. So, essentially 100 more than it might otherwise this year. Could it be more than that? We could draw all kinds of conclusions or speculate and I'm not wanting to do so right now I do feel comfortable with the original numbers we put out and that's what we're wanting to do.

Henry Coffey - *Henry Coffey - Analyst*

Give your your history and success and consolidation, is there room in the product offering for independent stores the ones you opened retro ones you may acquire and rebrand.

Mark Speese - *Chairman, CEO*

Obviously it is a successful business model there are stand alone businesses out there today in those free standing or stand alone store fronts. Obviously one of the real appealing things to us is the ability to leverage our real estate and that's obviously where we're focusing. That is not to say that at some point in the future that we wouldn't look at either opening our own stand-alone because it's a market we want to be in and maybe absent of a Rent-A-Center store and or it becomes through an acquisition. Or in some cases we're going keep their free standing perhaps open and in other cases maybe then we can grow it into the Rent-A-Center, right? And so we're certainly I view all of those as possibilities and things we're looking at, but that's not in the immediate future, I guess.

Henry Coffey - *Henry Coffey - Analyst*

Mark, how are you doing on the multi-product format. You're also looking at other products like check cashing and money transfer. How is that catching on with the --

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Mark Speese - - *Chairman, CEO*

Well, you're right. We're check cashing or bill pay, money transfer but candidly like the pay day, just probably too early into it. Everything's kind of performing like we had hoped. But I can't sit here at this stage and tell you which ones we think's going the biggest piece or where they're ultimately going to settle in. But we're offering them, frankly each day that we get a little bit more and more and so,.

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

Category really is performing as we expected.

Mark Speese - - *Chairman, CEO*

Yes.

Henry Coffey - *Henry Coffey - Analyst*

Excuse me I didn't hear that.

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

Each category is really performing kind of in line with our expectations. So, it's the same thing on that front. Nothing on this front has changed our outlook or views or expectations.

Henry Coffey - *Henry Coffey - Analyst*

Well, thank you very much, sir.

Mark Speese - - *Chairman, CEO*

Thank you,.

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

Thanks, Henry.

Operator

Your next question comes from Mark Kaufman with Meridian.

Mark Kaufman - *Meridian - Analyst*

This is Mark Kaufman good jobs guys I was wondering going forward in New Jersey, so, for reporting purposes will those sales then be on the merchandise sales line? Rather than the rental line?

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

No, mark that's, what we did in New Jersey is just change our pricing and overall turn but have left it under a rent-to-own business model just lower margins and so those revenues will still be reported within the rental and fee category and others as we do the other 47 states.

Mark Kaufman - *Meridian - Analyst*

Okay. Thank you.

Mark Speese - *Chairman, CEO*

Thank you.

Operator

Your final question comes from Mike Marburg with Ramsey business management.

Mike Marburg Hi, guys, could you disclose the rental merchandise cash flow number?

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

Rental merchandise -- for the quarter purchased \$216 million of inventory. Real merchandise in the first quarter. Is that what you're looking for.

MikeMarburg - *Ramsey - Analyst*

Yes, \$216 million.

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

That's up from about \$12 million from the year ago quarter. So, you look at the balance sheet, our overall inventory on rent went up, held for rent went down, so our overall inventory on ramp went down that speaks to the comp buying more inventory, going on out rent, et cetera, et.

MikeMarburg - *Ramsey - Analyst*

So, in the cash flow statement there's going to be a \$216 million --

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

It won't show exactly in the cash flow statement because we net a bunch of numbers in this but in the queue we will file on Friday there's a separate disclosure that breaks out even individual component. And I'm sorry that queue's probably going to be Monday but it will be broken yen out separately, showing you purchases, depreciation, cost of goods sold, et cetera.

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MikeMarburg - Ramsey - Analyst

Okay, appreciate that and then on the -- looking at the salaries and other expenses. It still appears to be outpacing the rental growth in rental sales, although the margins tightening up but it's still growing at a faster rate. Outside of the financial services, is there anything that you're doing to try to reverse that relationship?

Robert Davis - Rent-A-Center - CFO

Well, I think it's fair to say the store consolidation plan that we put in place in the third quarter of last year. If you look at the overall salaries and other lines for the three months ended September '05, \$346 million went down to \$340 million in the fourth quarter and went down \$338 million in the first quarter of 2006 and so. It's down about \$8 million since we instituted the store consolidation plan. However, yes, there are new stores from financial services that are adding to that line not to mention the fact that our own fuel costs are up significantly over the prior year's quarter.

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

Robert, the stock option expenses are about \$2 million.

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

\$2 million. So that's obviously a new item in that line. \$2million of the \$4 million that you're seeing year-over-year.

MikeMarburg - Ramsey - Analyst

Okay on. Thanks, guys.

Robert Davis - Rent-A-Center - CFO

Thanks, Mike.

Operator

This concludes our Q&A session. I will turn it over to Mark Speese for closing remarks.

Mark Speese - - Chairman, CEO

As always we appreciate your time and interest. Again, we're very pleased with how we've performed here the last several months. Again, as I said, I'm a little bit ahead win perhaps with the rising fuel costs but I feel have good about what operations team is doing in terms of executing against the plan and hopefully, we can continue this trend and again we always appreciate your support. If you have follow up questions please feel free to give us a call. Otherwise I look forward to reporting to you again next quarter, Thank you very much.

Operator

Thank you for joining Rent-A-Center's first quarter 2006 earnings release conference call. You may disconnect at this time.

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