# FINAL TRANSCRIPT

**Thomson StreetEvents℠**

# RCII - Q1 2009 Rent-A-Center Earnings Conference Call

**Event Date/Time: Apr. 28. 2009 / 10:45AM ET**

## CORPORATE PARTICIPANTS

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

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

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

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

## CONFERENCE CALL PARTICIPANTS

**David Burtzloff**
*Stephens, Inc. - Analyst*

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

**Emily Shanks**
*Barclays Capital - Analyst*

**John Baugh**
*Stifel Nicolaus - Analyst*

**Vanessa Miranda**
*Estancio Capital - Analyst*

**Carla Casella**
*JPMorgan Chase & Co. - Analyst*

**Gary Steiner**
*Huber Capital Management - Analyst*

## PRESENTATION

**Operator**

Good morning and thank you for holding. Welcome to Rent-A-Center's first quarter 2009 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, Tuesday April 28, 2009. 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.

---

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

Thank you, April. Good morning everyone, 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 the release, you can download it from our website at Investor.rentacenter.com.

In addition, certain financial and statistical information that will being 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 release under the statement of earnings highlights.

Finally I must remind you, that some of the statements made on this call, such as forecasts, growth in revenues, earnings, operating margins, cash flow, and profitability, and other business or trend information, are forward-looking statements. These matters are of course subject to many factors that could cause actual results to differ materially from our expectations reflected in the forward-looking statements. These factors are described in the earnings release issued yesterday, as well as our most recent Annual Report on Form 10-K for the year-ended December 31st, 2008. Rent-A-Center undertakes no obligation to publicly update or revise any forward-looking statements.

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

---

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

Thanks, David. And thanks for joining us on our first quarter earnings call. It was a good quarter in many ways. Our revenues were within our guidance, and our adjusted EPS of $0.65, was well ahead of our guidance of $0.54 to $0.60. That positive variance came from margin improvement in our cost of goods area, and reaping the benefits of cost control initiatives in labor, delivery, and on our inventory loss line.

We did end the quarter behind in our portfolio of agreements that takes us into the second quarter. However, there are some positive trends that are allowing us to increase the lower end of our annual guidance by $0.03. Namely our average ticket price has now leveled off, our expense control initiatives continue. April is coming in about where we expected, and in-line with prior April timeframes.

We will continue to drive business in the challenging economic environment, by being strategically promotional, and by making sure we have a mix of products that includes our Super Values items. Now speaking of inventory mix, we are in good shape there, as our held for rent inventory came down almost a full percentage point in the quarter to 21.6%, well within our normal range of 20 to 24.

On the collection side we continue to post great numbers. Average weekly delinquency for the quarter was the lowest in last three years. And our customer skips and stolens as a percentage of revenue came in at 2.2% for the quarter, again our lowest in three years. On our financial services initiative, our overall results for the first quarter were slightly better than planned. Our losses were better, and came in at just under 22% for the quarter.

In the short term loan business, the loan balance drops in the first quarter with the influence of tax refunds. So the second quarter become as important one, in terms of getting that loan balance back. We believe we can do that if they are getting better on this growth initiative, and the second quarter as mentioned, becomes a key one for us, as we work towards eliminating the operating losses in this start-up initiative, and on to further growth once that is accomplished.

In summary, we remain focused on increasing our customer portfolio, through targeted marketing and advertising programs, and enhancing the overall customer experience. While at the same time, we continue on our expense control initiatives, maintaining control of our delinquencies, maintaining our inventory controls and mix, with the overall goal of continuing to improve margins.

I would like to thank our 18,000 coworkers on their continued hard work and dedication to our great Company, and with that I will turn it over to Robert.

---

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

Thank you Mitch. Good morning everyone. I will spend a few moments updating you on our financial highlights during the quarter, after which I will turn the call over to Mark. I would like to mention that much of the information I provide whether historical results or forecasted results, will be presented on a recurring and comparable basis.

As outlined in the press release, total revenues for the quarter were $728.2 million. Down 28.4 million as compared to the first quarter of last year. This slight decline of 3.7% is primarily the result of the anticipated revenue attrition from approximately 380 stores that received customer agreements, when stores closed in the consolidation plan that was announced in the fall of 2007. As well as a reduction in our same-store sales comp of 2.5% for the quarter, slightly below our guidance of flat to negative 2.

Operating profit margins improved both sequentially and quarter over quarter by 220 and 30 basis points respectively. Net earnings and diluted earnings per share as adjusted were 45.4 million and $0.65 respectively, increases of close to 14% in both cases. Our first quarter EBITDA came in at just over 97 million, with a margin of 13.3%, a 140 basis point increase over the sequential quarter, or the fourth quarter of 2008. We continue to post strong results in both actual EBITDA and margins, and these results ultimately lead to our strong recurring cash flow generation, which we continue to believe is a true strength of our Company and business model.

That obviously allows us to manage the day-to-day operations of the Company for the long term, while continuing to enhance our balance sheet. In fact, our operating cash flow was approximately 140 million during the first quarter. And as a result as of March 31st, we were able to reduce our outstanding indebtedness since year end by over 16 million, while ending the quarter with close to $196 million in cash on hand.

The majority of this cash on hand will be deployed in the next few weeks, the call-in at par 150 million of our currently outstanding 7.5% subordinated notes. We view this as an excellent use of our cash, to retire over two-thirds of the remaining amount of our most expensive indebtedness, which has a final maturity in just over a year, while not having a negative impact on our immediate liquidity.

After the calling of the notes in May of this year, we will have reduced our long term indebtedness by close to $345 million since March 31st of 2008. Now as a result of our currently reduced indebtedness, our leverage at the end of the first quarter was lowered to 2.14 times, just over 2. That is down from 2.84 times at March 31st of last year, an improvement of over 24%. This positions us significantly below the floor on our covenant requirements of 3.25 turns.

At quarter end, net debt to book cap equated to 35.7%, down nearly 1,400 basis points, or approximately 28% since the first quarter of last year. So at 3/31/2009 our debt levels are now equating to just over 930 million, and were made up the following amounts. 705 million in our senior term debt, and 225 million in the 7.5% subordinated notes. Again, these amounts will be further reduced by over 16%, to approximately 780 million, after we call 150 million of our notes, in just a few weeks from today.

These efforts we believe have positioned us well to manage through the continued challenging macroenvironment. So our cash flow remains strong, and leverage levels are healthy, and continue to improve. We feel comfortable with where we are in regards to our leverage, liquidity, cash flow, and generally our overall capital structure. As always, we will continue to prudently utilize our cash resources going forward.

In terms of guidance, we anticipate for the second quarter of 2009, total revenues to range between 679 million and $694 million. Same-store sales are expected to decline between 4 and 6%. In large part due to the stores that received accounts form our 2007 consolidation plan, coming back into our comp calculations for the first time. As a reminder, when stores are merged into existing locations, the stores that benefit from additional count being merged into their location, are removed from our comp calculations for five consecutive quarters, and then reenter the calculation in the full sixth quarter after that date.

Additionally, when stores benefit from merged accounts into their locations, our expectation is for an approximate 50% rate of attrition on the portfolio being merged over a 12 month period. Therefore locations that were merged in the fourth quarter of 2007, will be reentering our comp calculations in the second quarter, and this alone will account for an approximate 2% decline in our second quarter comps. After diluted earning per share for the second quarter, we are guiding to a range of between $0.50 and $0.56.

For all of fiscal 2009 our total revenues are expected to be in a range of 2.78 billion and 2.84 billion. We expect our same store sales to decline between 1 and 3%, and diluted earnings per share now estimated to be in the range of $2.18 and $2.32, which as Mitch mentioned, is an increase to the bottom end of our previous guidance, and largely the results of the operational and margin improvements, as well as the strengthening of our balance sheet.

In terms of EBITDA and free cash flow, the Company expects EBITDA to range between 345 million and 365 million, with free cash flow ranging between 265 million and 285 million. As always, this current guidance excludes any potential benefits associated with future potential stock repurchases or acquisitions completed after the date of the press release.

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

---

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

Thank you Robert. Good morning everyone, thank you for joining us. I am generally pleased with the overall results for the quarter, and perhaps more importantly, how we are positioned for the future. Certainly as Mitch mentioned, the overall agreement portfolio was lower than expected, driven both by an increase in the number of payouts and a lower number of deliveries, particularly in the month of February.

But that trend impacting our agreement portfolio has improved, and is in-line with our current expectations. We continue to see the average customer renting slightly less units. But as Mitch mentioned, the monthly pricing, or APU has stabilized. We have noticed no material shift in the customer demographics during the quarter, it has remained consistent with what we have seen over the last couple of quarters now.

In addition as mentioned, we believe that the current inventory levels are sound, the proper mix and quantity of products, and as Mitch mentioned, again we have a couple initiatives planned, to further drive traffic. I am very pleased with the improvements and progress made on the expense side. Certainly the lower energy costs have benefited us, but the efforts made on controlling other expenses, specifically the gross margin improvements, coupled with labor and losses, as well as other areas, has further strengthened our overall financial position. And I believe we can and will continue many of these trends going forward.

Speaking of financials, as Robert just shared, we are very comfortable with our balance sheet, our debt levels and the cash flow, with the expected repurchase of the 150 million of senior subordinated notes in a couple of weeks, leaving minimal near term maturities, I believe we are well-positioned to continue managing the business for the long term. I am very pleased with how things are on that front.

Mitch shared with you a little bit of the progress that we have made in the financial service business. I am certainly pleased there. Again as we mentioned previously, we will wait until the back half of the year before determining the next steps. As mentioned, there is some seasonal benefit in the first quarter, and will now want to ensure the proper growth of the loan portfolio again, as well as ensuring that the other programs are working as intended. I do remain optimistic on that front, but again it will be later in the year before we determine how we will continue to grow that business.

A brief legislative update. As many of you know, the Rent-to-own industry has and continues to work on Federal legislation. To that end, industry supported bills have been introduced in both Houses recently. House Bill HR 1744 sponsored by Missouri Democratic Congressman William Lacy Clay, already has 71 co-sponsors, and Senate Bill S 738, sponsored by Louisiana Democratic

Senator Mary Landrieu, has 10 co-sponsors already. While we are very early in the new session, we are encouraged by the level of bipartisan support already shown regarding these bills, which will provide further protection, for both the consumers and the providers.

So overall, I remain cautiously optimistic, we continue improving our margins and expenses. Our current tone or results are consistent with our expectations, and we have a strong balance sheet, and strong recurring cash flow. And the execution at the store level has been good. We so certainly appreciate all of the efforts of our coworkers, and your support as well.

And with that, we would like to go ahead and open the call up for your questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions). We will pause for one moment to compile the Q&A roster. And our first question comes from David Burtzloff, Stephens Inc, your line is open.

**David Burtzloff** - *Stephens, Inc. - Analyst*

Hey guys, congratulations on a good quarter.

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

Good morning, David.

**David Burtzloff** - *Stephens, Inc. - Analyst*

A few questions. I am a little surprised by the customer growth being down, especially given the numbers that Aaron's is posting. Do you have any explanation on why their numbers would be so much better than yours?

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

Well, I can't speak for them specifically, in our case as I mentioned, and of course I will remind everybody, when we visited back in January, we had just come off of four of our best months, in three or five years, as I recall, October, November, December, and January itself. February, as I just mentioned, proved to be very challenging for us.

Quite frankly, we had an increase in payouts, a lot of that is planned because of income tax, it was greater than the historical. It ran higher than we expected. And at the same time, we had quite a bit of softness on demand in the month of February. Candidly, we scratched our heads an awful lot, and probably came up with half a dozen different theories. I don't know that we can factually tell you which one, or which combination of those it was.

What was encouraging, or is encouraging, March albeit a little soft compared to past, was a big improvement. And in April, as we sit here, appears as if we are going to at one of our better Aprils in a number of years. So I don't want to speak on their behalf. We had one month in there that was very difficult for us, it improved quite a bit in March, and again, as we sit here in April, this will turn out to be one of our better months in a number of years. So when you look at all the key indicators, if you will.

So, I don't know, where do I take it from there, David?

**David Burtzloff** - *Stephens, Inc. - Analyst*

Okay. Are you still losing customers at the bottom end, that you may not be making up at the top end, getting pushed down? You said that on the third quarter call. Has that stabilized?

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

David, good morning. This is Mitch. And as Mark mentioned, it has stabilized. And not much a shift in the first quarter, where we sere seeing a drop on the bottom end, on the lower income end. And some moving up on the higher income levels. Over the last quarter though, it has stayed pretty consistent. There was no more of that, but it leveled off on both ends.

And certainly the credit tightening does help. We have to as we talked about in the past. The credit tightening helps getting the higher income, which to us is the higher end income customer coming in. And we have to make sure we have the mix of products, and the super value products, that we have been talking about, and putting in our system, so that we can stop any of that bleeding, if you will, on the bottom end. And make sure there are affordable products for everybody. We are really focused on that, and will probably be even more focused on that going forward, to make sure that we have those super values, so we don't lose any on the bottom end. Some of these states where the unemployment is real, real high, we have got to make sure that we have right products for people that don't have the income levels that they used to have. So currently the credit tightening does help on the top end.

**David Burtzloff** - *Stephens, Inc. - Analyst*

Okay. Do you think the pay day business reaches breakeven this year? Is it still on track to do that?

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

On a run rate basis by the end of the year, yes.

**David Burtzloff** - *Stephens, Inc. - Analyst*

Okay. And then finally, the gross margins being so much better, is that still a function of the stores that were sold in the fourth quarter. Or is there something else there on why it is so strong?

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

I think it is a combination of things. Primarily buying better in this environment. And product costs are coming down. Especially on the electronics side, and when we buy better, our margins get improvement. A lot of it is controls, and how promotional we are or now.

As I mentioned earlier, going forward our strategy is to be strategically promotional. Maybe there is a product category, or a certain area of the country, things like that, that we need to be more promotional than others. It is no secret, Furniture has been weak, for any retailer over the last year or so. And to just be promotional in that category, but electronics have not been weak conversely. So being strategic there, so a lot of it is buying better, as well as our promotional activity, is what really drives that.

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

There has certainly been some benefit, to some extent we are just getting back to our historical levels. As you know David, when we closed those stores, while we bought Rent-way two years ago, and then consolidated all of those stores 18 months ago, all of that excess inventory. We were pretty promotional on a lot of that to get it out the system, and it was the expense of the deterioration in the gross margin. And so as that has now left the system, and then replaced with more of the everyday pricing and products, we would expect and are now seeing that improvement in that gross margin line.

---

**David Burtzloff** - *Stephens, Inc. - Analyst*

Okay. All right. Thank you very much.

---

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

Thank you David.

---

**Operator**

The next question comes from Arvind Bhatia, Sterne Agee, your line is open.

---

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

Good morning guys.

---

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

Good morning, Arvind.

---

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

Mark can you quantify the April trends you are talking about? I think you said you were seeing better trends but is there any way to quantify that, so that maybe we can extrapolate that a little bit more?

And then on the collection trends. Let me get the second one out. Your trends are very strong there, I wonder if your collection standards are a lot more strict now, and that might be cost costing you some customers, is that possible?

---

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

The April trend, I guess the net of it Arvind, when the month is over, how does the portfolio look compared to prior periods, to our expectation. In terms of growth, be that BOR customer, or less loss, whatever the case is. And at the end of the day, it appears as we sit here today, only a couple of days away, that this April will be one of our better net months in the last four or five years. So it is looking much like we saw October, November, December, January That February phenomenon, again I can't explain at all. But April is back to what we had seen before.

The collection comment, Mitch can opine a little bit here. But I would say no, certainly the first quarter we always see an improvement in collections. Given the income tax refunds, the benefit albeit we are running than historical. We are not being any tougher than we had been previously.

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

We haven't changed our standards, Arvind, we are executing better operationally, but we haven't changed or standards.

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

Should you be more lax than this environment? I prefer not to be frankly, the 30 years of experience, we are working with all customers that we deem appropriate, based on how long they have rented, and how they paid up to that point, and so forth.

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

And we have tried n the past, in our careers, between you and me Mark, we have tried at various times to be a little more lenient, you end up just driving pick up, because as you know Arvind, we have got, if someone can't pay one weeks of rent this week, $25 or $30 on average, getting $60 out next week because we were lenient this week, only drives, in the past, our experience has been it only drives in more pick-ups.

So we have to go out after more business, and it is that inventory mix, and the super values, to make sure that we have products that take care of the lower income consumer, but also has the higher end products for the people that are coming into the transaction because of the credit tightening. It is product mix and execution, I don't think loosening the credit would help us any at this point.

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

So generally trends are as you expected. Maybe February was a blip. But things back on track.

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

March a little bit, but not nearly, February, as I said, March improved dramatically. I was a little below expectation, and then April again, We are pretty pleased with what we are seeing in April.

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

Great. And last question. APUs, I know you guys are saying no real change there. Can you refresh us where we are right now?

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

Ideal APU, it is about 120.

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

120 right now.

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

That is kind of healthier for this quarter essentially, up or down a few pennies. And that is again down from what was 125 or 126, as I recall.

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

It has dropped a few dollars in the fourth quarter, but certainly stabilized in the first, and we see it stable going forward

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

Great. Thank you. And good luck.

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

Thank you.

**Operator**

The next question is from Emily Shanks of Barclays Capital.

**Emily Shanks** - *Barclays Capital - Analyst*

Good morning. I wanted to ask first and foremost, does Easter effect you guys at all?

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

Temporarily. It is a little soft that weekend, Emily, we don't typically make as many deliveries, and the credit may go up a little bit. It as couple of days, so to speak. Not any long term impact, anything of that nature.

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

Unlike some retailers, or a lot of retailers, what month it falls in doesn't really have much of an impact, because the delinquency goes up a little that weekend, we get it back by the following weekend, and the fact that it is March or April doesn't really effect at all.

**Emily Shanks** - *Barclays Capital - Analyst*

Okay, great. I know that you would be prudent around your free cash flow use. Can you give us a little bit of direction, in terms of, if you are looking towards acquisitions or further debt reduction?

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

Emily, this is Robert. Obviously with the previous announcement, we talked about calling in 150 million of the notes. And the free cash flow expectation that I gave you leaves about $100 million there, above and beyond that note redemption. So our view at this point, would be to continue to pay down some debt. And we certainly look at maturities this year are very light. But that does ramp up next year. We have about $160 million of mandatory redemption in 2010, and then '11 and '12, it ramps up from there. Having said that, we have always been large supporters of our stock. We want to be opportunistic in potential share repurchases as well, but that would be secondary to continuing to look at deleveraging the balance sheet.

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

And on the acquisition front, suffice it to say that there aren't many very opportunities out there within the space. But at the same time, we do get inquiries, and we look at those. They are smaller deals, it might be two stores here, or 10 stores there. To the extent they make sense, and they fit within the business model, and the footprint that we have, and we believe we can get the kind of rate of return that we want, then we are and would pursue those. But frankly, if we spend $20 million in a year at this point on acquisitions, it would probably be a high and low, just given the availability of those that are out there. But I do want you to know that if 1% of it sells, we do look at them occasionally, and if it made sense, we would certainly look at it, yes.

---

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

We bought seven stores in the first quarter that were mainly account buys, as opposed to new square footage growth. And that was about $1.5 million to $2 million, and that will come out in the Q that we will file later this week.

---

**Emily Shanks** - *Barclays Capital - Analyst*

Great. That is exactly the color I was looking for. Thank you so much, and best of luck.

---

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

Thank you Emily.

---

**Operator**

Next question is from Stanley Elliot of Stifel Nicolaus, your line is open.

---

**John Baugh** - *Stifel Nicolaus - Analyst*

Actually it is John Baugh. Quick comment if you would on how you think the lack of stimulus checks this year versus last year may impact numbers in Q2 and Q3?

---

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

I don't view it as an adverse impact, not having it.

---

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

If anything it probably doesn't matter a whole lot. If anything it might help, less payouts from when those stimulus checks came out last year. Although we didn't have a big impact on the second quarter, when those came out late in the second quarter last year. But it was slightly higher, so if anything I would see it as a positive John.

---

**John Baugh** - *Stifel Nicolaus - Analyst*

Okay. And then, you alluded to the weakness in February. I forget, I think there was some weakness back in August, last year. And yet you have had a lot of interim good months. Is there any way, I don't know if it is driving you nuts, but it is driving me nuts, to look at a pattern here, or discern something from this? Or is it unexplainable? So how do we look for example, the fact that March is improved, and April is better. How do we make sense of all of that?

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

It is a great question. Suffice it to say that we have, and continue to spend a lot of time looking at internal and external things. What might be drivers of that kind of behavior. Again, I can hypothesize on, certainly in February, the new Administration change, and all that was going on, and all of the talk. In our case, was that one of the drivers? Our deliveries were down. Demand was rather soft for the month of February, and coupled with the increased payouts.

We didn't convert as many of the payouts, as we had historically, The consumers were telling us, they at that point in time, they weren't interested in getting into another agreement. And that was at a higher rate than we had experienced before. So was that just the macroeconomic environment, the new Administration, and some of the talk of things that were going on? Versus we know, that was the first talk of GM and the likes going bankrupt, and the banking, what was really going on.

Did that create paranoia? I don't know. Certainly that might have been one of indicators. Unemployment in the quarter, the unemployment nationally went up a fair amount, and I will tell you when it initially happens. It has a near term, it has an immediate impact on us. And over time that does stabilize a little bit, but I will tell you, and probably not surprising, if you look at a distribution curve of unemployment, the higher it gets, the worse the number is.

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

Well, certainly in the short run. And especially, John, and I think you know this, when unemployment is going up, or anything that is effecting, like gas price, anything that is effecting our customers disposable income, the loss of customers comes first. And then over time, that puts other people into the rental transaction. Because it hurts everybody, right? And say you get to the very high end, but as you lose the income, the customer whose household income is $25,000, before you pick up the customer whose household income is 50,000.

And we have always seen that, so if that is what was happening back in February, and to a lesser extent in March, and now to a much, much lesser extent in April, that is certainly one theory. Around here, we certainly spend time on the macroenvironment. But mainly what are our promotions, and we try to analyze everything internally, on did we make any changes, what promotion worked better, we look at all of those trends. And we use that information going forward, to keep that from ever happening again.

**John Baugh** - *Stifel Nicolaus - Analyst*

As a follow up to that, are you able to look at regions or states, where unemployment is worse, or the economy is worse, and see a divergence of performance in those states, versus the areas that are less bad, if you will?

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

In many cases, yes, we can look at that to answer the question. In many cases, that is what happens, again for a short period of time usually, then there are states that defy the numbers, and do fine even with higher unemployment. But for the most part, unemployment does hurt us, especially in the short run. Then it starts to level off and can help over a longer period of time. But there is a short term hurt in most states when that happens, and we do look at that on a state by state basis, and certainly on a regional basis try to do different things in different parts of the country to offset that.

**John Baugh** - *Stifel Nicolaus - Analyst*

And you saw that happen to some degree in the first quarter, you could sort of see that correlation?

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

Yes.

**John Baugh** - *Stifel Nicolaus - Analyst*

Thank you.

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

The distribution curve does speak to it.

**John Baugh** - *Stifel Nicolaus - Analyst*

Okay. Thanks for that color. Good luck.

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

Thanks, John.

**Operator**

The next question comes from [Vanessa Miranda, Estancio Capital]. Your line is open.

**Vanessa Miranda** - *Estancio Capital - Analyst*

Hi, most of my questions have been answered. I was just wondering if you could give the CapEx number for the quarter?

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

Yes, it is 13.6 million for the quarter, and the expectation for the full year is around 60 million.

**Vanessa Miranda** - *Estancio Capital - Analyst*

Okay, great. Thank you.

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

Thanks Vanessa.

**Operator**

(Operator Instructions). We have a question from Carla Casella of JPMorgan. Your line is open.

**Carla Casella** - *JPMorgan Chase & Co. - Analyst*

My question is related to cash flow, but more on the working capital and rental merchandise purchases. Any outlook, just given your targets for revenue? What that will take in terms of rental merchandise purchases or working capital for the year?

---

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

Let me walk you through how we are estimating that free cash flow, and a large part of it is to benefit working capital. As Mitch mentioned earlier, as we are seeing some margin improvement on the gross margin line, some of that is being driven by a lower cost of products.

And so just walking through a reconciliation here, the EBITDA guidance that we forecasted was $3.45 to $3.65. Back out about 40 million of net cash interest expense, CapEx was 60 million, I just mentioned. Cash taxes for 60 million of the year. But a working capital benefit of roughly 80 million. So we will be buying merchandise at a lower cost than the rate of the depletion that is running through the income statement, it would be a depreciation of cost of goods sold for the year. Those items when you do the math, will get you to the free cash flow expectation of $2.65 to $2.85.

---

**Carla Casella** - *JPMorgan Chase & Co. - Analyst*

Okay. And then the 80 million in working capital, it is truly just the cost, you are not planning on carrying different items, or lower priced items?

---

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

Some of it is lower price, but it is depletion within the category. And maybe another way of thinking about it, I don't know the exact numbers, but by way of example, a year ago the average wholesale costs may have been $450, and today the average wholesale cost is less than 425, and so extrapolate that 25 or $30, $35 difference on a per unit, times the millions of units, that by itself gives you that net gain in working capital.

---

**Carla Casella** - *JPMorgan Chase & Co. - Analyst*

Right.

---

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

The example there, I think as everybody knows, is think again, the 42" LCD that retailed for $1200 and now retails for $700, that is because the wholesale price came down.

---

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

And because products are in our system around 20 or 21 months. It takes over a couple of years, you see that in the income statement from a margin standpoint, right? But on the cash flow standpoint, you see it right away.

---

**Carla Casella** - *JPMorgan Chase & Co. - Analyst*

Okay, great. So it is price as opposed to mix?

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

Yes.

**Carla Casella** - *JPMorgan Chase & Co. - Analyst*

Okay, great, thanks.

**Operator**

The next question is from Gary Steiner, Huber Capital, your line is open.

**Gary Steiner** - *Huber Capital Management - Analyst*

Hi, good morning, I have two questions. One, could you just walk me through the numbers behind the 2% impact on comps from the accounts that moved stores and then closed? What percentage of accounts move initially when you close a store, and then what percentage of those accounts stay, and then I have one follow-up question.

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

In regards to the comp guidance for the second quarter, we mentioned a decline of 4 to 6%. And about 2 of that 4 to 6 decline is attributable to accounts that were associated with our store consolidation plan in the fall of 2007. And so initially when we merged a portfolio of accounts into an existing store. We will pull that store that got the benefit of that out of the comp calculation, so as to not artificially inflate our comps that we are providing to the street.

Having said that, we allow the first 90 days roughly, to allow the portfolio to settle in, if you will. So we leave them out the comp calculation for roughly five quarters, and bring them back into the sixth quarter. And now, the reason why if you think about it on a per unit level, there is attrition. You have got a store that is doing perhaps the same number of deliveries, or slightly higher than they were before. But generally speaking, twice as many pick-ups, twice as many payouts, et cetera, and so there a certain amount of attrition that we expect, from the stores that receive the benefit of the merged portfolio.

Having said that, the overall top line margins and flow through of that transaction, is far superior than the revenue lost in general on the top line, so that unit level that got the benefit of that. So there is some deterioration in the comp in the second quarter associated with over 10% of our store base, being influenced by the merged accounts from the fall of 2007.

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

Gary. If you think about the surviving store doing 70,000, and you close the store that was doing 40 and put it in. So I am now doing 110. And in the first 90 days, I do that 110 a month, and then we expect to lose 50% of that portfolio, of the increase, we end up losing about half. So six quarters later, the 40,000 I got, 20,000 of it is gone. So I went from 70 to 110, now I am at 90 but that 90 is against the 110, hence the negative comp, but the flow through, which is why we would do that sometimes, never mind the fact that the 40 couldn't stand on it's own. But the benefit for the surviving store, even though it has that adverse impact on the comp. And when it comes into the comp, it is a pretty big drop. Because we lost 50% of that 40.

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

So in that scenario Gary, the fact that you are left with a $90,000 store in a marked example, it is certainly more profitable than when you were at 70, and that $40,000 store wasn't standing on its own. More profitable because you got rid of a loser, and now the 70 is doing 90 and making more profit. The overall drop in that example, is what 17 or 18%, 20 on 110. You figure, call it 18%. So a negative comp when they come in. It is about 13% of our store base of 380 stores. So you can see where that is about a 2%, 13% of 18, I don't have a calculator in front of me, but right around that 2%. So the comp of the stores that didn't get the accounts would be between 2 and 4% in the second quarter, negative 2 to 4% second quarter.

---

**Gary Steiner** - *Huber Capital Management - Analyst*

Got it. Okay. And then just in terms of the comp guidance. You have guided the second quarter to a negative 4 to 6%, and indicated that maybe 2% of that is this phenomena that we just spoke about. So exclusive of that, it is maybe negative 2 to 4, which is kind of running at the levels that you have been at for the last quarter, to maybe slightly worse. But yet you have talked about April being a better month. I guess I am just trying to square those two seemingly divergent views?

---

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

The way our portfolio builds or declines, in other words, if I go back to February, if the store backed up quite a bit, and albeit, I will make up numbers, if they lost 10 BOR, and now, April is pretty good, and they have gained 5 of those BOR back. That is a pretty good month, but they still have a 5 deficit from the 10 they lost in February.

---

**Gary Steiner** - *Huber Capital Management - Analyst*

I got it.

---

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

And just so, it takes time to build it back up over that hurdle rate.

---

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

We don't start from scratch every month, Gary, it is a recurring revenue stream, so you live with a bad month for a while, like a February, and then conversely, when you have a good month it can make up some of that, or have a banner month. Then you ride those coattails farther along also, so the tail of what happened because of the recurring revenue stream.

---

**Gary Steiner** - *Huber Capital Management - Analyst*

Got it. That explains it. Thanks so much.

---

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

You bet.

---

**Operator**

At this time, I would like to turn the call over to Mr. Mark Speese.

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

Thank you very much for your time today. As always we appreciate your support. Obviously again, I know we talked about some of the headwinds we faced in February. I think from my perspective, as I said I am pleased with March, albeit a little soft. We recovered, more importantly, as we sit here again, and look at April, and our view for the future. The balance sheet as we talked is in very strong shape, and we feel very comfortable there. We continue to manage the business for the long term.

And we do look forward to reporting back to you next quarter, with what we hope will be a continued good outlook for the Company. Thank you for your support. We look forward to talking to you again.

**Operator**

This will conclude today's conference call. You may disconnect.