# FINAL TRANSCRIPT

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## RCII - Q2 2007 Rent-A-Center Earnings Conference Call

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**Robert Davis**
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**Mark Speese**
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## CONFERENCE CALL PARTICIPANTS

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*Wachovia - Analyst*

**Dennis Telzrow**
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## PRESENTATION

**Operator**

Good morning, and thank you for holding. Welcome to Rent-A-Center's second quarter 2007 earnings release conference call. At this time, all participants are in a listen-only mode. Following today's presentation, we will conduct a question-and-answer session. (OPERATOR INSTRUCTIONS). As a reminder, today's conference is being recorded, Tuesday, July 31, 2007. First 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 like to turn the conference over to Mr. Carpenter. Please go ahead, sir.

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

Thank you. Good morning, everyone, and thank you for joining us. You should have received a copy of the earnings release distributed after the market closed yesterday that outlines our operational and financial results that were made in the second quarter of 2007. For some reason, you did not receive a copy of the release, you can download it from our website at investor.rentacenter.com.

In addition to 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, understand the statement of earnings highlights. Finally, I must remind you that some of the statements made in this call, such as forecast growth in revenues, earnings, operating margins, cash flow, and profitability and other business or trend information are forward-looking statements. These matters, 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, 2006, and our quarterly report on Form 10-Q for the quarter ended March 31, 2007, 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. And thanks for joining us on our second quarter earnings call. As you can see in the press release, our second quarter results were within our guidance range in both revenue and earnings. Our same-store sales comparison was better than expected at 2.7%, yet revenue was within our guidance range. We probably estimated our revenue but we miscalculated how much of that revenue is going to go to come form our comp stores so we had a positive surprise on the comp side, because of all the acquisitions and consolidations we have done there are numerous moving parts when it comes to stores come in and out of an account. As a result, although we properly estimated overall revenue, we underestimated our account performance and ended with that positive surprise. We do believe we have refined our internal methodology to more accurately forecast our comp performance going forward.

Demand was good for most of the quarter. But as of late, more specifically, June and July, they have been very slow, and due to the recurring nature of our revenue, you really see the revenue drop in the following months after a slower than expected customer growth period. There's kind of a lag to it as I think most of you know. But with demand being off in June and July, we have to lower our revenue estimate, and there for our EPS estimate for the balance of the year. We are also seeing some customer struggles in our collections results. As our weekly past due account average went up to 6.9% as compared to a 6.6% average in last year's second quarter. Additionally, our customer losses have been consistent between 2.3 and 2.5% of revenue, went up to 2.7 in the second quarter. These higher loss trends are also contributing to our lower guidance for the remainder of '07. We are experiencing that there is a lot of financial pressure on the customer we serve right now, and demand in the last two months has been soft, but we believe this is temporary and remain extremely confident in our business model, as well as our strategy of adding new product and services within our four walls, namely financial services.

As you know, when demand softens and things get tough, you have to get better from an operational execution standpoint, and we are intensely focused on that. Additionally, we continue to reevaluate our advertising dollars are being spent, and are testing numerous different things in that arena. Couple other points, our healthy ran inventory level is in the normal range of 20 to 24 % as we ended the quarter at 23. The Rent-Way stores that we purchased last November were on track through the second quarter. But they have experienced the same slow-down in demand the last couple of months. So in summary, even though the second quarter results were in line, our core business is now being challenged with slower demand and increased operating costs but we are working hard on operational execution to restore levels to overcome these obstacles, and we will overcome them. I want to thank our 20,000 coworkers for their increased intensity level, as we work hard against what we believe to be a temporary slow down, were confident that will come out of this period even stronger from an execution standpoint. With that, I'll turn the call over to our CFO, Robert Davis.

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

Thank you, Mitch. I'm going to spend a few moments giving an update on our financial highlights during the quarter. I'll then turn the call over to Mark. I would like to reiterate that much of the information I presents, whether historical results or forecast results will be presented on a recurring and comparable basis. Outlining the press release, after last evening's market closed, total revenues did increase during the second quarter of 2007 by 24.1%. With net earnings and diluted earnings per share increasing 3.8 and 3.6% respectfully from the prior year, $41.3 million and $0.58 per diluted share. Other EBITDA increased 21.1% from the prior year, to 108.6 million in the margin 15%. Through June, year-to-date, first six months of 2007, EBITDA equaled roughly $227 million or an increase of 26.5% from the prior year. This is translating into the generation of over $143 million in operating cash flow during the first six months of this year.

As a result, we were able to reduce our outstanding indebtedness since year-end by over $60 million. Our leverage ratio at quarter-end stood at 2.86 times. Since the ends of June, we have further reduced outstanding indebtedness by 36 million, and our current revolver in line of credit capacity is in excess of $300 million. Significant liquidity from the balance sheet perspective.

Additionally, during the second quarter, we did utilize over $35 million of our cash flow to repurchase approximately 1.3 million shares of our outstanding stock. Or almost the entire amount that was authorized from our board of directors at that point in time. However, as disclosed in the press release, our board has authorized an additional increase of $100 million for future share repurchases. We believe this combination of debt reduction and share repurchases of the first six months of the year has been a prudent use of our cash. Our balance sheet and strong recurring cash flow remains strength for this Company, even during times of softness or slow-down, we still anticipate operating cash flow and free cash flow to be significant, free cash flow around 140 to $150 million for the year, so again, very, very significant recurring free cash flow.

As such, we remain committed to the long-term prospects and outlook of our Company, and we will continue to manage our capital accordingly. Our quarter ending cash balance was just over $79 million, and debt-to-book cap at quarter end equated to roughly 56%. At quarter-end, our debt levels were approximately 933 million in senior term debt, and 300 million and 7.5% subordinating notes. However, currently our senior indebtedness outstanding is 897 million, given we paid down additional 36 million since quarter-end. In terms of guidance, we now anticipate for the third quarter of 2007 total revenues to range between 695 million and 710 million on same-store sales between flat to down 1.5%. With diluted earnings per share ranging between 30 and $0.36. Again, I will remind you that during the third quarter, the comp guides as being negatively impacted due to the fact that there's one less business day in this third quarter when compared to 2006, which happens to be a Saturday, and this change alone, or calendar shifts will equate to about a negative 2.5% impact to the comp itself.

For the full fiscal year-ending December 31, 2007, we expect total revenues between 2.905 billion and 2.935 billion and same-store sales for the full year between a positive 1 and positive 2%. Additional, we our projecting 2007 EBITDA of approximately $410 million and the margin around 14%. Diluted earnings per share are estimated to be in the range of $2.06 and $2.14. Of course, this currents guidance excludes any potential benefits associated with future potential stock repurchases or acquisitions completed after the date of the press release. That's our financial update, I would like to turn the call over to Mark.

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

Thank you Robert, and Mitch, and good morning, everyone. As usual, I'd like to take a few minutes to update you an additional detail on the most recent quarterly result, and then discuss our outlook for the balance of the year. While we are pleased to report second quarter results in line with our expectations, as Mitch, the current business environment is challenging as measure by a slow-down in demand as well as an increase in delinquencies. At the same time, our costs have increased, specifically, fuel, utilities, and losses. As we look ahead to the balance of the year, obviously, we are concerned about the weakening demand we first began to experience in June in which has continued through July.

As most of you know, and Mitch discussed in his comments, in our business, the revenues we can expect to achieve in future periods is a function of the news business we put on the books today or yesterday, last week and last month. Because of the headwinds we've experienced in the last 60 days, that has caused us to lower our guidance for the balance of 2007. We believe that this diminished demand is being caused by a couple of factors: First, the volatility and general upward movement of fuel and utility costs and in a subsequent trickle down effect towards other general merchandise. Which really strains the budgets and confidence of our customers. When economies and finances become more uncertain as we can see that they have, that uncertainty hits our customers first harder and arguably longer, we believe. Simply put, we believe that our customer currently has less disposable or discretionary income to spend.

Additionally, as many of you will remember, Summertime is our slowest period in the best of times, having the broader economic and personal financial issues hit our customers is hard enough, to have those factors jump into play at the beginning of the Summer has, we believe, amplified that negative effect. Let me add this is not limited to any geographical region or heavily competitive markets. Nor is it product or category specific. Rather, the softness is being experienced throughout the country and across all product or categories.

Now in an effort to combat some of these challenges, one step that we've taken is to shorten our terms to ownership on a number of our products. Which will lower the cash prices and the total of payments which we believe will appeal more so to our customers. At the same time, we are modestly increased the weekly rental rate a $1 or $2 on some of those items. This increase should generate a little more revenue for us now and help offset some of our rising costs. Having said that, we do not believe that a slight increase in some rental rates will have a material effect on demand or on our customers' ability to pay.

In fact, we are hopeful that if anything, the overall drop in total payments and cash price will be attractive to the customers. As many of you may remember, we tested the effective of lower weekly rental rates we have on demand and didn't see an increase in traffic or rentals. Based upon those tests, and our experience in the business, we believe that varying the rental rates one direction or the other a $1 or $2 doesn't make a difference to or for our customers. And the fact is, that over time, without modest upward adjustments of our weekly rates, we can find ourself losing ground to the upward pressure of inflation. For those customers who can currently afford the weekly rent and/or are renting, the ability to own the product more quickly and to pay less in total rent is a positive thing. In other words, we believe that the modest rental increase coupled with the downward adjustment on the term and dollars-to-ownership will be perceived favorably by our customers and generate additional revenue for the Company at the same time. We are also addressing the twin issue of rising delinquencies and increased charge-offs with the renewed focus on account management and collections.

As Mitch mentioned that, we know that our organization is the best in the business when it comes to working with our customers to meet their needs, while at the same time, maintaining strong credit collection standards. With a sharpened focus on this critical area of our business, we hopeful that delinquencies and losses will diminish as we look at the balance of the year. With regards to our financial services roll-out, as noted, we added 58 new locations this quarter. Did consolidate five and closed nine, ended the quarter with 221 stores now offering these services. As we previously mentioned, and having taken some time off last quarter to fine tune some processes, the newer openings are performing well and that trend continues. At the same time, given the geographical spread-out of the new locations, we are now in 15 states, including Texas offering the CSO model, we are occurring some additional or higher-end, front-end expense, particularly as it relates to the oversight or middle management of these stores. The district manager. At build out or maturity, we expect district managers to supervise 12 to 14 locations. Given the current roll-out schedule, that number is considerably lower, averaging approximately 6 or 7 locations and we expect it to take a little longer to fill in.

As such, given that the earlier store openings were slow to start, and with this, again, little bit more cost in the middle management, we expect financial services may be an additional $0.03 or $0.04 drag out of earning this year or $0.07 to $0.08 in total. Having said that our long-term outlook is unchanged, and remains positive. And we will continue this roll-out as previously stated. Expected to add 55 to 75 during the current quarter and ending the year with approximately 300 to 325 locations. As we also previously stated, we expect financial services to break even or be slightly accretive next year, and then ramp up from there, again unchanged long-term. Again, as I mentioned, we along with our customers are facing some challenges or headwinds, but believe that they will pass like before. In the meantime, we will continue to carry out our initiatives to improve the execution at the store level and expand our financial services business.

Finally, as Robert mentioned, the balance sheet and capital structure remain healthy and along with our strong cash pool, gives us the flexibility to continue executing our plans and growing the business. We'll continue to enhance shareholder value by investing in our core stores, opening the financial services, and then through our on going share repurchase program. We appreciate your support, and with that, we'd be now happy to open up the call for questions.

## QUESTIONS AND ANSWERS

**Operator**

(OPERATOR INSTRUCTIONS) . Your first question comes from Jeff Schollaert with

**Jeff Schollert** - *Wachovia - Analyst*

Good morning. On the macro side, just trying to tie some things together in terms of the energy cost. It looks like if I look at gas prices, they are only up mid-single digits this year versus last year and last year, they were up 20 to 30%, but it didn't seem like you had the same sort of impact last year and then also, on the employment side, it looks like employment is very strong this year in terms of wage gains and initial job, so I was hoping you could provide more color there. Thanks.

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

Yes, you're correct as you look at gas today relative to a year ago, it's within penny's I guess, maybe a little higher, it did jump up a quite a bit in, I guess, late April, early May. Having gone from, recess back to the 250 or 60, and ran back up over $3, and I guess that was May. We started to feel the effects of some of that in June, albeit, it's come back now over the last several weeks, customer hasn't adjusted at this point, as I mentioned, we believe that we talk about energy costs, it is affecting a much broader products and services, food costs, and the likes we believe is again having a broader impact beyond just the energy cost itself. Everything that it's touching. In terms of employment, I'm not real sure I understand your comment or question. It is low, has been for quite some time. If the broader question there is the fact you have more people working, does that not create more opportunities for you? And unemployment generally hasn't been a big indicator of our business. It's more about how much disposable or discretionary income do you have to spend, and what are the competing forces on those dollars, if you will.

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

Mark, I think that, this is Mitch, Jeff, it's also what part of the job market also the housing slow down in certain parts of the country, that's our customer working construction and that hurts in certain parts of the country. The weather in the Midwest and southwest, the last few months has certainly hurt the construction industry, anybody working outside being our customer, so different pockets of the country have different problems. Obviously, the (Inaudible) Michigan, Ohio have their own problems, with the auto industry, so you can see pockets of that, but along with the fuel prices being higher than last year, the customer is under a lot of financial pressure.

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

And the weather comment, we've heard a fair amount of that from customers and coworkers alike. You deal with those issues 12 month out of the year, and it varies geography, and certainly, in certain parts -- (Inaudible)

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

The housing slow down on the construction side of things, the construction workers cannot get the hours they were getting prior, and that is consistent throughout the country. I don't know there's any one thing. All those things combine for a lot of financial pressure on our customers.

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**Jeff Schollert** - *Wachovia - Analyst*

Thank you. That he very helpful. And the second quick question, are you still expecting about $0.20 of ETS accretion from the Rent-Way acquisition for next year?

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

As we indicated in our prepared comments, Jeff, this is Robert, Rent-Way is on track through the second quarter with our original expectation. However, lately, they have been experiences some of the similar pressures that the core business has, and so while we're optimistic about their outlook, given the recent trend we might have to report to you at the end of the third quarter, but at this point in time the $0.20 that we gave guidance to for Rent-Way next year through the second quarter, they are on track to achieve that, and at this point in time, we will have to reevaluate in 90 days given the current pressure.

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**Jeff Schollert** - *Wachovia - Analyst*

Okay. Thank you very much, guys.

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

Thank you.

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**Operator**

Your next question comes from Dennis Telzrow from Stephen's Inc.

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**Dennis Telzrow** - *Stephen's Inc. - Analyst*

Mark, I think you've explained this. But in your comment about changing the contract terms is the total amount that your getting now less than it was your shorten the term but raised the rate, is that a fair statement? On certain products, that is correct. In some cases the rate may have gone up a $1 but the term was reduced by default to the consumer if they go to term and/or exercise an early purchase option, it does equate to lower cash price and/or lower total rent-to-own dollars if they paid previously. Now, again, that will be new agreement going forward. It doesn't effect what was already in place but, yes. And on the expense side, in your guidance, it looked like there's more expense pressure than I thought. You explained part of it coming from the financial services segment. I think you said $0.03 to $0.04 more. Any others than what you said, utilities and fuel and I think going on laborer insurance area?

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

The other category that Mitch alluded to in his comments were the losses category. We have increased our expectations for losses the balance of the year, and that's part of the reason the comp guidance, EPS guidance came down as well as the revenue reduction from the softness, so it's losses and --

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

Loss of revenue is a big part.

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

From an expense side, the main categories are the losses and the DMs for the financial services area, and some delivery costs.

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

Percentage is higher (Inaudible) based on the revenue being down.

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

But also, Dennis, we, our losses were higher in the second quarter and with the delinquency creeping up on us, we have that factored into our numbers the rest of the year as far as the higher trends, although as I mentioned, we are really working hard on that area and I'd like to think we are going to be able to get the delinquency back in line and bring the losses down, but we have forecasted a higher trend, and we have not accepted a higher trend. Even though we forecasted it.

**Dennis Telzrow** - *Stephen's Inc. - Analyst*

And where does that run through? Is that in salaries and other expenses?

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

Yes.

**Dennis Telzrow** - *Stephen's Inc. - Analyst*

Okay. Last question, how much availability do you have on your term note to buy stock back? Usual there's some formula there.

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

I think it's around $100 million with this quarter's adding to the basket. If you recall, anything under 2.75 times and leveraged we have an unlimited amount we can repurchase. Otherwise, we are limited to a basket which builds every quarter with 50% of consolidated net income. So we did buy 35 million in the second quarter, which brought that availability down and added back to recent quarter, so roughly around 100 million.

**Dennis Telzrow** - *Stephen's Inc. - Analyst*

Thank you very much.

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**Operator**

Your intersection question come from Arvind Bhatia with Sterne Agee.

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**Arvind Bhatia** - *Sterne Agee - Analyst*

Good morning, guys. So just trying to reconcile everything. I think we tried a couple times, but the way I'm looking at the change in guidance, top line didn't change that much, but EPS if I take the mid point came down by $0.18, let's call it, and just to be clear on the break-down, about $0.04 of that is financial services costs, and if I'm doing the math correctly on the top line, I think that went down by 15 million, and flowed through a 40% there, gets me to about $0.06, that's about $0.10, and you have delinquency costs. Is that, delinquency I can't imagine would be $0.08, so is there anything else? Just so that we are all on the same page in terms of the change versus your prior thinking.

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

I think there's-- the $0.04 from cash advantage,as we indicated or Mark did in his prepared comments, the revenue impact is going to have a larger impact than you estimated because that flows straight to the bottom line after the gross margin level. Some additional cost but not a lot. So your flow-through was 40 or 50%. It might be closer to 60 or so. So higher than six or seven that you estimated, and then the additional would be through the losses and some of the delivery costs for the fuel, but generally, you are on the right track.

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

That revenue win more like $0.10 out of the 18, after you take appreciation out of it, and $0.04 on cash advantage, you can put $0.04 towards the expenses and losses and higher delivery and utility costs.

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**Arvind Bhatia** - *Sterne Agee - Analyst*

Okay. And you mentioned Texas and CSO model for the financial services. To me, that's new -- (Inaudible) Are you going to expand into other markets with that model as well?

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

No, that's not the current thing, but we always talked about focusing on states that had enabling legislation, albeit Texas is a little different. It is enabling and the CSO model has been tested an accepted, if you will, and we always assumed we would come here, our original thoughts were, it would be later in the year, or perhaps next year. Given some of the, I think you've heard us talk about like in Ohio, it took quite a while to get licensing and that was one of the delays, and when we got in there, you heard us talk about how do you size that, knowing that when you get into the locations, we are going inside the four walls and in some cases, were precluded to do that, because the competitor may be in that strip center, a non-compete, so as we were looking at, again, wanting to be able to ramp them up fairly quick and where the availability was, getting slowed in some of the other states, it was simply a case of let's move up the calendar in some of the other areas, believable it's the right thing to do, we believe in the model, the long-term prospect, but if we can't get 100 in Ohio today, we can only get 50 as an example, where are the other opportunities? Which is what brought us into Texas a little sooner than expected. It was expected, but a little sooner, but is what also is not allowing us to leverage all the middle management expense at this point in time. Again, the original hope would have been to beef up Ohio to that 100 where the DMs were getting to that 12 or 14 relatively short-or the, and moving on to the next state. Robert, help me out. As we look at what we have got planned this quarter, I don't think there's any new states that is backfilling or continuing to fill in where we are.

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

That's correct. The primary focus being on Texas and Ohio.

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

Right, right.

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

And the other part of Arvind question is, the CSO on the model work here, and we go into statement with enabling legislation. (Inaudible) -- I don't believe that will work.

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

We are not looking at that model in other places, not at this point.

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**Arvind Bhatia** - *Sterne Agee - Analyst*

Okay. And housekeeping question on the miscalculation of comps, does that affect anything in the past at all? Or is that just this quarter?

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

No, it doesn't affect anything in the past. If you recall, our first quarter was, 2.9%, I think we've given a range of 1 to 2% or something like that, 0.5 to 2 or something like that, first quarter, so we had a positive I(inaudible) in the first quarter and the second quarter as well. We went back and refined our methodology and the current guidance has taken that into consideration, but it doesn't impact anything historical from a calculation perspective.

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**Arvind Bhatia** - *Sterne Agee - Analyst*

And then if you can touch on the advertising side, what you are doing there. I think you are saying re-evaluating some of the things. I imagine you are trying to spur more demand in this environment. Anything new that you are doing that you haven't tried before now?

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

We're testing quite a few things. We've done a lot of what's call saturation mail over the years. As you know, we're looking at how we do that, testing a little more from a direct mail standpoint versus saturation mail. We've got a media resource allocation project going on to look at, evaluate where we are spending our money, we have new media buying company? The fourth quarter, OMD, (Inaudible) buying our televisions starting this fall. That's a change. We are testing some more Hispanic radio, we're revising our search engine marketing we have new creative coming out this fall, we've got a store redesign project underway to look at how we use our square footage on the floor. We are testing some different things on the TV spots, so my point is there really isn't a stone we haven't looked under to see if it's smart use of advertising and what of our advertising dollars, and what can we do to drive more demand, whether a change in the way we do direct mail, change in the way we buy TV, what we put on TV from a creative standpoint. What we do on the Internet what, we do on radio. Pretty much everything, we are evaluating and almost all of the categories, there's a different test going on, trying to see if it can drive more demand in certain markets and so forth.

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**Arvind Bhatia** - *Sterne Agee - Analyst*

I know you are not giving guidance for next year, but help us out with what you are expect in terms of bottom line growth from your core business, and I know you gave some color on Rentrite's so we can work that but, your thinking at this point, given what you are doing with delinquencies and some controls you put in place there, and your best sort of outlook for next year?

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

As we've done historically, we will give that type of guidance at the end of the third quarter. At this point in time, we have not historically given the outlook for next year at the end of the second quarter. We'll be doing that in 90 days.

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**Arvind Bhatia** - *Sterne Agee - Analyst*

My last question on Rentrite, I think you indicated things were on track. Anything on the employee turn-over on that front? Anything change on that recently?

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

No, it's been pretty consistent. It's been higher in the, as expected, it's been higher in the Rent-Ways store than the core Rent-A-Center stores, anytime you go to an acquisition like that it runs higher in those stores, but hasn't been any change in that.

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

Pretty stable at this point, or consistent with what we are seeping in the Rent-A-Centers.

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**Arvind Bhatia** - *Sterne Agee - Analyst*

Thanks, guys.

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

Thank you.

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**Operator**

Question come from Emily Shanks with Lehman Brothers.

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**Emily Shanks** - *Lehman Brothers - Analyst*

Lots of our questions have been answered. I did want to touch a bit on your outlook for the consumer. I heard in the opening comments that you do think it's temporary and I'm just trying to understand how you guys are boxing it or defining it in the back half of this year.

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

I'll start with that. I'll start with that, Mark will add. we do believe it's temporary, we've been through this before, especially in the summer as Mark pointed out with the higher fuel prices and the stress on the customer, especially when it happens in the summer, we went through this a couple of years ago and bounced back. We don't believe the demand for these household durable goods is going to go away. We think it's a temporary situation for our customer, I mean they still need the products that are available in our stores, whether it's a bed or refrigerator or living room, or television or computer. Those are still necessities in this day and age, and there's -- there's no one else filling that need, it's not like the demand has gone away because something else is filling that need. It's an amount of money they have in their pocket right now and as long as the products are still in the necessity, and nobody he is is filling that demand, we see the demand coming back. That's why we talk about it being temporary. These are products that consumers are going to need, and they don't need them as much in the summer and this has been softer than we anticipated , softer than past summers, and the same thing happened a couple years ago. And when they stabilized, and some other factors, -- The other factors (Inaudible) and the customer got stronger, the demand came right back. These are products they need for their homes or

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

I think you said it well. I'm not sure I can add much more than that. You're right. We've been through it, and I think maybe more than anything, there is a lag. These things happen, it hits our customer right now, today, until they adjust and/or other people that may have gotten affected fall into the proposition. There's a time delay, and much it is based on past experience, but I think Mitch said it right: When you think about the products and services we offer, the customer base we are servicing, the need and want doesn't go away. And generally speaking, it's not being fulfilled by others so it's simply that waiting, if you will, such that they can get back on their feet and then they come back right in and so that's, again, how we view this one.

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**Emily Shanks** - *Lehman Brothers - Analyst*

Great, thank you, that's extremely helpful. And just one follow-up question. As we see Wal-Mart looking at expanding their sort of bank offering, how do you guys look at that offering versus your financial services offering?

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

Yes, Wal-Mart, they have come out in the last couple of quarters talking more about getting the debit card or prepaid store value card business, unlike us, where the majority of our revenue is going to be focused on loan revenue, they are not entering that arena at this point in time, and not sure they will. We also view them from a,-- from us, our cash advantage operation being more of a convenience by establishment whereas in Wal-Mart, parking way out in the parking lot and walking a long ways to cash a check, we think customers that are doing business at Wal-Mart may just cash a check because they are there as opposed to it being a designation points for the products after services whereas in our business model, it's a designation point, -- And we are offering a full array of services, not just loans but check cashing, money order, money transfer and so forth, whereas Wal-Mart is not as diverse in those different product lines.

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

I think the biggest points is that the majority of our revenue and the financial service businesses comes from areas that Wal-Mart is not in.

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**Emily Shanks** - *Lehman Brothers - Analyst*

Great. Thank you very much.

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

Thanks, Emily.

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**Operator**

Your next question comes from Henry Coffey with Ferris, Baker Watts.

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

Good morning. I appreciate the articulation, it's helping a lot. I was wondering if you could help me with some stuff on the balance sheet. The EBITDA number you mentioned was 350 or --

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

The EBITDA through the six month period was 227 million.

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

Right.

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

And for the full year, we're anticipating about 410 million.

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

410 million of EBITDA.

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

Correct.

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

Okay. In terms of looking at the balance sheet, you've got $79 million worth of cash and about a 1.2 billion in debts, and you paid off $36 million of debt?

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

Since June 30th.

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

Exactly. Was this a direct reduction in cash or -- What are your cash balances look like?

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

Our cash balances, yes, if you --

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

Is your cash $36 million lower as well?

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

Right. That's the directs correlation, correct.

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

And what do you, I know you've, were excited to see the share buy-back. What are your expectations in terms of retiring debts for the rest of the year? Do you think it will stay where it is or --

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

I think it's fair to say at this point in time, given the current pressure on our stock, we'll most likely, and given the fact the board increased authorization a 100 million, I think it's fair to say we will see purchases of our share. We are going to be -- Buying back stock, having said that, we do have to fund this Regs litigation in the fourth quarter of this year, so from a debt perspective, it would not surprise me if our indebtedness increased by roughly 100 million by the end of the year, and do we just put recurring cash flow in the back half of the year to work on share repurchases or do we also go into line of credit to do additional share repurchases, we will make that determination at a later points.

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

The $100 million worth of Perz is there a related tax credit that goes with that?

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

Yes.

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

So cash out the door is 65 million.

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

60, 65 million.

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

Great. The overhead jump is, just looking at the sort of year-over-year comparison and focusing in on the third quarter, the overhead jump is big. How long do you think it will take you to sort of work that down and get everybody back in shape and get the numbers back to where they sort of what of should of been?

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

Year-over-year --

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

Are you --

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

I'm looking at the ratio, the store level costs at 61% at store level sales.

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

So you are not talking about G&A? Talking about salaries and others?

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

Right.

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

And obviously, as Mitch mentioned earlier, albeit the expenses we've got forecast being higher than previously anticipated, the percentages really stick out also because --

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

That's what I'm looking at.

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

About $20 million from our original guidance as having an impact on them margin itself as well. So, obviously, from a margin perspective to the extent we can get a lot of contracts back and build that revenue base back up, that in and of itself will allow that margin to come back in line with historical.

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

Is that a 12-month fix or six month process or what are your thoughts on that?

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

Given our guidance that was given for the full year this year that's what we are, I guess, speaking to today, and then obviously, our goal and intent is to increase our revenue stream and have a great fourth quarter and seasonally strong quarter in the fourth quarter, and we would expect that margin to come back down throughout next year, but at this point, we've given no specific guidance on that.

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

It certain suggesting something greater than 6 months.

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

Yes, 6 to 12.

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

And it goes without saying that the other thing we are certainly looking at expenses, and I say that, we always do.

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

Right.

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

It's a little bit of a balancing act. In my mind, it's not about oh, let's run out and cut all kinds of costs. Because we believe this is temporary, and if up think about our infrastructure, and you heard us talk about it. At the store level, being a fixed cost, and if you have five coworkers like we talked about a couple of years ago, the fact that deliveries are down a couple of week per store, you don't yank an employee out. But having said that, we are mindful about expenses and looking at, and always looking at are there opportunities that make sense when you think about costs? But to Robert's point, it's more about leveraging the cost that we have in place, and by growing the revenues back up, it will just self, correct itself, couple of Mitch's comments about as we got to focus on the collections, and I believe we will be successful, we know how to do this, we've been down that road, and when business gets a little tough, you tend to get a little loser than you should working on collections trying to work with them longer and you have to be mindful of that also. I think we'll be successful in being able to tighten the weekly delinquency up which by default would lead to bringing the losses back down.

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

Are any of the losses tied to the new TV product? Is that a harder product to manage, or just sort of across the board?

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

I'm sorry? The what product?

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

The higher, the big screen TVs.

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

There's -- No, -- No.

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

Great. Thank you very much.

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

Thank you.

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

Take care.

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**Operator**

Your next question come from John Baugh with Stifel.

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

Could you in some way quantify either by traffic count or BOR or number of customer or grievance, in sounds--- June or July. obviously your revenue guidance is lower, just wondering in magnitude what you saw in June and July?

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

June was a little worse than we expected, July frankly has been the very difficult month for us. And it was significantly lower than we had experienced last year, and/or what we anticipated this year.

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

If you think about, think, John, about the revenue coming down about $20 million in the last 6 months, 3.3 million a month for six months, and you know what our average revenue per contract is, you could kind of figure out how many contracts worst than we anticipated we worked at 3.3 million a month is what we are down right on average. You have 20 million divided by 6, and you know how much a contract is worth, and that's how many contracts we are behind where we thought we are going to be. Mostly based on July, but to some extent, on June.

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

Is that still running in the upper 50s, that number.

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

What's that?

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

The APU, I wanted to ask about, is that number still the average in the up 50s?

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

Monthly is 100 plus.

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

$100 plus a months in average monthly income per agreement.

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

Okay. Is has there been any change in the average unit price?

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

No, nothing of significance. Nothing material.

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

Again, the changes I mentioned in terms of reducing the term and in some cases adding a $1 or $2 those really just take in effect over the last week, ten days.

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

And on that subject, Mark, I recall somewhere around 20 months or something was an average, but I may be off. What are we talking about here in terms of change. I know you've done a promotion a while back in terms of the last two weeks or something, free payment. What, is this a really minor tweak to the average term or --

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

Yes, well, what -- Your comment, that 20 months average, we mentioned that the average product is in our system about 20 months from date of purchase to date of disposal and again, most of it leaving through a rental transaction be it the first, third or fifth customer. And again, again, not all product but those that we looked at were some of the longer-term products, IE, they may have been 24 monthly agreements, or longer, those are more of the ones we looked at, and they came down to 21 as an example so we may have taken 3 months off of that term. And again, many of the cases, most any ways, raised it a $1 or $2 a week, but again for the customer lower cash price, lower total cost, more revenue for us right now, but I don't expect it in the, over the life of the product to materially effect that 20 months. Only way it gets affected is if that first customer goes all the way to term. Or buys it out. If it's subsequently rented in the future, that second, third term moves around a lot as you know.

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

We hope it increases, probably won't increase demand necessarily, but it will help the execution, helps the closer, because you have a lower price. As well as the fact you have lower overall price increase demand but yet,(Inaudible) our monthly revenue goes up a little bit, and as Mark pointed out, the only time that overall price actually ends up on our P&O for a lower margin is if the first customer takes it all the way to term.

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

Which is about 25% of the case, so everything being equal, 25% of the case is about what, 21 months from now you'd see less revenue for the assuring three months. Is that the right way.

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

25% of the first time rentals.

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

Correct.

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

Acquired by the first time renter.

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

Correct. And in the interim you have a little higher rental rate. A little more color, skips loss stolen, what exactly are you seeing is, is there any change in any of those numbers? Are they all up about the same?

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

It's a combination, John, about half and half of the writing off more accounts, we've been consistently in 2.3 to 2.5 range in the second quarter, we are 2.7, like I said earlier, and that increase is a combination of writing off more accounts than a higher cost per account with the higher end merchandise. The new technology, and the higher end merchandise. The new technology, and packaging we've been doing for the last couple of years, making bigger agreements. Package things together, so so it's about half and half of the fact there is more actual customers skipping stones, but they are at a higher cost as well. When I see 2.3 to 2.5 range, the summer is always the toughest time. It probably would have been 2.5 normally in the summertime, and we are at 2.7. Which, 20 basis points is not insignificant on that much money we do a month.

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

And just to provide more perspective on the more account being written off at store level. It's not even one full agreement, it's0 .8 or something more.

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

That's right. For the quarter, it was .8 more.

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

I don't wants people thinking we are writing off five more stores.

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

That's right.

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

So .8. Less than one a store.

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

And then lastly, on the Rent-Way, how many stores, have you done most of the store closings at this point? I notice over the 52 stores closed, 6 months, year to date. How many of those are Rent-Way versus Rent-A-Center? As you look out, say, the next six months, where do you expect the net store count to go?

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

I think in the next six months, there will continue to consolidate stores, -- A company that's grown primarily through acquisitions over the years we end up with stories not always exactly where we want them, because we didn't put them there. We bought them and they might be in close proximity to another store, and when the lease expires, if we see too many cannibalization in that market, especially smaller markets, then we consolidate. It might be pretty consistent at 15 or so a quarter. Consolidations a quarter we'll open through the remainder of the year. I don't know, another 15 or 20 stores. I would say store counts wide, it might, the last six month, we might be down ten stores, but it will be close to even. I'm sure there will be some small acquisitions here and there. But I'd say maybe down ten stores when I think of consolidation, not just from the Rent-Way acquisition just in general, maybe were down ten more stores by the end of the year but nothing material.

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

Great, thanks. And litigation, is there anything pending that makes you nervous?

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

No, nothing new out there if you will. It is all disclosed in the Ks and Qs.

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

Thank you.

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**Operator**

Your next question comes from Lance Ettus with Calyon Capital Management.

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**Lance Ettus** - *Caylon Capital Management - Analyst*

Hi. Guys, just a question on your share buy-back. I think we all appreciate that you guys have been in a fairly aggressive buyer back of your own stock. But especially for the fall-off, it just seems like you are trading like around 6 times EBITDA, and if you look at just your guidance, on the lower end, taking 206, and you are saying at least $0.07 at growth CapEx from your payday lending business, so 213, and trading it 9 times. Is there any thoughts as to becoming a little more aggressive? At one time you were I think after a big acquisition years back. You are at your debt levels at six times EBITDA, now it's about three. Why not take that to five and really do a dutch tender offer and buy back a lot of shares? Just how do you think about that in terms of your (Inaudible)-- You are just using the excess cash flow or trying to look at the stock price and look at where your debt is and make a decision to be more agressive or less?

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

Lance, this is Mark. Yes, we have been leveraged as high as six times. That was on the heels of the large acquisition we did in '98, from [Thorn] and obviously, you know, looking out knowing that we could enhance the operating results of those stores as we put our business model in place, we expect that leverage to come down significantly. Obviously, it did. Not uncomfortable with where we are, less than three times. We've, as you alluded, we've always tried to be mindful, certainly be mindful, how do we enhance share holder value, we always stated we are big believers in this business in the long-term prospects. As such, we were always first and foremost going to reinvest in our business, be it in poor stores, acquisitions, products offerings, so forth, certainly financial services now fits into that category. Beyond that, it was always a balancing act, if you will, in terms of the capital structure or the amount of debt we had leveraged as well as share repurchase, and at any given time, you have to look at both of those in concert with one another, whereas the stock trading and the value that Robert mentioned, it's an interesting, we get down to 2.5 times leverage, we can we can buy all the stock we wants (Inaudible) So again, we have to work through that.

Again, I guess the way I've always tried to answer that question is people have said, how do we view it in the future in terms of share repurchase. I think past behavior is a pretty good indication of what you can expect in the future. What that means, yes, we have been supporters of our stock, and we will be in the future as well and, yes, I don't have any big plans today, or something I'm going to sit here and articulate at this point in terms of what we may or may not do. Other than state the obvious which we put in the press release. We bought 35 million last quarter, the board is giving us another 100 million, and our past conduct can give you an indication of what you might expect in the future from us.

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**Operator**

Your next question is from Kevin Wenck at Polynous Capital Management

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**Kevin Wenck** - *Polynous Capital Management - Analyst*

I know there's been comments on the call about the things you looked at and coming up with new guidance, but stock is trading under assumption, at this point it going to be further downward revisions from here and so maybe you can add a little additional color as to why you feel like you've really gone through the numbers thoroughly to judge whether you are going to be downward revisions? But even with whatever scrutiny you have given to the numbers, maybe you can also add some comments as to things that you would still be uncertain about.

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

Well, I think, the fact is nobody can say with absolute certainty what the future is going to hold. As we sit here and look at the current environment, or again, really looking at the last six weeks, if you will, our experience and having gone through similar events in the past, the time of year and then how do we forecast it going forward, I think we try to be prudent in that we're not expecting a lot. I -- We did model that we were going to get hammered, if you will, every months for the next six months. We don't believe that will happen. And we haven't been, I don't believe, we've been aggressive in what we thought might happen over the balance of this year. We do expect an uptick in the fall as we have always seen so whether or not that comes to fruition, time will bare it out, but I think we've been fair, conservative, open minded, if you will, as we looked at and thought about the current tone of business, and how that may play into the future, we gave consideration to how we feel our ability to move the needle or make a different, if you will, and some of the initiatives we've been working on.

We tried to factor in what is the current cost of doing business, and how might that change going forward and what are the underlying assumptions, again, as we talked about delinquency and losses, given the current results, we factor that in going forward. Is that aggressive or conservative? I can make an argument that it's conservative. But, we try to be mindful of that and forecast it accordingly. I can't anymore than anybody else for that matter tell you with absolute certainty that we've hit it right. We could miss or we could perhaps just as easily surprise the other way. I do think we were very mindful, given where we are and how to think about the future and try to forecast accordingly, so with that, I'm very comfortable with it as I sit here today.

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**Kevin Wenck** - *Polynous Capital Management - Analyst*

Thanks. That's helpful. And one other question, concerning the additional buy-back authorized, is there, how long is the restriction around an earnings release? Or can you be buying stock back today if chose to?

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

There's a 48 or 72-hour.

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

Window opens on Thursday.

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**Kevin Wenck** - *Polynous Capital Management - Analyst*

Okay. Thanks for your help.

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

You bet.

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**Operator**

The next question comes from Rob Magnuson with Goldman Sachs Asset Management,

**Rob Magnuson** - *Goldman Sachs Asset Managment - Analyst*

I have a question on capital structure. In terms of stock buy backs versus debt reduction, I guess looking at, again, from what other people have said, given sentiment towards leverage right now in the capital markets, I guess longer-term, how do you look at, especially given the outflow for the Perez litigation, how do you evaluate bringing leverage down lower than it is right now. And secondly, any plans on the 2010 maturity, about 2.5 years away.

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

You want to take that, Robert? Or you want me to?

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

I think that we alluded to earlier that it's fair to say that leverage is most likely go up the end of this year, given about Perez litigation funding, and we would most likely be in the market as early as this Thursday supporting stock with the new authorization from the boards the directors, and what that translates too in terms of leverage,by the end of the year I would say it looks like it's going to be higher than where it is today. We believe in long-term prospect of the Company, and tend to use our capital accordingly in order to do that, and as it relates to 2010, you are referring to subordinated notes, 7.5 percent, there's no current thoughts on that. We've taken a couple of looks at those here over the last six months or so in terms of what, we could reprice that, and it's actually higher, we've been got some information that we would be 7.75 to 8.25, and we have no interest at this point in time to refinance that. That would be a decision made at a later date

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

I think where we, get comfortable, if you will, you have to look at the cash characteristics of this Company, our cash flow.. That are very strong and recurring and have demonstrated that for 15 plus years, in good times, bad times and other-wise Robert's point, albeit conservative in nature leveraged before two times, going up is not problematic in my view, certainly at this point.

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

Now with (Inaudible) that was --

**Rob Magnuson** - *Goldman Sachs Asset Managment - Analyst*

I guess perception of leverage sub prime risk, your customer weakness, any sense that you could maybe increase shareholder value by keeping leverage below 3 times? Or below 2.5 times?

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

I'm not sure I understand your question.

**Rob Magnuson** - *Goldman Sachs Asset Managment - Analyst*

Do you get multiple expansion or your equity by having a more conservative balance sheet given the current credit environment and perception of leverage?

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

I don't believe we would. That doesn't -- I mean, again, it's a little bit different, certainly, in our minds. Broader question would be you as a -- Unlike secured debt, the customer has the ability to return the product, yes, our losses have gone up a little bit but it is not as if were expecting those to go to 5%. (Inaudible) (Inaudible) 0.8 for the course of the quarter, I think the ability, the fact we have retained title, we can get the product back. Certainly you have to do something with it, rent it to another customer, sell it off, but by enlarge, we still own and have access to that asset. So I think it behaviors differently than what you might see in a traditional subprime or credit market.

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

It, everything (Inaudible) we look at appears the shareholder value is more prudent use on shareholders value is using our cash on stock repurchases, especially these prices rather than bring the leverage down.

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

Overall cost of capital will go down by taking out the equity as opposed to paying down the debt.

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

Right.

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

We evaluate in that context more than anything else.

**Operator**

Your next question comes from David Chamberlain with Op Cap.

**David Chamberlain** - *Oppenheimer Capital - Analyst*

Hi, guys thanks for taking a question. Just quickly, I'm curious when you talked about the amount of traffic you guys got in June and July being down. Can you give us any sense at all certain types of retail merchandise were-- saw deeper declines year-over-year in demand versus other or was it just basically across the board.

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

It was cross the board, I think Mark mentioned that earlier, we really have not see anything in product categories or geographically. Or maybe some minors differences from a geographical standpoint but general it has been across the board and certainly from a products standpoint it has been across the board, David.

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

Yes, if you say year-over-year. The furniture category we talked about had some softness but it is not as if that was the only product or it was exacerbated in the last six, eight weeks we have been talking about, yes, it is just been the product line in general if you will.

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**David Chamberlain** - *Oppenheimer Capital - Analyst*

Finally, talk about the construction worker being a primary client of yours. Do you have any sense at all just ball park, what that constitute make up in terms of you client base?

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

You broke Up.

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**David Chamberlain** - *Oppenheimer Capital - Analyst*

Sorry, can you hear me better now? I was curious what you though back of the envelope, the people in the construction industry would carry how big that would be of the client base for you?

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

(Inaudible) It is really about this blue collar, certainly --(inaudible)

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

(inaudible) it would vary so much by area. Texas has been -- this area here and the Dallas Forth Worth area has been such a boom for years. We have a lot of construction workers in other places (inaudible) hasn't been a-- like you said, Mark, blue collar workers. California, (Inaudible) I don't even have the back in the envelope number for you, but that is certainly our core customer is the blue collar customer, construction, (Inaudible).

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**David Chamberlain** - *Oppenheimer Capital - Analyst*

Great, thanks a lot guys.

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**Operator**

You next question comes from Anndias Griffin with [Errorgone] Capital.

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**Anndias Griffin** - *Errorgone Capital - Analyst*

Hello, going back to the average revenue per contract is their a concern that if conditions are a little bit tighter for your customers that might go down as the mix shift away some of the large screen TVs, cetera? Or is that something that you have modeled in the second half assumption?

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

Well, we haven't seen that. The average ticket going down obviously business is soft but we have not seen it from a ticket standpoint -- the customer who is filling that need has acted the same way as far as product mix standpoint as they have in the past and keep in mind-- in our industry the way the pricing works there is not as a big of a price difference between a small TV and a large TV as there is from a retail standpoint. As an example, yes you can buy a TV for $200 or you can buy it-- lets say you but a flat panel TV for th wall for $2000. In a Rent-A-Center the weekly, you can do the same thing but the weekly price difference will be the difference between maybe $15 and $30 because the term will be part of the difference on that more expensive TV not just the weekly price. You might pay $30 for two years rather than $15 for one year but because we put some of the price difference in the term not just the weekly rates that when your looking a small TV versus big TV or a small refrigerator versus a side-by-side refrigerator your not making a decision between $200 and $2000 your making a decision between $15 a week and $30 in my example. I believe that is the reason we don't see different product mixes even when things slow down like this as we have had a few times in the past.

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**Anndias Griffin** - *Errorgone Capital - Analyst*

Well, than in June and July, the average revenue per contract was the same?

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

Correct.

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**Anndias Griffin** - *Errorgone Capital - Analyst*

Okay. Great, thanks for clarifying that.

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

Thanks, Ann.

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**Operator**

This does conclude today's question and answer session. Mr. Speese do you have any closing remarks?

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

Well, first I'd like to thank everyone for your time in joining us today. I realize that the outlook is probable disappointing. We realize we got some headwinds and work to do, at the same time as we have said we have faced the simular challenges in the past and like before we believe that we and our customers will work through these current challenges. We are committed to growing the Company for the long-term. AS I mentioned our strong cash flow affords us the ability to do a lot of things. We look to utilize that to grow the business and enhance shareholder value. As always we appreciate your interest and support and we look forward to updating you the conclusion of the next quarter. Thank you very much.

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**Operator**

Thank you for participating in today's conference. You may now disconnect.