

CONNS INC  
Form 10-Q  
June 05, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 30, 2012

Commission File Number 000-50421

**CONN S, INC.**

(Exact name of registrant as specified in its charter)

A Delaware Corporation  
(State or other jurisdiction of incorporation or organization)  
3295 College Street

06-1672840  
(I.R.S. Employer Identification Number)

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Beaumont, Texas 77701

(409) 832-1696

(Address, including zip code, and telephone  
number, including area code, of registrant's  
principal executive offices)

None

(Former name, former address and former  
fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 31, 2012:

Class	Outstanding
Common stock, \$.01 par value per share	32,474,083

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**CONN S, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(unaudited)

(in thousands, except share data)

	April 30, 2012	January 31, 2012
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 6,730	\$ 6,265
Customer accounts receivable, net of allowance of \$26,817 and \$28,979 , respectively (includes balances of VIE of \$63,947 at April 30, 2012)	313,139	316,385
Other accounts receivable, net of allowance of \$56 and \$54, respectively	35,414	38,715
Inventories	68,890	62,540
Deferred income taxes	16,007	17,111
Federal income taxes recoverable		5,256
Prepaid expenses and other assets (includes balance of VIE of \$10,042 at April 30, 2012)	15,785	6,286
<b>Total current assets</b>	<b>455,965</b>	<b>452,558</b>
<b>Long-term portion of customer accounts receivable, net of allowance of \$23,293 and \$24,999, respectively</b> (includes balance of VIE of \$55,536 at April 30, 2012)	<b>271,984</b>	<b>272,938</b>
<b>Property and equipment</b>		
Land	7,264	7,264
Buildings	10,455	10,455
Equipment and fixtures	24,786	24,787
Transportation equipment	911	1,468
Leasehold improvements	88,155	83,969
Subtotal	131,571	127,943
Less accumulated depreciation	(91,314)	(89,459)
<b>Property and equipment, net</b>	<b>40,257</b>	<b>38,484</b>
<b>Non-current deferred income tax asset</b>	<b>9,570</b>	<b>9,754</b>
<b>Other assets</b>	<b>10,856</b>	<b>9,564</b>
<b>Total assets</b>	<b>\$ 788,632</b>	<b>\$ 783,298</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt (includes balances of VIE of \$103,025 at April 30, 2012)	\$ 103,690	\$ 726
Accounts payable	60,812	44,711
Accrued compensation and related expenses	7,494	7,213
Accrued expenses	22,314	24,030
Income taxes payable	2,394	2,028
Deferred revenues and allowances	16,153	15,966
<b>Total current liabilities</b>	<b>212,857</b>	<b>94,674</b>
<b>Long-term debt</b>	<b>194,396</b>	<b>320,978</b>
<b>Deferred gain on sale of property</b>	<b>675</b>	<b>699</b>
<b>Other long-term liabilities</b>	<b>12,219</b>	<b>13,576</b>
<b>Commitments and contingencies</b>		

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<b>Stockholders equity</b>		
Preferred stock (\$0.01 par value, 1,000,000 shares authorized; none issued or outstanding)		
Common stock (\$0.01 par value, 40,000,000 shares authorized; 32,390,419 and 32,139,524 shares issued at April 30, 2012 and January 31, 2012, respectively)		
	324	321
Additional paid-in capital	139,533	136,006
Accumulated other comprehensive loss	(265)	(293)
Retained earnings	228,893	217,337
<b>Total stockholders equity</b>	<b>368,485</b>	<b>353,371</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 788,632</b>	<b>\$ 783,298</b>

See notes to consolidated financial statements.

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**CONN S, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited)

(in thousands, except per share amounts)

	<b>Three Months Ended April 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenues</b>		
Product sales	\$ 152,115	\$ 144,279
Repair service agreement commissions, net	11,392	8,902
Service revenues	3,430	3,889
<b>Total net sales</b>	<b>166,937</b>	<b>157,070</b>
Finance charges and other	33,914	34,912
<b>Total revenues</b>	<b>200,851</b>	<b>191,982</b>
<b>Cost and expenses</b>		
Cost of goods sold, including warehousing and occupancy costs	108,443	106,453
Cost of service parts sold, including warehousing and occupancy costs	1,550	1,730
Selling, general and administrative expense	59,656	59,445
Provision for bad debts	9,185	9,564
Store closing costs	163	
<b>Total cost and expenses</b>	<b>178,997</b>	<b>177,192</b>
<b>Operating income</b>	<b>21,854</b>	<b>14,790</b>
Interest expense	3,759	7,556
Other (income) expense, net	(96)	52
<b>Income before income taxes</b>	<b>18,191</b>	<b>7,182</b>
Provision for income taxes	6,635	2,781
<b>Net income</b>	<b>\$ 11,556</b>	<b>\$ 4,401</b>
<b>Earnings per share:</b>		
Basic	\$ 0.36	\$ 0.14
Diluted	\$ 0.35	\$ 0.14
<b>Average common shares outstanding:</b>		
Basic	32,195	31,768
Diluted	32,904	31,772

See notes to consolidated financial statements.

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**CONN S, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(unaudited)

(in thousands)

	<b>Three Months Ended</b>	
	<b>April 30,</b>	
	<b>2012</b>	<b>2011</b>
Net income	\$ 11,556	\$ 4,401
Change in fair value of hedges	43	73
Impact of provision for income taxes on comprehensive income	(15)	(26)
Comprehensive income	\$ 11,584	\$ 4,448

See notes to consolidated financial statements.

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## CONN S, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Three Months Ended April 30, 2012 and 2011

(unaudited)

(in thousands)

	Common Stock		Additional	Accumulated	Retained	Total
	Shares	Amount	Paid-in	Other	Earnings	
			Capital	Comprehensive		
				Loss		
<b>Balance at January 31, 2012</b>	32,140	\$ 321	\$ 136,006	\$ (293)	\$ 217,337	\$ 353,371
Exercise of stock options, net of tax	223	3	2,866			2,869
Issuance of common stock under Employee Stock Purchase Plan	6		63			63
Issuance of common stock converted from vested restricted stock units	21					
Stock-based compensation			598			598
Net income					11,556	11,556
Change in fair value of hedges, net of tax of \$15				28		28
<b>Balance at April 30, 2012</b>	32,390	\$ 324	\$ 139,533	\$ (265)	\$ 228,893	\$ 368,485

	Common Stock		Additional	Accumulated	Retained	Treasury Stock		Total
	Shares	Amount	Paid-in	Other	Earnings	Shares	Amount	
			Capital	Comprehensive				
				Loss				
<b>Balance at January 31, 2011</b>	33,488	\$ 335	\$ 131,590	\$ (71)	\$ 258,114	(1,723)	\$ (37,071)	\$ 352,897
Issuance of common stock under Employee Stock Purchase Plan	7		26					26
Stock-based compensation			474					474
Treasury shares cancelled	(1,723)	(17)			(37,054)	1,723	37,071	
Net income					4,401			4,401
Change in fair value of hedges, net of tax of \$26				47				47
<b>Balance at April 30, 2011</b>	31,772	\$ 318	\$ 132,090	\$ (24)	\$ 225,461		\$	\$ 357,845

See notes to consolidated financial statements.



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	<b>Three Months Ended April 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 11,556	\$ 4,401
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,402	2,884
Amortization	739	897
Provision for bad debts and uncollectible interest	11,282	11,152
Stock-based compensation	598	474
Excess tax benefits from stock-based compensation	(116)	
Store closing costs	163	
Provision for deferred income taxes	1,272	426
(Gain) loss on sale of property and equipment	(66)	1
Discounts and accretion on promotional credit	(103)	(482)
Change in operating assets and liabilities:		
Customer accounts receivable	(6,768)	36,092
Other accounts receivable	3,095	(3,180)
Inventory	(6,350)	(2,768)
Prepaid expenses and other assets	500	783
Accounts payable	16,100	(5,057)
Accrued expenses	(2,953)	1,524
Income taxes payable	5,651	5,849
Deferred revenues and allowances	65	(1,966)
<b>Net cash provided by operating activities</b>	<b>37,067</b>	<b>51,030</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(4,404)	(275)
Proceeds from sale of property and equipment	296	
Change in restricted cash	(10,042)	
<b>Net cash used in investing activities</b>	<b>(14,150)</b>	<b>(275)</b>
<b>Cash flows from financing activities</b>		
Net proceeds from stock issued under employee benefit plans, including tax benefit	2,932	25
Excess tax benefits from stock-based compensation	116	
Proceeds from issuance of asset-backed notes, net of original issue discount	103,025	
Borrowings under lines of credit	33,729	25,216
Payments on lines of credit	(160,182)	(78,238)
Payments on promissory notes	(190)	(41)
Payment of debt issuance costs	(1,882)	(73)
<b>Net cash used in financing activities</b>	<b>(22,452)</b>	<b>(53,111)</b>
<b>Net change in cash</b>	<b>465</b>	<b>(2,356)</b>

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**Cash and cash equivalents**

Beginning of period	6,265	10,977
End of period	\$ 6,730	\$ 8,621

See notes to consolidated financial statements.

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**CONN S, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**1. Summary of Significant Accounting Policies**

**Basis of Presentation.** The accompanying unaudited, condensed consolidated financial statements of Conn s, Inc. and subsidiaries (the Company ) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature, except as otherwise described herein. The Company s business is somewhat seasonal, with a higher portion of sales and operating profit realized during the quarter that ends January 31, due primarily to the holiday selling season. Operating results for the three-month period ended April 30, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2013. The financial statements should be read in conjunction with the Company s audited consolidated financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended January 31, 2012, filed with the Securities and Exchange Commission on April 12, 2012.

The Company s balance sheet at January 31, 2012, has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for a complete financial presentation. Please see the Company s Annual Report on Form 10-K for a complete presentation of the audited financial statements for the fiscal year ended January 31, 2012, together with all required footnotes, and for a complete presentation and explanation of the components and presentations of the financial statements.

**Principles of Consolidation.** The consolidated financial statements include the accounts of Conn s, Inc. and its wholly-owned subsidiaries. Conn s, Inc. is a holding company with no independent assets or operations other than its investments in its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

In April of 2012, the Company transferred certain customer receivables to a bankruptcy-remote, variable-interest entity ( VIE ) in connection with a securitization. The VIE, which is consolidated within the accompanying financial statements, issued debt secured by the customer receivables that were transferred to it, which are included in customer accounts receivable and long-term portion of customer accounts receivable on the consolidated balance sheet.

The Company determined that the VIE should be consolidated within its financial statements due to the fact that it qualified as the primary beneficiary of the VIE based on the following considerations:

The Company directed the activities that generated the customer receivables that were transferred to the VIE;

The Company directs the servicing activities related to the collection of the customer receivables transferred to the VIE;

The Company absorbs losses incurred by the VIE to the extent of its interest in the VIE before any other investors incur losses; and

The Company has the right to receive benefits generated by the VIE after paying the contractual amounts due to the other investors.

The investors and the securitization trustee have no recourse to the Company s other assets for failure of the VIE to repay the amounts due to them. Additionally, the Company has no recourse to the VIE s assets to satisfy its obligations. The Company s interests are subordinate to the investors interests, and will not be paid if the VIE is unable to repay the amounts due. The ultimate realization of the Company s interest is

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subject to credit, prepayment, and interest rate risks on the transferred financial assets.

***Use of Estimates.*** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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**Earnings per Share.** Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share include the dilutive effects of any stock options and restricted stock units granted, to the extent not anti-dilutive, which is calculated using the treasury-stock method. The following table sets forth the shares outstanding for the earnings per share calculations:

<i>(in thousands)</i>	Three Months Ended	
	April 30,	
	2012	2011
Weighted average common shares outstanding Basic	32,195	31,768
Assumed exercise of stock options	576	4
Unvested restricted stock units	133	
Weighted average common shares outstanding Diluted	32,904	31,772

During the periods presented, options with an exercise price in excess of the average market price of the Company's common stock, or that are otherwise anti-dilutive, are excluded from the calculation of diluted earnings per share calculations. The weighted average number of stock options not included in the calculation of the dilutive effect of stock options was 1.1 million and 2.9 million for the three months ended April 30, 2012 and 2011, respectively.

**Fair Value of Financial Instruments.** The fair value of cash and cash equivalents and accounts payable approximate their carrying amounts because of the short maturity of these instruments. The fair value of customer accounts receivables, determined using a discounted cash flow analysis, approximates their carrying amount. The fair value of the Company's debt approximates carrying value due to the recent dates at which all the facilities have been initiated, renewed or amended. The Company's interest rate cap options are presented on the balance sheet at fair value. Fair value of these instruments were determined using Level 2 inputs of the GAAP hierarchy, which are defined as inputs not quoted in active markets, but are either directly or indirectly observable.

## 2. Supplemental Disclosure of Customer Receivables

Customer accounts receivable are originated at the time of sale and delivery of the various products and services. The Company records the amount of principal and accrued interest on customer receivables that is expected to be collected within the next twelve months, based on contractual terms, in current assets on its consolidated balance sheet. Those amounts expected to be collected after twelve months, based on contractual terms, are included in long-term assets. Typically, customer receivables are considered delinquent if a payment has not been received on the scheduled due date.

As part of its efforts in mitigating losses on its accounts receivable, the Company may make loan modifications to a borrower experiencing financial difficulty that are intended to maximize the net cash flow after expenses, and avoid the need for repossession of collateral. The Company may extend the loan term, refinance or otherwise re-age an account. In the quarter ended October 31, 2011, the Company adopted new accounting guidance that provides clarification on whether a debtor is experiencing financial difficulties and whether a concession has been granted to the debtor for purposes of determining if a loan modification constitutes a Troubled Debt Restructuring (TDR). The adoption was applied retrospectively to its loan restructurings after January 31, 2011. The Company defines TDR accounts that originated subsequent to January 31, 2011 as accounts that have been re-aged in excess of three months or refinanced. For accounts originating prior to January 31, 2011, if the cumulative re-aging exceeds three months and the accounts were re-aged subsequent to January 31, 2011, the account is considered a TDR.

The Company monitors the performance of customer accounts receivable and from time-to-time modifies its policies to improve the long-term portfolio performance. During the quarter ended July 31, 2011, the Company implemented a policy which limited the number of months that an account can be re-aged to a maximum of 18 months and further modified the policy to a maximum of 12 months in the third quarter of fiscal 2012. As of July 31, 2011, the Company modified its charge-off policy so that an account that is delinquent more than 209 days as of the end of a month is charged-off against the allowance for doubtful accounts and interest accrued subsequent to the last payment is reversed and charged against the allowance for uncollectible interest. Prior to July 31, 2011, the Company charged off all accounts for which no payment had been received in the past seven months, if the account was also delinquent more than 120 days.



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The Company segregates the population of accounts within its receivables portfolio into two classes of accounts – those with origination credit scores less than 575 and those with origination scores equal to or greater than 575. The Company uses credit scoring criteria to differentiate underwriting requirements, potentially requiring differing down payment and initial application and documentation criteria. The following tables present quantitative information about the receivables portfolio managed by the Company, segregated by class:

<i>(in thousands)</i>	<b>Total Outstanding Balance</b>					
	<b>Customer Accounts Receivable</b>		<b>60 Days Past Due (1)</b>		<b>Re-aged (1)</b>	
	<b>April 30, 2012</b>	<b>January 31, 2012</b>	<b>April 30, 2012</b>	<b>January 31, 2012</b>	<b>April 30, 2012</b>	<b>January 31, 2012</b>
<b>Customer accounts receivable:</b>						
>= 575 credit score at origination	\$ 482,386	\$ 479,301	\$ 20,904	\$ 23,424	\$ 22,565	\$ 26,005
< 575 credit score at origination	112,410	115,128	9,349	11,278	10,798	14,033
	594,796	594,429	30,253	34,702	33,363	40,038
<b>Restructured accounts (2):</b>						
>= 575 credit score at origination	23,627	27,760	9,516	11,428	23,619	27,749
< 575 credit score at origination	16,810	21,112	6,669	9,060	16,755	21,076
	40,437	48,872	16,185	20,488	40,374	48,825
<b>Total receivables managed</b>	<b>\$ 635,233</b>	<b>\$ 643,301</b>	<b>\$ 46,438</b>	<b>\$ 55,190</b>	<b>\$ 73,737</b>	<b>\$ 88,863</b>
Allowance for uncollectible accounts related to the credit portfolio	(45,368)	(49,904)				
Allowance for promotional credit programs	(4,742)	(4,074)				
Current portion of customer accounts receivable, net	(313,139)	(316,385)				
<b>Long-term customer accounts receivable, net</b>	<b>\$ 271,984</b>	<b>\$ 272,938</b>				

- (1) Amounts are based on end of period balances. Due to the fact that an account can become past due after having been re-aged, accounts may be presented in both the past due and re-aged columns shown above. The amounts included within both the past due and re-aged columns shown above as of April 30, 2012 and January 31, 2012 were \$25.6 million and \$32.5 million, respectively. The total amount of customer receivables past due one day or greater was \$150.0 million and \$152.4 million as of April 30, 2012 and January 31, 2012, respectively. These amounts include the 60 days past due totals shown above.
- (2) In addition to the amounts included in restructured accounts, there are \$5.0 million and \$7.9 million, respectively, of accounts re-aged four or more months, included in the re-aged balance above, that did not qualify as TDRs as of April 30, 2012 and January 31, 2012, respectively, because they were not re-aged subsequent to January 31, 2011.

<i>(in thousands)</i>	<b>Net Credit Charge-offs (3)</b>			
	<b>Average Balances Three Months Ended</b>		<b>Three Months Ended</b>	
	<b>April 30, 2012</b>	<b>2011</b>	<b>April 30, 2012</b>	<b>2011</b>
<b>Customer accounts receivable:</b>				
>= 575 credit score at origination	\$ 476,603	\$ 489,156	\$ 4,831	\$ 6,118
< 575 credit score at origination	113,366	158,598	2,745	4,890
	589,969	647,754	7,576	11,008
<b>Restructured accounts:</b>				
>= 575 credit score at origination	25,796		3,153	
< 575 credit score at origination	18,978		2,800	

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	44,774		5,953	
Total receivables managed	\$ 634,743	\$ 647,754	\$ 13,529	\$ 11,008

- (3) Charge-offs include the principal amount of losses (excluding accrued and unpaid interest), net of recoveries which include principal collections during the period shown of previously charged-off balances.



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Following is the activity in the Company's balance in the allowance for doubtful accounts and uncollectible interest for customer receivables for the three months ended April 30, 2012 and 2011:

<i>(in thousands)</i>	Three Months Ended April 30, 2012			Three Months Ended April 30, 2011
	Customer Accounts Receivable	Restructured Accounts	Total	
Allowance at beginning of period	\$ 24,518	\$ 25,386	\$ 49,904	\$ 44,015
Provision (a)	9,448	1,834	11,282	11,152
Principal charge-offs (b)	(8,597)	(6,755)	(15,352)	(11,964)
Interest charge-offs	(1,282)	(1,007)	(2,289)	(2,029)
Recoveries (b)	1,021	802	1,823	956
Allowance at end of period	\$ 25,108	\$ 20,260	\$ 45,368	\$ 42,130

(a) Includes provision for uncollectible interest, which is included in finance charges and other.

(b) Charge-offs include the principal amount of losses (excluding accrued and unpaid interest), and recoveries include principal collections during the period shown of previously charged-off balances. These amounts represent net charge-offs.

The Company records an allowance for doubtful accounts, including estimated uncollectible interest, for its customer accounts receivable, based on its historical cash collections and net loss experience and expectations for future cash collections and losses. In addition to pre-charge-off cash collections and charge-off information, estimates of post-charge-off recoveries, including cash payments, amounts realized from the repossession of the products financed and, at times, payments received under credit insurance policies are also considered.

The Company determines reserves for those accounts that are TDRs based on present value of cash flows expected to be collected over the life of those accounts. The excess of the carrying amount over the discounted cash flow amount is recorded as a reserve for loss on those accounts. The Company estimates its allowance for bad debts by evaluating the credit portfolio based on the number of months re-aged, if any.

The Company typically only places accounts in non-accrual status when legally required to do so. Interest accrual is resumed on those accounts once a legally-mandated settlement arrangement is reached or other payment arrangements are made with the customer. The amount of customer receivables carried on the Company's balance sheet that were in non-accrual status was \$9.5 million and \$9.8 million at April 30, 2012 and January 31, 2012, respectively. The amount of customer receivables carried on the Company's consolidated balance sheet that were past due 90 days or more and still accruing interest was \$34.1 million and \$39.5 million at April 30, 2012 and January 31, 2012, respectively.

**3. Supplemental Disclosure of Finance Charges and Other Revenue**

The following is a summary of the classification of the amounts included as finance charges and other for the three months ended April 30, 2012 and 2011:

<i>(in thousands)</i>	Three Months Ended April 30,	
	2012	2011
Interest income and fees on customer receivables	\$ 28,640	\$ 30,632
Insurance commissions	5,033	4,056
Other	241	224
Finance charges and other	\$ 33,914	\$ 34,912

The amount included in interest income and fees on customer receivables related to TDR accounts for the three months ended April 30, 2012 and 2011 was \$1.2 million and \$0.4 million, respectively. The Company recognizes interest income on TDR accounts using the interest income method, which requires reporting interest income equal to the increase in the net carrying amount of the loan attributable to the passage of time.

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Cash proceeds and other adjustments are applied to the net carrying amount such that it always equals the present value of expected future cash flows.

**Table of Contents****4. Accrual for Store Closures**

During the fiscal year ended January 31, 2012, the Company closed eleven retail locations that did not perform at the level the Company expects for mature store locations. As a result of the closure of the eight stores with unexpired leases, the Company recorded an accrual in fiscal 2012 for the present value of remaining lease obligations and anticipated ancillary occupancy costs, net of estimated sublease income. Revisions to these projections for changes in estimated marketing times or sublease rates will be made to the obligation as further information related to the actual terms and costs become available. The estimate was calculated using Level 2 fair value inputs as defined by the GAAP fair value hierarchy. During the three months ended April 30, 2012, the Company accrued lease exit costs of \$450 thousand for the closure of an additional store. The changes in the liability recorded for store closures for the three months ended April 30, 2012 were as follows:

<i>(in thousands)</i>	
Balance at January 31, 2012	\$ 8,106
Accrual for closure	450
Change in estimate	(287)
Cash payments	(961)
<b>Balance at April 30, 2012</b>	<b>\$ 7,308</b>

The change in estimate results from the favorable impact of the termination of a lease and is partially offset by changes in sublet assumptions for certain locations and accretion of the present value of the expected future rental payments. The cash payments include payments made for facility rent and related costs.

**5. Debt and Letters of Credit**

The Company's long-term debt consisted of the following at the period ended:

<i>(in thousands)</i>	<b>April 30,</b>	<b>January 31,</b>
	<b>2012</b>	<b>2012</b>
Asset-based revolving credit facility	\$ 186,797	\$ 313,250
Asset-backed notes, net of discount of \$654	103,025	
Real estate loan	7,755	7,826
Other long-term debt	509	628
<b>Total debt</b>	<b>298,086</b>	<b>321,704</b>
Less current portion of debt	103,690	726
<b>Long-term debt</b>	<b>\$ 194,396</b>	<b>\$ 320,978</b>

The Company's asset-based revolving credit facility, as amended, provides for funding of up to \$450 million based on a borrowing base calculation that includes customer accounts receivable and inventory. The credit facility bears interest at LIBOR plus a spread ranging from 350 basis points to 400 basis points, based on a leverage ratio (defined as total liabilities to tangible net worth). In addition to the leverage ratio, the revolving credit facility includes a fixed charge coverage requirement, a minimum customer receivables cash recovery percentage requirement and a net capital expenditures limit. Additionally, the agreement contains cross-default provisions, such that, any default under another of the Company's credit facilities would result in a default under this agreement, and any default under this agreement would result in a default under those agreements.

On April 30, 2012, the Company's VIE issued \$103.7 million of asset-backed notes which bear interest at 4.0% and were sold at a discount to deliver a 5.21% yield, before considering transaction costs. The principal balance of the notes, which are secured by certain customer receivables, will be reduced on a monthly basis by collections on the underlying customer receivables after the payment of interest and other expenses of the VIE. While the final maturity for the notes is April 2016, the Company currently expects to repay any outstanding note balance in April 2013 and, therefore, has classified the outstanding principal within the current portion of long-term debt. Additionally, the notes include

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a prepayment incentive fee whereby if the notes are not repaid by the expected final principal payment date of April 15, 2013, the VIE will be required to pay, in addition to accrued interest on the notes, a monthly fee equal to an annual rate of 8.5% times the outstanding principal balance. The VIE's borrowing agreement contains certain covenants, including the maintenance of a minimum net worth for the VIE. The VIE's debt is secured by the customer accounts receivable that were transferred to it, which are included in customer accounts receivable and long-term portion of customer

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accounts receivable on the consolidated balance sheet. At April 30, 2012, the VIE held cash of \$10.0 million from collections on underlying customer receivables which is classified within prepaid expenses and other assets on the consolidated balance sheet. The investors and the securitization trustee have no recourse to the Company's other assets for failure of the VIE to pay the notes when due or any other of its obligations. Additionally, the VIE's assets are not available to satisfy the Company's obligations. The Company's interests in are subordinate to the investors' interests, and would not be paid if the VIE is unable to repay the amounts due. The ultimate realization of the Company's interest is subject to credit, prepayment, and interest rate risks on the transferred financial assets. Net proceeds from the offering were used to repay borrowings under the Company's asset-based revolving credit facility.

The Company was in compliance with its debt covenants at April 30, 2012.

As of April 30, 2012, the Company had immediately available borrowing capacity of approximately \$145.4 million under its asset-based revolving credit facility, net of standby letters of credit issued, for general corporate purposes. The Company also had \$113.5 million that may become available under its asset-based revolving credit facility if it grows the balance of eligible customer receivables and its total eligible inventory balances.

The Company's asset-based revolving credit facility provides it the ability to utilize letters of credit to secure its deductibles under the Company's property and casualty insurance programs and its obligations to remit payments collected as servicer of the VIE's receivables, among other acceptable uses. At April 30, 2012, the Company had outstanding letters of credit of \$4.3 million under this facility. The maximum potential amount of future payments under these letter of credit facilities is considered to be the aggregate face amount of each letter of credit commitment, which totals \$4.3 million as of April 30, 2012.

## **6. Contingencies**

**Legal Proceedings.** The Company is involved in routine litigation and claims incidental to its business from time to time, and, as required, has accrued its estimate of the probable costs for the resolution of these matters, which are not expected to be material. These estimates have been developed in consultation with counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. Recently, the Company has been included in various patent infringement claims and litigation, the outcomes of which are difficult to predict at this time. Due to the timing of these matters, the Company has determined that no reasonable estimates of probable costs for resolution can be ascertained at this time, and it is possible, however, that future results of operations for any particular period could be materially affected by changes in the Company's assumptions or the effectiveness of its strategies related to these proceedings. However, the results of these proceedings cannot be predicted with certainty, and changes in facts and circumstances could impact the Company's estimate of reserves for litigation.

**Table of Contents****7. Segment Reporting**

Financial information by segment is presented in the following tables for the three months ended April 30, 2012 and 2011:

<i>(in thousands)</i>	<b>Three Months Ended April 30, 2012</b>			<b>Three Months Ended April 30, 2011</b>		
	<b>Retail</b>	<b>Credit</b>	<b>Total</b>	<b>Retail</b>	<b>Credit</b>	<b>Total</b>
<b>Revenues</b>						
Product sales	\$ 152,115	\$	\$ 152,115	\$ 144,279	\$	\$ 144,279
Repair service agreement commissions, net	11,392		11,392	8,902		8,902
Service revenues	3,430		3,430	3,889		3,889
<b>Total net sales</b>	<b>166,937</b>		<b>166,937</b>	<b>157,070</b>		<b>157,070</b>
Finance charges and other	241	33,673	33,914	225	34,687	34,912
<b>Total revenues</b>	<b>167,178</b>	<b>33,673</b>	<b>200,851</b>	<b>157,295</b>	<b>34,687</b>	<b>191,982</b>
<b>Cost and expenses</b>						
Cost of goods sold, including warehousing and occupancy costs	108,443		108,443	106,453		106,453
Cost of service parts sold, including warehousing and occupancy cost	1,550		1,550	1,730		1,730
Selling, general and administrative expense (a)	46,049	13,607	59,656	44,102	15,343	59,445
Provision for bad debts	212	8,973	9,185	143	9,421	9,564
Store closing costs	163		163			
<b>Total cost and expense</b>	<b>156,417</b>	<b>22,580</b>	<b>178,997</b>	<b>152,428</b>	<b>24,764</b>	<b>177,192</b>
<b>Operating income</b>	<b>10,761</b>	<b>11,093</b>	<b>21,854</b>	<b>4,867</b>	<b>9,923</b>	<b>14,790</b>
Interest expense, net		3,759	3,759		7,556	7,556
Other (income) expense, net	(96)		(96)	52		52
<b>Income before income taxes</b>	<b>\$ 10,857</b>	<b>\$ 7,334</b>	<b>\$ 18,191</b>	<b>\$ 4,815</b>	<b>\$ 2,367</b>	<b>\$ 7,182</b>

- (a) Selling, general and administrative expenses include the direct expenses of the retail and credit operations, allocated overhead expenses and a charge to the credit segment to reimburse the retail segment for expenses it incurs related to occupancy, personnel, advertising and other direct costs of the retail segment which benefit the credit operations by sourcing credit customers and collecting payments. The reimbursement received by the retail segment from the credit segment is estimated using an annual rate of 2.5% times the average portfolio balance for each applicable period. The amount of overhead allocated to each segment was approximately \$2.2 million and \$2.2 million for the three months ended April 30, 2012 and 2011, respectively. The amount of reimbursement made to the retail segment by the credit segment was approximately \$4.0 million and \$4.0 million for the three months ended April 30, 2012 and 2011, respectively.

**8. Subsequent Event**

On May 30, 2012, the Company's stockholders approved an amendment to its certificate of incorporation to increase the number of shares of capital stock which the Company shall have authority to issue to be 51,000,000 shares of stock, of which 50,000,000 shares are common stock, par value of \$0.01 per share, and 1,000,000 shares are preferred stock.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Forward-Looking Statements**

This report contains forward-looking statements. We sometimes use words such as believe, may, will, estimate, continue, anticipate, intend, expect, project and similar expressions, as they relate to us, our management and our industry, to identify forward-looking statements. Forward-looking statements relate to our expectations, beliefs, plans, strategies, prospects, future performance, anticipated trends and other future events. We have based our forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. Actual results may differ materially. Some of the risks, uncertainties and assumptions about us that may cause actual results to differ from these forward-looking statements include, but are not limited to:

The success of our growth strategy and plans regarding opening new stores and entering adjacent and new markets, including our plans to continue expanding into existing markets;

Our intention to update, relocate or expand existing stores;

The effect of closing or reducing the hours of operating of existing stores;

Our ability to obtain capital for required capital expenditures and costs related to the opening of new stores or to update, relocate or expand existing stores;

Our ability to open and profitably operate new stores in existing, adjacent and new geographic markets;

Our ability to introduce additional product categories;

Technological and market developments, growth trends and projected sales in the home appliance and consumer electronics industry, including, with respect to digital products like Blu-ray players, HDTV, LED and 3-D televisions, tablets, home networking devices and other new products, and our ability to capitalize on such growth;

The potential for price erosion or lower unit sales points that could result in declines in revenues;

Our relationships with key suppliers and their ability to provide products at competitive prices and support sales of their products through their rebate and discount programs;

The potential for deterioration in the delinquency status of our credit portfolio or higher than historical net charge-offs in the portfolio that could adversely impact earnings;

Our inability to continue to offer existing customer financing programs or make new programs available that allow consumers to purchase products at levels that can support our growth;

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Our ability to renew or replace our existing debt or other credit arrangements on or before the maturity of such arrangements;

Our ability to fund our operations, capital expenditures, debt repayment and expansion from cash flows from operations, borrowings from our asset-based revolving credit facility, and proceeds from securitizations and from accessing debt or equity markets;

Our ability to obtain additional funding for the purpose of funding the customer receivables we generate;

Our ability to profitably expand our credit operations;

Our ability to maintain compliance with the covenants of its debt and other credit arrangements, including taking the actions necessary to maintain compliance with the covenants, such as obtaining amendments to the borrowing facilities that modify the covenant requirements, which could result in higher borrowing costs;

Our ability to obtain capital to fund expansion of our credit portfolio;

Reduced availability under our asset-based revolving credit facility as a result of borrowing base requirements and the impact on the borrowing base calculation of changes in the performance or eligibility of the customer receivables financed by that facility;

The ability of the financial institutions providing lending facilities to us to fund their commitments;



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The effect of any downgrades by rating agencies of our lenders on borrowing costs;

The effect on our borrowing cost of changes in laws and regulations affecting the providers of debt financing;

The cost or terms of any amended, renewed or replacement debt or other credit arrangements;

The effect of rising interest rates or borrowing spreads that could increase our cost of borrowing;

The effect of changes in our credit underwriting and collection practices and policies;

General economic conditions in the regions in which we operate;

Both the short-term and long-term impact of adverse weather conditions (e.g. hurricanes) that could result in volatility in our revenues and increased expenses and casualty losses;

The outcome of litigation or government investigations affecting our business;

The potential to incur expenses and non-cash write-offs related to decisions to close store locations and settling our remaining lease obligations and our initial investment in fixed assets and related store costs;

The effect of rising interest rates or other economic conditions that could impair our customers' ability to make payments on outstanding credit accounts;

The effect of changes in oil and gas prices that could adversely affect our customers' shopping decisions and patterns, as well as the cost of our delivery and service operations and our cost of products, if vendors pass on their additional fuel costs through increased pricing for products;

The ability to attract and retain qualified personnel;

Changes in laws and regulations and/or interest, premium and commission rates allowed by regulators on our credit, credit insurance and repair service agreements as allowed by those laws and regulations;

The laws and regulations and interest, premium and commission rates allowed by regulators on our credit, credit insurance and repair service agreements in the states into which we may expand;

The adequacy of our distribution and information systems and management experience to support our expansion plans;

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The accuracy of our expectations regarding competition and our competitive advantages;

The potential for market share erosion that could result in reduced revenues;

The accuracy of our expectations regarding the similarity or dissimilarity of our existing markets as compared to new markets we enter;

The use of third-parties to complete certain of our distribution, delivery and home repair services; and

Changes in our stock price or the number of shares we have outstanding.

Additional important factors that could cause our actual results to differ materially from our expectations are discussed under "Risk Factors" in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K filed on April 12, 2012. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report might not happen.

The forward-looking statements in this report reflect our views and assumptions only as of the date of this report. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

All forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements.

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### **General**

We intend for the following discussion and analysis to provide you with a better understanding of the financial condition and performance of our retail and credit segments for the indicated periods, including an analysis of those key factors that contributed to our financial condition and performance and that are, or are expected to be, the key drivers of our business.

We are a specialty retailer of durable consumer products, and we also provide credit to support our customers' purchases of the products that we offer. We derive our revenue from two primary sources: (i) retail sales and delivery of consumer goods, including sales of third-party repair service agreements; and (ii) our in-house customer credit program, including sales of credit insurance products. We operate a highly integrated and scalable business through our retail stores and our website, providing our customers with a broad range of brand name products, in-house and third-party financing options, next day delivery capabilities, and product repair service through well-trained and knowledgeable sales, credit and service personnel.

We currently operate 64 retail locations in Texas, Louisiana and Oklahoma. The Company's primary product categories include:

Home appliance, including refrigerators, freezers, washers, dryers, dishwashers and ranges;

Furniture and mattress, including furniture for the living room, dining room, bedroom and related accessories and mattresses;

Consumer electronic, including LCD, LED, 3-D, plasma and DLP televisions, camcorders, digital cameras, Blu-ray and DVD players, video game equipment, portable audio, MP3 players and home theater products;

Home office, including desktop and notebook computers, tablets, printers and computer accessories.

Additionally, we offer a variety of products on a seasonal basis, including window room air conditioners and lawn and garden equipment, and continue to introduce additional product categories for the home to respond to customers' product needs and to increase same store sales. We require our sales associates to be knowledgeable of all of our products.

Our business is moderately seasonal, with a greater share of our revenues, operating and net income historically realized during the quarter ending January 31, due primarily to the holiday selling season.

Unlike many of our competitors, we provide flexible in-house credit options for our customers. In the last three years, we financed, on average, approximately 61% of our retail sales through our internal credit programs. We offer our customers an interest-bearing installment financing program and, at times, we offer promotional credit programs to certain of our customers that provide for same as cash or deferred interest interest-free periods of varying terms, generally three, six and 12 months, and require monthly payments beginning in the month after the sale. In addition to our own credit programs, we use third-party financing programs to provide non-interest bearing financing, with terms greater than 12 months, for purchases made by our customers, as well as a Conn's-branded revolving charge card. We also use a third-party provider to offer a rent-to-own payment option to our customers.

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The following tables present, for comparison purposes, information about our credit portfolios (dollars in thousands, except average outstanding customer balance).

	Three Months Ended April 30,	
	2012	2011
Total outstanding balance (period end)	\$ 635,233	\$ 625,487
Percent of total outstanding balances represented by balances over 36 months old (period end) (1)	1.8%	3.3%
Percent of total outstanding balances represented by balances over 48 months old (period end) (1)	0.4%	0.9%
Average outstanding customer balance	\$ 1,385	\$ 1,273
Number of active accounts (period end)	458,493	491,441
Account balances 60+ days past due (period end) (2)	\$ 46,438	\$ 44,453
Percent of balances 60+ days past due to total outstanding balance (period end)	7.3%	7.1%
Percent of balances 60-209 days past due to total outstanding balance (period end)	7.3%	5.5%
Total account balances re-aged (period end) (2)	\$ 73,737	\$ 121,197
Percent of re-aged balances to total outstanding balance (period end)	11.6%	19.4%
Account balances re-aged more than six months (period end)	\$ 27,052	\$ 55,802
Weighted average credit score of outstanding balances	601	589
Total applications processed	179,907	175,761
Weighted average origination credit score of sales financed	615	623
Total applications approved	56.8%	54.0%
Average down payment	4.5%	8.0%
Average total outstanding balance	\$ 634,743	\$ 647,754
Bad debt charge-offs (net of recoveries) (3)	\$ 13,529	\$ 11,008
Percent of bad debt charge-offs (net of recoveries) to average outstanding balance, annualized (3)	8.5%	6.8%
Percent of total bad debt allowance to total outstanding customer receivable balance (period end)	7.1%	6.7%
Percent of total outstanding balance represented by promotional receivables	17.7%	9.7%
Weighted average monthly payment rate (4)	6.1%	6.4%
Percent of retail sales paid for by:		
Third-party financing	12.5%	6.3%
In-house financing, including down payment received	66.9%	55.0%
Third-party rent-to-own options	3.7%	3.5%
<b>Total</b>	<b>83.1%</b>	<b>64.8%</b>

- (1) Includes installment accounts only. Balances included in over 48 months totals are also included in balances over 36 months old totals.
- (2) Accounts that become delinquent after being re-aged are included in both the delinquency and re-aged amounts. Re-aged portfolio data was adjusted to include certain refinanced account balances not previously included.
- (3) On July 31, 2011, we revised our charge-off policy to require an account that is delinquent more than 209 days at month end to be charged-off.
- (4) Three-month rolling average of gross cash payments as a percentage of gross principal balances outstanding at the beginning of each month in the period.

**Table of Contents****Historical Static Loss Table**

The following static loss analysis calculates the cumulative percentage of balances charged off, based on the year the credit account was originated and the period the balance was charged off. The percentage computed below is calculated by dividing the cumulative net amount charged off since origination by the total balance of accounts originated during the applicable fiscal year. The net charge-off was determined by estimating, on a pro rata basis, the amount of the recoveries received during a period that were allocable to the applicable origination period.

Fiscal Year of Origination	Cumulative loss rate as a % of balance originated (a)							Terminal (b)
	Years from origination							
	0	1	2	3	4	5	6	
2005	0.3%	1.7%	3.4%	4.3%	4.7%	4.9%	5.0%	5.0%
2006	0.3%	1.9%	3.6%	4.8%	5.4%	5.7%	5.7%	5.7%
2007	0.2%	1.7%	3.5%	4.6%	5.4%	5.6%	5.6%	
2008	0.2%	1.8%	3.6%	5.0%	5.7%	5.8%		
2009	0.2%	2.0%	4.6%	6.0%	6.3%			
2010	0.2%	2.4%	4.5%	5.1%				
2011	0.4%	2.6%	3.4%					
2012	0.2%	0.4%						

(a) The most recent percentages in years from origination 1 through 6 include loss data through April 30, 2012, and are not comparable to prior fiscal year accumulated net charge-off percentages in the same column.

(b) The terminal loss percentage presented represents the point at which that pool of loans has reached its maximum loss rate.

**Executive Overview**

This narrative provides an overview of our operations for the three months ended April 30, 2012. A detailed explanation of the changes in our operations for this period as compared to the prior-year period is included under Results of Operations. The following is a summary of some of the specific items impacting our retail and credit segments:

**Retail Segment Review**

Net sales rose \$9.8 million, or 6.3%, to \$166.9 million for the quarter ended April 30, 2012, from the comparable prior-year period. The increase in net sales during the quarter was driven by higher average selling prices in the major product categories, improved and expanded product selection in the furniture and mattress category and retention of a portion of the unit volume from stores closed in the prior year. The reported increase in sales was partially offset by the impact of the closure of 11 stores in fiscal 2012;

The retail gross margin increased to 33.7% in the current-year quarter, from 30.5% in the same quarter of the prior year. The increase in the retail gross margin was driven by a favorable shift in product mix. The majority of the margin expansion was reported in the furniture and mattress category which contributed approximately 30% of our retail product gross margin in the current quarter; and

Selling, general and administrative ( SG&A ) expense increased by \$1.9 million, but declined 50 basis points as a percent of segment revenues to 27.5% for the quarter ended April 30, 2012 as compared to 28.0% for the quarter ended April 30, 2011. The SG&A expense increase was primarily due to higher sales-driven compensation expenses, partially offset by decreased depreciation and facility-related expenses.

**Credit Segment Review**

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Total revenues for the three months ended April 30, 2012 declined by \$1.0 million, as compared to the prior year, reflecting a higher proportion of short-term promotional receivables relative to the total portfolio balance outstanding and increased net charge-off levels which resulted in lower interest income and fee revenues. The average customer accounts receivable balance declined 2.0%, to \$634.7 million for the quarter ended April 30, 2012 from \$647.8 million for the quarter ended April 30, 2011;

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SG&A expense for the credit segment declined \$1.7 million, primarily due to reduced compensation and related expense. Continued improvement in the performance of the portfolio has allowed us to reduce the cost of servicing the portfolio. Credit segment SG&A expense as a percent of revenues was 40.4% for the three months ended April 30, 2012 and 44.2% in the prior year;

The provision for bad debts decreased by \$0.4 million during the three months ended April 30, 2012, as we experienced continued improvement in the performance of our credit portfolio.

Net interest expense decreased in the three months ended April 30, 2012 by \$3.8 million from the prior- year period primarily due to a reduction in the effective interest rate on outstanding borrowings and a decline in outstanding debt.

**Operational changes and outlook**

We have implemented, continued to focus on or modified operating initiatives that we believe will positively impact future results, including:

Reviewing our existing store locations to ensure the customer demographics and retail sales opportunity are sufficient to achieve our store performance expectations, and selectively closing or relocating stores to achieve those goals;

Evaluating store opening plans for future years. We are planning to open five to seven new locations during fiscal year 2013, all of which are expected to be in new markets;

Remodeling existing stores to improve our customers shopping experience and expand our product offering of furniture and mattresses;

The exit of lower-price, lower-margin products to improve operating performance;

Augmenting our credit offerings through the use of third-party consumer credit providers to provide flexible financing options to meet the varying needs of our customers, while focusing the use of our credit program to offer credit to customers where third-party programs are not available;

Limiting the number of months an account can be re-aged and reducing the period of time a delinquent account can remain outstanding before it is charged off. Additionally, we are utilizing shorter contract terms for higher-risk products and smaller-balances originated to continue to increase the payment rate and improve credit quality. We have increased credit lines to higher credit scored customers to allow them to purchase additional products given our furniture and mattress offerings expansion. In total, these changes are expected to continue to improve the performance of our portfolio and increase the cost-effectiveness of our collections operation; and

In fiscal 2012, we closed 11 retail locations that did not perform at the level we expect for mature store locations. We closed an additional store in May 2012. One of the 12 stores was located in Oklahoma, with 11 of the stores located in Texas, with two located in the Austin market, six in the Dallas market, one in the Houston market and two in the San Antonio market.

While we have benefited from our operations being concentrated in the Texas, Louisiana and Oklahoma region in the past, continued weakness in the national and state economies, including instability in the financial markets and the volatility of oil and natural gas prices, have and will present significant challenges to our operations in the coming quarters.





**Table of Contents****Results of Operations**

The following table sets forth certain statement of operations information as a percentage of total revenues for the periods indicated:

	<b>Three Months Ended April 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenues</b>		
Product sales	75.7%	75.2%
Repair service agreement commissions, net	5.7	4.6
Service revenues	1.7	2.0
<b>Total net sales</b>	<b>83.1</b>	<b>81.8</b>
Finance charges and other	16.9	18.2
<b>Total revenues</b>	<b>100.0</b>	<b>100.0</b>
<b>Cost and expenses</b>		
Cost of goods sold, including warehousing and occupancy costs	54.0	55.4
Cost of service parts sold, including warehousing and occupancy cost	0.8	0.9
Selling, general, administrative expense	29.7	31.0
Provision for bad debts	4.6	5.0
Store closing costs	0.0	0.0
<b>Total cost and expenses</b>	<b>89.1</b>	<b>92.3</b>
<b>Operating income</b>	<b>10.9</b>	<b>7.7</b>
Interest expense	1.9	3.9
Other (income) expense, net	(0.1)	0.1
<b>Income before income taxes</b>	<b>9.1</b>	<b>3.7</b>
Provision for income taxes	3.3	1.4
<b>Net income</b>	<b>5.8%</b>	<b>2.3%</b>

**Table of Contents****Analysis of consolidated statements of operations**

The presentation of gross margins may not be comparable to some other retailers since we include the cost of our in-home delivery and installation service as part of selling, general and administrative expense. Similarly, we include the cost related to operating our purchasing function in selling, general and administrative expense. It is our understanding that other retailers may include such costs as part of their cost of goods sold.

**Total Consolidated**

<i>(in thousands, except percentages)</i>	<b>Three Months Ended</b>		<b>2012 vs. 2011</b>	
	<b>2012</b>	<b>April 30, 2011</b>	<b>Amount</b>	<b>%</b>
<b>Revenues</b>				
Product sales	\$ 152,115	\$ 144,279	\$ 7,836	5.4%
Repair service agreement commissions, net	11,392	8,902	2,490	28.0%
Service revenues	3,430			