

CONNS INC
Form 10-Q
August 26, 2010

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 July 31, 2010

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)

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

3295 College Street
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 ☐ smaller reporting company ☐

Edgar Filing: CONNS INC - Form 10-Q

(Do not check if a 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 August 24, 2010:

Class	Outstanding
Common stock, \$.01 par value per share	22,489,638

TABLE OF CONTENTS

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	Page No.
<u>Item 1.</u>	<u>Financial Statements</u>	1
	<u>Consolidated Balance Sheets as of January 31, 2010 and July 31, 2010</u>	1
	<u>Consolidated Statements of Operations for the three and six months ended July 31, 2009 and 2010</u>	2
	<u>Consolidated Statement of Stockholders' Equity for the six months ended July 31, 2010</u>	3
	<u>Consolidated Statements of Cash Flows for the six months ended July 31, 2009 and 2010</u>	4
	<u>Notes to Consolidated Financial Statements</u>	5
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
<u>PART II.</u>	<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	41
<u>Item 1A.</u>	<u>Risk Factors</u>	41
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	54
<u>Item 5.</u>	<u>Other Information</u>	54
<u>Item 6.</u>	<u>Exhibits</u>	54
<u>SIGNATURE</u>		55

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

Conn's, Inc.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

Assets	January 31, 2010	July 31, 2010 (unaudited)
Cash and cash equivalents (includes balances of VIE of \$104 and \$104, respectively)	\$ 12,247	\$ 8,466
Other accounts receivable, net of allowance of \$50 and \$61, respectively	23,254	28,753
Customer accounts receivable, net of allowance of \$19,204 and \$18,479 respectively (includes balances of VIE of \$279,948 and \$258,015, respectively)	368,304	355,861
Inventories	63,499	99,106
Deferred income taxes	15,237	13,830
Federal income taxes recoverable	8,148	-
Prepaid expenses and other assets	8,050	7,785
Total current assets	498,739	513,801
Long-term portion of customer accounts receivable, net of allowance of \$16,598 and \$15,868, respectively (includes balances of VIE of \$241,971 and \$221,562, respectively)	318,341	305,584
Property and equipment		
Land	7,682	7,264
Buildings	10,480	10,314
Equipment and fixtures	23,797	24,640
Transportation equipment	1,795	1,684
Leasehold improvements	91,299	91,522
Subtotal	135,053	135,424
Less accumulated depreciation	(75,350)	(81,354)
Total property and equipment, net	59,703	54,070
	5,485	6,364
Other assets, net (includes balances of VIE of \$7,106 and \$7,569, respectively)	10,198	12,518
Total assets	\$ 892,466	\$ 892,337
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt (includes balances of VIE of \$63,900 and \$122,500, respectively)	\$ 64,055	\$ 122,664
Accounts payable	39,944	62,115
Accrued compensation and related expenses	5,697	5,245
Accrued expenses	31,685	26,726
Income taxes payable	2,640	1,612
Deferred revenues and allowances	14,596	13,210
Total current liabilities	158,617	231,572
Long-term debt (includes balances of VIE of \$282,500 and \$197,500, respectively)	388,249	307,073
Other long-term liabilities	5,195	4,794
Fair value of interest rate swaps	337	240
Deferred gains on sales of property	905	961

Edgar Filing: CONNS INC - Form 10-Q

Stockholders' equity		
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; 24,194,555 and 24,212,843 shares issued at January 31, 2010 and July 31, 2010, respectively)	242	242
Additional paid-in capital	106,226	107,465
Accumulated other comprehensive loss	(218)	(155)
Retained earnings	269,984	277,216
Treasury stock, at cost, 1,723,205 shares	(37,071)	(37,071)
Total stockholders' equity	339,163	347,697
Total liabilities and stockholders' equity	\$ 892,466	\$ 892,337

See notes to consolidated financial statements.

Conn's, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except earnings per share)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2009	2010	2009	2010
	(As adjusted see Note 1)		(As adjusted see Note 1)	
Revenues				
Product sales	\$175,389	\$166,378	\$360,206	\$316,743
Repair service agreement commissions, net	8,859	8,341	18,649	16,258
Service revenues	6,052	4,183	11,596	8,940
Total net sales	190,300	178,902	390,451	341,941
Finance charges and other	40,128	34,763	79,828	69,243
Total revenues	230,428	213,665	470,279	411,184
Cost and expenses				
Cost of goods sold, including warehousing and occupancy costs	140,761	130,276	286,631	244,433
Cost of parts sold, including warehousing and occupancy costs	2,797	2,120	5,384	4,492
Selling, general and administrative expense	64,979	63,478	127,717	124,221
Provision for bad debts	8,026	9,048	13,670	15,322
Total cost and expenses	216,563	204,922	433,402	388,468
Operating income	13,865	8,743	36,877	22,716
Interest expense, net	5,342	5,875	10,346	10,660
Other (income) expense, net	(13)	12	(21)	183
Income before income taxes	8,536	2,856	26,552	11,873
Provision for income taxes	3,312	1,171	9,972	4,641
Net income	\$5,224	\$1,685	\$16,580	\$7,232
Earnings per share				
Basic	\$0.23	\$0.07	\$0.74	\$0.32
Diluted	\$0.23	\$0.07	\$0.73	\$0.32
Average common shares outstanding				
Basic	22,454	22,484	22,450	22,479
Diluted	22,660	22,488	22,675	22,483

See notes to consolidated financial statements.

Conn's, Inc.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Six Months Ended July 31, 2010
(unaudited)
(in thousands, except descriptive shares)

	Common Shares	Stock Amount	Additional Paid-in Capital	Other Compre- hensive Loss	Retained Earnings	Treasury Stock	Total
Balance January 31, 2010	24,194	\$242	\$106,226	\$(218)	\$269,984	\$(37,071)	\$339,163
Issuance of shares of common stock under Employee Stock Purchase Plan	19	-	93				93
Stock-based compensation			1,146				1,146
Net income					7,232		7,232
Adjustment of fair value of interest rate swaps net of tax of \$34				63			63
Other comprehensive income				63			63
Total comprehensive income							7,295
Balance July 31, 2010	24,213	\$242	\$107,465	\$(155)	\$277,216	\$(37,071)	\$347,697

See notes to consolidated financial statements.

Conn's, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited) (in thousands)

	Six Months Ended July 31,	
	2009	2010
	(As adjusted see Note 1)	
Cash flows from operating activities		
Net income	\$16,580	\$7,232
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,660	6,625
Amortization, net	437	1,707
Provision for bad debts	13,670	15,322
Stock-based compensation	1,272	1,146
Discounts and accretion on promotional credit	(1,396)	(1,011)
Provision for deferred income taxes	(1,522)	840
(Gains) losses on sales of property and equipment	(5)	62
Changes in operating assets and liabilities:		
Customer accounts receivable	(4,634)	10,906
Other accounts receivable	10,044	(5,499)
Inventory	(4,896)	(35,607)
Prepaid expenses and other assets	997	235
Accounts payable	(2,551)	22,171
Accrued expenses	(10,306)	(5,411)
Income taxes payable	(8,231)	6,804
Deferred revenue and allowances	(769)	(1,586)
Net cash provided by operating activities	15,350	23,936
Cash flows from investing activities		
Purchases of property and equipment	(6,763)	(1,650)
Proceeds from sales of property	22	589
Net cash used in investing activities	(6,741)	(1,061)
Cash flows from financing activities		
Proceeds from stock issued under employee benefit plans	117	93
Borrowings under lines of credit	198,146	127,372
Payments on lines of credit	(213,444)	(149,870)
Increase in deferred financing costs	(378)	(4,182)
Payment of promissory notes	(3)	(69)
Net cash used in financing activities	(15,562)	(26,656)
Net change in cash	(6,953)	(3,781)
Cash and cash equivalents		
Beginning of the year	11,909	12,247
End of period	\$4,956	\$8,466

See notes to consolidated financial statements.

Conn's, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
July 31, 2010

1. Summary of Significant Accounting Policies

Basis of Presentation. The accompanying unaudited, condensed consolidated financial statements 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 statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature, except as otherwise described herein. Operating results for the three and six month periods ended July 31, 2010, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2011. The financial statements should be read in conjunction with the Company's (as defined below) audited consolidated financial statements and the notes thereto included in the Company's Current Report on Form 8-K filed on July 7, 2010.

The Company's balance sheet at January 31, 2010, has been derived from the audited financial statements at that date, revised for the retrospective application of the new accounting principles discussed below, 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 Form 8-K filed on July 7, 2010 for a complete presentation of the audited financial statements for the fiscal year ended January 31, 2010, together with all required footnotes, and for a complete presentation and explanation of the components and presentations of the financial statements.

Business Activities. The Company, through its retail stores, provides products and services to its customer base in seven primary market areas, including southern Louisiana, southeast Texas, Houston, South Texas, San Antonio/Austin, Dallas/Fort Worth and Oklahoma. Products and services offered through retail sales outlets include home appliances, consumer electronics, home office equipment, lawn and garden products, mattresses, furniture, repair service agreements, installment and revolving credit account programs, and various credit insurance products. These activities are supported through an extensive service, warehouse and distribution system. For the reasons discussed below, the Company has aggregated its results into two operating segments: credit and retail. The Company's retail stores bear the "Conn's" name, and deliver the same products and services to a common customer group. The Company's customers generally are individuals rather than commercial accounts. All of the retail stores follow the same procedures and methods in managing their operations. The Company's management evaluates performance and allocates resources based on the operating results of its retail and credit segments. With the adoption of the new accounting principles discussed below, which require the consolidation of the Company's variable interest entity engaged in receivables securitizations, management began separately evaluating the performance of its retail and credit operations. As a result, management believes it is appropriate to disclose separate financial information of its retail and credit segments. The separate financial information is disclosed in footnote 6 – "Segment Reporting".

Adoption of New Accounting Principles. The Company enters into securitization transactions to transfer eligible retail installment and revolving customer receivables and retains servicing responsibilities and subordinated interests. Additionally, the Company transfers the eligible customer receivables to a bankruptcy-remote variable interest entity (VIE). In June 2009, the FASB issued revised authoritative guidance to improve the relevance and comparability of the information that a reporting entity provides in its financial statements about:

- a transfer of financial assets;

- the effects of a transfer on its financial position, financial performance, and cash flows; and
- a transferor's continuing involvement, if any, in transferred financial assets;
and,

-Improvements in financial reporting by companies involved with variable interest entities to provide more relevant and reliable information to users of financial statements by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has both of the following characteristics:

- a)The power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance, and
- b)The obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity.

After the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. The new FASB-issued authoritative guidance was effective for the Company beginning February 1, 2010.

The Company determined that it qualifies as the primary beneficiary of its VIE based on the following considerations:

- The Company directs the activities that generate the customer receivables that are 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 all losses incurred by the VIE to the extent of its residual interest in the customer receivables held by the VIE before any other investors incur losses, and
- The Company has the rights to receive all benefits generated by the VIE after paying the contractual amounts due to the other investors.

As a result, the Company's adoption of the provisions of the new guidance, effective February 1, 2010, resulted in the Company's VIE, which is engaged in customer receivable financing and securitization, being consolidated in the Company's balance sheet and the Company's statements of operations, stockholders' equity and cash flows. Previously, the operations of the VIE were reported off-balance sheet. The Company has elected to apply the provisions of this new guidance by retrospectively restating prior period financial statements to give effect to the consolidation of the VIE, presenting the balances at their carrying value as if they had always been carried on its balance sheet. The retrospective application impacted the comparative prior period financial statements as follows:

- For the three and six months ended July 31, 2009, Income before income taxes was increased by approximately \$0.4 million and \$0.2 million, respectively.
- For the three and six months ended July 31, 2009, Net income was increased by approximately \$0.3 million and \$0.1 million, respectively.
- For the three and six months ended July 31, 2009, Basic earnings per share was increased by \$.01
- For the three months ended July 31, 2009, Diluted earnings per share was increased by \$.01. For the six months ended July 31, 2009, Diluted earnings per share was unchanged.
- For the six months ended July 31, 2009, Cash flows from operating activities was increased by approximately \$82.5 million.
- For the six months ended July 31, 2009, Cash flows from financing activities was reduced by approximately \$82.5 million.

Principles of Consolidation. The consolidated financial statements include the accounts of Conn's, Inc. and all of its wholly-owned subsidiaries (the Company), including the Company's VIE. The liabilities of the VIE and the assets specifically collateralizing those obligations are not available for the general use of the Company and have been

parenthetically presented on the face of the Company's balance sheet. All material intercompany transactions and balances have been eliminated in consolidation.

Fair Value of Financial Instruments. The fair value of cash and cash equivalents, receivables and accounts payable approximate their carrying amounts because of the short maturity of these instruments. The fair value of the Company's long-term debt and the VIE's \$170 million 2002 Series A variable funding note approximate their carrying amount based on the fact that the agreements were recently amended and the cost of the borrowings were revised to reflect current market conditions. The estimated fair value of the VIE's \$150 million 2006 Series A medium term notes was approximately \$143 million and \$139 million as of July 31, 2010 and January 31, 2010, respectively, based on its estimate of the rates available at these dates, for instruments with similar terms and maturities. The Company's interest rate swaps are presented on the balance sheet at fair value.

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.

Earnings Per Share (EPS). The Company calculates basic earnings per share 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 granted, as calculated under the treasury-stock method. The weighted average number of anti-dilutive stock options not included in calculating diluted EPS was 1.5 million and 2.7 million for the three months ended July 31, 2009 and 2010, respectively. The weighted average number of anti-dilutive stock options not included in calculating diluted EPS was 1.5 million and 2.7 million for the six months ended July 31, 2009 and 2010, respectively. The following table sets forth the shares outstanding for the earnings per share calculations:

The following table sets forth the shares outstanding for the earnings per share calculations:

	Three Months Ended July 31,	
	2009	2010
Common stock outstanding, net of treasury stock, beginning of period	22,452,045	22,480,848
Weighted average common stock issued to employee stock purchase plan	1,893	3,057
Shares used in computing basic earnings per share	22,453,938	22,483,905
Dilutive effect of stock options, net of assumed repurchase of treasury stock	206,360	3,679
Shares used in computing diluted earnings per share	22,660,298	22,487,584

	Six Months Ended July 31,	
	2009	2010
Common stock outstanding, net of treasury stock, beginning of period	22,444,240	22,471,350
Weighted average common stock issued to employee stock purchase plan	6,247	8,008
Shares used in computing basic earnings per share	22,450,487	22,479,358
Dilutive effect of stock options, net of assumed repurchase of treasury stock	224,085	3,241
Shares used in computing diluted earnings per share	22,674,572	22,482,599

Customer Accounts Receivable. Customer accounts receivable reported in the consolidated balance sheet includes receivables transferred to the Company's VIE and those receivables not transferred to the VIE. 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 12 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. Additionally, the Company offers reage programs to customers with past due balances that have experienced a financial hardship; if they meet the conditions of the Company's reage policy. Reaging a customer's account can result in updating an account from a delinquent status to a current status. Generally, an account that is delinquent more than 120 days and for which no payment has been received in the past seven months will be charged-off against the allowance for doubtful accounts and interest accrued subsequent to the last payment will be reversed. The Company has a secured interest in the merchandise financed by these receivables and therefore has the opportunity to recover a portion of the charged-off amount.

Interest Income on Customer Accounts Receivable. Interest income is accrued using the Rule of 78's method for installment contracts and the simple interest method for revolving charge accounts, and is reflected in Finance charges and other. Typically, interest income is accrued until the contract or account is paid off or charged-off and we provide an allowance for estimated uncollectible interest. Interest income is recognized on interest-free promotion credit programs based on the Company's historical experience related to customers that fail to satisfy the requirements of the interest-free programs. Additionally, for sales on deferred interest and "same as cash" programs that exceed one year in duration, the Company discounts the sales to their fair value, resulting in a reduction in sales and customer receivables, and accretes the discount amount to Finance charges and other over the term of the program. 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 \$54.8 million and \$46.7 million at January 31, 2010, and July 31, 2010, respectively.

Allowance for Doubtful Accounts. The Company records an allowance for doubtful accounts, including estimated uncollectible interest, for its Customer and Other accounts receivable, based on its historical net loss experience and expectations for future losses. The net charge-off data used in computing the loss rate is reduced by the amount of post-charge-off recoveries received, including cash payments, amounts realized from the repossession of the products financed and, at times, payments under credit insurance policies. Additionally, the Company separately evaluates the Primary and Secondary portfolios when estimating the allowance for doubtful accounts. The balance in the allowance for doubtful accounts and uncollectible interest for customer receivables was \$35.8 million and \$34.3 million, at January 31, 2010, and July 31, 2010, respectively. Additionally, as a result of the Company's practice of reaging customer accounts, if the account is not ultimately collected, the timing and amount of the charge-off is impacted. If these accounts had been charged-off sooner the historical net loss rates might have been higher.

Inventories. Inventories consist of finished goods or parts and are valued at the lower of cost (moving weighted average method) or market.

Other Assets. The Company has certain deferred financing costs for transactions that have not yet been completed and has not begun amortization of those costs. These costs, which total approximately \$1.5 million, are included in Other assets, net, on the balance sheet and will be amortized upon completion of the related financing transaction or expensed in the event the Company fails to complete such a transaction. The Company also has certain restricted cash balances included in Other assets. The restricted cash balances represent collateral for note holders of the Company's VIE, and the amount is expected to decrease as the respective notes are repaid. However, the required balance could increase dependent on certain net portfolio yield requirements. The balance of this restricted cash account was \$6.0 million at January 31, 2010, and July 31, 2010.

Comprehensive Income.

Comprehensive income for the three and six months ended July 31, 2009, is as follows (in thousands):

	Three Months ended	Six Months ended
Net income	\$ 5,224	\$ 16,580
Adjustment of fair value of interest rate swaps, net of tax of \$37 and \$81	(69)	(150)
Total comprehensive income	\$ 5,155	\$ 16,430

Subsequent Events. No material subsequent events have occurred since July 31, 2010, that required recognition or disclosure in the Company's current period financial statements

Reclassifications. Certain reclassifications have been made in the prior year's financial statements to conform to the current year's presentation, by reclassifying the balance of construction-in-progress of approximately \$0.9 million from Property and equipment – Buildings to Property and equipment – Leasehold improvements, on the consolidated balance sheet.

2. 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 and six months ended July 31, 2009 and 2010 (in thousands):

	Three Months ended July 31		Six Months ended July 31	
	2009	2010	2009	2010
Interest income and fees on customer receivables	\$ 35,015	\$ 30,236	\$ 69,971	\$ 60,629
Insurance commissions	4,981	4,311	9,611	8,148
Other	132	216	246	466
Finance charges and other	\$ 40,128	\$ 34,763	\$ 79,828	\$ 69,243

3. Supplemental Disclosure of Customer Receivables

The following tables present quantitative information about the receivables portfolios managed by the Company (in thousands):

	of Customer Receivables		Total Outstanding Balance 60 Days Past Due (1)		Reaged (1)	
	January 31, 2010	July 31, 2010	January 31, 2010	July 31, 2010	January 31, 2010	July 31, 2010
Primary portfolio:						
Installment	\$555,573	\$543,327	\$46,758	\$41,232	\$93,219	\$85,748
Revolving	41,787	32,325	2,017	1,868	1,819	1,613
Subtotal	597,360	575,652	48,775	43,100	95,038	87,361
Secondary portfolio:						
Installment	138,681	130,687	24,616	20,544	49,135	42,465
Total receivables managed	736,041	706,339	\$73,391	\$63,644	\$144,173	\$129,826
Allowance for uncollectible accounts	(35,802)	(34,346)				
Allowances for promotional credit programs	(13,594)	(10,548)				
Current portion of customer accounts receivable, net	368,304	355,861				
Long-term customer accounts receivable, net	\$318,341	\$305,584				
Receivables transferred to the VIE	\$521,919	\$479,576	\$59,840	\$48,542	\$122,521	\$103,267
Receivables not transferred to the VIE	214,122	226,763	13,551	15,102	21,652	26,559
Total receivables managed	\$736,041	\$706,339	\$73,391	\$63,644	\$144,173	\$129,826

(1) Amounts are based on end of period balances and accounts could be represented in both the past due and reaged columns shown above.

	Average Balances		Net Credit Charge-offs (2)		Average Balances		Net Credit Charge-offs (2)	
	Three Months Ended		Three Months Ended		Six Months Ended		Six Months Ended	
	July 31,		July 31,		July 31,		July 31,	
	2009	2010	2009	2010	2009	2010	2009	2010
Primary portfolio:								
Installment	\$556,386	\$537,333			\$552,956	\$541,023		
Revolving	31,467	34,306			33,479	36,627		
Subtotal	587,853	571,639	\$4,485	\$6,240	586,435	577,650	\$8,401	\$12,393
Secondary portfolio:								
Installment	154,225	130,958	1,915	2,008	156,983	132,814	3,604	4,100
Total receivables managed	\$742,078	\$702,597	\$6,400	\$8,248	\$743,418	\$710,464	\$12,005	\$16,493
Receivables transferred to the VIE	\$569,494	\$483,008	\$5,843	\$5,928	\$593,048	\$494,080	\$11,092	\$12,004
Receivables not transferred to the VIE	172,584	219,589	557	2,320	150,370	216,384	913	4,489
Total receivables managed	\$742,078	\$702,597	\$6,400	\$8,248	\$743,418	\$710,464	\$12,005	\$16,493

(2) Amounts represent total credit charge-offs, net of recoveries, on total customer receivables.

4. Debt and Letters of Credit

The Company's borrowing facilities consist of an asset-based revolving credit facility, a \$10 million unsecured revolving line of credit, its VIE's 2002 Series A variable funding note and its VIE's 2006 Series A medium term notes. Debt consisted of the following at the periods ended (in thousands):

	January 31, 2010	July 31, 2010
Asset-based revolving credit facility	\$ 105,498	\$ 109,400
2002 Series A Variable Funding Note	196,400	170,000
2006 Series A Notes	150,000	150,000
Unsecured revolving line of credit for \$10 million maturing in September 2010	-	-
Other long-term debt	406	337
Total debt	452,304	429,737
Less current portion of debt	64,055	122,664
Long-term debt	\$ 388,249	\$ 307,073

The Company's \$210 million asset-based revolving credit facility provides funding based on a borrowing base calculation that includes customer accounts receivable and inventory and matures in August 2011. The credit facility bears interest at LIBOR plus a spread ranging from 325 basis points to 375 basis points, based on a fixed charge coverage ratio. In addition to the fixed charge coverage ratio, the revolving credit facility includes a total liabilities to tangible net worth requirement, a minimum customer receivables cash recovery percentage requirement, a net capital expenditures limit and combined portfolio performance covenants. The Company was in compliance with the

covenants, as amended, at July 31, 2010. Additionally, the agreement contains cross-default provisions, such that, any default under another credit facility of the Company or its VIE would result in a default under this agreement, and any default under this agreement would result in a default under those agreements. The asset-based revolving credit facility is secured by the assets of the Company not otherwise encumbered.

The 2002 Series A program functions as a revolving credit facility to fund the transfer of eligible customer receivables to the VIE. When the outstanding balance of the facility approaches a predetermined amount, the VIE (Issuer) is required to seek financing to pay down the outstanding balance in the 2002 Series A variable funding note. The amount paid down on the facility then becomes available to fund the transfer of new customer receivables or to meet required principal payments on other series as they become due. The new financing could be in the form of additional notes, bonds or other instruments as the market and transaction documents might allow. Given the current state of the financial markets, especially with respect to asset-backed securitization financing, the Company has been unable to issue medium-term notes or increase the availability under the existing variable funding note program. The 2002 Series A program consists of a \$170 million commitment that was renewed in August 2010, and is renewable annually, at the Company's option, until August 2011 and bears interest at commercial paper rates plus a spread of 250 basis points. The total commitment under the 2002 Series A program was reduced from \$200 million at January 31, 2010. Additionally, in connection with recent amendments to the 2002 Series A facility, the VIE agreed to reduce the total available commitment to \$130 million in April 2011.

The 2006 Series A program, which was consummated in August 2006, is non-amortizing for the first four years and officially matures in April 2017. However, it is expected that the scheduled monthly \$7.5 million principal payments, which begin in September 2010, will retire the bonds prior to that date. The VIE's borrowing agreements contain certain covenants requiring the maintenance of various financial ratios and customer receivables performance standards. The Issuer was in compliance with the requirements of the agreements, as amended, as of July 31, 2010. The VIE's debt is secured by the Customer accounts receivable that are transferred to it, which are included in Customer accounts receivable and Long-term portion of customer accounts receivable on the consolidated balance sheet. The investors and the securitization trustee have no recourse to the Company's other assets for failure of the individual customers of the Company and the VIE to pay when due. Additionally, the Company has no recourse to the VIE's assets to satisfy its obligations. The Company's retained interests in the customer receivables collateralizing the securitization program and the related cash flows are subordinate to the investors' interests, and would not be paid if the Issuer is unable to repay the amounts due under the 2002 Series A and 2006 Series A programs. The ultimate realization of the retained interest is subject to credit, prepayment, and interest rate risks on the transferred financial assets.

In March 2010, the Company and its VIE completed amendments to the various borrowing agreements that revised the covenant requirements as of January 31, 2010, and revised certain future covenant requirements. The revised covenant calculations include both the operating results and assets and liabilities of the Company and the VIE, effective January 31, 2010, for all financial covenant calculations. In addition to the covenant changes, the Company, as servicer of the customer receivables, agreed to implement certain additional collection procedures if certain performance requirements were not maintained, and agreed to make fee payments to the 2002 Series A facility providers on the amount of the commitment available at specific future dates. The Company also agreed to use the proceeds from any capital raising activity it completes to further reduce the commitments and debt outstanding under the securitization program's debt facilities. The fee payments will equal the following rates multiplied times the total available borrowing commitment under the 2002 Series A facility on the dates shown:

-	50 basis points on May 1, 2010,
-	100 basis points on August 1, 2010,
-	110 basis points on November 1, 2010,
-	115 basis points on February 1, 2011,
-	115 basis point on May 1, 2011, and
-	123 basis points on August 1, 2011.

In accordance with the schedule, the Company made a payment of approximately \$0.9 million on May 1, 2010 and another payment of approximately \$1.7 million on August 1, 2010.

As of July 31, 2010, the Company had approximately \$57.1 million under its asset-based revolving credit facility, net of standby letters of credit issued, and \$10.0 million under its unsecured bank line of credit immediately available for general corporate purposes. The Company also had \$21.8 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 obligations as the servicer under its VIE's asset-backed securitization program, deductibles under the Company's property and casualty insurance programs and international product purchases, among other acceptable uses. At July 31, 2010, the Company had outstanding letters of credit of \$21.7 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 \$21.7 million as of July 31, 2010.

The Company held interest rate swaps with notional amounts totaling \$25.0 million as of July 31, 2010, with terms extending through July 2011 for the purpose of hedging against variable interest rate risk related to the variability of cash flows in the interest payments on a portion of its variable-rate debt, based on changes in the benchmark one-month LIBOR interest rate. Changes in the cash flows of the interest rate swaps are expected to exactly offset the changes in cash flows (changes in base interest rate payments) attributable to fluctuations in the LIBOR interest rate. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. At July 31, 2010, the estimated net amount of loss that is expected to be reclassified into earnings within the next twelve months is \$0.2 million.

For information on the location and amounts of derivative fair values in the statement of operation, see the tables presented below (in thousands):

Fair Values of Derivative Instruments

	Liability Derivatives			
	January 31, 2010		July 31, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under				
Interest rate contracts	Other liabilities	\$ 337	Other liabilities	\$ 240
Total derivatives designated as hedging instruments		\$ 337		\$ 240

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Interest income/ (expense)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Three Months Ended July 31, 2009	July 31, 2010		Three Months Ended July 31, 2009	July 31, 2010		Three Months Ended July 31, 2009	July 31, 2010
Interest Rate Contracts	\$(69)	\$(7)		\$(75)	\$(72)		\$-	\$-
Total	\$(69)	\$(7)		\$(75)	\$(72)		\$-	\$-

	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
Derivatives in Cash Flow Hedging Relationships	Six Months Ended July 31, 2009	July 31, 2010	Interest income/ (expense)	Six Months Ended July 31, 2009	July 31, 2010	Interest income/ (expense)	Six Months Ended July 31, 2009	July 31, 2010
Interest Rate Contracts	\$(150)	\$(63)	(expense)	\$(92)	\$(170)	(expense)	\$-	\$-
Total	\$(150)	\$(63)		\$(92)	\$(170)		\$-	\$-

5. 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. 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. 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.

Repair Service Agreement Obligations. The Company sells repair service agreements that extend the period of covered warranty service on the products the Company sells. For certain of the repair service agreements sold, the Company is the obligor for payment of qualifying claims. The Company is responsible for administering the program, including setting the pricing of the agreements sold and paying the claims. The typical term for these agreements is between 12 and 36 months. The pricing is set based on historical claims experience and expectations about future claims. While the Company is unable to estimate maximum potential claim exposure, it has a history of overall profitability upon the ultimate resolution of agreements sold. The revenues related to the agreements sold are deferred at the time of sale and recorded in revenues in the statement of operations over the life of the agreements. The agreements can be canceled at any time and any deferred revenue associated with canceled agreements is reversed at the time of cancellation. The amounts of repair service agreement revenue deferred at January 31, 2010, and July 31, 2010, were \$7.3 million and \$7.1 million, respectively, and are included in Deferred revenue and allowances in the accompanying consolidated balance sheets. The following table presents a reconciliation of the beginning and ending balances of the deferred revenue on the Company's repair service agreements and the amount of claims paid under those agreements (in thousands):

Reconciliation of deferred revenues on repair service agreements

	Six Months Ended July 31,	
	2009	2010
Balance in deferred revenues at beginning of period	\$7,213	\$7,268
Revenues earned during the period	(3,501)	(3,583)
Revenues deferred on sales of new agreements	3,526	3,456
Balance in deferred revenues at end of period	\$7,238	\$7,141
Total claims incurred during the period, excludes selling expenses	\$1,638	\$1,841

6. Segment Reporting

Financial information by segment is presented in the following tables for the three and six months ended July 31, 2010 and 2009 (in thousands):

	Three Months Ended July 31,					
	Retail	2009 Credit	Total	Retail	2010 Credit	Total
Revenues						
Product sales	\$ 175,389	\$ -	\$ 175,389	\$ 166,378	\$ -	\$ 166,378
Repair service agreement commissions (net) (a)	11,433	(2,574)	8,859	11,534	(3,193)	8,341
Service revenues	6,052		6,052	4,183		4,183
Total net sales	192,874	(2,574)	190,300	182,095	(3,193)	178,902
Finance charges and other	131	39,997	40,128	216	34,547	34,763
Total revenues	193,005	37,423	230,428	182,311	31,354	213,665
Cost and expenses						
Cost of goods and parts sold, including warehousing and occupancy costs	143,558	-	143,558	132,396	-	132,396
Selling, general and administrative expense (b) (c)	49,407	15,572	64,979	46,407	17,071	63,478
Provision for bad debts	7	8,019	8,026	207	8,841	9,048
Total cost and expenses	192,972	23,591	216,563	179,010	25,912	204,922
Operating income	33	13,832	13,865	3,301	5,442	8,743
Interest expense, net	-	5,342	5,342	-	5,875	5,875
Other (income) expense, net	(13)	-	(13)	12	-	12
Segment income (loss) before income taxes	\$ 46	\$ 8,490	\$ 8,536	\$ 3,289	\$ (433)	\$ 2,856

	Six Months Ended July 31,					
	Retail	2009 Credit	Total	Retail	2010 Credit	Total
Revenues						
Product sales	\$360,206	\$-	\$360,206	\$316,743	\$-	\$316,743
Repair service agreement commissions (net) (a)	23,520	(4,871)	18,649	22,458	(6,200)	16,258
Service revenues	11,596		11,596	8,940		8,940
Total net sales	395,322	(4,871)	390,451	348,141	(6,200)	341,941
Finance charges and other	246	79,582	79,828	466	68,777	69,243
Total revenues	395,568	74,711	470,279	348,607	62,577	411,184
Cost and expenses						
Cost of goods and parts sold, including warehousing and occupancy costs	292,015	-	292,015	248,925	-	248,925
Selling, general and administrative expense (b) (d)	96,303	31,414	127,717	89,604	34,617	124,221
Provision for bad debts	66	13,604	13,670	293	15,029	15,322
Total cost and expenses	388,384	45,018	433,402	338,822	49,646	388,468
Operating income	7,184	29,693	36,877	9,785	12,931	22,716
Interest expense, net	-	10,346	10,346	-	10,660	10,660
Other (income) expense, net	(21)	-	(21)	183	-	183
Segment income before income taxes	\$7,205	\$19,347	\$26,552	\$9,602	\$2,271	\$11,873
Total assets	\$224,370	\$714,900	\$939,270	\$218,688	\$673,649	\$892,337

(a) – Retail repair service agreement commissions exclude repair service agreement cancellations that are the result of consumer credit account charge-offs. These amounts are reflected in repair service agreement commissions for the credit segment.

(b) – 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 \$1.7 million and \$1.6 million for the three months ended July 31, 2010 and 2009, respectively. The amount of overhead allocated to each segment was approximately \$3.4 million and \$3.2 million for the six months ended July 31, 2010 and 2009, respectively. The amount of the reimbursement made to the retail segment by the credit segment was approximately \$4.4 million and \$4.6 million for the three months ended July 31, 2010 and 2009, respectively. The amount of the reimbursement made to the retail segment by the credit segment was approximately \$8.9 million and \$9.3 million for the six months ended July 31, 2010 and 2009, respectively.

(c) - Selling, general and administrative expenses of the retail segment include depreciation and amortization expense of approximately \$3.2 million and \$3.3 million for the three months ended July 31, 2010 and 2009, respectively. Selling, general and administrative expenses of the credit segment include depreciation and amortization expense of approximately \$1.0 million and \$0.4 million for the three months ended July 31, 2010 and 2009, respectively.

(d) - Selling, general and administrative expenses of the retail segment include depreciation and amortization expense of approximately \$6.4 million and \$6.5 million for the six months ended July 31, 2010 and 2009, respectively. Selling, general and administrative expenses of the credit segment include depreciation and amortization expense of

approximately \$2.1 million and \$0.9 million for the six months ended July 31, 2010 and 2009, respectively.

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:

- 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 fund our operations, capital expenditures, debt repayment and expansion from cash flows from operations, borrowings from our revolving line of credit and proceeds from securitizations, and proceeds from accessing debt or equity markets;
- our ability to renew or replace our existing borrowing facilities on or before the maturity dates of the facilities;
 - the cost or terms of any amended, renewed or replacement credit facilities;
- our ability to obtain additional funding for the purpose of funding the customer receivables generated by us, including limitations on our ability to obtain financing through the commercial paper-based funding sources in our securitization program;
- our inability to maintain compliance with debt covenant requirements, 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;
- 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;
- increases in the retained portion of our customer receivables portfolio under our asset-backed securitization program as a result of changes in performance or types of customer receivables transferred, or as a result of a change in the mix of funding sources available to the securitization program, requiring higher collateral levels, or limitations on our ability to obtain financing through commercial paper-based funding sources;
- 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 ability to open and profitably operate new stores in existing, adjacent and new geographic markets;
 - our intention to update or expand existing stores;
 - our ability to introduce additional product categories;

- the ability of the financial institutions providing lending facilities to us to fund their commitments;
- 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 effect of rising interest rates or borrowing spreads that could increase our cost of borrowing or reduce securitization income;
- the effect of rising interest rates or other economic conditions on mortgage borrowers that could impair our customers' ability to make payments on outstanding credit accounts;
- our inability to make customer financing programs available that allow consumers to purchase products at levels that can support our growth;
- the potential for deterioration in the delinquency status of the transferred or owned credit portfolios or higher than historical net charge-offs in the portfolios could adversely impact earnings;
- 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, GPS devices, 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;
- 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;
- 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;
- 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;
- 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 adequacy of our distribution and information systems and management experience to support our expansion plans;
 - the accuracy of our expectations regarding competition and our competitive advantages;
 - changes in our stock price or the number of shares we have outstanding;
 - 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;
 - general economic conditions in the regions in which we operate; and

- the outcome of litigation or government investigations affecting our business.

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 Form 10-K/A filed on April 12, 2010 and our Form 10-Q/A filed on July 7, 2010. 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.

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 with 76 retail locations in Texas, Louisiana and Oklahoma, that sells home appliances, including refrigerators, freezers, washers, dryers, dishwashers and ranges, a variety of consumer electronics, including LCD, LED, 3-D, plasma and DLP televisions, camcorders, digital cameras, Blu-ray and DVD players, video game equipment, MP3 players and home theater products, lawn and garden products, mattresses and furniture. We also sell home office equipment, including computers, notebooks and computer accessories and continue to introduce additional product categories for the home and consumer entertainment, such as GPS devices, to help increase same store sales and to respond to our customers' product needs. We require our sales associates to be knowledgeable of all of our products.

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. In addition to interest-bearing installment and revolving charge contracts, at times, we offer promotional credit programs to certain customers that provide for “same as cash” or deferred interest interest-free periods of varying terms, generally three, six, 12, 18, 24 and 36 months, and require monthly payments beginning in the month after the sale. In turn, we finance substantially all of our customer receivables from these credit programs with cash flow from operations and through an asset-based revolving credit facility and an asset-backed securitization facility. In addition to our own credit programs, we use third-party financing programs to provide a portion of the non-interest bearing financing for purchases made by our customers and to provide our customers a rent-to-own payment option.

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

	Primary Portfolio (1) Six Months Ended							
	1/31/2009		7/31/2009		1/31/2010		7/31/2010	
Total outstanding balance (period end)	\$589,922		\$593,104		\$597,360		\$575,652	
Average outstanding customer balance	\$1,403		\$1,393		\$1,339		\$1,330	
Number of active accounts (period end)	420,585		425,914		446,203		432,912	
Account balances over 60 days past due (period end) (4)	\$35,153		\$37,681		\$48,775		\$43,100	
Percent of balances over 60 days past due to total outstanding balance (period end)	6.0	%	6.4	%	8.2	%	7.5	%
Total account balances reaged (period end) (4)	90,560		90,076		95,038		87,361	
Percent of reaged balances to total outstanding balance (period end)	15.4	%	15.2	%	15.9	%	15.2	%
Account balances reaged more than six months (period end)	\$36,452		\$37,146		\$35,448		\$33,861	
Weighted average credit score of outstanding balances	603		599		600		598	
Total applications processed (2)	450,880		408,441		394,324		369,620	
Percent of retail sales financed	50.5	%	49.4	%	55.2	%	53.3	%
Weighted average origination credit score of sales financed	635		632		632		630	
Total applications approved	49.8	%	49.8	%	52.3	%	52.0	%

Edgar Filing: CONNS INC - Form 10-Q

Average down payment	3.5	%	6.1	%	4.3	%	3.4	%
Average total outstanding balance	\$571,301		\$586,435		\$598,421		\$577,650	
Bad debt charge-offs (net of recoveries)	\$8,181		\$8,401		\$12,376		\$12,393	
Percent of bad debt charge-offs (net of recoveries) to average outstanding balance, annualized	2.9	%	2.9	%	4.1	%	4.3	%
Estimated percent of reage balances collected (3)	87.6	%	88.9	%	83.2	%	82.9	%

	1/31/2009	Secondary Portfolio (1) Six Months Ended				1/31/2010	7/31/2010	
		7/31/2009						
Total outstanding balance (period end)	\$163,591	\$152,774			\$138,681		\$130,687	
Average outstanding customer balance	\$1,394	\$1,372			\$1,319		\$1,305	
Number of active accounts (period end)	117,372	111,347			105,109		100,132	
Account balances over 60 days past due (period end) (4)	\$19,988	\$19,361			\$24,616		\$20,544	
Percent of balances over 60 days past due to total outstanding balance (period end)	12.2	%	12.7	%	17.8	%	15.7	%
Total account balances reaged (period end) (4)	\$50,602	\$50,711			\$49,135		\$42,465	
Percent of reaged balances to total outstanding balance (period end)	30.9	%	33.2	%	35.4	%	32.5	%
Account balances reaged more than six months (period end)	\$19,860	\$22,842			\$21,920		\$20,210	
Weighted average credit score of outstanding balances	521	524			526		532	
Total applications processed (2)	200,681	182,768			168,845		158,949	
Percent of retail sales financed	9.5	%	6.0	%	6.1	%	6.5	%
Weighted average origination credit score of sales financed	540	546			554		560	
Total applications approved	22.9	%	20.5	%	19.9	%	22.3	%
Average down payment	19.8	%	21.2	%	21.1	%	15.3	%
Average total outstanding balance	\$148,458	\$156,983			\$145,976		\$132,814	
Bad debt charge-offs (net of recoveries)	\$4,089	\$3,604			\$4,561		\$4,100	
Percent of bad debt charge-offs (net of recoveries) to average outstanding balance, annualized	5.5	%	4.6	%	6.2	%	6.2	%
Estimated percent of reage balances collected (3)	88.6	%	90.7	%	86.6	%	86.9	%

	Combined Portfolio (1)							
	Six Months Ended							
	1/31/2009	7/31/2009	1/31/2010	7/31/2010				
Total outstanding balance (period end)	\$753,513	\$745,878	\$736,041	\$706,339				
Average outstanding customer balance	\$1,401	\$1,388	\$1,335	\$1,325				
Number of active accounts (period end)	537,957	537,261	551,312	533,044				
Account balances over 60 days past due (period end) (4)	\$55,141	\$57,042	\$73,391	\$63,644				
Percent of balances over 60 days past due to total outstanding balance (period end)	7.3	% 7.6	% 10.0	% 9.0				%
Total account balances reaged (period end) (4)	\$141,162	\$140,787	\$144,173	\$129,826				
Percent of reaged balances to total outstanding balance (period end)	18.7	% 18.9	% 19.6	% 18.4				%
Account balances reaged more than six months (period end)	\$56,312	\$59,988	\$57,368	\$54,071				
Weighted average credit score of outstanding balances	585	583	586	586				
Total applications processed (2)	651,561	591,209	563,169	528,569				
Percent of retail sales financed	60.0	% 55.4	% 61.3	% 59.8				%
Weighted average origination credit score of sales financed	619	619	622	620				
Total applications approved	41.5	% 40.7	% 42.6	% 43.1				%
Average down payment	5.6	% 7.9	% 6.0	% 5.0				%
Average total outstanding balance	\$719,759	\$743,418	\$744,397	\$710,464				
Weighted average monthly payment rate	5.2	% 5.5	% 5.0	% 5.6				%
Bad debt charge-offs (net of recoveries)	\$12,270	\$12,005	\$16,937	\$16,493				
Percent of bad debt charge-offs (net of recoveries) to average outstanding balance, annualized	3.4	% 3.2	% 4.6	% 4.6				%
Estimated percent of reage balances collected (3)	87.9	% 89.6	% 84.4	% 84.2				%

(1) The Portfolios consist of owned and transferred receivables.

(2) Unapproved and not declined credit applications in the primary portfolio are referred to the secondary portfolio.

(3) Is calculated as 1 minus the percent of actual bad debt charge-offs (net of recoveries) of reage balances as a percent of average reage balances. The reage bad debt charge-offs are included as a component of Percent of bad debt charge-offs (net of recoveries) to average outstanding balance.

(4) Accounts that become delinquent after being reaged are included in both the delinquency and reaged amounts.

We also derive revenues from repair services on the products we sell and from product delivery and installation services we provide to our customers. Additionally, acting as an agent for unaffiliated companies, we sell credit insurance and repair service agreements to protect our customers from credit losses due to death, disability, involuntary unemployment and property damage and product failure not covered by a manufacturers' warranty. We also derive revenues from the sale of extended repair service agreements, under which we are the primary obligor, to protect the customers after the original manufacturer's warranty or repair service agreement has expired.

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

Executive Overview

This narrative is intended to provide an executive level overview of our operations for the three and six months ended July 31, 2010. 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. Some of the more specific items impacting our operating and pretax income were:

- For the three months ended July 31, 2010, compared to the same period last year, Total net sales decreased 6.0% and Finance charges and other decreased 13.4%. Total revenues decreased 7.3% while same store sales decreased 6.4% for the quarter ended July 31, 2010. The sales decline was primarily driven by:

- more challenging economic conditions in Texas compared to the same quarter in the prior year, as evidenced by the unemployment rate rising from an average of 7.5% to 8.2% for the three month periods ended July 31, 2009 and 2010, respectively, and
- management's emphasis on improving retail gross margin, which increased from 23.6% to 25.4% for the three months ended July 31, 2009, and 2010, respectively, while maintaining price competitiveness.
- For the six months ended July 31, 2010, compared to the same period last year, Total net sales decreased 12.4% and Finance charges and other decreased 13.3%. Total revenues decreased 12.6% while same store sales decreased 13.3% for the six months ended July 31, 2010. The sales decline was primarily driven by the same reasons discussed above for the quarter.
- Finance charges and other decreased 13.4% and 13.3% for the three and six months ended July 31, 2010, when compared to the same period last year, primarily due to a decrease in interest income and fees as the average interest income and fee yield earned on the portfolio fell from 18.9% and 18.8 % for the three and six months ended July 31, 2009, to 17.2% and 17.1%, for the three and six months ended July 31, 2010, and the average balance of customer accounts receivable outstanding during the six months ended July 31, 2010 fell 4.4%, as compared to the prior year period. The interest income and fee yield fell as a result of the higher level of charge-offs experienced, resulting in an increase in the reversal of accrued interest and increased reserves for uncollectible interest, and the reduced amount of new credit accounts originated in the three and six month periods ended July 31, 2010, as compared to the same periods in the prior fiscal year. The reduction in new credit accounts originated negatively impacts the yield since interest income is recognized using the Rule of 78's, which accelerates the recognition of interest earnings.
- Deferred interest and "same as cash" plans under our consumer credit programs continue to be an important part of our sales promotion plans and are utilized to provide a wide variety of financing to enable us to appeal to a broader customer base. For the three and six months ended July 31, 2010, \$39.8 million, or 23.9% and \$65.4 million, or 20.6%, respectively, of our product sales were financed by our deferred interest and "same as cash" plans. For the comparable period in the prior year, product sales financed by our deferred interest and "same as cash" sales were \$32.0 million, or 18.3% and \$59.2 million, or 16.4%. Our promotional credit programs (same as cash and deferred interest programs), which require monthly payments, are reserved for our highest credit quality customers, thereby reducing the overall risk in the portfolio, and are typically used to finance sales of our highest margin products. We expect to continue to offer promotional credit in the future. In addition to the amounts above, we used third-party consumer credit programs to finance approximately \$3.4 million and \$27.7 million, of our product and repair service agreement sales during the six months ended July 31, 2009 and 2010, respectively.
- Our total gross margin (Total revenues less Cost of goods sold) increased from 37.7% to 38.0% for the three months ended July 31, 2010, when compared to the same period in the prior year. The increase resulted primarily from:
 - an increase in retail gross margins (includes gross profit from product sales and repair service agreement commissions) from 23.6% for the three months ended July 31, 2009, to 25.4% for the three months ended July 31, 2010, respectively, which improved the total gross margin by 150 basis points. The increase was driven largely by a 200 basis point increase in product gross margins to 21.7% for the three months ended July 31, 2010, as we focused on improving pricing discipline on the sales floor while maintaining price competitiveness in the marketplace, and
 - a change in the revenue mix in the three months ended July 31, 2010, such that higher gross margin finance charge and other revenues contributed a lesser percentage of total revenues, resulted in a decrease in the total gross margin of approximately 120 basis points.
 -

Our gross margin increased from 37.9% to 39.5% for the six months ended July 31, 2010, when compared to the same period in the prior year. The increase was a result primarily of an improved retail gross margin, similar to the trend discussed for the three months ended July 31, 2010.

- During the three months ended July 31, 2010, Selling, general and administrative (SG&A) expense was reduced by \$1.5 million, though it increased as a percent of revenues to 29.7% from 28.2% in the prior year period, due to the deleveraging effect of the decline in total revenues. The \$1.5 million reduction in SG&A expense was driven primarily by lower compensation and related expense and reduced general insurance expense, partially offset by increased amortization expense due to the amendments completed to our credit facilities, higher charges related to the increased use of third-party finance providers and increased use of contract delivery and installation services. The prior year period also included a \$0.3 million charge to increase our litigation reserves. SG&A expense for the six month period decreased \$3.5 million, though it increased as a percent of revenues to 30.2% from 27.2% in the prior year period, due to the deleveraging effect of the decline in total revenues.
- The Provision for bad debts increased to \$9.0 million and \$15.3 million for the three and six months ended July 31, 2010, respectively. Our total net charge-offs of customer and non-customer accounts receivable increased by \$1.8 million and \$4.5 million for the three and six months ended July 31, 2010 as compared to the same periods in the prior fiscal year. In the six months ended July 31, 2010 we experienced an improvement in our credit portfolio performance (specifically, the trends in the delinquency rate, payment rate, net charge-off rate and percent of the portfolio reaged) as compared to the fourth quarter of fiscal 2010. Based on our expectations about future credit portfolio performance we increased the allowance for bad debts \$0.5 million during the three months ended July 31, 2010, though it has been reduced \$1.4 million during the six months ended July 31, 2010.
- Net interest expense increased in the three months and six months ended July 31, 2010, due primarily to a \$0.9 million fee paid during the three months ended July 31, 2010, to the lenders providing the variable funding note under the securitization facility.
- The provision for income taxes for the three months and six months ended July 31, 2010, was impacted primarily by the change in pre-tax income.

Operational Changes and Resulting Outlook

While we are continuing to assess the availability of capital for new store locations and growth of the credit portfolio, we do not currently have any new store openings planned and have reduced the size of the credit portfolio since January 31, 2010, in order to reduce the debt outstanding to support the credit operations.

During the fiscal year ended January 31, 2010, we adjusted our underwriting guidelines and reduced the volume of credit accounts we originate in our Secondary Portfolio. As a result of the changes in our underwriting guidelines, which reduced retail sales volumes, we saw improved credit portfolio performance during the first six months of fiscal 2011, evidenced by:

- a 100 basis point reduction in the 60+ day delinquency percentage from 10.0% at January 31, 2010, to 9.0% at July 31, 2010, as compared to a 30 basis point increase in the same percentage from 7.3% at January 31, 2009, to 7.6% at July 31, 2009,
- a 120 basis point, or \$14.4 million, reduction in the percent and balance, respectively, of the credit portfolio that has been reaged, to 18.4%, or \$129.8 million, as of July 31, 2010, as compared to January 31, 2010, and
- the payment rate percentage, the amount collected on credit accounts during a month as a percentage of the portfolio balance at the beginning of the month, increased in each of the six months of the current fiscal year as compared to the same months in the prior fiscal year.

While we benefited from our operations being concentrated in the Texas, Louisiana and Oklahoma region in the earlier months of 2009, recent weakness in the health of the national and state economies have and will present significant challenges to our operations in the coming quarters. Specifically, future sales volumes, gross profit margins

and credit portfolio performance could be negatively impacted, and thus impact our overall profitability. Additionally, declines in our future operating performance could impact compliance with our credit facility covenants, which we recently renegotiated to avoid potentially triggering the default provisions of the credit facilities. As a result, while we will strive to maintain our market share, improve credit portfolio performance and reduce expenses, we will also work to maintain our access to the liquidity necessary to maintain our operations through these challenging times.

The consumer electronics industry depends on new products to drive same store sales increases. Typically, these new products, such as high-definition and 3-D televisions, Blu-ray and DVD players, digital cameras, MP3 players and GPS devices are introduced at relatively high price points that are then gradually reduced as the product becomes mainstream. To sustain positive same store sales growth, unit sales must increase at a rate greater than the decline in product prices. The affordability of the product helps drive the unit sales growth. However, as a result of relatively short product life cycles in the consumer electronics industry, which limit the amount of time available for sales volume to increase, combined with rapid price erosion in the industry, retailers are challenged to maintain overall gross margin levels and positive same store sales. This has historically been our experience, and we continue to adjust our marketing strategies to address this challenge through the introduction of new product categories and new products within our existing categories.

Application of Critical Accounting Policies

In applying the accounting policies that we use to prepare our consolidated financial statements, we necessarily make accounting estimates that affect our reported amounts of assets, liabilities, revenues and expenses. Some of these accounting estimates require us to make assumptions about matters that are highly uncertain at the time we make the accounting estimates. We base these assumptions and the resulting estimates on authoritative pronouncements, historical information and other factors that we believe to be reasonable under the circumstances, and we evaluate these assumptions and estimates on an ongoing basis. We could reasonably use different accounting estimates, and changes in our accounting estimates could occur from period to period, with the result in each case being a material change in the financial statement presentation of our financial condition or results of operations. We refer to accounting estimates of this type as critical accounting estimates. We believe that the critical accounting estimates discussed below are among those most important to an understanding of our consolidated financial statements as of July 31, 2010.

Customer Accounts Receivable. Customer accounts receivable reported in our consolidated balance sheet include receivables transferred to our VIE and those receivables not transferred to our VIE. We include the amount of principal and accrued interest on those receivables that are expected to be collected within the next twelve months, based on contractual terms, in current assets on our consolidated balance sheet. Those amounts expected to be collected after 12 months, based on contractual terms, are included in long-term assets. Typically, a receivable is considered delinquent if a payment has not been received on the scheduled due date. Additionally, we offer reage programs to customers with past due balances that have experienced a financial hardship, if they meet the conditions of our reage policy. Reaging a customer's account can result in updating it from a delinquent status to a current status. Generally, an account that is delinquent more than 120 days and for which no payment has been received in the past seven months will be charged-off against the allowance for doubtful accounts and interest accrued subsequent to the last payment will be reversed. We have a secured interest in the merchandise financed by these receivables and therefore have the opportunity to recover a portion of any charged-off amount.

Interest Income on Customer Accounts Receivable. Interest income is accrued using the Rule of 78's method for installment contracts and the simple interest method for revolving charge accounts, and is reflected in Finance charges and other. Typically, interest income is accrued until the contract or account is paid off or charged-off and we provide an allowance for estimated uncollectible interest. Interest income is recognized on our interest-free promotional accounts based on our historical experience related to customers who fail to satisfy the requirements of the interest-free programs. Additionally, for sales on deferred interest and "same as cash" programs that exceed one year in duration, we discount the sales to their fair value, resulting in a reduction in sales and receivables, and amortize the discount amount in to Finance charges and other over the term of the program.

Allowance for Doubtful Accounts. We record an allowance for doubtful accounts, including estimated uncollectible interest, for our Customer accounts receivable, based on our historical net loss experience and expectations for future

losses. The net charge-off data used in computing the loss rate is reduced by the amount of post-charge-off recoveries received, including cash payments, amounts realized from the repossession of the products financed and, at times, payments received under credit insurance policies. Additionally, we separately evaluate the Primary and Secondary portfolios when estimating the allowance for doubtful accounts. The balance in the allowance for doubtful accounts and uncollectible interest for customer receivables was \$35.8 million and \$34.3 million at January 31, 2010, and July 31, 2010, respectively. Additionally, as a result of our practice of reaging customer accounts, if the account is not ultimately collected, the timing and amount of the charge-off is impacted. If these accounts had been charged-off sooner the net loss rates might have been higher. Reaged customer receivable balances represented 18.4% of the total portfolio balance at July 31, 2010. If the loss rate used to calculate the allowance for doubtful accounts were increased by 10% at July 31, 2010, we would have increased our Provision for bad debts by approximately \$3.4 million.

Revenue Recognition. Revenues from the sale of retail products are recognized at the time the customer takes possession of the product. Such revenues are recognized net of any adjustments for sales incentive offers such as discounts, coupons, rebates, or other free products or services and discounts of promotional credit sales that will extend beyond one year. We sell repair service agreements and credit insurance contracts on behalf of unrelated third parties. For contracts where the third parties are the obligors on the contract, commissions are recognized in revenues at the time of sale, and in the case of retrospective commissions, at the time that they are earned. Where we sell repair service renewal agreements in which we are deemed to be the obligor on the contract at the time of sale, revenue is recognized ratably, on a straight-line basis, over the term of the repair service agreement. These repair service agreements are renewal contracts that provide our customers protection against product repair costs arising after the expiration of the manufacturer's warranty and the third party obligor contracts. These agreements typically have terms ranging from 12 to 36 months. These agreements are separate units of accounting and are valued based on the agreed upon retail selling price. The amount of repair service agreement revenue deferred at January 31, 2010, and July 31, 2010, was \$7.3 million and \$7.1 million, respectively, and is included in Deferred revenues and allowances in the accompanying consolidated balance sheets.

Vendor Allowances. We receive funds from vendors for price protection, product rebates (earned upon purchase or sale of product), marketing, training and promotion programs which are recorded on the accrual basis as a reduction to the related product cost, cost of goods sold, compensation expense or advertising expense, according to the nature of the program. We accrue rebates based on the satisfaction of terms of the program and sales of qualifying products even though funds may not be received until the end of a quarter or year. If the programs are related to product purchases, the allowances, credits or payments are recorded as a reduction of product cost; if the programs are related to product sales, the allowances, credits or payments are recorded as a reduction of cost of goods sold; if the programs are directly related to promotion, marketing or compensation expense paid related to the product, the allowances, credits, or payments are recorded as a reduction of the applicable expense in the period in which the expense is incurred.

Accounting for Leases. We analyze each lease, at its inception and any subsequent renewal, to determine whether it should be accounted for as an operating lease or a capital lease. Additionally, monthly lease expense for each operating lease is calculated as the average of all payments required under the minimum lease term, including rent escalations. Generally, the minimum lease term begins with the date we take possession of the property and ends on the last day of the minimum lease term, and includes all rent holidays, but excludes renewal terms that are at our option. Any tenant improvement allowances received are deferred and amortized into income as a reduction of lease expense on a straight line basis over the minimum lease term. The amortization of leasehold improvements is computed on a straight line basis over the shorter of the remaining lease term or the estimated useful life of the improvements. For transactions that qualify for treatment as a sale-leaseback, any gain or loss is deferred and amortized as rent expense on a straight-line basis over the minimum lease term. Any deferred gain would be included in Deferred gain on sale of property and any deferred loss would be included in Other assets on the consolidated balance sheets.

Results of Operations

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2010	2009	2010	2009
Revenues:				
Product sales	77.9	% 76.1	% 77.0	% 76.6
Repair service agreement commissions (net)	3.9	3.9	4.0	4.0
Service revenues	1.9	2.6	2.2	2.4
Total net sales	83.7	82.6	83.2	83.0
Finance charges and other	16.3	17.4	16.8	17.0
Total revenues	100.0	100.0	100.0	100.0
Costs and expenses:				
Cost of goods sold, including warehousing and occupancy cost	61.0	61.1	59.5	61.0
Cost of parts sold, including warehousing and occupancy cost	1.0	1.2	1.1	1.1
Selling, general and administrative expense	29.7	28.2	30.2	27.2
Provision for bad debts	4.2	3.5	3.7	2.9
Total costs and expenses	95.9	94.0	94.5	92.2
Operating income	4.1	6.0	5.5	7.8
Interest expense, net	2.8	2.3	2.6	2.2
Other (income) / expense, net	0.0	0.0	0.0	0.0
Income before income taxes	1.3	3.7	2.9	5.6
Provision for income taxes	0.5	1.4	1.1	2.1
Net income	0.8	% 2.3	% 1.8	% 3.5

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.

Edgar Filing: CONNS INC - Form 10-Q

Analysis of consolidated statements of operations

Total consolidated (in thousands except percentages)	Three months ended July 31,		2010 vs. 2009 Incr/(Decr)		Six months ended July 31,		2010 vs. 2009 Incr/(Decr)	
	2010	2009	Amount	Pct	2010	2009	Amount	Pct
Revenues								
Product sales	\$166,378	\$175,389	\$(9,011)	(5.1)%	\$316,743	\$360,206	\$(43,463)	(12.1)%
Repair service agreement commissions (net)	8,341	8,859	(518)	(5.8)	16,258	18,649	(2,391)	(12.8)
Service revenues	4,183	6,052	(1,869)	(30.9)	8,940	11,596	(2,656)	(22.9)
Total net sales	178,902	190,300	(11,398)	(6.0)	341,941	390,451	(48,510)	(12.4)
Finance charges and other	34,763	40,128	(5,365)	(13.4)	69,243	79,828	(10,585)	(13.3)
Total revenues	213,665	230,428	(16,763)	(7.3)	411,184	470,279	(59,095)	(12.6)
Cost and expenses								
Cost of goods and parts sold	132,396	143,558	(11,162)	(7.8)	248,925	292,015	(43,090)	(14.8)
Gross Profit	81,269	86,870	(5,601)	(6.4)	162,259	178,264	(16,005)	(9.0)
Gross Margin	38.0 %	37.7 %			39.5 %	37.9 %		
Selling, general and administrative expense	63,478	64,979	(1,501)	(2.3)	124,221	127,717	(3,496)	(2.7)
Provision for bad debts	9,048	8,026	1,022	12.7	15,322	13,670	1,652	12.1
Total costs and expenses	204,922	216,563	(11,641)		388,468	433,402	(44,934)	
Operating income	8,743	13,865	(5,122)	(36.9)	22,716	36,877	(14,161)	(38.4)
Operating Margin	4.1 %	6.0 %			5.5 %	7.8 %		
Interest expense	5,875	5,342	533	10.0	10,660	10,346	314	3.0
Other (income) expense	12	(13)	25	(192.3)	183	(21)	204	(971.4)
Pretax Income	2,856	8,536	(5,680)	(66.5)	11,873	26,552	(14,679)	(55.3)
Provision for income taxes	1,171	3,312	(2,141)	(64.6)	4,641	9,972	(5,331)	(53.5)
Net Income	\$1,685	\$5,224	\$(3,539)	(67.7)	\$7,232	\$16,580	\$(9,348)	(56.4)

Retail segment (in thousands except percentages)	Three months ended July 31,		2010 vs. 2009 Incr/(Decr)		Six months ended July 31,		2010 vs. 2009 Incr/(Decr)	
	2010	2009	Amount	Pct	2010	2009	Amount	Pct
Revenues								
Product sales	\$166,378	\$175,389	\$(9,011)	(5.1)%	\$316,743	\$360,206	\$(43,463)	(12.1)%

Edgar Filing: CONNS INC - Form 10-Q

Repair service agreement commissions (net)									
(a)	11,534	11,433	101	0.9	22,458	23,520	(1,062)	(4.5)	
Service revenues	4,183	6,052	(1,869)	(30.9)	8,940	11,596	(2,656)	(22.9)	
Total net sales	182,095	192,874	(10,779)	(5.6)	348,141	395,322	(47,181)	(11.9)	
Finance charges and other	216	131	85	64.9	466	246	220	89.4	
Total revenues	182,311	193,005	(10,694)	(5.5)	348,607	395,568	(46,961)	(11.9)	
Cost and expenses									
Cost of goods and parts sold	132,396	143,558	(11,162)	(7.8)	248,925	292,015	(43,090)	(14.8)	
Gross Profit	49,915	49,447	468	0.9	99,682	103,553	(3,871)	(3.7)	
Gross Margin	27.4 %	25.6 %			28.6 %	26.2 %			
Selling, general and administrative expense (b)	46,407	49,407	(3,000)	(6.1)	89,604	96,303	(6,699)	(7.0)	
Provision for bad debts	207	7	200	2857.1	293	66	227	343.9	
Total costs and expenses	179,010	192,972	(13,962)	(7.2)	338,822	388,384	(49,562)	(12.8)	
Operating income	3,301	33	3,268	9903.0	9,785	7,184	2,601	36.2	
Operating Margin	1.8 %	0.0 %			2.8 %	1.8 %			
Other (income) expense	12	(13)	25	(192.3)	183	(21)	204	(971.4)	
Segment income before									
Income Taxes	\$3,289	\$46	\$3,243	7050.0	\$9,602	\$7,205	\$2,397	33.3	

Edgar Filing: CONNS INC - Form 10-Q

Credit segment	Three months ended July 31,		2010 vs. 2009 Incr/(Decr)		Six months ended July 31,		2010 vs. 2009 Incr/(Decr)	
(in thousands except percentages)	2010	2009	Amount	Pct	2010	2009	Amount	Pct
Revenues								
Product sales	\$0	\$0	\$0	N/A	\$0	\$0	\$0	N/A
Repair service agreement commissions (net) (a)	(3,193)	(2,574)	(619)	24.0	(6,200)	(4,871)	(1,329)	27.3
Total net sales	(3,193)	(2,574)	(619)	24.0	(6,200)	(4,871)	(1,329)	27.3
Finance charges and other	34,547	39,997	(5,450)	(13.6)	68,777	79,582	(10,805)	(13.6)
Total revenues	31,354	37,423	(6,069)	(16.2)	62,577	74,711	(12,134)	(16.2)
Cost and expenses								
Selling, general and administrative expense (b)	17,071	15,572	1,499	9.6	34,617	31,414	3,203	10.2
Provision for bad debts	8,841	8,019	822	10.3	15,029	13,604	1,425	10.5
Total costs and expenses	25,912	23,591	2,321	9.8	49,646	45,018	4,628	10.3
Operating income	5,442	13,832	(8,390)	(60.7)	12,931	29,693	(16,762)	(56.5)
Operating Margin	17.4 %	37.0 %			20.7 %	39.7 %		
Interest expense	5,875	5,342	533	10.0	10,660	10,346	314	3.0
Segment Income (loss) before Income Taxes	\$(433)	\$8,490	\$(8,923)	(105.1)	\$2,271	\$19,347	\$(17,076)	(88.3)

(a) Retail repair service agreement commissions exclude repair service agreement cancellations that are the result of consumer credit account charge-offs. These amounts are reflected in repair service agreement commissions for the credit segment.

(b) 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 \$1.7 million and \$1.6 million for the three months ended July 31, 2010 and 2009, respectively. The amount of overhead allocated to each segment was approximately \$3.4 million and \$3.2 million for the six months ended July 31, 2010 and 2009, respectively. The amount of the reimbursement made to the retail segment by the credit segment was approximately \$4.4 million and \$4.6 million for the three months ended July 31, 2010 and 2009, respectively. The amount of the reimbursement made to the retail segment by the credit segment was approximately \$8.9 million and \$9.3 million for the six months ended July 31, 2010 and 2009, respectively.

Three Months Ended July 31, 2010 Compared to Three Months Ended July 31, 2009

(Dollars in Millions)	2010	2009	\$	Change	%
Net sales	\$ 178.9	\$ 190.3	(11.4)	(6.0)	
Finance charges and other	34.8	40.1	(5.3)	(13.2)	
Revenues	\$ 213.7	\$ 230.4	(16.7)	(7.2)	

The \$11.4 million decrease in net sales consists of the following:

- a \$11.7 million same store sales decrease of 6.4%;

- a \$2.2 million net increase generated by three retail locations that were not open for the three months in each period. Two new locations were opened subsequent to May 1, 2009 and one of our clearance centers was closed subsequent to May 1, 2009; and
- a \$1.9 million decrease in service revenues.

The components of the \$11.4 million decrease in net sales were a \$9.0 million decrease in Product sales and a \$2.4 million decrease in repair service agreement commissions and service revenues. The \$11.4 million decrease in product sales resulted from the following:

- approximately \$23.6 million increase attributable to increases in total unit sales, due primarily to increased unit sales in consumer electronics, track and furniture and mattresses, partially offset by decreases in appliances, and
- approximately \$32.6 million decrease attributable to an overall decrease in the average unit price. The decrease was due primarily to a decrease in price points in the electronics and track categories, partially offset by an increase in appliances.

The \$2.4 million decrease in repair service agreement commissions and service revenues consisted of:

- a \$0.1 million increase in the retail segment's repair service agreement commissions due primarily to increased penetration on the sale of repair service agreements, largely offset by a decline in product sales;
- a \$0.6 million decrease in the credit segment's repair service agreement commissions due to the higher level of credit charge-offs experienced; and
- a \$1.9 million decrease in the retail segment's service revenues due primarily to increased use of third-party servicers to provide cost-effective, timely product repairs for our customers.

The following table presents net sales by product category in each period, including repair service agreement commissions and service revenues, expressed both in dollar amounts (in thousands) and as a percent of total net sales. Classification of sales has been adjusted from previous presentations to ensure comparability between the categories.

Category	Three Months Ended July 31,						Percent Change	
	2010		2009					
	Amount	Percent		Amount	Percent			
Consumer electronics	\$ 52,881	29.6 %		\$ 60,414	31.8 %	(12.5)%	(1)	
Home appliances	57,697	32.3		62,524	32.9	(7.7)	(2)	
Track	22,347	12.4		23,151	12.2	(3.5)	(3)	
Furniture and mattresses	21,235	11.9		18,332	9.6	15.8	(4)	
Other	12,218	6.8		10,968	5.8	11.4	(5)	
Total product sales	166,378	93.0		175,389	92.2	(5.1)		
Repair service agreement commissions	8,341	4.7		8,859	4.6	(5.8)	(6)	
Service revenues	4,183	2.3		6,052	3.2	(30.9)	(7)	
Total net sales	\$ 178,902	100.0 %		\$ 190,300	100.0 %	(6.1)%		

(1) The consumer electronics category declined as the result of a 20.4% drop in the average selling price of flat-panel televisions, partially offset by a 10.1% increase in unit sales driven by increased sales of plasma televisions.

(2) The home appliance category sales declined during the quarter on lower unit sales, primarily in the refrigeration and room air conditioning categories, though average selling prices increased.

(3) The track sales (consisting largely of computers, computer peripherals, video game equipment, portable electronics and small appliances) declined slightly as increased sales of accessories, MP3 players and desktop

computers were offset primarily by declines in the sales of camcorders, digital cameras, GPS devices, netbooks, computer monitors and video game hardware. A 17.2% increase in unit sales of laptop computers offset a 14.8% decline in the average selling price of this product.

- (4) The growth in furniture and mattresses sales was driven by the addition of in-store specialists focused on this category, improved in-store displays and expanded product selection.
- (5) An increase in lawn and garden sales included in other product sales was largely responsible for the growth in this category.
- (6) The decline in repair service agreement commissions was driven largely by increased cancellations of these agreements as a result of higher credit charge-offs, partially offset by a revenue increase as a result of higher product unit sales volume.
- (7) Service revenues decreased as the Company increased its use of third-party servicers to provide cost-effective, timely product repairs for its customers.

(Dollars in Millions)	2010	2009	\$	Change	%
Interest income and fees	\$ 30.3	\$ 35.0	(4.7)	(13.4)	
Insurance commissions	\$ 4.3	\$ 5.0	(0.7)	(14.0)	
Other income	\$ 0.2	\$ 0.1	0.1	100.0	
Finance charges and other	\$ 34.8	\$ 40.1	(5.3)	(13.2)	

Interest income and fees and insurance commissions are included in the Finance charges and other for the credit segment, while Other income is included in Finance charges and other for the retail segment.

The decrease in Interest income and fees of the credit segment resulted primarily as the average interest income and fee yield earned on the portfolio fell from 18.9% for the three months ended July 31, 2009, to 17.2%, for the three months ended July 31, 2010, and the average balance of customer accounts receivable outstanding fell 5.3%. The interest income and fee yield dropped as a result of the higher level of charge-offs experienced, resulting in an increase in the reversal of accrued interest and increased reserves for uncollectible interest, and the reduced volume of new credit accounts originated in the three months ended July 31, 2010, as compared to the same quarter in the prior fiscal year. The reduction in new credit accounts originated negatively impacts the yield since interest income is recognized using the Rule of 78's, which accelerates the recognition of interest income. Insurance commissions of the credit segment declined due primarily to lower retrospective commissions and lower interest earnings on funds held by the insurance company for the payment of claims.

The following table provides key portfolio performance information for the three months ended July 31, 2010 and 2009:

	2010	2009
	(Dollars in thousands)	
Interest income and fees (a)	\$ 30,236	\$ 35,016
Net charge-offs (b)	(8,248)	(6,400)
Borrowing costs (c)	(5,882)	(5,357)
Net portfolio yield	\$ 16,106	\$ 23,259
Average portfolio balance	\$ 702,597	\$ 742,078
Interest income and fee yield % (annualized)	17.2 %	18.9 %
Net charge-off % (annualized)	4.7 %	3.4 %

(a) Included in Finance charges and other.
(b) Included in Provision for bad debts.
(c) Included in Interest expense.

(Dollars in Millions)	2010	2009	\$	Change	%
Cost of goods sold	\$ 130.3	\$ 140.8	(10.5)	(7.4)	
Product gross margin percentage	21.7 %	19.7 %		2.0 %	

Product gross margin increased as a percent of product sales from the 2009 period to the 2010 period driven by our focus on improving pricing discipline on the sales floor while maintaining competitive pricing in the marketplace.

(Dollars in Millions)	2010	2009	\$	Change	%
Cost of service parts sold	\$ 2.1	\$ 2.8	(0.7)	(24.2)	
As a percent of service revenues	50.7 %	46.2 %		4.5 %	

This decrease was due primarily to a 33.2% decrease in parts sales.

(Dollars in Millions)	2010	2009	\$	Change	%
Selling, general and administrative expense - Retail	\$ 46.4	\$ 49.4	(3.0)	(6.1)	
Selling, general and administrative expense - Credit	\$ 17.1	\$ 15.6	1.5	9.6	
Selling, general and administrative expense - Total	\$ 63.5	\$ 65.0	(1.5)	(2.3)	
As a percent of total revenues	29.7 %	28.2 %		1.5 %	

During the three months ended July 31, 2010, Selling, general and administrative (SG&A) expense was reduced by \$1.5 million, though it increased as a percent of revenues to 29.7%, from 28.2% in the prior year period, due to the deleveraging effect of the decline in total revenues. The \$1.5 million reduction in SG&A expense was driven primarily by lower compensation and related expense and reduced advertising expense, partially offset by increased amortization expense due to the amendments completed to our credit facilities, higher charges related to the increased use of third-party finance providers and increased use of contract delivery and installation services. The prior year period also included a \$0.3 million charge to increase our litigation reserves.

Significant SG&A expense increases and decreases related to specific business segments included the following:

Retail Segment

The following are the significant factors affecting the retail segment:

- Bank and credit card fees increased by approximately \$1.4 million from the 2009 period, primarily due to the use of the third-party finance providers for certain of our interest-free programs.
 - Total compensation costs and related expenses decreased approximately \$4.3 million from the 2009 period, primarily due to reduced commissions payable as a result of reduced sales.
- Contract delivery and installation costs increased approximately \$1.2 million from the 2009 period as we increased our use of third-parties to provide these services.
- Non-employee insurance expense decreased by approximately \$0.6 million as we had more favorable claims experience under our self-insurance programs.
- Vehicle expenses decreased by approximately \$0.3 million as we reduced the age and size of our vehicle fleet.

Credit Segment

The following are the significant factors affecting the credit segment:

- Amortization expense increased approximately \$0.5 million from the 2009 period due to the amendment of our credit facilities.
- Total compensation costs and related expenses increased approximately \$0.9 million from the 2009 period as staffing was increased to address increased levels of delinquencies in the challenging economic environment.

(Dollars in Millions)	2010	2009	\$	Change	%
Provision for bad debts	\$ 9.0	\$ 8.0	1.0	12.5	
As a percent of total revenues	4.2 %	3.5 %		0.7 %	

The provision for bad debts is primarily related to the operations of our credit segment, with approximately \$207,000 and \$7,000 for the periods ended July 31, 2010 and 2009, respectively, included in the results of operations for the retail segment.

The Provision for bad debts increased to \$9.0 million for the three months ended July 31, 2010, from \$8.0 million for the same quarter in the prior year period. While our total net charge-offs of customer and non-customer accounts receivable increased by \$1.8 million compared to the second quarter of the prior fiscal year, we experienced an improvement in our credit portfolio performance (specifically, the trends in the payment rate, net charge-off rate and percent of the portfolio reaged) since the fourth quarter of fiscal 2010.

(Dollars in Millions)	2010	2009	\$	Change	
					%
Interest expense, net	\$ 5.9	\$ 5.3	0.6		11.3

The increase in interest expense was due primarily to a \$0.9 million fee paid during the three months ended July 31, 2010, to the lenders providing the variable funding note under the securitization facility. The entirety of our interest expense is included in the results of operations of our credit segment.

(Dollars in Millions)	2010	2009	\$	Change	
					%
Provision for income taxes	\$ 1.2	\$ 3.3	(2.1)	(64.5)	
As a percent of income before income taxes	41.0 %	38.7 %		2.3 %	

The provision for income taxes decreased primarily as a result of the decrease in income before income taxes.

Six Months Ended July 31, 2010 Compared to Six Months Ended July 31, 2009

(Dollars in Millions)	2010	2009	\$	Change	
					%
Net sales	\$ 341.9	\$ 390.5	(48.6)	(12.4)	
Finance charges and other	69.3	79.8	(10.5)	(13.2)	
Revenues	\$ 411.2	\$ 470.3	(59.1)	(12.6)	

The \$48.6 million decrease in net sales consists of the following:

- a \$50.2 million same store sales decrease of 13.3%;
- a \$3.9 million net increase generated by four retail locations that were not open for the three months in each period. Two new locations were opened subsequent to February 1, 2009 and two of our clearance centers were closed subsequent to February 1, 2009;
- a \$0.4 million increase resulted from a decrease in discounts on extended-term non-interest bearing credit sales (those with terms longer than 12 months); and
- a \$2.7 million decrease in service revenues.

The components of the \$48.6 million decrease in net sales were a \$43.5 million decrease in Product sales and a \$5.1 million decrease in repair service agreement commissions and service revenues. The \$43.5 million decrease in product sales resulted from the following:

- approximately \$61.8 million decrease attributable to an overall decrease in the average unit price. The decrease was due primarily to a decrease in price points in the electronics and track categories, partially offset by an increase in appliances, and

- approximately \$18.3 million increase attributable to increases in total unit sales, due primarily to increased unit sales in track, lawn and garden and furniture and mattresses partially offset by decreases in consumer electronics and appliances.

The \$5.1 million decrease in repair service agreement commissions and service revenues consisted of:

- a \$1.1 million decrease in the retail segment's repair service agreement commissions due primarily to the decline in product sales;
- a \$1.3 million decrease in the credit segment's repair service agreement commissions due to the higher level of credit charge-offs experienced; and
- a \$2.7 million decrease in the retail segment's service revenues due primarily to lower service labor revenues due to increased use of third-party servicers to provide cost-effective, timely product repairs for our customers.

The following table presents net sales by product category in each period, including repair service agreement commissions and service revenues, expressed both in dollar amounts (in thousands) and as a percent of total net sales. Classification of sales has been adjusted from previous presentations to ensure comparability between the categories.

Category	Six Months Ended July 31,				Percent Change
	2010		2009		
	Amount	Percent	Amount	Percent	
Consumer electronics	\$ 106,498	31.1 %	\$ 138,915	35.6 %	(23.3)%
Home appliances	105,626	30.9	119,608	30.6	(11.7)
Track	43,625	12.8	44,674	11.4	(2.3)
Furniture and mattresses	40,121	11.7	37,385	9.6	7.3
Other	20,873	6.1	19,624	5.0	6.4
Total product sales	316,743	92.6	360,206	92.2	(12.1)
Repair service agreement commissions	16,258	4.8	18,649	4.8	(12.8)
Service revenues	8,940	2.6	11,596	3.0	(22.9)
Total net sales	\$ 341,941	100.0 %	\$ 390,451	100.0 %	(12.5)%

- (1) The consumer electronics category declined as the result of a 8.5% drop in unit sales of televisions and an approximately 16.9% decline in average selling prices, related primarily to LCD televisions.
- (2) The home appliance category sales declined during the period on lower unit sales in all appliance categories, though average selling prices increased.
- (3) The track sales (consisting largely of computers, computer peripherals, video game equipment, portable electronics and small appliances) declined slightly as increased sales of laptops and the introduction of netbooks, and higher digital camera and accessory sales were offset primarily by declines in sales of camcorders, GPS devices and video game hardware.
- (4) The growth in furniture and mattresses sales was driven by the addition of in-store specialists focused on this category, improved in-store displays and expanded product selection.
- (5) An increase in lawn and garden sales included in other product sales was largely responsible for the growth in this category.
- (6) The repair service agreement commissions decrease was driven largely by the decline in product sales. Additionally, increased cancellations of these agreements as a result of higher credit charge-offs reduced the repair service agreement commissions.
- (7) Service revenues decreased as the Company increased its use of third-party servicers to provide cost-effective, timely product repairs for its customers.

(Dollars in Millions)	2010	2009	\$	Change	%
-----------------------	------	------	----	--------	---

Edgar Filing: CONNS INC - Form 10-Q

Interest income and fees	\$ 60.6	\$ 70.0	(9.4)	(13.4)
Insurance commissions	\$ 8.2	\$ 9.6	(1.4)	(14.6)
Other income	\$ 0.5	\$ 0.2	0.3	150.0
Finance charges and other	\$ 69.3	\$ 79.8	(10.5)	(13.2)

Interest income and fees and insurance commissions are included in the Finance charges and other for the credit segment, while Other income is included in Finance charges and other for the retail segment.

The decrease in Interest income and fees of the credit segment resulted primarily as the average interest income and fee yield earned on the portfolio fell from 18.8% for the six months ended July 31, 2009, to 17.1%, for the six months ended July 31, 2010, and the average balance of customer accounts receivable outstanding fell 4.4%. The interest income and fee yield dropped as a result of the higher level of charge-offs experienced, resulting in an increase in the reversal of accrued interest and increased reserves for uncollectible interest, and the reduced volume of new credit accounts originated in the six months ended July 31, 2010, as compared to the same quarter in the prior fiscal year. The reduction in new credit accounts originated negatively impacts the yield since interest income is recognized using the Rule of 78's, which accelerates the recognition of interest income. Insurance commissions of the credit segment declined due primarily to lower retrospective commissions and lower interest earnings on funds held by the insurance company for the payment of claims.

The following table provides key portfolio performance information for the six months ended July 31, 2010 and 2009:

	2010	2009
	(Dollars in thousands)	
Interest income and fees (a)	\$ 60,629	\$ 69,971
Net charge-offs (b)	(16,493)	(12,005)
Borrowing costs (c)	(10,678)	(10,379)
Net portfolio yield	\$ 33,458	\$ 47,587
Average portfolio balance	\$ 710,464	\$ 743,418
Interest income and fee yield % (annualized)	17.1 %	18.8 %
Net charge-off % (annualized)	4.6 %	3.2 %

(d) Included in Finance charges and other.
(e) Included in Provision for bad debts.
(f) Included in Interest expense.

	2010	2009	\$	Change	%
(Dollars in Millions)					
Cost of goods sold	\$ 244.4	\$ 286.6	(42.2)	(14.7)	
Product gross margin percentage	22.8 %	20.4 %		2.4 %	

Product gross margin increased as a percent of product sales from the 2009 period to the 2010 period driven by our focus on improving pricing discipline on the sales floor while maintaining competitive pricing in the marketplace.

	2010	2009	\$	Change	%
(Dollars in Millions)					
Cost of service parts sold	\$ 4.5	\$ 5.4	(0.9)	(16.7)	
As a percent of service revenues	50.3 %	46.6 %		3.7 %	

This decrease was due primarily to a 23.7% decrease in parts sales.

	2010	2009	\$	Change	%
(Dollars in Millions)					
Selling, general and administrative expense - Retail	\$ 89.6	\$ 96.3	(6.7)	(7.0)	
Selling, general and administrative expense - Credit	\$ 34.6	\$ 31.4	3.2	10.2	
Selling, general and administrative expense - Total	\$ 124.2	\$ 127.7	(3.5)	(2.7)	
As a percent of total revenues	30.2 %	27.2 %		3.0 %	

During the six months ended July 31, 2010, Selling, general and administrative (SG&A) expense was reduced by \$3.5 million, though it increased as a percent of revenues to 30.2%, from 27.2% in the prior year period, due to the deleveraging effect of the decline in total revenues. The \$3.5 million reduction in SG&A expense was driven primarily by lower compensation and related expense and reduced advertising expense, partially offset by increased amortization expense due to the amendments completed to our credit facilities, higher charges related to the increased use of third-party finance providers and increased use of contract delivery and installation services. The prior year period also included a \$0.8 million charge to increase our litigation reserves.

Significant SG&A expense increases and decreases related to specific business segments included the following:

Retail Segment

The following are the significant factors affecting the retail segment:

- Net advertising expense decreased by approximately \$1.7 million from the 2009 period through improved efficiencies in our advertising program.
- Bank and credit card fees increased by approximately \$2.3 million from the 2009 period, primarily due to the use of the third-party finance providers for certain of our interest-free programs.
 - Total compensation costs and related expenses decreased approximately \$8.5 million from the 2009 period, primarily due to reduced commissions payable as a result of reduced sales.
- Contract delivery and installation costs increased approximately \$2.0 million from the 2009 period as we increased our use of third-parties to provide these services.
- Vehicle expenses decreased by approximately \$0.6 million as we reduced the age and size of our vehicle fleet.

Credit Segment

The following are the significant factors affecting the credit segment:

- Amortization expense increased approximately \$1.2 million from the 2009 period due to the amendment of our credit facilities.
- Total compensation costs and related expenses increased approximately \$2.0 million from the 2009 period as staffing was increased to address increased levels of delinquencies in the challenging economic environment.

(Dollars in Millions)	2010	2009	\$	Change	%
Provision for bad debts	\$ 15.3	\$ 13.7	1.7		12.4
As a percent of total revenues	3.7 %	2.9 %			0.8 %

The provision for bad debts is primarily related to the operations of our credit segment, with approximately \$293,000 and \$66,000 for the periods ended July 31, 2010 and 2009, respectively, included in the results of operations for the retail segment.

The Provision for bad debts increased to \$15.3 million for the six months ended July 31, 2010, from \$13.7 million for prior year period. While our total net charge-offs of customer and non-customer accounts receivable increased by \$4.5 million compared to the same period of the prior fiscal year, we experienced an improvement in our credit portfolio performance (specifically, the trends in the delinquency rate, payment rate, net charge-off rate and percent of the portfolio reaged) since the fourth quarter of fiscal 2010. As such, our total allowance for bad debts declined approximately \$1.4 million during the six months ended July 31, 2010, after absorbing the higher net charge-offs incurred during the period.

(Dollars in Millions)	2010	2009	\$	Change	%
Interest expense, net	\$ 10.7	\$ 10.3	0.4		3.9

The increase in interest expense was due primarily to a \$0.9 million fee paid during the three months ended July 31, 2010, to the lenders providing the variable funding note under the securitization facility. The entirety of our interest expense is included in the results of operations of our credit segment.

(Dollars in Millions)	2010		2009	\$	Change	%	
Provision for income taxes	\$ 4.6		\$ 10.0		(5.4)	(54.0)	
As a percent of income before income taxes	38.7	%	37.7	%		1.0	%

The provision for income taxes decreased primarily as a result of the decrease in income before income taxes.

Liquidity and Capital Resources

Current Activities

We require capital to finance our growth as we add new stores and markets to our operations, which in turn requires additional working capital for increased customer receivables and inventory. We have historically financed our operations through a combination of cash flow generated from earnings and external borrowings, including primarily bank debt, extended terms provided by our vendors for inventory purchases, acquisition of inventory under consignment arrangements and transfers of customer receivables to our asset-backed securitization facilities.

Since we extend credit in connection with a large portion of our retail, repair service agreement and credit insurance sales, we have entered into an asset-based revolving credit facility and created a securitization program to fund the customer receivables generated by the extension of credit. In order to fund the purchases of eligible customer receivables from us, we have issued medium-term and variable funding notes secured by the receivables to third parties to obtain cash for these purchases under the securitization program.

Our \$210 million asset-based revolving credit facility provides funding based on a borrowing base calculation that includes customer accounts receivable and inventory and matures in August 2011. The credit facility bears interest at LIBOR plus a spread ranging from 325 basis points to 375 basis points, based on a fixed charge coverage ratio. In addition to the fixed charge coverage ratio, the revolving credit facility includes a total liabilities to tangible net worth ratio requirement, a minimum customer receivables cash recovery percentage requirement, a net capital expenditures limit and combined portfolio performance covenants. Additionally, the agreement contains cross-default provisions, such that, any default under another of our credit facilities or our VIE'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. We expect, based on current facts and circumstances that we will be in compliance with the above covenants for the next 12 months. The weighted average interest rate on borrowings outstanding under the asset-based revolving credit facility at July 31, 2010, was 4.8%, including the interest expense associated with our interest rate swaps.

A summary of the significant financial covenants that govern our revolving credit facility compared to our actual compliance status at July 31, 2010, is presented below:

	Actual	Required Minimum/Maximum
Fixed charge coverage ratio must exceed required minimum (1)	1.57 to 1.00	1.30 to 1.00
Total liabilities to tangible net worth ratio must be lower than required maximum (1)	1.57 to 1.00	1.75 to 1.00
Cash recovery percentage must exceed required minimum (1)	5.20%	4.75%
Capital expenditures, net must be lower than required maximum	\$4.4 million	\$22.0 million

(1) These covenants are also covenants of our asset-backed securitization credit facilities.

Note: All terms in the above table are defined by the revolving credit facility and may or may not agree directly to the financial statement captions in this document. The covenants are calculated on a trailing four quarter basis, except for the Cash recovery percentage, which is calculated on a trailing three month basis.

The 2002 Series A program functions as a revolving credit facility to fund the transfer of eligible customer receivables. When the facility approaches a predetermined amount, the VIE (Issuer) is required to seek financing to pay down the outstanding balance in the 2002 Series A variable funding note. The amount paid down on the facility then becomes available to fund the transfer of new customer receivables or to meet required principal payments on other series as they become due. The new financing could be in the form of additional notes, bonds or other instruments as the market and transaction documents might allow. Given the current state of the financial markets, especially with respect to asset-backed securitization financing, the Company has been unable to issue medium-term notes or increase the availability under the existing variable funding note program. The 2002 Series A program consists of a \$170 million commitment that was renewed in August 2010, and is renewable annually, at our option, until August 2011 and bears interest at commercial paper rates plus a spread of 250 basis points. The total commitment under the 2002 Series A program was reduced during the quarter ended April 30, 2010, from \$200 million at January 31, 2010. Additionally, in connection with recent amendments to the 2002 Series A facility, we agreed to reduce the total available commitment to \$130 million in April 2011. The weighted average interest on the variable funding note during the month of July 2010 was 4.9%. The 2006 Series A program, which was consummated in August 2006, is non-amortizing for the first four years and officially matures in April 2017. However, it is expected that the scheduled monthly \$7.5 million principal payments, which begin in September 2010, will retire the bonds prior to that date. Private institutional investors, primarily insurance companies, purchased the 2006 Series A bonds at a weighted fixed rate of 5.75%. The securitization borrowing agreements contain certain covenants requiring the maintenance of various financial ratios and customer receivables performance standards. If the three-month average net portfolio yield, as defined by agreements, falls below 5.0%, then the issuer may be required to fund additions to the cash reserves in the restricted cash accounts. The three-month average net portfolio yield was 6.1% at July 31, 2010. The investors and the securitization trustee have no recourse to assets other than the customer accounts receivable and cash reserves held in the securitization program. If the issuer is unable to repay the 2002 Series A note and 2006 Series A bonds due to its inability to collect the transferred customer accounts, the issuer could not pay the subordinated notes it has issued to us in partial payment for transferred customer accounts, and the 2006 Series A bond holders could claim the balance in its \$6.0 million restricted cash account. We are responsible under a \$20.0 million letter of credit that secures the performance of our obligations or services under the servicing agreement as it relates to the transferred assets that are part of the asset-backed securitization facility.

In March 2010, we completed amendments to the various borrowing agreements that revised the covenant requirements as of January 31, 2010, and revised certain future covenant requirements. The revised covenant calculations include both the operating results and assets and liabilities of us and the securitization program, effective January 31, 2010, for all financial covenant calculations. In addition to the covenant changes, we also agreed:

- as servicer of the receivables, to implement certain additional collection procedures if certain performance requirements were not maintained,
- to make fee payments to the 2002 Series A facility providers on the amount of the commitment available at specific future dates, and
- to use the proceeds from any capital raising activity we complete to further reduce the commitments and debt outstanding under the securitization program's debt facilities.

The various "same as cash" and deferred interest credit programs we offer are eligible for securitization up to the limits provided for in our securitization agreements. This limit is currently 30.0% of eligible securitized receivables. If we exceed this 30.0% limit, we would be required to use some of our other capital resources to carry the unfunded balances of the receivables for the promotional period. The percentage of eligible securitized receivables represented by promotional customer receivables was 11.3% as of July 31, 2010. There is no limitation on the amount of "same as cash" or deferred interest program accounts that can be carried as collateral under the revolving credit facility. The percentage of all managed customer receivables represented by promotional receivables was 13.4% as of July 31, 2010.

The issuer is subject to certain affirmative and negative covenants contained in the transaction documents governing the 2002 Series A variable funding note and 2006 Series A bonds, including covenants that restrict, subject to specified exceptions: the incurrence of non-permitted indebtedness and other obligations and the granting of additional liens; mergers, acquisitions, investments and disposition of assets; and the use of proceeds of the program. The issuer also makes representations and warranties relating to compliance with certain laws, payment of taxes, maintenance of its separate legal entity, preservation of its existence, and protection of collateral and financial reporting.

A summary of the significant financial covenants that govern the 2002 Series A variable funding note compared to actual compliance status at July 31, 2010, is presented below:

	As reported	Required Minimum/ Maximum
Issuer interest must exceed required minimum	\$85.1 million	\$69.1 million
Gross loss rate must be lower than required maximum (a)	5.3%	10.0%
Serviced portfolio gross loss rate must be lower than required maximum (b)	5.0%	10.0%
Net portfolio yield must exceed required minimum (a)	6.1%	2.0%
Serviced portfolio net portfolio yield must exceed required minimum (b)	7.6%	2.0%
Payment rate must exceed required minimum (a)	6.2%	3.0%
Serviced portfolio payment rate must exceed required minimum (a)	5.20%	4.75%
Consolidated net worth must exceed required minimum	\$347.7 million	\$259.8 million

(a) Calculated for those customer receivables transferred to the securitization program.

(b) Calculated for the total of customer receivables transferred to the securitization program and those retained by the Company.

Note: All terms in the above table are defined by the asset backed securitization program and may or may not agree directly to the financial statement captions in this document.

We expect, based on current facts and circumstances that we will be in compliance with the above covenants for the next 12 months. Events of default under the 2002 Series A variable funding note and the 2006 Series A bonds, subject to grace periods and notice provisions in some circumstances, include, among others: failure of the issuer to pay principal, interest or fees; violation by the issuer of any of its covenants or agreements; inaccuracy of any representation or warranty made by the issuer; certain servicer defaults; failure of the trustee to have a valid and perfected first priority security interest in the collateral; default under or acceleration of certain other indebtedness; bankruptcy and insolvency events; failure to maintain certain loss ratios and portfolio yield; change of control provisions and certain other events pertaining to us. The issuer's obligations under the program are secured by the customer receivables and proceeds.

We continue to service the transferred accounts for the VIE, and we receive a monthly servicing fee, so long as we act as servicer, in an amount equal to .25% multiplied by the average aggregate principal amount of customer receivables serviced, including the amount of average aggregate defaulted customer receivables. The issuer records revenues equal to the interest charged to the customer on the receivables less losses, the cost of funds, the program administration fees paid in connection with either the 2002 Series A or 2006 Series A bond holders, the servicing fee and additional earnings to the extent they are available.

As of July 31, 2010, we had additional borrowing capacity of \$57.1 million under our asset-based revolving credit facility, net of standby letters of credit issued, and \$10.0 million under our unsecured bank line of credit immediately available to us for general corporate purposes and extended vendor terms for purchases of inventory. In addition to the \$57.1 million currently available under the revolving credit facility, an additional \$21.8 million may become available if we grow the balance of eligible customer receivables retained by us and total eligible inventory balances. While the credit portfolio performance has improved since January 31, 2010, availability under the asset-based revolving credit facility was reduced by approximately \$3.8 million at July 31, 2010, due to recent level of delinquencies and net charge-offs. This amount may become available in the future if credit portfolio performance continues to improve. The principal payments received on customer receivables held by us and by the VIE, which averaged approximately \$37.2 million per month during the six months ended July 31, 2010, are available each month to fund new customer receivables generated.

We will continue to finance our operations and future growth through a combination of cash flow generated from operations and external borrowings, including primarily bank debt, extended vendor terms for purchases of inventory, acquisition of inventory under consignment arrangements and the asset-backed securitization facilities. Based on our current operating plans, we believe that cash generated from operations, available borrowings under our revolving credit facility and unsecured credit line, extended vendor terms for purchases of inventory, acquisition of inventory under consignment arrangements and cash flows from the asset-backed securitization program will be sufficient to fund our operations, store expansion and updating activities and capital programs until August, 2011, subject to continued compliance with the covenants in our credit facilities. If we are unable to extend or replace our credit facilities prior to August 2011, our revolving credit facility and our VIE's 2002 Series A program will mature. At the maturity date, our revolving credit facility could become immediately due and payable if a demand for payment is made by the lenders. Additionally, upon maturity of the VIE's 2002 Series A program, the VIE will no longer be able to purchase additional receivables and cash received by the VIE from collection of the receivables will be used to repay the amounts outstanding under the 2002 Series A and 2006 Series A programs until they are paid in full. Additionally, if there is a default under any of the facilities that is not waived by the various lenders, it could result in the requirement to immediately begin repayment of all amounts owed under our credit facilities, as all of the facilities have cross-default provisions that would result in default under all of the facilities if there is a default under any one of the facilities. If the repayment of amounts owed under our credit facilities is accelerated for any reason, we may not have sufficient cash and liquid assets at such time to be able to immediately repay all the amounts owed under the facilities.

Both the revolving credit facility and the asset-backed securitization program are significant factors relative to our ongoing liquidity and our ability to meet the cash needs associated with the growth of our business. Our inability to use either of these programs because of a failure to comply with their covenants would adversely affect our business operations. Funding of current and future customer receivables under the borrowing facilities can be adversely affected if we exceed certain predetermined levels of re-aged customer receivables, size of the secondary portfolio, the amount of promotional customer receivables, write-offs, bankruptcies or other ineligible customer receivable amounts.

There are several factors that could decrease cash available, including:

reduced demand or margins for our products;

more stringent vendor terms on our inventory purchases;

loss of ability to acquire inventory on consignment;

increases in product cost that we may not be able to pass on to our customers;

reductions in product pricing due to competitor promotional activities;

changes in inventory requirements based on longer delivery times of the manufacturers or other requirements which would negatively impact our delivery and distribution capabilities;

increases in the retained portion of our customer receivables portfolio under our current asset-backed securitization program as a result of changes in performance or types of customer receivables transferred (promotional versus non-promotional and primary versus secondary portfolio), or as a result of a change in the mix of funding sources available under the asset-backed securitization program, requiring higher collateral levels, or limitations on our ability to obtain financing through commercial paper-based funding sources;

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;

reduced availability under our revolving credit facility or asset-backed securitization financing facilities as a result of non-compliance with the covenant requirements;

reduced availability under our revolving credit facility or asset-backed securitization financing facilities as a result of the inability of any of the financial institutions providing those facilities to fund their commitment,

reductions in the capacity or inability to expand the capacity available for financing our customer receivables portfolio under existing or replacement asset-backed securitization programs or a requirement that we retain a higher percentage of the credit portfolio under such programs;

increases in borrowing costs (interest and administrative fees relative to our customer receivables portfolio associated with the funding of our customer receivables);

increases in personnel costs or other costs for us to stay competitive in our markets; and

inability to renew or replace all or a portion of our current credit facilities at their annual maturity dates. Our asset-based revolving credit facility and the revolving facility of our securitization program mature in August 2011. The medium term notes issued under the securitization program begin repayment in September 2010 and we expect them to be fully repaid by April 2012.

We are pursuing various options to renew or replace our existing credit facilities. As such, we have engaged our commercial and investment banking partners to present and review alternatives to raise capital in the various debt and equity capital markets. The options being considered could result in one or more of the existing credit facilities being repaid in full and not renewed or extended. Additionally, we currently estimate that our total cost of borrowing will increase between 200 and 400 basis points as a result of our capital raising activities. If we are unable to renew or replace our existing credit facilities we could be required to further reduce the size of the customer credit portfolio in order to repay the amounts outstanding under our credit facilities. In order to reduce the size of the credit portfolio we would be required to reduce, or possibly cease, originating new customer receivables until the amounts due under our credit facilities are repaid. If necessary, in addition to available cash balances, cash flow from operations and borrowing capacity under our revolving facilities, additional cash to fund our growth and increases in customer receivables balances could be obtained by:

reducing capital expenditures for new store openings,

reducing the size of our customer credit portfolio;

taking advantage of longer payment terms and financing available for inventory purchases,

utilizing other sources for providing financing to our customers,

negotiating to expand the capacity available under existing credit facilities, and
accessing equity or debt markets.

We can provide no assurance that we will be able to obtain these sources of funding on favorable terms, if at all.

During the six months ended July 31, 2010, net cash provided by operating activities increased from \$15.4 million provided by operating activities during the six months ended July 31, 2009, to \$23.9 million provided by operating activities. The increase was driven primarily by:

- cash provided from decreases in the balance of customer accounts receivable, cash provided from growth in accounts payable to support the inventory growth and cash from income taxes, which was driven by a \$9.5 million tax refund received during the period,
- partially offset by cash used for the growth in inventory and other accounts receivable, and lower net income.

Net cash used in investing activities decreased from \$6.7 million used in the fiscal 2010 period to \$1.1 million used in the fiscal 2011 period. The net decrease in cash used in investing activities resulted primarily from a decline in purchases of property and equipment in the current year period, as we reduced capital expenditures while we assess capital availability for growth in the credit portfolio, store remodels and new store openings. We estimate that our total capital expenditures for fiscal 2011 will be approximately \$5 million to \$10 million, based on our current plans, which could change based on capital availability.

Net cash used in financing activities increased from \$15.6 million used during the six months ended July 31, 2009, to \$26.7 million used during the six months ended July 31, 2010. During the six months ended July 31, 2010, we used cash flows from customer accounts receivable collections, net income and a tax refund, net of other working capital changes, to pay down amounts owed under our financing facilities. Additionally, we paid approximately \$5.0 million in deferred financing costs, primarily related to the credit facility amendments we completed during the period.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rates under our revolving credit facility are variable and are determined, at our option, as the base rate, which is the prime rate plus the base rate margin, which ranges from 3.25% to 3.75%, or LIBOR plus the LIBOR margin, which ranges from 3.25% to 3.75%. Interest rates under our securitization program's variable funding note facility are variable and are determined based on the commercial paper rate plus a spread of 2.50%. Accordingly, changes in the prime rate, the commercial paper rate or LIBOR, which are affected by changes in interest rates generally, will affect the interest rate on, and therefore our costs under, these credit facilities.

Since January 31, 2010, the securitization program's variable rate debt has decreased from \$196.4 million, or 56.7% of its total debt, to \$170.0 million, or 53.1% of its total debt. As a result, a 100 basis point increase in interest rates on the variable rate debt would increase borrowing costs \$1.7 million over a 12-month period, based on the balance outstanding at July 31, 2010.

Since January 31, 2010, the balance outstanding under our asset-based revolving credit facility has increased from \$105.5 million to \$109.4 million at July 31, 2010. Additionally, since January 31, 2010, the notional balance of interest swaps used to fix the rate on a portion of asset-based revolving credit facility balance has decreased from \$40 million to \$25 million at July 31, 2010. As a result, a 100 basis point increase in interest rates on the asset-based revolving credit facility would increase our borrowing costs by \$0.8 million over a 12-month period, based on the balance outstanding at July 31, 2010, after considering the impact of the interest rate swaps.

Item 4. Controls and Procedures

Based on management's evaluation (with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO)), as of the end of the period covered by this report, our CEO and CFO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

For the quarter ended July 31, 2010, there have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

On June 7, 2010, the judge in the Texas State District Court of Harris County, Texas, signed an Order confirming the terms and conditions of the Rule 11 Settlement Agreement between us and the Texas Attorney General, fully and finally resolving the litigation filed against us by the Texas Attorney General, which alleged unlawful and deceptive practices in violation of the Texas Deceptive Trade Practices-Consumer Protection Act. Under the terms of the Settlement and the Order we did not admit, and continue to deny, any wrongdoing. As part of the Order confirming the settlement agreement, we made two cash payments, one in the amount of \$2.5 million on December 17, 2009 and a second payment in the amount of \$2.0 million on February 18, 2010, to the Texas Attorney General for distribution to consumers as restitution for claims our customers have. We also paid \$250,000 to the Texas Attorney General for its attorney's fees, and agreed to and did donate \$100,000 to the University of Houston Law Center for its use in its consumer protection programs.

We are involved in routine litigation and claims incidental to our business from time to time, and, as required, have accrued our estimate of the probable costs for the resolution of these matters. 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. It is possible, however, that future results of operations for any particular period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to these proceedings. However, the results of these proceedings cannot be predicted with certainty, and changes in facts and circumstances could impact our estimate of reserves for litigation.

Item 1A. Risk Factors

An investment in our common stock involves risks and uncertainties. You should consider carefully the following information about these risks and uncertainties before buying shares of our common stock. The occurrence of any of the risks described below could adversely affect our business prospects, financial condition or results of operations. In that case, the trading price of our stock could decline, and you could lose all or part of the value of your investment.

We have significant future capital needs and the inability to obtain funding for our credit operations may adversely affect our business and expansion plans.

We currently finance our customer receivables through asset-backed securitization facilities and an asset-based loan facility that together provide \$530.0 million in financing commitments as of July 31, 2010. The securitization facilities provide two separate series of asset-backed notes that allowed us as of July 31, 2010, to borrow up to \$320.0 million to finance customer receivables. Our asset-based revolving credit facility currently is a \$210.0 million facility. At July 31, 2010, under our revolving credit facility, we had the ability to borrow \$188.2 million, of which we had drawn \$109.4 million and had outstanding letters of credit of \$21.7 million.

Our ability to raise additional capital through future securitization transactions or other debt or equity transactions, and to do so on economically favorable terms, depends in large part on factors that are beyond our control.

These factors include:

- conditions in the securities and finance markets generally;
- our credit rating or the credit rating of any securities we may issue;

economic conditions;

conditions in the markets for securitized instruments, or other debt or equity instruments;

the credit quality and performance of our customer receivables;

our overall sales performance and profitability;

our ability to obtain financial support for required credit enhancement;

our ability to adequately service our financial instruments;

the absence of any material downgrading or withdrawal of ratings given to our securities previously issued in securitization;

our ability to meet debt covenant requirements; and

prevailing interest rates.

If adequate capital and funds are not available at the time we need capital, we will have to curtail future growth, which could materially adversely affect our business, financial condition, operating results or cash flow. As we grow our business, capital expenditures during future years are likely to exceed our historical capital expenditures. The ultimate amount of capital expenditures needed will be dependent on, among other factors, the availability of capital to fund new store openings and customer receivables portfolio.

In addition, we historically used our customer receivables collateral to raise funds through securitization programs. In addition, we have in the past completed amendments to our existing credit facilities and securitization facilities to obtain relief from covenant violations and revise certain covenant requirements. If we require amendments in the future and are unable to obtain such amendments or we are unable to arrange substitute financing facilities or other sources of capital, we may have to limit or cease offering credit through our finance programs due to our inability to draw under our revolving credit facility upon the occurrence of a default. If availability under the borrowing base calculations of our revolving credit facility is reduced, or otherwise becomes unavailable, or we are unable to arrange substitute financing facilities or other sources of capital, we may have to limit the amount of credit that we make available through our customer finance programs. A reduction in our ability to offer customer credit will adversely affect revenues and results of operations and could have a material adverse effect on our results of operations. Further, our inability or limitations on our ability to obtain funding through securitization facilities or other sources may adversely affect the profitability of outstanding accounts under our credit programs if existing customers fail to repay outstanding credit due to our refusal to grant additional credit.

Additionally, the inability of any of the financial institutions providing our financing facilities to fund their commitment would adversely affect our ability to fund our credit programs, capital expenditures and other general corporate needs.

Our asset-based revolving credit facility and the revolving portion of our asset-backed securitization facilities both mature in August 2011. We are discussing various options to renew or replace our existing credit facilities, including exploring opportunities to raise capital in various debt and equity capital markets. If we are unable to renew or replace our existing credit facilities, we would be required to reduce, or possibly cease, offering customer credit which could adversely affect our revenues and results of operations in the same manner as discussed above.

Increased borrowing costs will negatively impact our results of operations.

Because most of our customer receivables have interest rates equal to the highest rate allocated under applicable law, we will not be able to pass these higher borrowing costs along to our customers and our results of operations will be negatively impacted.

In addition, the interest rates on our revolving credit facility and the 2002 Series A program under our asset-backed securitization facility fluctuate upon or down based upon the LIBOR rate, the prime rate of our administrative agent or the federal funds rate in the case of the revolving credit facility and the commercial paper rate in the case of the 2002 Series A program. The level of interest rates in the market in general will impact the interest rate on any debt instruments issued, if any. Additionally, we may issue debt securities or enter into credit facilities under which we pay interest at a higher rate than we have historically paid, which would further reduce our margins and negatively impact our results of operations.

We may not be able to open and profitably operate new stores in existing, adjacent and new geographic markets.

Dependent on capital availability, we intend to reinstate our new store opening program. New stores are not likely to be profitable on an operating basis during the first three to six months after they open and even after that time period may not be profitable or meet our goals. Any of these circumstances could have a material adverse effect on our financial results. There are a number of factors that could affect our ability to open and operate new stores consistent with our business plan, including:

the availability of additional financial resources;

the availability of favorable sites in existing adjacent and new markets at price levels consistent with our business plan;

competition in existing, adjacent and new markets;

competitive conditions, consumer tastes and discretionary spending patterns in adjacent and new markets that are different from those in our existing markets;

a lack of consumer demand for our products or financing programs at levels that can support new store growth;

inability to make customer financing programs available that allow consumer to purchase products at levels that can support new store growth;

limitations created by covenants and conditions under our revolving credit facility and asset-backed securitization program;

an inability or unwillingness of vendors to supply product on a timely basis at competitive prices;

the failure to open enough stores in new markets to achieve a sufficient market presence and realize the benefits of leveraging our advertising and our distribution system;

unfamiliarity with local real estate markets and demographics in adjacent and new markets;

problems in adapting our distribution and other operational and management systems to an expanded network of stores;

difficulties associated with the hiring, training and retention of additional skilled personnel, including store managers; and

higher costs for print, radio and television advertising.

These factors may also affect the ability of any newly opened stores to achieve sales and profitability levels comparable with our existing stores or to become profitable at all.

If we are unable to manage our growing business, our revenues may not increase as anticipated, our cost of operations may rise and our results of operations may decline.

We face many business risks associated with growing companies, including the risk that our management, financial controls and information systems will be inadequate to support our expansion in the future. Our growth will require management to expend significant time and effort and additional resources to ensure the continuing adequacy of our financial controls, operating procedures, information systems, product purchasing, warehousing and distribution systems and employee training programs. We cannot predict whether we will be able to manage effectively these increased demands or respond on a timely basis to the changing demands that our expansion will impose on our management, financial controls and information systems. If we fail to manage successfully the challenges of growth, do not continue to improve these systems and controls or encounter unexpected difficulties during expansion, our business, financial condition, operating results or cash flows could be materially adversely affected.

We may expand our retail offerings which may have different operating or legal requirements than our current operations.

In addition to the retail and consumer finance products we currently offer, we may offer other products and services in the future, including “rent-to-own” sales. These products and services may require additional or different operating systems or have additional or different legal or regulatory requirements than the products and services we currently offer. In the event we undertake such an expansion and do not have the proper infrastructure or personnel, or do not successfully execute such an expansion, our business, financial condition, operating results or cash flows could be materially adversely affected.

A decrease in our credit sales or a decline in credit quality could lead to a decrease in our product sales and profitability.

In the last three fiscal years, we financed, on average, approximately 61% of our retail sales through our in-house propriety credit programs. Our ability to provide credit as a financing alternative for our customers depends on many factors, including the quality of our customer receivable portfolio. Payments on some of our credit accounts become delinquent from time to time, and some accounts end up in default, due to several factors, such as general and local economic conditions, including the impact of rising interest rates and unemployment rates. As we expand into new markets, we will obtain new credit accounts that may present a higher risk than our existing credit accounts since new credit customers do not have an established credit history with us. A general decline in the quality of our customer receivable portfolio could lead to a reduction in the advance rates used or eligible customer receivable balances included in the borrowing base calculations under our revolving credit facility and thus a reduction of available credit to fund our finance operations. As a result, if we are required to reduce the amount of credit we grant to our customers, we most likely would sell fewer products, which would adversely affect our earnings and cash flows. Further, because approximately 60% of our credit customers have historically made their credit account payments in our stores, any decrease in credit sales could reduce traffic in our stores and lower our revenues. A decline in the credit quality of our credit accounts could also cause an increase in our credit losses, which would result in an adverse effect on our earnings. A decline in credit quality could also lead to stricter underwriting criteria which would likely have a negative impact on net sales.

Deterioration in the performance of our customer receivables portfolio could significantly affect our liquidity position and profitability.

Our liquidity position and profitability are heavily dependent on our ability to collect our customer receivables. If our customer receivables portfolio were to substantially deteriorate, the liquidity available to us would most likely be reduced due to the challenges of complying with the covenants and borrowing base calculations under our revolving

credit facility and our earnings may decline due to higher provisions for bad debt expense, higher net charge-off rates and lower interest and fee income. In addition, a significant percentage of our current net income and cash flows is derived from our credit operations and the ability to grow our credit portfolio is important to our future success.

Our ability to collect from credit customers may be materially impaired by store closings and our need to rely on a replacement servicer in the event of our liquidation.

We may be unable to collect a large portion of periodic credit payments should our stores close as many of our customers remit payments “in store”. During the course of fiscal 2010, approximately 60% of our active credit customers made a payment in one of our stores. In the event of store closings, credit customers may not pay balances in a timely fashion, or may not pay at all, since a large number of our customers have not traditionally made payments to a central location.

In addition, we service all of our credit customers through our in-house servicing operation. At this time, there is not a formalized back-up servicer plan in place for our customer receivables. In the event of our liquidation, a servicing arrangement would have to be implemented, which could materially impact the collection of our customer receivables.

In deciding whether to extend credit to customers, we rely on the accuracy and completeness of information furnished to us by or on behalf of our credit customers. If we and our systems are unable to detect any misrepresentations in this information, this could have a material adverse effect on our results of operations and financial condition.

In deciding whether to extend credit to customers, we rely heavily on information furnished to us by or on behalf of our credit customers and our ability to validate such information through third-party services, including employment and personal financial information. If a significant percentage of our credit customers intentionally or negligently misrepresented any of this information, and we and our systems did not detect such misrepresentations, this could have a material adverse effect on our ability to effectively manage our credit risk, which could have a material adverse effect on our results of operations and financial condition.

Our policy of reaging certain delinquent borrowers affects our delinquency statistics and the timing and amount of our write-offs.

As of July 31, 2010, 18.4% of our credit portfolio consisted of “reaged” customer receivables. Reaging is offered to certain eligible past due customers if they meet the conditions of our reage policy. Our decision to offer a delinquent customer a reage program is based on that borrower’s specific condition, our history with the borrower, the amount of the loan and various other factors. When we reage a customer’s account, we move the account from a delinquent status to a current status. Management exercises a considerable amount of discretion over the reaging process and has the ability to reage an account multiple times during its life. Treating an otherwise uncollectible account as current affects our delinquency statistics, as well as impacting the timing and amount of charge-offs. If these accounts had been charged off sooner, our net loss rates might have been higher.

If we fail to timely contact delinquent borrowers, then the number of delinquent customer receivables eventually being charged off could increase.

We contact customers with delinquent credit account balances soon after the account becomes delinquent. During periods of increased delinquencies it is important that we are proactive in dealing with borrowers rather than simply allowing customer receivables to go to charge-off. Historically, when our servicing becomes involved at an earlier stage of delinquency with credit counseling and workout programs, there is a greater likelihood that the customer receivable will not be charged off.

During periods of increased delinquencies, it becomes extremely important that we are properly staffed and trained to assist borrowers in bringing the delinquent balance current and ultimately avoiding charge-off. If we do not properly staff and train our collections personnel, then the number of accounts in a delinquent status or charged-off could increase. In addition, managing a substantially higher volume of delinquent customer receivables typically increases

our operational costs. A rise in delinquencies or charge-offs could have a material adverse effect on our business, financial condition, liquidity and results of operations.

We rely on internal models to manage risk and to provide accounting estimates. Our results could be adversely affected if those models do not provide reliable accounting estimates or predictions of future activity.

We make significant use of business and financial models in connection with our efforts to measure and monitor our risk exposures and to manage our credit portfolio. For example, we use models as a basis for credit underwriting decisions, portfolio delinquency, charge-off and collection expectations and other market risks, based on economic factors and our experience. The information provided by these models is used in making business decisions relating to strategies, initiatives, transactions and pricing, as well as our provisions for bad debt expense and the size of our allowance for doubtful accounts, among other accounting estimates.

Models are inherently imperfect predictors of actual results because they are based on historical data available to us and our assumptions about factors such as credit demand, payment rates, default rates, delinquency rates and other factors that may overstate or understate future experience. Our models could produce unreliable results for a number of reasons, including the limitations of historical data to predict results due to unprecedented events or circumstances, invalid or incorrect assumptions underlying the models, the need for manual adjustments in response to rapid changes in economic conditions, incorrect coding of the models, incorrect data being used by the models or inappropriate application of a model to products or events outside of the model's intended use. In particular, models are less dependable when the economic environment is outside of historical experience, as has been the case recently.

In addition, we continually receive new economic data. Our critical accounting estimates, such as our provision for bad debt expense and the size of our allowance for doubtful accounts, are subject to change, often significantly, due to the nature and magnitude of changes in economic conditions. However, there is generally a lag between the availability of this economic information and the preparation of our consolidated financial statements. When economic conditions change quickly and in unforeseen ways, there is a risk that the assumptions and inputs reflected in our models are not representative of current economic conditions.

Due to the factors described above and in "Management's discussion and analysis of financial condition and results of operations" and elsewhere in this report, we may be required or may deem it necessary to increase our allowance for doubtful accounts in the future. Increasing our allowance for doubtful accounts would adversely affect our results of operations and our financial position.

The dramatic changes in the economy, credit and capital markets have required frequent adjustments to our models and the application of greater management judgment in the interpretation and adjustment of the results produced by our models. This application of greater management judgment reflects the need to take into account updated information while continuing to maintain controlled processes for model updates, including model development, testing, independent validation and implementation. As a result of the time and resources, including technical and staffing resources, that are required to perform these processes effectively, it may not be possible to replace existing models quickly enough to ensure that they will always properly account for the impacts of recent information and actions.

The current economic downturn has affected consumer purchases of discretionary items from us as well as their ability to repay their credit obligations to us, which could have a continued or prolonged negative effect on our net sales, gross margins and credit portfolio performance.

A significant portion of our net sales represent discretionary spending by our customers. Many factors affect spending, including regional or world events, war, conditions in financial markets, general business conditions, interest rates, inflation, energy and gasoline prices, consumer debt levels, the availability of consumer credit, taxation, unemployment trends and other matters that influence consumer confidence and spending. Our customers' purchases of discretionary items, including our products, decline during periods when disposable income is lower or periods of

actual or perceived unfavorable economic conditions. If this occurs, our net sales and results of operations would decline.

Recent turmoil in the national economy, including instability in the financial markets, declining consumer confidence and falling oil prices have negatively impacted our markets and present significant challenges to our operations in the coming quarters. Specifically, sales volumes and gross profit margins have been negatively impacted, and thus negatively impacted our overall profitability and liquidity, and these effects may continue for several additional fiscal quarters. Also, the declining economic conditions in our markets have impacted our customers' ability to repay their credit obligations to us and thus our credit portfolio performance, including, net charge offs and delinquency trends, and we experienced significant declines in same-store sales. These factors led to a net operating loss in the second half of fiscal 2010, and as a result, we entered into amendments to our revolving credit facility and our securitization facilities to modify our covenants. If these conditions persist, we may incur further operating losses in the future and we may be required to seek covenant relief under our revolving credit facility and our securitization facilities, curtail our expansion plans, sell assets and take other measures to continue our access to capital.

We face significant competition from national, regional, local and Internet retailers of home appliances, consumer electronics and furniture.

The retail market for consumer electronics is highly fragmented and intensely competitive and the market for home appliances is concentrated among a few major dealers. We currently compete against a diverse group of retailers, including national mass merchants such as Sears, Wal-Mart, Target, Sam's Club and Costco, specialized national retailers such as Best Buy and Rooms To Go, home improvement stores such as Lowe's and Home Depot, and locally-owned regional or independent retail specialty stores that sell home appliances, consumer electronics and furniture similar, and often identical, to those items we sell. We also compete with retailers that market products through store catalogs and the Internet. In addition, there are few barriers to entry into our current and contemplated markets, and new competitors may enter our current or future markets at any time.

We may not be able to compete successfully against existing and future competitors. Some of our competitors have financial resources that are substantially greater than ours and may be able to purchase inventory at lower costs and better endure economic downturns. As a result, our sales may decline if we cannot offer competitive prices to our customers or we may be required to accept lower profit margins. Our competitors may respond more quickly to new or emerging technologies and may have greater resources to devote to promotion and sale of products and services. If two or more competitors consolidate their businesses or enter into strategic partnerships, they may be able to compete more effectively against us.

Our existing competitors or new entrants into our industry may use a number of different strategies to compete against us, including:

- expansion by our existing competitors or entry by new competitors into markets where we currently operate;

- entering the television market as the decreased size of flat-panel televisions allows new entrants to display and sell these product more easily;

- lower pricing;

- aggressive advertising and marketing;

- extension of credit to customers on terms more favorable than we offer;

- larger store size, which may result in greater operational efficiencies, or innovative store formats; and

- adoption of improved retail sales methods.

Competition from any of these sources could cause us to lose market share, sales and customers, increase expenditures or reduce prices, any of which could have a material adverse effect on our results of operations.

If new products are not introduced or consumers do not accept new products, our sales may decline.

Our ability to maintain and increase sales depends to a large extent on the periodic introduction and availability of new products and technologies. We believe that the introduction and continued growth in consumer acceptance of new or enhanced products, such as digital Blu-ray players and digital, high-definition televisions, will have a significant impact on our ability to increase sales. These products are subject to significant technological changes and pricing limitations and are subject to the actions and cooperation of third parties, such as movie distributors and television and radio broadcasters, all of which could affect the success of these and other new consumer electronics technologies. It

is possible that new products will never achieve widespread consumer acceptance or will be supplanted by alternative products and technologies that do not offer us a similar sales opportunity or are sold at lower price points or margins.

If we fail to anticipate changes in consumer preferences, our sales will decline.

Our products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to change. Our success depends upon our ability to anticipate and respond in a timely manner to trends in consumer preferences relating to home appliances, consumer electronics and furniture. If we fail to identify and respond to these changes, our sales of these products will decline. In addition, we often make commitments to purchase products from our vendors up to six months in advance of proposed delivery dates. Significant deviation from the projected demand for products that we sell may have a material adverse effect on our results of operations and financial condition, either from lost sales or lower margins due to the need to reduce prices to dispose of excess inventory.

We may experience significant price pressures over the life cycle of our products from competing technologies and our competitors and we may not be able to maintain our historical gross margin levels.

Prices for many of our products decrease over their life cycle. Such decreases often result in decreased gross profit margins for us. There is also substantial and continuing pressure from customers to reduce their total costs for products. Suppliers may also seek to reduce our margins on the sales of their products in order to increase their own profitability. The consumer electronics industry depends on new products to drive same store sales increases. Typically, these new products, such as high-definition and 3-D televisions, Blu-ray and DVD players, digital cameras, MP3 players and GPS devices are introduced at relatively high price points that are then gradually reduced as the product becomes mainstream. To sustain positive same store sales growth, unit sales must increase at a rate greater than the decline in product prices. The affordability of the product helps drive the unit sales growth. However, as a result of relatively short product life cycles in the consumer electronics industry, which limit the amount of time available for sales volume to increase, combined with rapid price erosion in the industry, retailers are challenged to maintain overall gross margin levels and positive same store sales. This has historically been our experience, and we continue to adjust our marketing strategies to address this challenge through the introduction of new product categories and new products within our existing categories. Gross margins realized on product sales fell from 24.2% in fiscal year 2008 to 19.5% in fiscal year 2010. If we fail to accurately anticipate the introduction of new technologies, we may possess significant amounts of obsolete inventory that can only be sold at substantially lower prices and profit margins than we anticipated. In addition, we may not be able to maintain our historical margin levels in the future due to increased sales of lower margin products such as personal electronics products and declines in average selling prices of key products. If sales of lower margin items continue to increase and replace sales of higher margin items or our consumer electronics products average selling prices decreases due to the maturity of their life cycle, our gross margin and overall gross profit levels will be adversely affected.

A disruption in our relationships with, or in the operations of, any of our key suppliers could cause our sales to decline.

The success of our business and growth strategies depends to a significant degree on our relationships with our suppliers, particularly our brand name suppliers such as General Electric, Whirlpool, Frigidaire, Friedrich, Maytag, LG, Mitsubishi, Panasonic, Samsung, Sony, Toshiba, Bose, Canon, JVC, Serta, Spring Air, Ashley, Lane, Broyhill, Jackson Furniture, Franklin, Hewlett Packard, Compaq, Poulan, Husqvarna and Toro. We do not have long term supply agreements or exclusive arrangements with the majority of our vendors. We typically order our inventory and repair parts through the issuance of individual purchase orders to vendors. We also rely on our suppliers for cooperative advertising support. We may be subject to rationing by suppliers with respect to a number of limited distribution items. In addition, we rely heavily on a relatively small number of suppliers. Our top five suppliers represented 51.7% of our purchases for fiscal 2010, and the top two suppliers represented approximately 23.3% of our total purchases. The loss of any one or more of these key vendors or failure to establish and maintain relationships with these and other vendors, and limitations on the availability of inventory or repair parts could have a material

adverse effect on our results of operations and financial condition. If one of our vendors were to go out of business, it could have a material adverse effect on our results of operations and financial condition if such vendor is unable to fund amounts due to us, including payments due for returns of product and warranty claims.

Our ability to enter new markets successfully depends, to a significant extent, on the willingness and ability of our vendors to supply merchandise to additional warehouses or stores. If vendors are unwilling or unable to supply some or all of their products to us at acceptable prices in one or more markets, our results of operations and financial condition could be materially adversely affected.

Furthermore, we rely on credit from vendors to purchase our products. As of July 31, 2010, we had \$62.1 million in accounts payable and \$99.1 million in merchandise inventories. A substantial change in credit terms from vendors or vendors' willingness to extend credit to us, including providing inventory under consignment arrangements, would reduce our ability to obtain the merchandise that we sell, which would have a material adverse effect on our sales and results of operations.

Our vendors also supply us with marketing funds and volume rebates. If our vendors fail to continue these incentives it could have a material adverse effect on our sales and results of operations.

You should not rely on our comparable store sales as an indication of our future results of operations because they fluctuate significantly.

Our historical same store sales growth figures have fluctuated significantly from quarter to quarter. For example, same store sales growth for each of the quarters of fiscal 2010 and the first two quarters of fiscal 2011 was -4.6%, -5.2%, -9.3%, -31.7%, -19.7% and -6.4%, respectively, while same store sales growth for each of the quarters for fiscal 2009 was 1.0%, -1.4%, -5.8%, and 12.5%, respectively. A number of factors have historically affected, and will continue to affect, our comparable store sales results, including:

- changes in competition, such as pricing pressure, and the opening of new stores by competitors in our markets;

- general economic conditions;

- new product introductions;

- consumer trends;

- changes in our merchandise mix;

- changes in the relative sales price points of our major product categories;

- ability to offer credit programs attractive to our customers;

- the impact of any new stores on our existing stores, including potential decreases in existing stores' sales as a result of opening new stores;

- weather conditions in our markets;

- timing of promotional events;

- timing, location and participants of major sporting events;

- reduction in new store openings;

- the percentage of our stores that are mature stores;

the locations of our stores and the traffic drawn to those areas:

how often we update our stores; and

our ability to execute our business strategy effectively.

Changes in our quarterly and annual comparable store sales results could cause the price of our common stock to fluctuate significantly.

We experience seasonal fluctuations in our sales and quarterly results.

We typically experience seasonal fluctuations in our net sales and operating results, with the quarter ending January 31, which includes the holiday selling season, generally accounting for a larger share of our net sales and net income. We also incur significant additional expenses during such fiscal quarter due to higher purchase volumes and increased staffing. If we miscalculate the demand for our products generally or for our product mix during the fiscal quarter ending January 31, or if we experience adverse events, such as bad weather in our markets during our fourth fiscal quarter, our net sales could decline, resulting in excess inventory or increased sales discounts to sell excess inventory, which would harm our financial performance. A shortfall in expected net sales, combined with our significant additional expenses during this fiscal quarter, could cause a significant decline in our operating results and such sales may not be deferred to future periods.

Our business could be adversely affected by changes in consumer protection laws and regulations.

Federal and state consumer protection laws and regulations, such as the Fair Credit Reporting Act, limit the manner in which we may offer and extend credit. Because our customers finance through our credit segment a substantial portion of our sales, any adverse change in the regulation of consumer credit could adversely affect our total sales and gross margins. For example, new laws or regulations could limit the amount of interest or fees that may be charged on consumer credit accounts, including by reducing the maximum interest rate that can be charged in the states in which we operate, or restrict our ability to collect on account balances, which would have a material adverse effect on our cash flow and results of operations. Compliance with existing and future laws or regulations, including regulations that may be applicable to us under the Dodd-Frank Wall Street Reform and Consumer Protection Act, which is expected to be enacted into law in July 2010, could require us to make material expenditures, in particular personnel training costs, or otherwise adversely affect our business or financial results. Failure to comply with these laws or regulations, even if inadvertent, could result in negative publicity, fines or additional licensing expenses, any of which could have an adverse effect on our cash flow and results of operations.

Pending litigation relating to the sale of credit insurance and the sale of repair service agreements in the retail industry could adversely affect our business.

We understand that states' attorneys general and private plaintiffs have filed lawsuits against other retailers relating to improper practices conducted in connection with the sale of credit insurance in several jurisdictions around the country. We offer credit insurance in our stores on sales financed under our credit programs and require the customer to purchase property insurance from us or provide evidence from a third party insurance provider, at their election, in connection with sales of merchandise on installment credit; therefore, similar litigation could be brought against us. While we believe we are in full compliance with applicable laws and regulations, if we are found liable in any future lawsuit regarding credit insurance or repair service agreements, we could be required to pay substantial damages or incur substantial costs as part of an out-of-court settlement or require us to modify or suspend certain operations any of which could have a material adverse effect on our results of operations. An adverse judgment or any negative publicity associated with our repair service agreements or any potential credit insurance litigation could also affect our

reputation, which could have a negative impact on our cash flow and results of operations.

Adverse or negative publicity, including the publicity related to the settlement of the lawsuit filed against us by the Texas Attorney General, could cause our business to suffer or result in copycat lawsuits.

Any negative publicity associated with the settlement of the lawsuit filed against us by the Texas Attorney General or our repair service agreements or our product replacement agreements or any other negative publicity could adversely affect our reputation and negatively impact our sales and results of operations. On November 24, 2009, we settled litigation filed against us earlier in the year by the Texas Attorney General. The suit alleged that we engaged in deceptive trade practices in violation of the Texas Deceptive Trade Practices-Consumer Protection Act regarding our service maintenance and product replacement agreement business activities. The Attorney General alleged, among other things, that we failed to honor product maintenance and replacement agreements, misled customers about the nature of our product maintenance and replacement arrangements, and engaged in false advertising with respect to our product maintenance and replacement agreements. We denied those allegations in our answer to the suit and, under the terms of the settlement with the Texas Attorney General, we continue to deny any wrongdoing. However, the negative publicity associated with this settlement or our service maintenance and replacement program agreements could adversely affect our reputation and negatively impact our net sales.

The Texas Attorney General's lawsuit and the resulting changes to our operations could materially adversely affect our results of operations and financial position.

Under our settlement agreement with the Texas Attorney General relating to litigation filed against us in May of last year, we consented to certain changes made to the service agreements and replacement product plan agreements that we sell for a third party insurer and to strengthen the manner in which we market and service these programs. The impact of the changes in these programs is unknown and could materially and adversely affect our results of operations.

Our corporate actions may be substantially controlled by our principal shareholders and affiliated entities.

As of April 1, 2010, two of our stockholders and their affiliated entities beneficially owned approximately 23.35% and 25.66%, respectively, of our common stock and their interests may conflict with the will or interests of our other equityholders. While Stephens Inc. and its affiliates hold their 23.35% of our common stock through a voting trust that will vote the shares in the same proportion as votes cast by all other stockholders, this voting trust agreement will expire in 2013 and at such time Stephens Inc. and its affiliates will not be restricted on how it votes its shares. These stockholders, acting individually or as a group, could exert substantial influence over matters such as electing directors and approving mergers or other business combination transactions.

If we lose key management or are unable to attract and retain the qualified sales and credit granting and collection personnel required for our business, our operating results could suffer.

Our future success depends to a significant degree on the skills, experience and continued service of our key executives or the identification of suitable successors for them. If we lose the services of any of these individuals, or if one or more of them or other key personnel decide to join a competitor or otherwise compete directly or indirectly with us, and we are unable to identify a suitable successor, our business and operations could be harmed, and we could have difficulty in implementing our strategy. In addition, as our business grows, we will need to locate, hire and retain additional qualified sales personnel in a timely manner and develop, train and manage an increasing number of management level sales associates and other employees. Additionally, if we are unable to attract and retain qualified credit granting and collection personnel, our ability to perform quality underwriting of new credit transactions and maintain workloads for our collections personnel at a manageable level, our operation could be adversely impacted and result in higher delinquency and net charge-offs on our credit portfolio. Competition for qualified employees could require us to pay higher wages to attract a sufficient number of employees, and increases in the federal

minimum wage or other employee benefits costs could increase our operating expenses. If we are unable to attract and retain personnel as needed in the future, our net sales and operating results could suffer.

Our costs of doing business could increase as a result of changes in federal, state or local regulations.

Changes in the federal, state or local minimum wage requirements or changes in other wage or workplace regulations could increase our cost of doing business. In addition, changes in federal, state or local regulations governing the sale of some of our products or tax regulations could increase our cost of doing business. Also, passage of the Employer Free Choice Act or similar laws in Congress could lead to higher labor costs by encouraging unionization efforts among our associates and disruption of store operations.

Because our stores are located in Texas, Louisiana and Oklahoma, we are subject to regional risks.

Our 76 stores are located exclusively in Texas, Louisiana and Oklahoma. This subjects us to regional risks, such as the economy, weather conditions, hurricanes and other natural or man-made disasters. If the region suffers a continued or another economic downturn or any other adverse regional event, there could be an adverse impact on our net sales and results of operations and our ability to implement our planned expansion program once we have adequate capital availability. Several of our competitors operate stores across the United States and thus are not as vulnerable to the risks of operating in one region. Additionally, these states in general, and the local economies where many of our stores are located in particular, are dependent, to a degree, on the oil and gas industries, which can be very volatile. Additionally, because of fears of climate change and adverse effects of drilling explosions and oil spills in the Gulf of Mexico, legislation has been introduced or is being considered, and governmental emergency pronouncements, regulations and orders have been issued and are under consideration, including moratoriums on offshore drilling, which, combined with the local economic and employment conditions caused by both, could materially and adversely impact the oil and gas industries and the areas in which a majority of our stores are located in Texas and Louisiana. To the extent the oil and gas industries are negatively impacted by declining commodity prices, climate change or other legislation and other factors, we could be negatively impacted by reduced employment, or other negative economic factors that impact the local economies where we have our stores.

In addition, recent turmoil in the national economy, including instability in the financial markets, has impacted our local markets. In June 2010, the average unemployment rate in Texas, Louisiana and Oklahoma was 8.2%, 7.0% and 6.8%, respectively compared to 7.5%, 6.8% and 6.3% in 2009, respectively and 4.4%, 3.8% and 3.9% in 2008, respectively. The current recession or a further downturn in the general economy, or in the region where we have our stores, could have a negative impact on our net sales and results of operations.

Our information technology infrastructure is vulnerable to damage that could harm our business.

Our ability to operate our business from day to day, in particular our ability to manage our credit operations and inventory levels, largely depends on the efficient operation of our computer hardware and software systems. We use management information systems to track inventory information at the store level, communicate customer information, aggregate daily sales information and manage our credit portfolio, including processing of credit applications and management of collections. These systems and our operations are subject to damage or interruption from:

power loss, computer systems failures and Internet, telecommunications or data network failures;

operator negligence or improper operation by, or supervision of, employees;

physical and electronic loss of data or security breaches, misappropriation and similar events;

computer viruses;

intentional acts of vandalism and similar events; and

hurricanes, fires, floods and other natural disasters.

In addition, the software that we have developed to use in our daily operations may contain undetected errors that could cause our network to fail or our expenses to increase. Any failure of our systems due to any of these causes, if it is not supported by our disaster recovery plan, could cause an interruption in our operations and result in reduced net sales and results of operations. Though we have implemented contingency and disaster recovery processes in the event of one or several technology failures, any unforeseen failure, interruption or compromise of our systems or our security measures could affect our flow of business and, if prolonged, could harm our reputation. The risk of possible failures or interruptions may not be adequately addressed by us or the third parties on which we rely, and such failures or interruptions could occur. The occurrence of any failures or interruptions could have a material adverse effect on our business, financial condition, liquidity and results of operations.

If we are unable to maintain our insurance licenses in the states we operate, our results of operations would suffer.

We derive a significant portion of our revenues and operating income from the commissions we earn from the sale of various insurance products of third-party insurers to our customers. These products include credit insurance, repair service agreements and product replacement policies. We also are the direct obligor on certain extended repair service agreements we offer to our customers. If for any reason we were unable to maintain our insurance licenses in the states we operate or if there are material claims or future material litigation involving our repair service agreements or product replacement policies, our results of operations would suffer.

If we are unable to continue to offer third-party repair service agreements to our customers who purchase, or have purchased our products, we could incur additional costs or repair expenses, which would adversely affect our financial condition and results of operations.

There are a limited number of insurance carriers that provide repair service agreement programs. If insurance becomes unavailable from our current providers for any reason, we may be unable to provide repair service agreements to our customers on the same terms, if at all. Even if we are able to obtain a substitute provider, higher premiums may be required, which could have an adverse impact on our profitability if we are unable to pass along the increased cost of such coverage to our customers. Inability to maintain the repair service agreement program could cause fluctuations in our repair expenses and greater volatility of earnings and could require us to become the obligor under new contracts sold.

If we are unable to maintain group credit insurance policies from insurance carriers, which allow us to offer their credit insurance products to our customers purchasing our merchandise on credit, our revenues would be reduced and the provision for bad debts might increase.

There are a limited number of insurance carriers that provide credit insurance coverage for sale to our customers. If credit insurance becomes unavailable for any reason we may be unable to offer substitute coverage on the same terms, if at all. Even if we are able to obtain substitute coverage, it may be at higher rates or reduced coverage, which could affect the customer acceptance of these products, reduce our revenues or increase our credit losses.

Changes in premium and commission rates allowed by regulators on the credit insurance, repair service agreements or product replacement agreements we sell as allowed by the laws and regulations in the states in which we operate could affect our revenues.

We derive a significant portion of our revenues and operating income from the sale of various third-party insurance products to our customers. These products include credit insurance, repair service agreements and product replacement agreements. If the commission we retain from sales of those products declines, our operating results would suffer.

Changes in trade regulations, currency fluctuations and other factors beyond our control could affect our business.

A significant portion of our inventory is manufactured and/or assembled overseas and in Mexico. Changes in trade regulations, currency fluctuations or other factors beyond our control may increase the cost of items we purchase or create shortages of these items, which in turn could have a material adverse effect on our results of operations and financial condition. Conversely, significant reductions in the cost of these items in U.S. dollars may cause a significant reduction in the retail prices of those products, resulting in a material adverse effect on our sales, margins or competitive position. In addition, commissions earned on our credit insurance, repair service agreement or product replacement agreement products could be adversely affected by changes in statutory premium rates, commission rates, adverse claims experience and other factors.

We may be unable to protect our intellectual property rights, which could impair our name and reputation.

We believe that our success and ability to compete depends in part on consumer identification of the name “Conn’s.” We have registered the trademarks “Conn’s” and our logo. We intend to protect vigorously our trademark against infringement or misappropriation by others. A third party, however, could attempt to misappropriate our intellectual property in the future. The enforcement of our proprietary rights through litigation could result in substantial costs to us that could have a material adverse effect on our financial condition or results of operations.

Failure to protect the security of our customer’s information could expose us to litigation, judgments for damages and undermine the trust placed with us by our customers.

We capture, transmit, handle and store sensitive information, which involves certain inherent security risks. Such risks include, among other things, the interception of customer data and information by persons outside us or by our own employees. While we believe we have taken appropriate steps to protect confidential information, there can be no assurance that we can prevent the compromise of our customers’ data or other confidential information. If such a breach should occur it could have a severe negative impact on our business and results of operations.

Any changes in the tax laws of the states in which we operate could affect our state tax liabilities. Additionally, beginning operations in new states could also affect our state tax liabilities.

As we experienced in fiscal year 2008 with the change in the Texas tax law, legislation could be introduced at any time that changes our state tax liabilities in a way that has an adverse impact on our results of operations. The Texas margin tax increased our effective rate from approximately 35.1%, before its introduction, to 37.1% in fiscal year 2009 and to 51.2% in fiscal year 2010. Our recent commencement of operations in Oklahoma and the potential to enter new states in the future could adversely affect our results of operations, dependent upon the tax laws in place in those states.

Significant volatility in oil and gasoline prices could affect our customers’ determination to drive to our stores, and cause us to raise our delivery charges.

Significant volatility in oil and gasoline prices could adversely affect our customers’ shopping decisions and patterns. We rely heavily on our internal distribution system and our next day delivery policy to satisfy our customers’ needs and desires, and increases in oil and gasoline prices could result in increased distribution charges. Such increases may not significantly affect our competitors.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 5. Other Information

There have been no material changes to the procedures by which security holders may recommend nominees to our board of directors since we last provided disclosure in response to the requirements of Item 7(d)(2)(ii)(G) of Schedule 14A.

Item 6. Exhibits

The exhibits required to be furnished pursuant to Item 6 of Form 10-Q are listed in the Exhibit Index filed herewith, which Exhibit Index is incorporated herein by reference.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

CONN'S, INC.

By: /s/ Michael J. Poppe
Michael J. Poppe
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer
and duly authorized to sign this
report on behalf of the registrant)

Date: August 26, 2010

INDEX TO EXHIBITS

Exhibit Number	Description
2	Agreement and Plan of Merger dated January 15, 2003, by and among Conn's, Inc., Conn Appliances, Inc. and Conn's Merger Sub, Inc. (incorporated herein by reference to Exhibit 2 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003).
3.1	Certificate of Incorporation of Conn's, Inc. (incorporated herein by reference to Exhibit 3.1 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003).
3.1.1	Certificate of Amendment to the Certificate of Incorporation of Conn's, Inc. dated June 3, 2004 (incorporated herein by reference to Exhibit 3.1.1 to Conn's, Inc. Form 10-Q for the quarterly period ended April 30, 2004 (File No. 000-50421) as filed with the Securities and Exchange Commission on June 7, 2004).
3.2	Amended and Restated Bylaws of Conn's, Inc. effective as of June 3, 2008 (incorporated herein by reference to Exhibit 3.2.3 to Conn's, Inc. Form 10-Q for the quarterly period ended April 30, 2008 (File No. 000-50421) as filed with the Securities and Exchange Commission on June 4, 2008).
4.1	Specimen of certificate for shares of Conn's, Inc.'s common stock (incorporated herein by reference to Exhibit 4.1 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on October 29, 2003).
10.1	Amended and Restated 2003 Incentive Stock Option Plan (incorporated herein by reference to Exhibit 10.1 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003).t
10.1.1	Amendment to the Conn's, Inc. Amended and Restated 2003 Incentive Stock Option Plan (incorporated herein by reference to Exhibit 10.1.1 to Conn's Form 10-Q for the quarterly period ended April 30, 2004 (File No. 000-50421) as filed with the Securities and Exchange Commission on June 7, 2004).t
10.1.2	Form of Stock Option Agreement (incorporated herein by reference to Exhibit 10.1.2 to Conn's, Inc. Form 10-K for the annual period ended January 31, 2005 (File No. 000-50421) as filed with the Securities and Exchange Commission on April 5, 2005).t
10.2	2003 Non-Employee Director Stock Option Plan (incorporated herein by reference to Exhibit 10.2 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003).t
10.2.1	Form of Stock Option Agreement (incorporated herein by reference to Exhibit 10.2.1 to Conn's, Inc. Form 10-K for the annual period ended January 31, 2005 (File No. 000-50421) as filed with the Securities and Exchange Commission on April 5, 2005).t
10.3	Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.3 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003).t

- 10.4 Conn's 401(k) Retirement Savings Plan (incorporated herein by reference to Exhibit 10.4 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003).t

- 10.5 Shopping Center Lease Agreement dated May 3, 2000, by and between Beaumont Development Group, L.P., f/k/a Fiesta Mart, Inc., as Lessor, and CAI, L.P., as Lessee, for the property located at 3295 College Street, Suite A, Beaumont, Texas (incorporated herein by reference to Exhibit 10.5 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003).
- 10.5.1 First Amendment to Shopping Center Lease Agreement dated September 11, 2001, by and among Beaumont Development Group, L.P., f/k/a Fiesta Mart, Inc., as Lessor, and CAI, L.P., as Lessee, for the property located at 3295 College Street, Suite A, Beaumont, Texas (incorporated herein by reference to Exhibit 10.5.1 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003).
- 10.6 Industrial Real Estate Lease dated June 16, 2000, by and between American National Insurance Company, as Lessor, and CAI, L.P., as Lessee, for the property located at 8550-A Market Street, Houston, Texas (incorporated herein by reference to Exhibit 10.6 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003).
- 10.6.1 First Renewal of Lease dated November 24, 2004, by and between American National Insurance Company, as Lessor, and CAI, L.P., as Lessee, for the property located at 8550-A Market Street, Houston, Texas (incorporated herein by reference to Exhibit 10.6.1 to Conn's, Inc. Form 10-K for the annual period ended January 31, 2005 (File No. 000-50421) as filed with the Securities and Exchange Commission on April 5, 2005).
- 10.7 Lease Agreement dated December 5, 2000, by and between Prologis Development Services, Inc., f/k/a The Northwestern Mutual Life Insurance Company, as Lessor, and CAI, L.P., as Lessee, for the property located at 4810 Eisenhower Road, Suite 240, San Antonio, Texas (incorporated herein by reference to Exhibit 10.7 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003).
- 10.7.1 Lease Amendment No. 1 dated November 2, 2001, by and between Prologis Development Services, Inc., f/k/a The Northwestern Mutual Life Insurance Company, as Lessor, and CAI, L.P., as Lessee, for the property located at 4810 Eisenhower Road, Suite 240, San Antonio, Texas (incorporated herein by reference to Exhibit 10.7.1 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003).
- 10.8 Lease Agreement dated June 24, 2005, by and between Cabot Properties, Inc. as Lessor, and CAI, L.P., as Lessee, for the property located at 1132 Valwood Parkway, Carrollton, Texas (incorporated herein by reference to Exhibit 99.1 to Conn's, Inc. Current Report on Form 8-K (file no. 000-50421) as filed with the Securities and Exchange Commission on June 29, 2005).
- 10.9 Loan and Security Agreement dated August 14, 2008, by and among Conn's, Inc. and the Borrowers thereunder, the Lenders party thereto, Bank of America, N.A, a national banking association, as Administrative Agent and Joint Book Runner for the Lenders, referred to as Agent, JPMorgan Chase Bank, National Association, as Syndication Agent and Joint Book Runner for the Lenders, and Capital One, N.A., as Co-Documentation Agent (incorporated herein by reference to Exhibit 99.1 to Conn's Inc. Current Report on Form 8-K (File No. 000-50421) as filed with the Securities and Exchange Commission on August 20, 2008).
- 10.9.1

Intercreditor Agreement dated August 14, 2008, by and among Bank of America, N.A., as the ABL Agent, Wells Fargo Bank, National Association, as Securitization Trustee, Conn Appliances, Inc. as the Initial Servicer, Conn Credit Corporation, Inc., as a borrower, Conn Credit I, L.P., as a borrower and Bank of America, N.A., as Collateral Agent (incorporated herein by reference to Exhibit 99.5 to Conn's Inc. Current Report on Form 8-K (File No. 000-50421) as filed with the Securities and Exchange Commission on August 20, 2008).

- 10.9.2 First Amendment to Loan and Security Agreement dated August 14, 2008, by and among Conn's, Inc. and the Borrowers thereunder, the Lenders party thereto, Bank of America, N.A, a national banking association, as Administrative Agent and Joint Book Runner for the Lenders, referred to as Agent, JPMorgan Chase Bank, National Association, as Syndication Agent and Joint Book Runner for the Lenders, and Capital One, N.A., as Co-Documentation Agent (incorporated herein by reference to Exhibit 10.1 to Conn's Inc. Current Report on Form 8-K (File No. 000-50421) as filed with the Securities and Exchange Commission on February 12, 2010).
- 10.9.3 Second Amendment to Loan and Security Agreement dated August 14, 2008, by and among Conn's, Inc. and the Borrowers thereunder, the Lenders party thereto, Bank of America, N.A, a national banking association, as Administrative Agent and Joint Book Runner for the Lenders, referred to as Agent, JPMorgan Chase Bank, National Association, as Syndication Agent and Joint Book Runner for the Lenders, and Capital One, N.A., as Co-Documentation Agent (incorporated herein by reference to Exhibit 10.1 to Conn's Inc. Current Report on Form 8-K (File No. 000-50421) as filed with the Securities and Exchange Commission on March 4, 2010).
- 10.10 Receivables Purchase Agreement dated September 1, 2002, by and among Conn Funding II, L.P., as Purchaser, Conn Appliances, Inc. and CAI, L.P., collectively as Originator and Seller, and Conn Funding I, L.P., as Initial Seller (incorporated herein by reference to Exhibit 10.10 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003).
- 10.10.1 First Amendment to Receivables Purchase Agreement dated August 1, 2006, by and among Conn Funding II, L.P., as Purchaser, Conn Appliances, Inc. and CAI, L.P., collectively as Originator and Seller (incorporated herein by reference to Exhibit 10.10.1 to Conn's, Inc. Form 10-Q for the quarterly period ended October 31, 2006 (File No. 000-50421) as filed with the Securities and Exchange Commission on September 15, 2006).
- 10.11 Base Indenture dated September 1, 2002, by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank Minnesota, National Association, as Trustee (incorporated herein by reference to Exhibit 10.11 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003).
- 10.11.1 First Supplemental Indenture dated October 29, 2004 by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 99.1 to Conn's, Inc. Current Report on Form 8-K (File No. 000-50421) as filed with the Securities and Exchange Commission on November 4, 2004).
- 10.11.2 Second Supplemental Indenture dated August 1, 2006 by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 99.1 to Conn's, Inc. Current Report on Form 8-K (File No. 000-50421) as filed with the Securities and Exchange Commission on August 23, 2006).
- 10.11.3 Fourth Supplemental Indenture dated August 14, 2008 by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 99.4 to Conn's, Inc. Current Report on Form 8-K (File No. 000-50421) as filed with the Securities and Exchange Commission on August 20, 2008).
- 10.12

Amended and Restated Series 2002-A Supplement dated September 10, 2007, by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 99.2 to Conn's, Inc. Current Report on Form 8-K (File No. 000-50421) as filed with the Securities and Exchange Commission on September 11, 2007).

- 10.12.1 Supplement No. 1 to Amended and Restated Series 2002-A Supplement dated August 14, 2008, by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 99.2 to Conn's, Inc. Current Report on Form 8-K (File No. 000-50421) as filed with the Securities and Exchange Commission on August 20, 2008).
- 10.12.1.1 Supplement No. 2 to Amended and Restated Series 2002-A Supplement dated August 14, 2008, by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 10.2 to Conn's, Inc. Current Report on Form 8-K (File No. 000-50421) as filed with the Securities and Exchange Commission on March 16, 2010).

- 10.12.2 Amended and Restated Note Purchase Agreement dated September 10, 2007 by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 99.3 to Conn's, Inc. Current Report on Form 8-K (File No. 000-50421) as filed with the Securities and Exchange Commission on September 11, 2007).
- 10.12.3 Second Amended and Restated Note Purchase Agreement dated August 14, 2008 by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 99.3 to Conn's, Inc. Current Report on Form 8-K (File No. 000-50421) as filed with the Securities and Exchange Commission on August 20, 2008).
- 10.12.4 Amendment No. 1 to Second Amended and Restated Note Purchase Agreement dated August 28, 2008 by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 10.12.4 to Conn's, Inc. Form 10-Q for the quarterly period ended October 31, 2008 (File No. 000-50421) as filed with the Securities and Exchange Commission on August 28, 2008).
- 10.12.5 Amendment No. 2 to Second Amended and Restated Note Purchase Agreement dated August 10, 2009 by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 10.14.1 to Conn's, Inc. Form 10-Q for the quarterly period ended July 31, 2009 (File No. 000-50421) as filed with the Securities and Exchange Commission on August 27, 2009).
- 10.12.6 Amendment No. 3 to Second Amended and Restated Note Purchase Agreement dated August 10, 2009 by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 10.2 to Conn's, Inc. Current Report on Form 8-K (File No. 000-50421) as filed with the Securities and Exchange Commission on February 12, 2010).
- 10.12.7 Amendment No. 4 to Second Amended and Restated Note Purchase Agreement dated August 10, 2009 by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 10.2 to Conn's, Inc. Current Report on Form 8-K (File No. 000-50421) as filed with the Securities and Exchange Commission on March 4, 2010).
- 10.12.8 Amendment No. 5 to Second Amended and Restated Note Purchase Agreement dated August 10, 2009 by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 10.1 to Conn's, Inc. Current Report on Form 8-K (File No. 000-50421) as filed with the Securities and Exchange Commission on March 12, 2010).
- 10.12.9 Amendment No. 6 to Second Amended and Restated Note Purchase Agreement dated August 10, 2009 by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 10.1 to Conn's, Inc. Current Report on Form 8-K (File No. 000-50421) as filed with the Securities and Exchange Commission on March 16, 2010).
- 10.12.10 Amendment No. 7 to Second Amended and Restated Note Purchase Agreement dated August 9, 2010 by and among Conn Funding II, L.P., as Issuer, Conn Appliances, Inc., Three Pillars Funding, LLC, JPMorgan Chase Bank, N.A., Jupiter Securitization Company, LLC (as successor by merger to Park Avenue Receivables Company, LLC) and SunTrust Robinson Humphrey, Inc. (filed herewith).
- 10.13 Servicing Agreement dated September 1, 2002, by and among Conn Funding II, L.P., as Issuer, CAI, L.P., as Servicer, and Wells Fargo Bank Minnesota, National Association, as Trustee (incorporated herein by

reference to Exhibit 10.14 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003).

- 10.13.1 First Amendment to Servicing Agreement dated June 24, 2005, by and among Conn Funding II, L.P., as Issuer, CAI, L.P., as Servicer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 10.14.1 to Conn's, Inc. Form 10-Q for the quarterly period ended October 31, 2005 (File No. 000-50421) as filed with the Securities and Exchange Commission on August 30, 2005).
- 10.13.2 Second Amendment to Servicing Agreement dated November 28, 2005, by and among Conn Funding II, L.P., as Issuer, CAI, L.P., as Servicer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 10.14.2 to Conn's, Inc. Form 10-Q for the quarterly period ended October 31, 2005 (File No. 000-50421) as filed with the Securities and Exchange Commission on December 1, 2005).
- 10.13.3 Third Amendment to Servicing Agreement dated May 16, 2006, by and among Conn Funding II, L.P., as Issuer, CAI, L.P., as Servicer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 10.14.3 to Conn's, Inc. Form 10-Q for the quarterly period ended October 31, 2006 (File No. 000-50421) as filed with the Securities and Exchange Commission on September 15, 2006).
- 10.13.4 Fourth Amendment to Servicing Agreement dated August 1, 2006, by and among Conn Funding II, L.P., as Issuer, CAI, L.P., as Servicer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 10.14.4 to Conn's, Inc. Form 10-Q for the quarterly period ended October 31, 2006 (File No. 000-50421) as filed with the Securities and Exchange Commission on September 15, 2006).
- 10.14 Form of Executive Employment Agreement (incorporated herein by reference to Exhibit 10.15 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on October 29, 2003).t
- 10.14.1 First Amendment to Executive Employment Agreement between Conn's, Inc. and Thomas J. Frank, Sr., Approved by the stockholders May 26, 2005 (incorporated herein by reference to Exhibit 10.15.1 to Conn's, Inc. Form 10-Q for the quarterly period ended October 31, 2005 (file No. 000-50421) as filed with the Securities and Exchange Commission on August 30, 2005).t
- 10.14.2 Executive Retirement Agreement between Conn's, Inc. and Thomas J. Frank, Sr., approved by the Board of Directors June 2, 2009 (incorporated herein by reference to Exhibit 10.14.2 to Conn's, Inc. Form 10-Q for the quarterly period ended April 30, 2009 (file No. 000-50421) as filed with the Securities and Exchange Commission on June 4, 2009).t
- 10.14.3 Non-Executive Employment Agreement between Conn's, Inc. and Thomas J. Frank, Sr., approved by the Board of Directors June 19, 2009 (incorporated herein by reference to Exhibit 10.14.1 to Conn's, Inc. Form 10-Q for the quarterly period ended July 31, 2009 (File No. 000-50421) as filed with the Securities and Exchange Commission on August 27, 2009).t
- 10.15 Form of Indemnification Agreement (incorporated herein by reference to Exhibit 10.16 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003).t
- 10.16 Description of Compensation Payable to Non-Employee Directors (incorporated herein by reference to Form 8-K (file no. 000-50421) filed with the Securities and Exchange Commission on June 2, 2005).t
- 10.17 Dealer Agreement between Conn Appliances, Inc. and Voyager Service Programs, Inc. effective as of January 1, 1998 (incorporated herein by reference to Exhibit 10.19 to Conn's, Inc. Form 10-K for the annual period ended January 31, 2006 (File No. 000-50421) as filed with the Securities and Exchange Commission

on March 30, 2006).

- 10.17.1 Amendment #1 to Dealer Agreement by and among Conn Appliances, Inc., CAI, L.P., Federal Warranty Service Corporation and Voyager Service Programs, Inc. effective as of July 1, 2005 (incorporated herein by reference to Exhibit 10.19.1 to Conn's, Inc. Form 10-K for the annual period ended January 31, 2006 (File No. 000-50421) as filed with the Securities and Exchange Commission on March 30, 2006).
- 10.17.2 Amendment #2 to Dealer Agreement by and among Conn Appliances, Inc., CAI, L.P., Federal Warranty Service Corporation and Voyager Service Programs, Inc. effective as of July 1, 2005 (incorporated herein by reference to Exhibit 10.19.2 to Conn's, Inc. Form 10-K for the annual period ended January 31, 2006 (File No. 000-50421) as filed with the Securities and Exchange Commission on March 30, 2006).
- 10.17.3 Amendment #3 to Dealer Agreement by and among Conn Appliances, Inc., CAI, L.P., Federal Warranty Service Corporation and Voyager Service Programs, Inc. effective as of July 1, 2005 (incorporated herein by reference to Exhibit 10.19.3 to Conn's, Inc. Form 10-K for the annual period ended January 31, 2006 (File No. 000-50421) as filed with the Securities and Exchange Commission on March 30, 2006).
- 10.17.4 Amendment #4 to Dealer Agreement by and among Conn Appliances, Inc., CAI, L.P., Federal Warranty Service Corporation and Voyager Service Programs, Inc. effective as of July 1, 2005 (incorporated herein by reference to Exhibit 10.19.4 to Conn's, Inc. Form 10-K for the annual period ended January 31, 2006 (File No. 000-50421) as filed with the Securities and Exchange Commission on March 30, 2006).
- 10.17.5 Amendment #5 to Dealer Agreement by and among Conn Appliances, Inc., CAI, L.P., Federal Warranty Service Corporation and Voyager Service Programs, Inc. effective as of April 7, 2007 (incorporated herein by reference to Exhibit 10.18.5 to Conn's, Inc. Form 10-Q for the quarterly period ended October 31, 2007 (File No. 000-50421) as filed with the Securities and Exchange Commission on August 30, 2007).
- 10.18 Service Expense Reimbursement Agreement between Affiliates Insurance Agency, Inc. and American Bankers Life Assurance Company of Florida, American Bankers Insurance Company Ranchers & Farmers County Mutual Insurance Company, Voyager Life Insurance Company and Voyager Property and Casualty Insurance Company effective July 1, 1998 (incorporated herein by reference to Exhibit 10.20 to Conn's, Inc. Form 10-K for the annual period ended January 31, 2006 (File No. 000-50421) as filed with the Securities and Exchange Commission on March 30, 2006).
- 10.18.1 First Amendment to Service Expense Reimbursement Agreement by and among CAI, L.P., Affiliates Insurance Agency, Inc., American Bankers Life Assurance Company of Florida, Voyager Property & Casualty Insurance Company, American Bankers Life Assurance Company of Florida, American Bankers Insurance Company of Florida and American Bankers General Agency, Inc. effective July 1, 2005 (incorporated herein by reference to Exhibit 10.20.1 to Conn's, Inc. Form 10-K for the annual period ended January 31, 2006 (File No. 000-50421) as filed with the Securities and Exchange Commission on March 30, 2006).
- 10.18.2 Seventh Amendment to Service Expense Reimbursement Agreement by and among Conn Appliances, Inc., American Bankers Life Assurance Company of Florida, American Bankers Insurance Company of Florida, American Reliable Insurance Company and Reliable Lloyds Insurance Company effective May 1, 2009 (incorporated herein by reference to Exhibit 10.14.1 to Conn's, Inc. Form 10-Q for the quarterly period ended July 31, 2009 (File No. 000-50421) as filed with the Securities and Exchange Commission on August 27, 2009).
- 10.19 Service Expense Reimbursement Agreement between CAI Credit Insurance Agency, Inc. and American Bankers Life Assurance Company of Florida, American Bankers Insurance Company Ranchers & Farmers

County Mutual Insurance Company, Voyager Life Insurance Company and Voyager Property and Casualty Insurance Company effective July 1, 1998 (incorporated herein by reference to Exhibit 10.21 to Conn's, Inc. Form 10-K for the annual period ended January 31, 2006 (File No. 000-50421) as filed with the Securities and Exchange Commission on March 30, 2006).

- 10.19.1 First Amendment to Service Expense Reimbursement Agreement by and among CAI Credit Insurance Agency, Inc., American Bankers Life Assurance Company of Florida, Voyager Property & Casualty Insurance Company, American Bankers Life Assurance Company of Florida, American Bankers Insurance Company of Florida, American Reliable Insurance Company, and American Bankers General Agency, Inc. effective July 1, 2005 (incorporated herein by reference to Exhibit 10.21.1 to Conn's, Inc. Form 10-K for the annual period ended January 31, 2006 (File No. 000-50421) as filed with the Securities and Exchange Commission on March 30, 2006).
- 10.19.2 Fourth Amendment to Service Expense Reimbursement Agreement by and among CAI Credit Insurance Agency, Inc., American Bankers Life Assurance Company of Florida, American Bankers Insurance Company of Florida and American Reliable Insurance Company effective May 1, 2009 (incorporated herein by reference to Exhibit 10.14.1 to Conn's, Inc. Form 10-Q for the quarterly period ended July 31, 2009 (File No. 000-50421) as filed with the Securities and Exchange Commission on August 27, 2009).
- 10.20 Consolidated Addendum and Amendment to Service Expense Reimbursement Agreements by and among Certain Member Companies of Assurant Solutions, CAI Credit Insurance Agency, Inc. and Affiliates Insurance Agency, Inc. effective April 1, 2004 (incorporated herein by reference to Exhibit 10.22 to Conn's, Inc. Form 10-K for the annual period ended January 31, 2006 (File No. 000-50421) as filed with the Securities and Exchange Commission on March 30, 2006).
- 10.21 Series 2006-A Supplement to Base Indenture, dated August 1, 2006, by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank, National Association, as Trustee (incorporated herein by reference to Exhibit 10.23 to Conn's, Inc. Form 10-Q for the quarterly period ended October 31, 2006 (File No. 000-50421) as filed with the Securities and Exchange Commission on September 15, 2006).
- 10.22 Retailer Program agreement by and between GE Money bank and Conn Appliances, Inc. effective April 16, 2009 (filed herewith).
- 10.23 Agreement by and between Conn Appliances, Inc. and The Rental Store, Inc. effective July 1, 2010 (filed herewith).
- 11.1 Statement re: computation of earnings per share is included under Note 1 to the financial statements.
- 12.1 Statement of computation of Ratio of Earnings to Fixed Charges (filed herewith).
- 21 Subsidiaries of Conn's, Inc. (filed herewith).
- 31.1 Rule 13a-14(a)/15d-14(a) Certification (Chief Executive Officer) (filed herewith).
- 31.2 Rule 13a-14(a)/15d-14(a) Certification (Chief Financial Officer) (filed herewith).
- 32.1 Section 1350 Certification (Chief Executive Officer and Chief Financial Officer) (furnished herewith).
- 99.1 Subcertification by Chairman of the Board in support of Rule 13a-14(a)/15d-14(a) Certification (Chief Executive Officer) (filed herewith).
- 99.2 Subcertification by President – Retail Division in support of Rule 13a-14(a)/15d-14(a) Certification (Chief Executive Officer) (filed herewith).

- 99.3 Subcertification by President – Credit Division in support of Rule 13a-14(a)/15d-14(a) Certification (Chief Executive Officer) (filed herewith).
- 99.4 Subcertification by Treasurer in support of Rule 13a-14(a)/15d-14(a) Certification (Chief Financial Officer) (filed herewith).

- 99.5 Subcertification by Secretary in support of Rule 13a-14(a)/15d-14(a) Certification (Chief Financial Officer) (filed herewith).
- 99.6 Subcertification of Chairman of the Board, Chief Operating Officer, Treasurer and Secretary in support of Section 1350 Certifications (Chief Executive Officer and Chief Financial Officer) (furnished herewith).
- t Management contract or compensatory plan or arrangement.