CONNS INC
Form 10-Q
June 04, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 30, 2008 — Commission File Number 000-50421

CONN'S, INC.
(Exact name of registrant as specified in its charter)

A Delaware Corporation	06-1672840
(State or other jurisdiction of incorporation or organization)	(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 [x] 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	[x]
Non-accelerated filer	[ ]	Smaller reporting Company	[ ]

(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 [x]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of June 2, 2008:

Class	Outstanding
Common stock, $.01 par value per share	22,405,836

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements..

Consolidated Balance Sheets as of January 31, 2008 and April 30, 2008.............

Consolidated Statements of Operations for the three months ended April 30, 2007 and 2008..

Consolidated Statement of Stockholders' Equity for the three months ended April 30, 2008..

Consolidated Statements of Cash Flows for the three months ended April 30, 2007 and 2008..

Notes to Consolidated Financial Statements..

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations..

Item 3. Quantitative and Qualitative Disclosures About Market Risk........................

Item 4. Controls and Procedures..

PART II. OTHER INFORMATION

Item 1. Legal Proceedings..

Item 1A. Risk Factors..

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

Item 4. Submission of Matters to a Vote of Security Holders..............................

Item 5. Other Information..

Item 6. Exhibits..

SIGNATURE ....

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

Assets		January 31 2008
Current assets		
Cash and cash equivalents	$	11
Accounts receivable, net		36
Interests in securitized assets		178
Inventories		81
Deferred income taxes		2
Prepaid expenses and other assets		4
Total current assets		313
Non-current deferred income tax asset		
Property and equipment		
Land		8
Buildings		13
Equipment and fixtures		17
Transportation equipment		2
Leasehold improvements		74
Subtotal		116
Less accumulated depreciation		(57
Total property and equipment, net		59
Goodwill, net		9
Debt issuance costs and other assets, net		
Total assets	$	382
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$	
Accounts payable		28
Accrued compensation and related expenses		9
Accrued expenses		21
Income taxes payable		
Deferred revenues and allowances		16
Total current liabilities		77
Long-term debt		
Non-current deferred income tax liability		
Deferred gains on sales of property		1
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; 24,098,171 and 24,125,041 shares issued at		

January 31, 2008 and April 30, 2008, respectively)	
Additional paid-in capital	99
Retained earnings	241
Treasury stock, at cost, 1,723,205 and 1,723,205 shares, respectively	(37
Total stockholders' equity	304
Total liabilities and stockholders' equity	$ 382

See notes to consolidated financial statements.

Conn's, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)
(in thousands, except earnings per share)

	Three Mont April
	2007
Revenues	
Product sales	$ 166,639
Service maintenance agreement commissions, net	9,281
Service revenues	5,445
Total net sales	181,365
Finance charges and other	23,880
Net increase (decrease) in fair value	65
Total finance charges and other	23,945
Total revenues	205,310
Cost and expenses	
Cost of goods sold, including warehousing and occupancy costs	124,393
Cost of parts sold, including warehousing and occupancy costs	1,866
Selling, general and administrative expense	59,214
Provision for bad debts	560
Total cost and expenses	186,033
Operating income	19,277
Interest income, net	(240)
Other income, net	(831)
Income before income taxes	20,348

Provision for income taxes	7,402
Net income	$ 12,946
Earnings per share	
Basic	$ 0.55
Diluted	$ 0.54
Average common shares outstanding	
Basic	23,567
Diluted	24,121

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Three Months Ended April 30, 2008
(unaudited)
(in thousands, except descriptive shares)

	Common Stock		Additiona
	Shares	Amount	Paid-in Capital
Balance January 31, 2008	24,098	$ 241	$ 99,514
Exercise of options to acquire shares of common stock, incl. tax benefit	23		211
Issuance of shares of common stock under Employee Stock Purchase Plan	4		60
Stock-based compensation			837
Net income			
Balance April 30, 2008	24,125	$ 241	$ 100,622

See notes to consolidated financial statements.

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

	Three Months Ended April 30,	
	2007	2008
Cash flows from operating activities		
Net income	$ 12,946	$ 10,596
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	3,217	3,164
Amortization	(161)	(228)
Provision for bad debts	560	259
Stock-based compensation	518	837
Discounts on promotional credit	1,950	1,674
Gains recognized on sales of receivables	(7,152)	(6,830)
Decrease in fair value of interests in securitized assets	115	3,212
Provision for deferred income taxes	869	(2,701)
Gains from sales of property and equipment	(831)	(23)
Changes in operating assets and liabilities:		
Accounts receivable	(7,319)	12,619
Inventory	5,843	(8,318)
Prepaid expenses and other assets	(2,121)	476
Accounts payable	(18,462)	15,622
Accrued expenses	(1,417)	886
Income taxes payable	4,226	7,020
Deferred revenue and allowances	1,607	1,273
Net cash provided by (used in) operating activities	(5,612)	39,538
Cash flows from investing activities		
Purchases of property and equipment	(2,748)	(5,373)
Proceeds from sales of property	8,727	32
Net cash provided by (used in) investing activities	5,979	(5,341)
Cash flows from financing activities		
Proceeds from stock issued under employee benefit plans	530	271
Purchases of treasury stock	(4,554)	-
Excess tax benefits from stock-based compensation	2	-
Borrowings under lines of credit	-	600
Payments on lines of credit	-	(600)
Payment of promissory notes	(35)	(29)
Net cash provided by (used in) financing activities	(4,057)	242
Net change in cash	(3,690)	34,439
Cash and cash equivalents		
Beginning of the year	56,570	11,015
End of period	$ 52,880	$ 45,454

See notes to consolidated financial statements.

Conn's, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
April 30, 2008

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. Operating results for the three month period ended April 30, 2008, are not necessarily indicative of the results that may be expected for the year ending January 31, 2009. 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 Annual Report on Form 10-K filed on March 27, 2008.

The Company's balance sheet at January 31, 2008, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial presentation. Please see the Company's Form 10-K for the fiscal year ended January 31, 2008, for a complete presentation of the audited financial statements at that date, together with all required footnotes, and for a complete presentation and explanation of the components and presentations of the financial statements.

Principles of Consolidation. The consolidated financial statements include the accounts of Conn's, Inc. and all of its wholly-owned subsidiaries (the Company). All material intercompany transactions and balances have been eliminated in consolidation.

The Company enters into securitization transactions to sell its retail installment and revolving customer receivables and retains servicing responsibilities and subordinated interests. These securitization transactions are accounted for as sales in accordance with Statement of Financial Accounting Standards (SFAS) No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, as amended by SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, because the Company has relinquished control of the receivables. Additionally, the Company has transferred the receivables to a qualifying special purpose entity (QSPE). Accordingly, neither the transferred receivables nor the accounts of the QSPE are included in the consolidated financial statements of the Company. The Company's retained interest in the transferred receivables is valued under the requirements of SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities, and SFAS No. 157, Fair Value Measurements. On February 1, 2007, the Company elected the fair value option because it believes that the fair value option provides a more easily understood presentation for financial statement users. Prior to this election, the Company had valued and reported its Interests in securitized assets at fair value, though most changes in the fair value were recorded in Other comprehensive income. The fair value option simplifies the treatment of changes in the fair value of the asset, by reflecting all changes in the fair value of its Interests in securitized assets in current earnings, in Finance charges and other.

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. See the discussion under Note 2 regarding the change in the discount rate used in the Company's valuation of its Interests in securitized assets.

Earnings Per Share. In accordance with SFAS No. 128, Earnings per Share, 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 following table sets forth the shares outstanding for the earnings per share calculations:

	Three Months Ended April 30,	
	2007	2008
Common stock outstanding, net of treasury stock, beginning of period	23,641,522	22,374,966
Weighted average common stock issued in stock option exercises	8,261	5,989
Weighted average common stock issued to employee stock purchase plan	1,144	1,522
Less: Weighted average treasury shares purchased	(84,401)	-
Shares used in computing basic earnings per share	23,566,526	22,382,477
Dilutive effect of stock options, net of assumed repurchase of treasury stock	554,153	177,640
Shares used in computing diluted earnings per share	24,120,679	22,560,117

Reclassifications. Certain reclassifications have been made in the prior year's financial statements to conform to the current year's presentation. In order to present the Company's results on a basis that is more comparable with others in its industry, the Company reclassified advertising expense of $7.6 million for the three months ended April 30, 2007, that was previously included in costs of goods sold, to selling, general and administrative expense.

2. Interests in Securitized Assets

The Company estimates the fair value of its Interests in securitized assets using a discounted cash flow model with most of the inputs used being unobservable inputs. The primary unobservable inputs, which are derived principally from the Company's historical experience, with input from its investment bankers and financial advisors, include the estimated portfolio yield, credit loss rate, discount rate, payment rate and delinquency rate and reflect the Company's judgments about the assumptions market participants would use in determining fair value. In determining the cost of borrowings, the Company uses current actual borrowing rates, and adjusts them, as appropriate, using interest rate futures data from market sources to project interest rates over time. Changes in the assumptions over time, including varying credit

portfolio performance, market interest rate changes, market participant risk premiums required, or a shift in the mix of funding sources, could result in significant volatility in the fair value of the Interest in securitized assets, and thus the earnings of the Company.

For the three months ended April 30, 2008, Finance charges and other included a non-cash decrease in the fair value our Interests in securitized assets of $3.1 million, reflecting primarily a higher risk premium added to the discount rate assumption resulting from the volatility in the financial markets, plus adjustments for other changes in the fair value assumptions, partially offset by lower interest rates, including the risk-free interest rate (see reconciliation of the balance of Interests in securitized assets below). The change in fair value resulted in a charge to pretax income of $3.1 million, a charge to net income of $2.0 million, and reduced basic and diluted earnings per share by $0.09, for the three months ended April 30, 2008. During the period ended April 30, 2008, returns required by market participants on many investments increased significantly as a result of continued volatility in the financial markets. Though the Company does not anticipate any significant variation from the current earnings and cash flow performance of the securitized credit portfolio, it increased the risk premium included in the discount rate assumption used in the determination of the fair value of its interests in securitized assets to reflect the higher estimated risk premium it believes a market participant would require if purchasing the asset. Based on a review of

6

the changes in market risk premiums during the three months ended April 30, 2008, and discussions with its investment bankers and financial advisors, the Company estimated that a market participant would require an approximately 300 basis point increase in the required risk premium. As a result, the Company increased the weighted average discount rate assumption from 16.5% at January 31, 2008, to 19.3% at April 30, 2008, after reflecting a 26 basis point decrease in the risk-free interest rate included in the discount rate assumption.

The increase in the discount rate will have the effect of deferring income to future periods, but not permanently reducing securitization income or the earnings of the Company. The deferred earnings will be recognized in future periods as interest income on the Interests in securitized assets as the actual cash flows on the receivables are realized. If a market participant were to require a return on investment that is 100 basis points higher than estimated in the Company's calculation, the fair value of its interests in securitized assets would be decreased by an additional $1.7 million. The Company will continue to monitor financial market conditions and, each quarter, as it reassesses the assumptions used may adjust its assumptions up or down, including the risk premiums a market participant will use. As the financial markets, especially with respect to asset-backed securities, have continued to experience a high-level of volatility, the Company will likely be required to record additional non-cash gains and losses in future periods, until such time as financial market conditions stabilize and liquidity available for asset-backed securities improves.

7

The following is a reconciliation of the beginning and ending balances of the Interests in securitized assets and the beginning and ending balances of the servicing liability for the three months ended April 30, 2007 and 2008 (in thousands):

	Three Months Ended April 30,	
	2007	2008
Reconciliation of Interests in Securitized Assets:		
Balance of Interests in securitized assets at beginning of period	$ 136,848	$ 178,150
Amounts recorded in Finance charges and other:		
Gains associated with increase in portfolio balances	226	152
Changes in fair value due to assumption changes:		
Fair value increase (decrease) due to changing portfolio yield	269	(697
Fair value increase due to lower projected interest rates	44	913
Fair value increase (decrease) due to changes in funding mix	(633)	1,055
Fair value increase due to change in risk-free interest rate component of discount rate	335	448
Fair value decrease due to higher risk premium included in discount rate	-	(5,128
Other changes	(140)	197
Net change in fair value due to assumption changes	(125)	(3,212
Net Gains (Losses) included in Finance charges and other (a)	101	(3,060
Change in balance of subordinated security and equity interest due to transfers of receivables	13,603	(6,190
Balance of Interests in securitized assets at end of period	$ 150,552	$ 168,900
Reconciliation of Servicing Liability:		
Balance of servicing liability at beginning of period	$ 1,052	$ 1,197
Amounts recorded in Finance charges and other:		
Increase associated with change in portfolio balances	37	34
Increase (decrease) due to change in discount rate	1	(19
Other changes	(2)	(8
Net change included in Finance charges and other (b)	36	7
Balance of servicing liability at end of period	$ 1,088	$ 1,204
Net increase (decrease) in fair value included in Finance charges and other (a) - (b)	$ 65	$ (3,067

3. Supplemental Disclosure of Revenue

The following is a summary of the classification of the amounts included as

Finance charges and other for the three months ended April 30, 2007 and 2008 (in thousands):

	Three Months ended April 30,	
	2007	2008
Securitization income:		
Servicing fees received	$ 5,819	$ 6,454
Gains on sale of receivables, net	7,162	6,830
Change in fair value of securitized assets	(125)	(3,212)
Interest earned on retained interests	5,104	7,267
Total securitization income	17,960	17,339
Insurance commissions	5,261	5,205
Other	724	941
Finance charges and other	$ 23,945	$ 23,485

4. Supplemental Disclosure Regarding Managed Receivables

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

	Total Principal Amount of Receivables		Principal Amount 60 Days or More Past Due (1)	
	January 31, 2008	April 30, 2008	January 31, 2008	April 30, 2008
Primary portfolio:				
Installment	$ 463,257	$ 472,005	$ 29,997	$ 26,441
Revolving	48,329	44,695	1,561	1,348
Subtotal	511,586	516,700	31,558	27,789
Secondary portfolio:				
Installment	143,281	153,258	18,220	15,146
Total receivables managed	654,867	669,958	49,778	42,935
Less receivables sold	645,862	661,160	47,778	41,267
Receivables not sold	9,005	8,798	$ 2,000	$ 1,668
Non-customer receivables	27,095	25,531		
Total accounts receivable, net	$ 36,100	$ 34,329		

(1) Amounts are based on end of period balances. The principal amount 60 days or more past due relative to total receivables managed is not necessarily indicative of relative balances expected at other times during the year due to seasonal fluctuations in delinquency.

	Average Balances		Net Credit Charge-offs (1)	
	Three Months Ended April 30,		Three Months Ended April 30,	
	2007	2008	2007	2008
Primary portfolio:				
Installment..................	$ 383,652	$ 466,483		
Revolving...................	52,986	47,151		
Subtotal.........................	436,638	513,634	$ 2,924	$ 3,588
Secondary portfolio:				
Installment..................	139,310	148,237	960	1,748
Total receivables managed.........	575,948	661,871	3,884	5,336
Less receivables sold.............	566,222	652,959	3,687	5,181
Receivables not sold.............	$ 9,726	$ 8,912	$ 197	$ 155

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

5. Debt and Letters of Credit

On March 26, 2008, the Company executed an amendment to its bank credit facility, to increase the commitment from $50 million to $100 million, to provide additional liquidity, if needed, to support its growth plans. In addition to the expanded commitment, the interest margin added to the applicable base rate was increased by 25 basis points. At April 30, 2008, the Company had $97.6 million of its $100 million revolving credit facility available for borrowings. The amounts utilized under the revolving credit facility reflected $2.4 million related to letters of credit issued under the facility. This credit facility matures in October 2010.

There were no amounts outstanding under a short-term revolving bank agreement that provides up to $8.0 million of availability on an unsecured basis. This unsecured facility matures in June 2008 and is expected to be renewed.

The Company utilizes unsecured letters of credit to secure a portion of the QSPE's asset-backed securitization program, deductibles under the Company's property and casualty insurance programs and international product purchases. At April 30, 2008, the Company had outstanding unsecured letters of credit of $24.2 million. These letters of credit were issued under the three following separate facilities:

- The Company has a $5.0 million sub limit provided under its revolving line of credit for stand-by and import letters of credit. At April 30, 2008, $2.4 million of letters of credit were outstanding and callable at the option of the Company's property and casualty insurance carriers if the Company does not honor its requirement to fund deductible amounts as billed under its insurance programs.

- The Company has arranged for a $20.0 million stand-by letter of credit to provide assurance to the trustee of the asset-backed securitization program that funds collected by the Company, as the servicer, would be remitted as required under the base indenture and other related documents. The letter of credit has a term of one year and expires in August 2008.

- The Company obtained a $10.0 million commitment for trade letters of credit to secure product purchases under an international arrangement. At April 30, 2008, there was $1.8 million outstanding under this commitment. The letter of credit commitment expires in November 2008. No letter of credit issued under this commitment can have an expiration date more than 180 days after the commitment expiration date.

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 $35.0 million as of April 30, 2008.

6. Contingencies

Legal Proceedings. The Company is involved in routine litigation incidental to its business from time to time. Currently, the Company does not expect the outcome of any of this routine litigation to have a material affect on its financial condition, results of operations or cash flows. 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.

Service Maintenance Agreement Obligations. The Company sells service maintenance agreements that extend the period of covered warranty service on the products the Company sells. For certain of the service maintenance 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 amounts of service maintenance agreement revenue deferred at January 31, 2008 and April 30, 2008 were $6.6 million and $7.0 million, respectively, and are included in Deferred revenue and allowances in the accompanying balance sheets.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This report contains forward-looking statements. We sometimes use words such as "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "project" and similar expressions, as they relate to us, our management and our industry, to identify forward-looking statements. Forward-looking statements relate to our expectations, beliefs, plans, strategies, prospects, future performance, anticipated trends and other future

events. We have based our forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. Actual results may differ materially. Some of the risks, uncertainties and assumptions about us that may cause actual results to differ from these forward-looking statements include, but are not limited to:

- the success of our growth strategy and plans regarding opening new stores and entering adjacent and new markets, including our plans to continue expanding in 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 obtain capital for required capital expenditures and costs related to the opening of new stores or to update or expand existing stores;
- our cash flows from operations, borrowings from our revolving line of credit and proceeds from securitizations to fund our operations, debt repayment and expansion;
- the ability of the QSPE to obtain additional funding for the purpose of purchasing our receivables, including limitations on the ability of the QSPE to obtain financing through its commercial paper-based funding sources and the ability of the QSPE to maintain its credit rating issued by a recognized statistical rating organization;
- the effect of rising interest rates that could increase our cost of borrowing or reduce securitization income;
- the effect of rising interest rates on sub-prime 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 sold or owned credit portfolios or higher than historical net charge-offs in the portfolios could adversely impact earnings;
- the long-term effect of the change in bankruptcy laws could effect net charge-offs in the credit portfolio which 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, DVD players, HDTV, 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 that could result in declines in revenues;
- higher 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 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 service maintenance agreements as allowed by those laws and regulations;
- our relationships with key suppliers;
- the adequacy of our distribution and information systems and management experience to support our expansion plans;
- changes in the assumptions used in the valuation of our interests in securitized assets at fair value;
- the accuracy of our expectations regarding competition and our competitive advantages;
- the potential for market share erosion that could result in reduced revenues;
- the accuracy of our expectations regarding the similarity or dissimilarity of our existing markets as compared to new markets we enter; and
- the outcome of litigation 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 Form 10-K filed with the Securities Exchange Commission on March 27, 2008. 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 our financial condition and performance in 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 that sells home appliances, including refrigerators, freezers, washers, dryers, dishwashers and ranges, a variety of consumer electronics, including LCD, plasma and DLP televisions, camcorders, digital cameras, 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 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, but to specialize in certain specific product categories.

We currently operate 71 retail locations in Texas, Louisiana and Oklahoma, and have additional stores under development.

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 59% of our retail sales through our internal credit programs. We finance a large portion of our customer receivables through an asset-backed securitization facility, and we derive servicing fee income and interest income from these assets. As part of our asset-backed securitization facility, we have created a qualifying special purpose entity, which we refer to as the QSPE or the issuer, to purchase customer receivables from us and issue medium-term and variable funding notes secured by the receivables to third parties to finance its acquisition of the receivables. We transfer receivables, consisting of retail installment and revolving account receivables extended to our customers, to the issuer in exchange for cash and subordinated securities.

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 service maintenance 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 service maintenance agreements, under which we are the primary obligor, to protect the customers after the original manufacturer's warranty or service maintenance agreement has expired.

Our business is moderately seasonal, with a slightly 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 months ended April 30, 2008. A detailed explanation of the changes in our operations for these periods as compared to the prior year is included under Results of Operations. As explained in that section, our pretax income for the quarter ended April 30, 2008, decreased approximately $3.8 million, or 18.5%, primarily as a result of a $3.1 million non-cash decrease in the fair value of our interests in securitized assets. Some of the more specific items impacting our operating and pretax income were:

- Total revenues increased 6.5% on a net sales increase of 7.6%, with a same store sales increase of 1.0% for the quarter. Total revenues were negatively impacted by the $3.1 million non-cash fair value adjustment.

- The addition of stores in our existing Houston, Dallas/Fort Worth, San Antonio and South Texas markets and a new store in Oklahoma had a positive impact on our revenues. We achieved approximately $12.0 million of increases in product sales and service maintenance agreement commissions for the three months ended April 30, 2008, from the seven new stores that were opened in these markets after February 1, 2007. Our plans provide for the opening of additional stores in and around existing markets during fiscal 2009 as we focus on leveraging

our existing infrastructure.

- Deferred interest and "same as cash" plans 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 months ended April 30, 2008, $45.6 million, or 25.4%, of our product sales were financed by deferred interest and "same as cash" plans. For the comparable periods in the prior year, product sales financed by deferred interest and "same as cash" sales were $44.1 million, or 26.5%. 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 used primarily to finance sales of our highest margin products. We expect to continue to offer extended term promotional credit in the future.

- Our gross margin decreased from 38.5% to 35.3% for the three months ended April 30, 2008, when compared to the same period in the prior year. The decline resulted primarily from a reduction of product gross margins from 25.4% to 22.7% for the three months ended April 30, 2008, when compared to the same period in the prior year, and a $3.1 million, non-cash decrease in the fair value of our interests in securitized assets. The product gross margins were negatively impacted by a highly price competitive retail market, especially in consumer electronics. The fair value decrease negatively impacted gross margin by 90 basis points for the three months ended April 30, 2008.

- Finance charges and other decreased 1.9% for the quarter ended April 30, 2008, due primarily to a decrease in securitization income of $0.6 million. Securitization income declined due to the $3.1 million non-cash decrease in the fair value of our interests in securitized assets recorded during the quarter. Total gains on sales, servicing fees and interest on retained interests increased $2.5 million, or 13.6% during the three months ended April 30, 2008, as compared to the prior year, driven primarily by growth in the sold portfolio over the past year, partially offset by a higher net credit loss rate. The net credit loss rate rose to 3.2% for the three months ended April 30, 2008, from 2.7% for the same period in the prior year, but is expected to improve over the remainder of the current fiscal year. The decrease in the fair value of our Interests in securitized assets was primarily a result of an increase in the estimated risk premium expected by a market participant included in the discount rate assumption in the discounted cash flow model used to determine the fair value of our interests in securitized assets. The risk premium included in the discount rate assumption was increased due to the continued volatility in the financial markets during the period and is not related to the performance of the credit portfolio or our credit collection operations.

- During the three months ended April 30, 2008, Selling, general and administrative (SG&A) expense decreased as a percent of revenues to 27.6% from 28.8% in the prior year period. The improvement was driven by lower compensation costs in absolute dollars and as a percent of revenues as compared to the prior year. Additionally, SG&A as a percent of revenues in the current year period was negatively impacted 40 basis points by the $3.1 million non-cash fair value adjustment.

- The provision for income taxes for the three months ended April 30, 2008, was impacted primarily by the 18.5% reduction in pre-tax income

driven by the $3.1 million non-cash fair value adjustment and the $0.8 million decrease in Other income.

Operational Changes and Resulting Outlook

We have six stores under development, including one replacement store, that we expect to open by January 31, 2009. In addition to these six stores, through May 31, 2008, we had already opened two new and two replacement stores. This represents a total of ten stores, including seven new and three replacement stores, that we expect to open by January 31, 2009. We have additional sites under consideration for future development and continue to evaluate our store opening plans for future years, in light of capital availability.

The consumer electronics industry depends on new products to drive same store sales increases. Typically, these new products, such as high-definition televisions, 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. Over the past year, our gross margins have been negatively impacted by price competition on flat panel televisions. As a result, our product gross margins began declining in the second quarter of fiscal year 2008. We expect our product gross margins to stabilize relative to prior year comparisons beginning in the second quarter, though there is no guarantee that pricing pressures will not intensify.

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, advice of experts 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 April 30, 2008.

Transfers of Financial Assets. We transfer customer receivables to a QSPE that issues asset-backed securities to third-party lenders using these accounts as collateral, and we continue to service these accounts after the transfer. We recognize the sale of these accounts when we relinquish control of the transferred financial asset in accordance with SFAS No. 140, Accounting for

Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, as amended by SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. As we transfer the accounts we record an asset representing our interest in the cash flows of the QSPE, which is the difference between the interest earned on customer accounts and the cost associated with financing and servicing the transferred accounts, including a provision for bad debts associated with the transferred accounts, plus our retained interest in the transferred receivables, discounted using a return that would be expected by a third-party investor. We recognize the income from our interest in these transferred accounts as gains on the transfer of the asset, interest income and servicing fees. This income is recorded as Finance charges and other in our consolidated statements of operations. Additionally, changes in the fair value due to assumption changes are recorded in Finance charges and other. We value our interest in the cash flows of the QSPE at fair value under the provisions of SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, and SFAS No. 157, Fair Value Measurements.

We estimate the fair value of our Interests in securitized assets using a discounted cash flow model with most of the inputs used being unobservable inputs. The primary unobservable inputs, which are derived principally from our historical experience, with input from our investment bankers and financial advisors, include the estimated portfolio yield, credit loss rate, discount rate, payment rate and delinquency rate and reflect our judgments about the assumptions market participants would use in determining fair value. In determining the cost of borrowings, we use current actual borrowing rates, and adjust them, as appropriate, using interest rate futures data from market sources to project interest rates over time. Changes in the assumptions over time, including varying credit portfolio performance, market interest rate changes, market participant risk premiums required, or a shift in the mix of funding sources, could result in significant volatility in the fair value of the Interest in securitized assets, and thus our earnings.

During the three months ended April 30, 2008, risk premiums required by market participants on many investments increased as a result of continued volatility in the financial markets. Though we do not anticipate any significant variation from the current earnings and cash flow performance of our securitized credit portfolio, we increased the risk premium included in the discount rate assumption used in the determination of the fair value of our interests in securitized assets to reflect the higher expected risk premiums included in investment returns we believe a market participant would require if purchasing our interests. Based on a review of the changes in market risk premiums during the three months ended April 30, 2008, and discussions with our investment bankers and financial advisors, we estimated that a market participant would require an approximately 300 basis point increase in the required risk premium. As a result, the Company increased the weighted average discount rate assumption from 16.5% at January 31, 2008, to 19.3% at April 30, 2008, after reflecting a 26 basis point decrease in the risk-free interest rate included in the discount rate assumption. Due to the continued volatility in the securitization market, we eliminated the assumed bond offering included in our January 31, 2008, valuation and in its place have included an estimate of the increase in borrowing costs due to the expected renewal of a portion of the QSPE's financing facilities that we estimate a market participant would use in determining the fair value of our Interests in securitized assets. The increase in the discount rate has the effect of deferring income to future periods, but not permanently reducing securitization income or our earnings. If a market participant were to require a risk premium that is 100 basis points higher than we estimated in the fair value calculation, the fair value of our Interests in securitized assets would be decreased by an additional $1.7 million. If we had assumed a 10.0% reduction in net interest spread (which might be caused by rising interest rates or reductions in rates charged on the accounts transferred), our Interests in securitized assets and Finance charges and other would have been reduced by $6.8 million as of April 30, 2008.

16

If the assumption used for estimating credit losses was increased by 0.5%, the impact to Finance charges and other would have been a reduction in revenues and pretax income of $2.5 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 service maintenance 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 service maintenance 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 service maintenance agreement. These service maintenance 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 range from 12 months to 36 months. These agreements are separate units of accounting under Emerging Issues Task Force No. 00-21, Revenue Arrangements with Multiple Deliverables. The amount of service maintenance agreement revenue deferred at April 30, 2008, and January 31, 2008, was $7.0 million and $6.6 million, respectively, and is included in Deferred revenues and allowances in the accompanying balance sheets.

Vendor Allowances. We receive funds from vendors for price protection, product rebates (earned upon purchase or sale of product), marketing and training and promotion programs which are recorded on the accrual basis as a reduction to the related product cost 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 related to promotion or marketing of the product, the allowances, credits, or payments are recorded as a reduction of advertising expense in the period in which the expense is incurred.

Share-Based Compensation. In December 2004, SFAS No. 123R, Share-Based Payment, was issued. Under the requirements of this statement we measure the cost of employee services received in exchange for an award of equity instruments, typically stock options, based on the grant-date fair value of the award, and record that cost over the period during which the employee is required to provide service in exchange for the award. The grant-date fair value is based on our best estimate of key assumptions, including expected time period over which the options will remain outstanding and expected stock price volatility at the date of grant. Additionally, we must estimate expected forfeitures for each stock option grant and adjust the recorded compensation expense accordingly.

Accounting for Leases. The accounting for leases is governed primarily by SFAS No. 13, Accounting for Leases. As required by the standard, 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.

17

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 April 30,	
	2007	2008
Revenues:		
Product sales	81.2 %	82.3 %
Service maintenance agreement commissions (net)	4.5	4.6
Service revenues	2.7	2.4
Total net sales	88.4	89.3
Finance charges and other	11.6	12.1
Net increase (decrease) in fair value	0.0	(1.4)
Total finance charges and other	11.6	10.7
Total revenues	100.0	100.0
Costs and expenses:		
Cost of goods sold, including warehousing and occupancy cost	60.6	63.6
Cost of parts sold, including warehousing and occupancy cost	0.9	1.1
Selling, general and administrative expense	28.8	27.6
Provision for bad debts	0.3	0.1
Total costs and expenses	90.6	92.4
Operating income	9.4	7.6
Interest income, net	(0.1)	0.0
Other income, net	(0.4)	0.0
Income before income taxes	9.9	7.6
Provision for income taxes	3.6	2.8

Net income..	6.3 %	4.8 %

Same store sales growth is calculated by comparing the reported sales by store for all stores that were open throughout a period, to reported sales by store for all stores that were open throughout the prior year period. Sales from closed stores, if any, are removed from each period. Sales from relocated stores have been included in each period because each store was relocated within the same general geographic market. Sales from expanded stores have been included in each period.

The presentation of gross margins may not be comparable to other retailers since we include the cost of our in-home delivery 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.

Three Months Ended April 30, 2008 Compared to Three Months Ended April 30, 2007

			Change	
(Dollars in Millions)	2008	2007	$	%
Net sales	$ 195.1	$ 181.4	13.7	7.6
Finance charges and other	23.5	23.9	(0.4)	(1.9)
Total Revenues	$ 218.6	$ 205.3	13.3	6.5

The $13.7 million increase in net sales was made up of the following:

- a $1.7 million same store sales increase of 1.0%, driven by strength in consumer electronics and track sales;
- a $12.0 million increase generated by seven retail locations that were not open for the three months in each period;
- a $0.3 million increase resulted from a decrease in discounts on extended-term promotional credit sales (those with terms longer than 12 months); and
- a $0.3 million decrease resulted from a decrease in service revenues.

The components of the $13.7 million increase in net sales were a $13.3 million increase in Product sales and a $0.4 million increase in service maintenance agreement commissions and service revenues. The $13.3 million increase in product sales resulted from the following:

- approximately $15.7 million increase attributable to an overall increase in the average unit price. The increase was due primarily to a change in the mix of product sales, driven by an increase in the consumer electronics category, which has the highest average price point of any category, as a percentage of total product sales. Additionally, there were category price point increases as a result of

a shift to higher-priced high-efficiency laundry items and increases in laptop computer and video game equipment sales, partially offset by a decline in the average price points on our electronics, and lawn and garden categories, and

- approximately $2.4 million decrease attributable to decreases in total unit sales, due primarily to decreased home appliance and furniture sales, which offset solid growth in consumer electronics.

The $0.4 million increase in service maintenance agreement commissions and service revenues was driven by increased sales of service maintenance agreements due to higher product sales, partially offset by lower service revenues.

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

	Three Months Ended April 30,					
	2007		2008			
Category	Amount	Percent	Amount	Percent	Percent Change	
Consumer electronics............	$ 58,823	32.4 %	$ 73,799	37.8 %	25.5 %	(1)
Home appliances.................	57,705	31.8	55,184	28.3	(4.4)	(2)
Track...........................	21,684	12.0	23,086	11.8	6.5	(3)
Furniture and mattresses........	17,917	9.9	17,713	9.1	(1.1)	(4)
Lawn and garden.................	6,156	3.4	5,676	2.9	(7.8)	(5)
Delivery.......................	3,063	1.7	3,137	1.6	2.4	(6)
Other..........................	1,291	0.7	1,316	0.7	1.9	
Total product sales........	166,639	91.9	179,911	92.2	8.0	
Service maintenance agreement commissions....................	9,281	5.1	9,970	5.1	7.4	(7)
Service revenues................	5,445	3.0	5,192	2.7	(4.6)	(8)
Total net sales............	$ 181,365	100.0 %	$ 195,073	100.0 %	7.6 %	

---

(1) This increase is due to continued consumer interest in LCD televisions, which offset declines in projection and plasma televisions.

(2) The home appliance category declined primarily due to lower refrigeration sales, as laundry sales rose slightly, and the appliance market in general showed continued weakness.

19

(3) The increase in track sales (consisting largely of computers, computer peripherals, video game equipment, portable electronics and small appliances) is driven primarily by increased video game equipment and laptop computer and computer monitor sales, and the addition of GPS

devices, partially offset by declines in camcorder and camera sales.

(4) This decrease is due to weakness in the furniture market in general, partially offset by increases in bedding sales driven by the multi-vendor strategy implemented during the prior year.

(5) This category was impacted by lower rainfall during this year's first fiscal quarter negatively impacting the selling season as compared to fiscal 2008.

(6) This increase was due to an increase in the delivery fee charged to our customers, offset somewhat by a reduction in the total number of deliveries

(7) This increase is due to the increase in product sales.

(8) This decrease is driven by a decrease in the number of service calls performed by our technicians.

Finance charges and other decreased 1.9% for the quarter ended April 30, 2008, as securitization income decreased by $0.6 million, or 3.6% due primarily to the $3.1 million non-cash decrease in the fair value of our interests in securitized assets, recorded during the quarter. Total gains on sales, servicing fees and interest on retained interests increased $2.5 million, or 13.6%. The decrease in the fair value of our Interests in securitized assets was primarily a result of an increase in the estimated risk premium expected by a market participant included in the discount rate assumption used in the discounted cash flow model used to determine the fair value of our interests in securitized assets. The risk premium included in the discount rate assumption was increased due to the continued volatility in the financial markets during the period and is not related to the performance of the credit portfolio or our credit collection operations.

			Change	
(Dollars in Millions)	2008	2007	$	%
Cost of goods sold	$139.1	$124.4	14.7	11.8
As a percent of net product sales	77.3%	74.6%		

Cost of goods sold increased as a percent of net product sales from the 2007 period to the 2008 period due to pricing pressures in retailing in general, and especially on flat-panel TV's.

			Change	
(Dollars in Millions)	2008	2007	$	%
Cost of service parts sold	$2.3	$1.9	0.4	21.1
As a percent of service revenues	44.9%	34.3%		

This increase was due primarily to a 20.8% increase in parts sales, which grew faster than labor sales.

			Change	
(Dollars in Millions)	2008	2007	$	%
Selling, general and administrative expense	$60.4	$59.2	1.2	2.0

As a percent of total revenues	27.6%	28.8%

The increase in SG&A expense was largely attributable to the growth of the Company and addition of new stores. The improvement in our SG&A expense as a percent of revenues was driven by lower compensation costs in absolute dollars and as a percent of revenues as compared to the prior year. Additionally, SG&A as a percent of revenues was negatively impacted 40 basis points by the $3.1 million non-cash fair value adjustment.

			Change	
(Dollars in Millions)	2008	2007	$	%
Provision for bad debts	$0.3	$0.6	(0.3)	(50.0)
As a percent of total revenues	.12%	.27%		

The provision for bad debts on non-credit portfolio receivables and credit portfolio receivables retained by us and not eligible to be transferred to the QSPE decreased primarily as a result of reduced net credit charge-offs and provision adjustments due to the decreased net credit losses. See the notes to the financial statements for information regarding the performance of the credit portfolio.

20

			Change	
(Dollars in Thousands)	2008	2007	$	%
Interest income, net	$(15)	$(240)	(225)	(93.8)

The decrease in net interest income was a result of a decrease in interest income from invested funds due to lower balances of invested cash and lower interest rates earned on amounts invested.

			Change	
(Dollars in Thousands)	2008	2007	$	%
Other income, net	$(22)	$(831)	(809)	(97.4)

Both periods included gains recognized on the sales of company assets. During the quarter ended April 30, 2007, there were gains of approximately $0.8 million recognized on the sale of two of the Company's store locations. There were approximately $1.2 million of gains realized, but not recognized, in the quarter ended April 30, 2007, on transactions qualifying for sale-leaseback accounting that were deferred and are being amortized as a reduction of rent expense on a straight-line basis over minimum lease terms.

			Change	

(Dollars in Millions)	2008	2007	$	%
Provision for income taxes	$6.0	$7.4	(1.4)	(18.9)
As a percent of income before income taxes	36.1%	36.4%		

This decrease in taxes was impacted primarily by the 18.5% decrease in pretax income. Additionally, the effective tax rate declined from the 2007 period to the 2008 period, partially as a result of a provision adjustment reversing a portion of our state tax accrual.

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 receivables and inventory. We have historically financed our operations through a combination of cash flow generated from operations 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 receivables to our asset-backed securitization facilities.

On March 26, 2008, we executed an amendment to our bank credit facility, to increase the commitment from $50 million to $100 million, to provide additional liquidity, if needed, to support our growth plans. In addition to the expanded commitment, the interest margin added to the applicable base rate was increased by 25 basis points. Our $8.0 million unsecured bank line of credit matures in June 2008 and we expect it to be renewed.

As of April 30, 2008, we had approximately $41.3 million in excess cash, which was invested in short-term, tax-free instruments. In addition to the excess cash, we had $97.6 million under our revolving line of credit, net of standby letters of credit issued, and $8.0 million under our unsecured bank line of credit available to us for general corporate purposes, $26.4 million under extended vendor terms for purchases of inventory and $115.0 million in commitments available to our QSPE for the transfer of receivables.

In its regularly scheduled meeting on August 24, 2006, our Board of Directors authorized the repurchase of up to $50 million of our common stock, dependent on market conditions and the price of the stock. Through April 30, 2008, we had spent $37.1 million under this authorization to acquire 1,723,205 shares of our common stock though there were no shares repurchased during the three months ended April 30, 2008, as we suspended purchases under the authorized repurchase program.

A summary of the significant financial covenants that govern our bank credit facility compared to our actual compliance status at April 30, 2008, is presented below:

	Actual	Required Minimum/ Maximum

Debt service coverage ratio must exceed required minimum	3.81 to 1.00	2.00 to 1.00
Total adjusted leverage ratio must be lower than required maximum	1.75 to 1.00	3.00 to 1.00
Consolidated net worth must exceed required minimum	$314.8 million	$223.9 million
Charge-off ratio must be lower than required maximum	0.03 to 1.00	0.06 to 1.00
Extension ratio must be lower than required maximum	0.02 to 1.00	0.05 to 1.00
Thirty-day delinquency ratio must be lower than required maximum	0.09 to 1.00	0.13 to 1.00

Note: All terms in the above table are defined by the bank credit facility and may or may not agree directly to the financial statement captions in this document.

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 QSPE's asset-backed securitization facilities. Based on our current operating plans, we believe that cash generated from operations, available borrowings under our bank credit facility and unsecured credit line, extended vendor terms for purchases of inventory, acquisition of inventory under consignment arrangements and access to the unfunded portion of the variable funding portion of the QSPE's asset-backed securitization program will be sufficient to fund our operations, store expansion and updating activities, stock repurchases, if any, and capital programs for at least 12 months. However, there are several factors that could decrease cash provided by operating activities, 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 receivables portfolio under our current QSPE's asset-backed securitization program as a result of changes in performance or types of 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 to the QSPE, requiring higher collateral levels, or limitations on the ability of the QSPE to obtain financing through its commercial paper-based funding sources;
- inability to expand our capacity for financing our receivables portfolio under existing or replacement QSPE asset-backed securitization programs or a requirement that we retain a higher percentage of the credit portfolio under such programs;
- increases in program costs (interest and administrative fees relative to our receivables portfolio associated with the funding of our

receivables);

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

- o the inability to get our current variable funding facility renewed.

During the three months ended April 30, 2008, net cash provided by operating activities increased $45.2 million from $5.6 million used in operating activities in the three months ended April 30, 2007, to $39.5 million provided in the three months ended April 30, 2008. Operating cash flows for the current period were impacted primarily by improved funding rates on the sold receivables portfolio, as the QSPE paid off the 2002 Series B bonds, and an increase in accounts payable balances, due to timing of inventory purchases.

As noted above, 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. The various "same as cash" promotional accounts and deferred interest program accounts 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 receivables was 21.1% and 22.6%, as of April 30, 2007 and 2008, respectively. The weighted average promotional period was 14.1 months and 15.4 months for promotional receivables outstanding as of April 30, 2007 and 2008, respectively. The weighted average remaining term on those same promotional receivables was 10.7 months as of April 30, 2007 and 2008. While overall these promotional receivables have a much shorter weighted average term than non-promotional receivables, we receive less income on these receivables, resulting in a reduction of the net interest margin used in the calculation of the gain on the sale of receivables.

Net cash used in investing activities increased by $11.3 million, from $6.0 million provided in the fiscal 2008 period to $5.3 million used in the fiscal 2009 period. The net increase in cash used in investing activities resulted primarily from a decline in proceeds from sales of property and equipment as compared to the same quarter in the prior fiscal year, and increased purchases of property and equipment in the current fiscal quarter. The cash expended for property and equipment was used primarily for construction of new stores and the reformatting of existing stores to better support our current product mix. Based on current plans, we expect to increase expenditures for property and equipment in the remainder of fiscal 2009 as we open additional stores.

Net cash from financing activities increased by $4.3 million from $4.1 million used during the three months ended April 30, 2007, to $0.2 million provided during the three months ended April 30, 2008, as we suspended our stock repurchase program in the current fiscal period.

Off-Balance Sheet Financing Arrangements

Since we extend credit in connection with a large portion of our retail, service maintenance and credit insurance sales, we have created a qualified special purpose entity, which we refer to as the QSPE or the issuer, to purchase customer receivables from us and to issue medium-term and variable funding notes secured by the receivables to third parties to obtain cash for these purchases. We transfer receivables, consisting of retail installment contracts and

revolving accounts extended to our customers, to the issuer in exchange for cash and subordinated, unsecured promissory notes. To finance its acquisition of these receivables, the issuer has issued the notes and bonds described below to third parties. The unsecured promissory notes issued to us are subordinate to these third party notes and bonds.

At April 30, 2008, the issuer had issued two series of notes and bonds: the 2002 Series A variable funding note with a total availability of $450 million and three classes of 2006 Series A bonds with an aggregate amount outstanding of $150 million, of which $6.0 million was required to be placed in a restricted cash account for the benefit of the bondholders. The 2002 Series A variable funding note is composed of a $250 million 364-day tranche, and a $200 million tranche that matures in 2012. The 364-day commitment matures on July 31, 2008, and we are currently in discussions to renew a portion of this facility. $150 million of the 364 day commitment will stay in place until the first to occur of: (i) the QSPE completes a medium-term bond issuance, or (ii) the note is not renewed by the note holders. At this time we do not expect this portion of the facility to be renewed. If the 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. At April 30, 2008, the net portfolio yield was 9.0%. Private institutional investors, primarily insurance companies, purchased the 2006 Series A bonds at a weighted fixed rate of 5.75%. The weighted average interest on the variable funding note during the month of April 2008, was 3.68%.

The Company and the issuer are currently exploring various financing alternatives to provide additional long-term capital to support our continued growth, but no assurance can be given that a transaction can be completed on terms favorable to them. At this time, the Company is unsure if or when the issuer can complete the issuance of a new series of fixed-rate bonds. The proceeds of any new financing arrangement will provide us additional capacity for growth of the Company and the receivables portfolio. Additionally, we expect that renewals of existing financing facilities, if renewed, or entry into new financing facilities will result in higher borrowing costs than we are currently experiencing. If the issuer is unable to complete the new financing arrangement, then, after its current funding sources are exhausted, we may have to fund growth in the receivables portfolio. If the 364-day commitment is not renewed, or is renewed in an amount that, in combination with the $200 million long-term tranche, provides less borrowing capacity than the then outstanding balance, the issuer will be required to use the cash from payments on receivables to reduce the balance on the variable funding note. As such, the Company would be required to fund new receivables and growth in the portfolio. At April 30, 2008, the Company had $41.3 million of excess cash and $97.6 million of availability under its revolving credit facilities, among other liquidity sources, to provide funding, if needed, to fund receivable portfolio growth. 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 increase receivables balances could be obtained by:

- reducing capital expenditures for new store openings,
- 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 new debt or equity markets.

We continue to service the transferred accounts for the QSPE, 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 receivables serviced, including the amount of average aggregate defaulted 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.

Currently the 2002 Series A variable funding note permits the issuer to borrow funds up to $450 million to purchase receivables from us or make principal payments on other bonds, thereby functioning as a "basket" to accumulate receivables. As issuer borrowings under the 2002 Series A variable funding note approach $450 million, the issuer is required to request an increase in the 2002 Series A amount or issue a new series of bonds and use the proceeds to pay down the then outstanding balance of the 2002 Series A variable funding note, so that the basket will once again become available to accumulate new receivables or meet other obligations required under the transaction documents. As of April 30, 2008, borrowings under the 2002 Series A variable funding note were $335.0 million.

We are not directly liable to the lenders under the asset-backed securitization facility. 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 also contingently liable 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.

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, protection of collateral and financial reporting. In addition, the program requires the issuer to maintain a minimum net worth.

24

A summary of the significant financial covenants that govern the 2002 Series A variable funding note compared to actual compliance status at April 30, 2008, is presented below:

	As reported	Required Minimum/ Maximum
Issuer interest must exceed required minimum	$83.3 million	$75.4 million
Gross loss rate must be lower than required maximum	3.6%	10.0%
Net portfolio yield must exceed required minimum	9.0%	2.0%
Payment rate must exceed required minimum	6.8%	3.0%

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.

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 receivables and proceeds.

Securitization Facilities

We finance most of our customer receivables through asset-backed securitization facilities