

CONNS INC
Form 10-Q
May 26, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2011

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

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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
(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 May 23, 2011:

Class	Outstanding
Common stock, \$.01 par value per share	31,772,077

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(in thousands, except share data)

Assets	January 31, 2011	April 30, 2011
		(unaudited)
Current assets		
Cash and cash equivalents	\$ 10,977	\$ 8,621
Customer accounts receivable, net of allowance of \$18,763 and \$18,080, respectively	342,754	318,995
Other accounts receivable, net of allowance of \$60 and \$60, respectively	30,476	33,662
Inventories	82,354	85,122
Deferred income taxes	16,681	16,005
Federal income taxes recoverable	3,942	-
Prepaid expenses and other assets	6,476	5,693
Total current assets	493,660	468,098
Long-term portion of customer accounts receivable, net of allowance of \$15,873 and \$15,130, respectively	289,965	266,962
Property and equipment		
Land	7,264	7,264
Buildings	10,379	10,379
Equipment and fixtures	25,394	25,630
Transportation equipment	1,558	1,558
Leasehold improvements	85,415	85,441
Subtotal	130,010	130,272
Less accumulated depreciation	(83,120)	(85,991)
Total property and equipment, net	46,890	44,281
Non-current deferred income tax asset	8,009	8,481
Other assets, net	10,118	9,433
Total assets	\$ 848,642	\$ 797,255
Liabilities and Stockholders' Equity		
Current Liabilities		
Current portion of long-term debt	\$ 167	\$ 169
Accounts payable	57,740	52,683
Accrued compensation and related expenses	5,477	7,412
Accrued expenses	25,423	24,938
Income taxes payable	2,103	4,036
Deferred revenues and allowances	20,870	19,914
Total current liabilities	111,780	109,152
Long-term debt	373,569	320,504
Other long-term liabilities	4,403	4,223
Deferred gain on sale of property	845	791
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; 33,488,565 and 31,772,077 shares issued at January 31, 2011 and April 30, 2011, respectively)	335	318

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Accumulated other comprehensive loss	(71)	(24)
Additional paid in capital	131,590	132,090
Retained earnings	263,262	230,201
Treasury stock at cost (1,723,205 shares at January 31, 2011)	(37,071)	-
Total stockholders equity	358,045	362,585
Total liabilities and stockholders equity	\$ 848,642	\$ 797,255

See notes to consolidated financial statements.

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

	Three Months Ended April 30,	
	2010	2011
Revenues		
Product sales	\$ 149,015	\$ 144,279
Repair service agreement commissions (net)	8,061	7,522
Service revenues	4,757	3,889
Total net sales	161,833	155,690
Finance charges and other	36,076	33,619
Total revenues	197,909	189,309
Cost and expenses		
Cost of goods sold, including warehousing and occupancy costs	114,216	109,710
Cost of service parts sold, including warehousing and occupancy cost	2,376	1,730
Selling, general and administrative expense	58,332	56,188
Provision for bad debts	7,634	7,521
Total cost and expenses	182,558	175,149
Operating income	15,351	14,160
Interest expense, net	5,783	7,556
Other expense, net	171	52
Income before income taxes	9,397	6,552
Provision for income taxes	3,604	2,559
Net income	\$ 5,793	\$ 3,993
Earnings per share		
Basic	\$ 0.26	\$ 0.13
Diluted	\$ 0.26	\$ 0.13
Average common shares outstanding		
Basic	22,475	31,768
Diluted	22,477	31,772

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(unaudited)

(in thousands)

	Common Stock		Accum. Other Comprehensive	Paid in Capital	Retained Earnings	Treasury Stock		Total
	Shares	Amount	Income (Loss)			Shares	Amount	
Balance January 31, 2011	33,488	\$ 335	\$ (71)	\$ 131,590	\$ 263,262	(1,723)	\$ (37,071)	\$ 358,045
Issuance of common stock under Employee Stock Purchase Plan	7			26				26
Stock-based compensation				474				474
Treasury Shares cancelled	(1,723)	(17)			(37,054)	1,723	37,071	-
Net income					3,993			3,993
Other comprehensive income:								
Adjustment of fair value of interest rate swaps, net of tax of \$26			47					47
Other comprehensive income			47					47
Total comprehensive income								4,040
Balance April 30, 2011	31,772	\$ 318	\$ (24)	\$ 132,090	\$ 230,201	-	\$ -	\$ 362,585

See notes to consolidated financial statements.

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

	Three Months Ended April 30,	
	2010	2011
Cash flows from operating activities		
Net income	\$ 5,793	\$ 3,993
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,352	2,884
Amortization, net	1,167	897
Provision for bad debts	7,634	7,521
Stock-based compensation	561	474
Provision for deferred income taxes	(375)	204
Loss from sale of property and equipment	171	1
Discounts and accretion on promotional credit	(766)	(482)
Change in operating assets and liabilities:		
Customer accounts receivable	(7,037)	39,723
Other accounts receivable	24,357	(3,180)
Inventory	(25,402)	(2,768)
Prepaid expenses and other assets	1,392	783
Accounts payable	15,294	(5,057)
Accrued expenses	(8,348)	1,524
Income taxes payable	13,449	5,849
Deferred revenues and allowances	(2,024)	(1,336)
Net cash provided by operating activities	29,218	51,030
Cash flows from investing activities		
Purchase of property and equipment	(390)	(275)
Proceeds from sales of property	204	-
Net cash used in investing activities	(186)	(275)
Cash flows from financing activities		
Net proceeds from stock issued under employee benefit plans, including tax benefit	48	25
Borrowings under lines of credit	61,013	25,216
Payments on lines of credit	(93,511)	(78,238)
Payments of debt issuance costs	(3,089)	(73)
Payment of promissory notes	(33)	(41)
Net cash used in financing activities	(35,572)	(53,111)
Net change in cash	(6,540)	(2,356)
Cash and cash equivalents		
Beginning of the year	12,247	10,977
End of the year	\$ 5,707	\$ 8,621

See notes to consolidated financial statements.

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Conn's, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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 month period ended April 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2012. 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 10-K filed for the year ended January 31, 2011.

The Company's balance sheet at January 31, 2011, has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for a complete financial presentation. Please see the Company's Form 10-K filed on April 1, 2011 for a complete presentation of the audited financial statements for the fiscal year ended January 31, 2011, 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. The separate financial information is disclosed in Note 6 Segment Reporting .

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

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

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Earnings per Share. 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, which is calculated using the treasury-stock method. The following table sets forth the shares outstanding for the earnings per share calculations (shares in thousands):

(Shares in thousands)	Three Months Ended April 30,	
	2010	2011
Common stock outstanding, beginning of period	22,472	31,765
Weighted average common stock issued to employee stock purchase plan	3	3
Shares used in computing basic earnings per share	22,475	31,768
Dilutive effect of stock options, net of assumed repurchase of treasury stock	2	4
Shares used in computing diluted earnings per share	22,477	31,772

During the periods presented, options with an exercise price in excess of the average market price of the Company's common stock are excluded from the calculation of the dilutive effect of stock options for diluted earnings per share calculations. The weighted average number of options not included in the calculation of the dilutive effect of stock options was 2.7 million, and 2.9 million for each of the three months ended April 30, 2010 and 2011 respectively.

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

Customer Accounts Receivable. Customer accounts receivable are originated at the time of sale and delivery of the various products and services. The Company records the amount of principal and accrued interest on Customer receivables that is expected to be collected within the next twelve months, based on contractual terms, in current assets on its consolidated balance sheet. Those amounts expected to be collected after twelve months, based on contractual terms, are included in long-term assets. Typically, customer receivables are considered delinquent if a payment has not been received on the scheduled due date. 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 and charged against the allowance for uncollectible interest. 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 effective interest 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. The Company typically only places accounts in non-accrual status when legally required to do so. Interest accrual is resumed on those accounts once a legally-mandated settlement arrangement is reached or other payment arrangements are made with the customer. 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 present value, resulting in a reduction in sales and customer receivables, and amortizes the discount amount to Finance charges and other over the term of the program. The amount of customer receivables carried on the Company's balance sheet that were in non-accrual status was \$10.5 million and \$10.0 million at January 31, 2011 and April 30, 2011, respectively. The amount of customer receivables carried on the Company's consolidated balance sheet that were past due 90 days or more and still accruing interest was \$43.5 million and \$33.1 million at January 31, 2011 and April 30, 2011, 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 allowance for doubtful accounts is reduced by the amount of post-charge-off recoveries received, including cash payments, amounts realized from the repossession

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of the products financed and, at times, payments received under credit insurance policies. Additionally, the Company separately evaluates portions of the credit portfolio based on underwriting criteria, including both credit score of the customer and the underwriter's evaluation of the customer's credit-worthiness, (Primary and Secondary programs) to estimate the allowance for doubtful accounts. The Secondary program consists of those customers who do not qualify for credit under our Primary program, typically due to past credit problems or lack of credit history. The Company monitors the aging of its past due accounts closely. The Company focuses its collection efforts on preventing accounts from becoming 60 days past due or greater, which is a leading indicator of potential charge-off. The balance in the allowance for doubtful accounts and uncollectible interest for customer receivables was \$34.6 million and \$33.2 million, at January 31, 2011 and April 30, 2011, 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.

Income Taxes. The Company is subject to U.S. federal income tax as well as income tax in multiple state jurisdictions. The Company follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the tax rates and laws that are expected to be in effect when the differences are expected to reverse. To the extent penalties and interest are incurred, the Company records these charges as a component of its Provision for income taxes. Tax returns for the fiscal years subsequent to January 31, 2007, remain open for examination by the Company's major taxing jurisdictions.

Comprehensive Income. Comprehensive income for the prior year three month period is as follows:

(Dollars in thousands)	Three Months Ended April 30, 2010	
Net Income	\$	5,793
Adjustment of fair value of interest rate swaps, net of tax of \$30		(55)
Total Comprehensive income	\$	5,738

Recently Issued Accounting Pronouncements. Effective April 5, 2011, the FASB issued ASU No. 2011-02, *A Creditor's Determination of Whether Restructuring is a Troubled Debt Restructuring*, which clarifies when a loan modification or restructuring is considered a troubled debt restructuring. This guidance clarifies what constitutes a concession and whether the debtor is experiencing financial difficulties, even if not currently in default. The amendments in ASU 2011-02 are effective for the first interim or annual period beginning on or after June 15, 2011, or for the third quarter of fiscal 2012 for the Company, and should be applied retrospectively to the beginning of the annual period of adoption. Early adoption is permitted. An entity should disclose the total amount of receivables and the allowance for credit losses as of the end of the period of adoption related to those receivables that are newly considered impaired. The Company is currently evaluating the provisions of this ASU and the impact that its adoption will have on its financial position and results of operations.

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Revision of financial statements. The Company has revised its fiscal year 2010 and 2011 consolidated financial statements to correct its accounting for interest income on customer accounts receivable related to the charge-off of those accounts. As a result, revisions have been made that have increased revenue from Finance charges and other, Repair service agreement commissions, net, and expense related to the Provision for bad debts for those periods. Management has concluded that the impact of these revisions on the prior reporting periods is not material to the Company's consolidated financial statements, and the net effect of the reclassification was no change to Operating income, Income before income taxes or Net income for any period. The following is a table that shows the impact of the revision for all quarterly periods of the prior two fiscal years:

(Dollars in thousands)	Repair service agreement commissions, net			Finance charges and other		
	As Presented	Reclass	As Adjusted	As Presented	Reclass	As Adjusted
FY 2010						
Quarter ending 4/30/2009	\$ 9,790	\$ -	\$ 9,790	\$ 39,439	\$ 397	\$ 39,836
Quarter ending 7/31/2009	8,858	-	8,858	39,903	651	40,554
Quarter ending 10/31/2009	7,319	-	7,319	36,064	719	36,783
Quarter ending 1/31/2010	7,305	-	7,305	36,805	281	37,086
Total Fiscal Year 2010	\$ 33,272	\$ -	\$ 33,272	\$ 152,211	\$ 2,048	\$ 154,259
FY 2011						
Quarter ending 4/30/2010	\$ 7,917	\$ 144	\$ 8,061	\$ 34,860	\$ 1,216	\$ 36,076
Quarter ending 7/31/2010	8,341	27	8,368	34,640	1,264	35,904
Quarter ending 10/31/2010	6,035	29	6,064	33,141	1,412	34,553
Quarter ending 1/31/2011	6,495	80	6,575	\$ 34,165	1,842	36,007
Year to Date Fiscal Year 2011	\$ 28,788	\$ 280	\$ 29,068	\$ 136,806	\$ 5,734	\$ 142,540
Provision for bad debts						
	As Presented	Reclass	As Adjusted			
FY 2010						
Quarter ending 4/30/2009	\$ 5,644	\$ 397	\$ 6,041			
Quarter ending 7/31/2009	8,026	651	8,677			
Quarter ending 10/31/2009	12,651	719	13,370			
Quarter ending 1/31/2010	10,522	281	10,803			
Total Fiscal Year 2010	\$ 36,843	\$ 2,048	\$ 38,891			
FY 2011						
Quarter ending 4/30/2010	\$ 6,274	\$ 1,360	\$ 7,634			
Quarter ending 7/31/2010	9,048	1,291	10,339			
Quarter ending 10/31/2010	9,372	1,441	10,813			
Quarter ending 1/31/2011	\$ 8,360	1,922	10,282			
Year to Date Fiscal Year 2011	\$ 33,054	\$ 6,014	\$ 39,068			

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The following is a summary of the classification of the amounts included as Finance charges and other for the three months ended April 30, 2010 and 2011 (in thousands):

(Dollars in thousands)	Three Months ended April 30,	
	2010	2011
Interest income and fees on customer receivables	\$ 31,937	\$ 30,002
Insurance commissions	3,890	3,392
Other	249	225
Finance charges and other	\$ 36,076	\$ 33,619

3. Supplemental Disclosure of Customer Receivables

The following tables present quantitative information about the receivables portfolio managed by the Company:

(Dollars in Thousands)	of Customer Receivables		Total Outstanding Balance		Reaged (1)	
	January 31, 2011	April 30, 2011	60 Days Past Due (1) January 31, 2011	April 30, 2011	January 31, 2011	April 30, 2011
Primary program:						
Installment	\$ 537,682	\$ 497,309	\$ 39,252	\$ 30,143	\$ 86,403	\$ 78,099
Revolving	24,603	20,987	1,698	1,352	1,426	1,379
Subtotal	562,285	518,296	40,950	31,495	87,829	79,478
Secondary program:						
Installment	113,481	107,191	17,092	12,958	37,379	32,696
Total receivables managed	675,766	625,487	\$ 58,042	\$ 44,453	\$ 125,208	\$ 112,174
Allowance for uncollectible accounts related to the Primary program	(25,580)	(24,435)				
Allowance for uncollectible accounts related to the Secondary program	(9,056)	(8,775)				
Allowances for promotional credit programs	(8,411)	(6,320)				
Current portion of customer accounts receivable, net	342,754	318,995				
Long-term customer accounts receivable, net	\$ 289,965	\$ 266,962				

(1) Amounts are based on end of period balances and accounts could be represented in both the past due and reaged columns shown above. The total amount of customer receivables past due one day or greater was \$161.0 million and \$133.6 million as of January 31, 2011 and April 30, 2011, respectively. These amounts include the 60 days past due totals shown above.

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(Dollars in thousands)	Average Balances Three Months Ended April 30,		Net Credit Charge-offs (2) Three Months Ended April 30,	
	2010	2011	2010	2011
Primary program:				
Installment	\$ 542,675	\$ 514,719		
Revolving	38,839	22,717		
Subtotal	581,514	537,436	\$ 6,776	\$ 6,393
Secondary program:				
Installment	134,324	110,325	2,370	2,121
Total receivables managed	\$ 715,838	\$ 647,761	\$ 9,146	\$ 8,514

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

Following is the activity in the Company's balance in the allowance for doubtful accounts and uncollectible interest for customer receivables for the three months ended April 30, 2011 and 2010:

	Three Months Ended 4/30/2010			Three Months Ended 4/30/2011		
	Primary	Secondary	Total	Primary	Secondary	Total
Allowance at beginning of period	\$ 26,704	\$ 9,098	\$ 35,802	\$ 25,580	\$ 9,056	\$ 34,636
Provision (a)	5,037	4,271	9,308	6,685	2,432	9,117
Principal charge-offs (b)	(6,819)	(2,378)	(9,197)	(6,485)	(2,144)	(8,629)
Interest charge-offs	(1,524)	(702)	(2,226)	(1,437)	(592)	(2,029)
Recoveries (b)	43	8	51	92	23	115
Allowance at end of period	\$ 23,441	\$ 10,297	\$ 33,738	\$ 24,435	\$ 8,775	\$ 33,210

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

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

4. Debt and Letters of Credit

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

(Dollars in thousands)	January 31, 2011	April 30, 2011
Asset-based revolving credit facility maturing in November 2013	\$ 279,300	\$ 226,000
Term Loan (net of OID of \$5,820 and \$5,543 respectively) maturing in November 2014	94,180	94,457
Other long-term debt	256	216
Total debt	373,736	320,673
Less current portion of debt	167	169
Long-term debt	\$ 373,569	\$ 320,504

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The Company's \$375 million asset-based revolving credit facility provides funding based on a borrowing base calculation that includes customer accounts receivable and inventory and matures in November 2013. The credit facility bears interest at LIBOR plus a spread ranging from 375 basis points to 400 basis points, based on a leverage ratio (defined as total liabilities to tangible net worth). In addition to the leverage ratio, the revolving credit facility includes a fixed charge coverage requirement, a minimum customer receivables cash recovery percentage requirement, a net capital expenditures limit and a \$25 million minimum availability requirement. Additionally, the agreement contains cross-default provisions, such that, any default under another of the Company's credit facilities would result in a default under

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this agreement, and any default under this agreement would result in a default under those agreements. The Company was in compliance with the covenants at April 30, 2011. The asset-based revolving credit facility restricts the amount of dividends the Company can pay and is secured by the assets of the Company not otherwise encumbered.

The Company's \$100 million second lien term loan matures in November 2014 and limits the combined borrowings under its asset-based revolving credit facility and the second lien term loan based on a borrowing base calculation that includes customer accounts receivable, inventory and real estate. The loan bears interest at the greater of LIBOR or 3.0%, plus a spread of 1150 basis points. The agreement also contains certain prepayment penalties should the Company choose to prepay all or a portion of the term loan prior to its maturity date. If a prepayment is made prior to the first anniversary date in November 2011, the Company would be required to pay a prepayment fee equal to the greater of interest owed for the remainder of the first year or 5% of the principal amount being paid. Prepayments made prior the second and third anniversaries of the closing date and the maturity date of the loan would incur prepayment penalties of 3%, 2% and 1%, respectively, for prepayments occurring between each of those dates. Additionally, there are separate prepayment premiums required, along with mandatory prepayments, if the Company completes a permitted disposition of eligible real estate or incurs permitted debt related to other financing transactions, such as an asset-backed securitization, high-yield notes offering, or financing of eligible real estate. The covenants under the term loan are consistent with the covenant requirement of the asset-based revolving credit facility. Additionally, the agreement contains cross-default provisions, such that, any default under another of the Company's credit facilities would result in a default under this agreement, and any default under this agreement would result in a default under those agreements.

The Company expects, based on current facts and circumstances that it will be in compliance with the above covenants for the next 12 months.

As of April 30, 2011, the Company had approximately \$104.1 million under its asset-based revolving credit facility, net of standby letters of credit issued immediately available for general corporate purposes, before considering the \$25 million minimum availability requirement. The Company also had \$43.0 million that may become available under its asset-based revolving credit facility as it grows the balance of eligible customer receivables and its total eligible inventory balances.

The Company's asset-based revolving credit facility provides it the ability to utilize letters of credit to secure its deductibles under the Company's property and casualty insurance programs and risk reserves for certain of our third-party financing alternatives, among other acceptable uses. At April 30, 2011, the Company had outstanding letters of credit of \$1.9 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 \$1.9 million as of April 30, 2011.

The Company held interest rate swaps with notional amounts totaling \$10.0 million as of April 30, 2011, 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 April 30, 2011, the estimated net amount of loss that is expected to be reclassified into earnings within the next twelve months is \$0.1 million.

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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, 2011		April 30, 2011	
	Balance		Balance	
	Sheet	Fair Value	Sheet	Fair Value
	Location		Location	Fair Value
Derivatives designated as hedging instruments under				
Interest rate contracts	Accrued expenses	\$ 110	Accrued expenses	\$ 37
Total derivatives designated as hedging instruments		\$ 110		\$ 37

Derivatives in	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) Three Months Ended April 30,		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) Three Months Ended April 30,		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 April 30,	
	2010	2011		2010	2011		2010	2011
Cash Flow Hedging Relationships								
Interest Rate Contracts	\$ (55)	\$ (47)	Interest expense	\$ (98)	\$ (62)	Interest expense	\$ -	\$ -
Total	\$ (55)	\$ (47)		\$ (98)	\$ (62)		\$ -	\$ -

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, which are not expected to be material. These estimates have been developed in consultation with counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. 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

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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, 2011, and April 30, 2011, were \$6.5 million and \$6.8 million, respectively, and are included in Deferred revenue and allowances in the accompanying consolidated balance sheets.

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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:

(Dollars in thousands)	Three Months Ended April 30,	
	2010	2011
Balance in deferred revenues at beginning of period	\$ 7,268	\$ 6,486
Revenues earned during the period	(1,787)	(1,458)
Revenues deferred on sales of new agreements	1,801	1,760
Balance in deferred revenues at end of period	\$ 7,282	\$ 6,788
Total claims incurred during the period, excludes selling expenses	\$ 886	\$ 669

6. Segment Reporting

Financial information by segment is presented in the following tables for the three months ended April 30, 2010 and 2011:

(Dollars in thousands)	Three Months Ended April 30,					
	Retail	2010 Credit	Total	Retail	2011 Credit	Total
Revenues						
Product sales	\$ 149,015	\$ -	\$ 149,015	\$ 144,279	\$ -	\$ 144,279
Repair service agreement commissions (net) (a)	9,851	(1,790)	8,061	8,902	(1,380)	7,522
Service revenues	4,757	-	4,757	3,889	-	3,889
Total net sales	163,623	(1,790)	161,833	157,070	(1,380)	155,690
Finance charges and other	249	35,827	36,076	225	33,394	33,619
Total revenues	163,872	34,037	197,909	157,295	32,014	189,309
Cost and expenses						
Cost of goods and parts sold, including warehousing and occupancy costs	116,592	-	116,592	111,440	-	111,440
Selling, general and administrative expense (b) (c)	41,785	16,547				