CONNS INC
Form 10-K
March 27, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended January 31, 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
(Address of Principal Executive Offices)

(409) 832-1696
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, par value $0.01 per share	The NASDAQ Global Select Market, Inc.

Securities registered pursuant to Section 12(g) of the Act:
NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. 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 [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of July 31, 2007, was approximately $205.8 million based on the closing price of the registrant's common stock as reported on the NASDAQ Global Select Market, Inc.

There were 22,374,966 shares of common stock, $0.01 par value per share, outstanding on March 25, 2008.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Definitive Proxy Statement for the Annual Meeting of Stockholders to be held June 3, 2008 (incorporated herein by reference in Part III).

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PART I

ITEM 1. BUSINESS.

Unless the context indicates otherwise, references to "we," "us," and "our" refer to the consolidated business operations of Conn's, Inc. and all of its direct and indirect subsidiaries, limited liability companies and limited partnerships.

Overview

We are a specialty retailer of home appliances and consumer electronics. We sell home appliances including refrigerators, freezers, washers, dryers, dishwashers and ranges, and 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. We also sell home office equipment, lawn and garden equipment, mattresses and furniture and we continue to introduce additional product categories for the home and for consumer entertainment, such as GPS devices, to help increase same store sales and to respond to our customers' product needs. We offer over 2,800 product items, or SKUs, at good-better-best price points representing such national brands as General Electric, Whirlpool, Electrolux, Frigidaire, Maytag, LG, Mitsubishi, Samsung, Sony, Toshiba, Hitachi, Serta, Simmons, Ashley, Lane, Hewlett Packard, Compaq, Poulan, Husqvarna and Toro. Based on revenue in 2006, we were the 9th largest retailer of home appliances and the 37th largest retailer of consumer electronics in the United States.

We began as a small plumbing and heating business in 1890. We began selling home appliances to the retail market in 1937 through one store located in Beaumont, Texas. We opened our second store in 1959 and have since grown to 69 stores.

We have been known for providing excellent customer service for over 115

years. We believe that our customer-focused business strategies make us an attractive alternative to appliance and electronics superstores, department stores and other national, regional and local retailers. We strive to provide our customers with:

- a high level of customer service;
- highly trained and knowledgeable sales personnel;
- a broad range of competitively priced, customer-driven, brand name products;
- flexible financing alternatives through our proprietary credit programs;
- next day delivery capabilities; and
- outstanding product repair service.

We believe that these strategies drive repeat purchases and enable us to generate substantial brand name recognition and customer loyalty. During fiscal 2008, approximately 63% of our credit customers, based on the number of invoices written, were repeat customers.

In 1994, we realigned and added to our management team, enhanced our infrastructure and refined our operating strategy to position ourselves for future growth. From fiscal 1994 to fiscal 1999, we selectively grew our store base from 21 to 26 stores while improving operating margins from 5.2% to 8.7%. Since fiscal 1999, we have generated significant growth in our number of stores, revenue and profitability. Specifically:

- we have grown from 26 stores to 69 stores, an increase of over 165%, with several more stores currently under development;
- total revenues have grown 251%, at a compounded annual rate of 15.0%, from $234.5 million in fiscal 1999, to $824.1 million in fiscal 2008;

- net income from continuing operations has grown 351%, at a compounded annual rate of 18.5%, from $8.8 million in fiscal 1999 to $39.7 million in fiscal 2008; and
- our same store sales growth from fiscal 1999 through fiscal 2008 has averaged 8.1%; it was 3.2% for fiscal 2008. See additional discussion about same store sales under Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our principal executives offices are located at 3295 College Street, Beaumont, Texas 77701. Our telephone number is (409) 832-1696, and our corporate website is www.conns.com. We do not intend for information contained on our website to be part of this Form 10-K.

Corporate Reorganization

We were formed as a Delaware corporation in January 2003 with an initial capitalization of $1,000 to become the holding company of Conn Appliances, Inc., a Texas corporation. Prior to the completion of our initial public offering (the IPO) in November 2003, we had no operations. As a result of the IPO, Conn Appliances, Inc. became our wholly-owned subsidiary and the common and preferred stockholders of Conn Appliances, Inc. exchanged their common and preferred stock

on a one-for-one basis for the common and preferred stock of Conn's, Inc. Immediately after the IPO, all preferred stock and accumulated dividends were redeemed, either through the payment of cash or through the conversion of preferred stock to common stock.

Industry Overview

The home appliance and consumer electronics industry includes major home appliances, small appliances, home office equipment and software, LCD, plasma and DLP televisions, and audio, video and portable electronics. Sellers of home appliances and consumer electronics include large appliance and electronics superstores, national chains, small regional chains, single-store operators, appliance and consumer electronics departments of selected department and discount stores and home improvement centers.

Based on data published in Twice, This Week in Consumer Electronics, a weekly magazine dedicated to the home appliances and consumer electronics industry in the United States, the top 100 major appliance retailers reported sales of approximately $24.0 billion in 2006, up approximately 5.3% from reported sales in 2005 of approximately $22.8 billion. The retail appliance market is large and concentrated among a few major dealers. Sears has been the leader in the retail appliance market, with a market share of the top 100 retailers of approximately 37% in 2006 and 39% in 2005. Lowe's and Home Depot held the second and third place positions, respectively, in national market share in 2006. Based on revenue in 2006, we were the 9th largest retailer of home appliances in the United States.

As measured by Twice, the top 100 consumer electronics retailers in the United States reported equipment and software sales of $113.1 billion in 2006, a 4.2% increase from the $108.5 billion reported in 2005. According to the Consumer Electronics Association, or CEA, total industry manufacturer sales of consumer electronics products in the United States, are projected to exceed $171.6 billion in 2008, up 6.1% from $161.7 billion in 2007. The consumer electronics market is highly fragmented. We estimate, based on data provided in Twice, that the two largest consumer electronics superstore chains together accounted for approximately 35% of the total electronics sales attributable to the 100 largest retailers in 2006. Based on revenue in 2006, we were the 37th largest retailer of consumer electronics in the United States. New entrants in both the home appliances and consumer electronics industries have been successful in gaining market share by offering similar product selections at lower prices.

In the home appliance market, many factors drive growth, including consumer confidence, household formations and new product introductions. Product design and innovation is rapidly becoming a key driver of growth in this market. Products recently introduced include high efficiency, front-loading laundry appliances and three door refrigerators, and variations on these products, including new features. Additionally, product appearance, including new color options and stainless steel appliances, is stimulating consumer interest.

Technological advancements and the introduction of new products have largely driven growth in the consumer electronics market. Recently, industry growth has been fueled primarily by the introduction of products that incorporate digital technology, such as portable and traditional DVD players, digital cameras and camcorders, digital stereo receivers, satellite technology, MP3 products and high definition flat-panel and projection televisions. Digital products offer significant advantages over their analog counterparts, including better clarity and quality of video and audio, durability of recording and compatibility with computers. Due to these advantages, we believe that digital technology will continue to drive industry growth as consumers replace their

analog products with digital products. We believe the following product advancements will continue to fuel growth in the consumer electronics industry and that they offer us the potential for significant sales growth:

- Digital Television (DTV and High Definition TV). The Federal Communications Commission has set a date of February 17, 2009, for all commercial television stations to transition from broadcasting analog signals to digital signals. The Yankee Group, a communications and networking research and consulting firm, estimates that by the year 2010, HDTV signals will be in nearly 80 million homes in the United States. To view a digital transmission, consumers will need either a digital television or a set-top box converter capable of converting the digital broadcast for viewing on an analog set. We believe the high clarity digital flat-panel televisions in both LCD, and plasma formats has increased the quality and sophistication of these entertainment products and will be a key driver of digital television growth as more digital and high definition content is made available either through traditional distribution methods or through emerging content delivery systems. As prices continue to drop on such products, they become increasingly attractive to larger and more diverse groups of consumers.

- Digital Versatile Disc (DVD). According to the CEA, the DVD player has been the fastest growing consumer electronics product in history. First introduced in March 1997, DVD players are currently in 85% of U.S. homes. We believe newer technology, such as Blu-ray high definition DVD, and portable players will continue to drive consumer interest in this entertainment category.

- Portable electronics. GPS devices are growing in popularity with consumers. With only 10% of U. S. drivers currently using GPS devices, we believe this type of product represents a significant consumer electronics growth opportunity.

Business Strategy

Our objective is to be the leading specialty retailer of home appliances and consumer electronics in each of our markets. We strive to achieve this objective through a continuing focus on superior execution in five key areas: merchandising, consumer credit, distribution, product service and training. Successful execution in each area relies on the following strategies:

- Offering a broad range of customer-driven, brand name products. We offer a comprehensive selection of high-quality, brand name merchandise to our customers at guaranteed low prices. Consistent with our good-better-best merchandising strategy, we offer a wide range of product selections from entry-level models through high-end models. We maintain strong relationships with the approximately 100 manufacturers and distributors that enable us to offer over 2,800 SKUs to our customers. Our principal suppliers include General Electric, Whirlpool, Frigidaire, Maytag, LG, Mitsubishi, Samsung, Sony, Toshiba, Hitachi, Serta, Simmons, Ashley, Lane, Hewlett Packard, Compaq, Poulan, Husqvarna and Toro. To facilitate our responsiveness to customer demand, we test the sales process of all new products and obtain customers' reactions to new display formats before introducing these products and display formats to all of our stores.

- Offering flexible financing alternatives through our proprietary credit programs. In the last three years, we financed, on average, approximately 59% of our retail sales through our internal credit

programs. We believe our credit programs expand our potential customer base, increase our sales revenue and enhance customer loyalty by providing our customers immediate access to financing alternatives that our competitors typically do not offer. Our credit department makes all credit decisions internally, entirely independent of our sales personnel. We provide special consideration to customers with credit history with us. Before extending credit, we match our loss experience by product category with the customer's credit worthiness to determine down payment amounts and other credit terms. This facilitates product sales while keeping our o credit risk within an acceptable range. We provide a full range of credit products, including interest-free programs for the highest credit quality customers and our secondary portfolio for our credit challenged customers. The secondary portfolio, which has generally lower average credit scores than our primary portfolio, undergoes more intense internal underwriting scrutiny to mitigate the inherently greater risk. Approximately 56% of customers who have active credit accounts with us take advantage of our in-store payment option and come to our stores each month to make their payments, which we believe results in additional sales to these customers. We contact customers with past due accounts daily and attempt to work with them to collect payments in times of financial difficulty or periods of economic downturn. Our experience in credit underwriting and the collections process has enabled us to achieve an average net loss ratio of 2.9% over the past three years on the credit portfolio that we service for a Qualifying Special Purpose Entity or QSPE.

- Maintaining next day distribution capabilities. We maintain five regional distribution centers and three other related facilities that cover all of the major markets in which we operate. These facilities are part of a sophisticated inventory management system that also includes a fleet of approximately 105 transfer and delivery vehicles that service all of our markets. Our distribution operations enable us to deliver products on the day after the sale for approximately 93% of our customers who scheduled delivery during that timeframe.

- Providing outstanding product repair service. We service every product that we sell, and we service only the products that we sell. In this way, we can assure our customers that they will receive our service technicians' exclusive attention to their product repair needs. All of our service centers are authorized factory service facilities that provide trained technicians to offer in-home diagnostic and repair service utilizing a fleet of approximately 130 service vehicles as well as on-site service and repairs for products that cannot be repaired in the customer's home.

- Developing and retaining highly trained and knowledgeable sales personnel. We require all sales personnel to specialize in home appliances or consumer electronics. Some of our sales associates qualify in more than one specialty. This specialized approach allows the sales person to focus on specific product categories and become an expert in selling and using products in those categories. New sales personnel must complete an intensive classroom training program and an additional week of on-the-job training riding in a delivery truck and a service truck to observe how we serve our customers after the sale is made.

- Providing a high level of customer service. We endeavor to maintain a very high level of customer service as a key component of our culture, which has resulted in average customer satisfaction levels of approximately 91% over the past three years. We measure customer satisfaction on the sales floor, in our delivery operation and in our service department by sending survey cards to all customers to whom we have delivered or installed a product or made a service call. Our customer service resolution department attempts to address all customer complaints within 48 hours of receipt.

Store Development and Growth Strategy

In addition to executing our business strategy, we intend to continue to achieve profitable, controlled growth by increasing same store sales, opening new stores and updating, expanding or relocating our existing stores.

- Increasing same store sales. We plan to continue to increase our same store sales by:
  - continuing to offer quality products at competitive prices;
  - re-merchandising our product offerings in response to changes in consumer interest and demand;
  - adding new merchandise to our existing product lines;
  - training our sales personnel to increase sales closing rates;
  - updating our stores as needed;
  - continuing to promote sales of computers and smaller electronics, such as video game equipment and GPS devices, including the expansion of high margin accessory items;

  - continuing to provide a high level of customer service in sales, delivery and servicing of our products; and
  - increasing sales of our merchandise, finance products, service maintenance agreements and credit insurance through direct mail and in-store credit promotion programs.
- Opening new stores. We intend to take advantage of our reliable infrastructure and proven store model to continue the pace of our new store openings by opening seven to ten new stores in fiscal 2009. This infrastructure includes our proprietary management information systems, training processes, distribution o network, merchandising capabilities, supplier relationships, product service capabilities and centralized credit approval and collection management processes. We intend to expand our store base in existing, adjacent and new markets, as follows:
  - Existing and adjacent markets. We intend to increase our market presence by opening new stores in our existing markets and in adjacent markets as we identify the need and opportunity. New store openings in these locations will allow us to maximize opportunity in those markets and leverage our existing distribution network, advertising

presence, brand name recognition and reputation. In fiscal 2008, we opened new stores in Houston, Dallas, San Antonio and Brownsville.

- New markets. During fiscal 2008, we opened our first store in Oklahoma City, Oklahoma and have identified several new markets that meet our criteria for site selection. We intend to consider these new markets, as well as others, over the next several fiscal years. We intend to first address markets in states in which we currently operate. We expect that this new store growth will include major metropolitan markets in Texas and have also identified a number of smaller markets within Texas and Louisiana in which we expect to explore new store opportunities. Our long-term growth plans include markets in other areas of significant population density in neighboring states.

- Updating, expanding or relocating existing stores. Over the last three years, we have updated, expanded or relocated many of our stores. We continue to update our prototype store model and implement it at new locations and in existing locations in which the market demands support the required design changes. As we continue to add new stores or replace existing stores, we intend to modify our floor plan to include elements of this new model. We continuously evaluate our existing and potential sites to ensure our stores are in the o best possible locations and relocate stores that are not properly positioned. We typically lease rather than purchase our stores to retain the flexibility of managing our financial commitment to a location if we later decide that the store is performing below our standards or the market would be better served by a relocation. After updating, expanding or relocating a store, we expect to increase same store sales at those stores.

The addition of new stores and new and expanded product categories has played, and we believe will continue to play, a significant role in our continued growth and success. We currently operate 69 retail stores located in Texas, Louisiana and Oklahoma. We opened six stores in each of fiscal 2006 and 2007 and seven stores in fiscal 2008. Additionally, we relocated one store during fiscal 2008. We plan to continue our store development program by opening an additional seven to ten new stores, or an approximately 10% increase in total retail floor space, per year and continue to update a portion of our existing stores each year. We believe that continuing our strategies of updating existing stores, growing our store base and locating our stores in desirable geographic markets are essential for our future success.

Customers

We do not have a significant concentration of sales with any individual customer and, therefore, the loss of any one customer would not have a material impact on our business. No single customer accounts for more than 10% of our total revenues; in fact, no single customer accounted for more than $500,000 (less than 0.1%) of our total revenue of $824.1 million during the year ended January 31, 2008.

Products and Merchandising

Product Categories. Each of our stores sells five major categories of products: home appliances, consumer electronics, computers and peripheral equipment, delivery and installation services and other household products,

including furniture, lawn and garden equipment and mattresses. The following table, which has been adjusted from previous filings to ensure comparability, presents a summary of total revenues for the years ended January 31, 2006, 2007, and 2008:

	Year Ended January 31,					
	2006		2007		2008	
	Amount	%	Amount	%	Amount	%
Home appliances	$ 224,032	32.0%	$ 231,156	30.4%	$ 223,967	27.2
Consumer electronics	186,671	26.6	214,285	28.2	244,040	29.6
Track	99,031	14.1	94,188	12.4	102,031	12.4
Delivery	9,344	1.3	11,380	1.5	12,524	1.5
Lawn and garden	17,561	2.5	16,741	2.2	20,914	2.5
Bedding	13,120	1.9	17,721	2.3	16,424	2.0
Furniture	15,320	2.2	33,357	4.4	46,373	5.6
Other	4,798	0.7	5,131	0.6	5,298	0.7
Total product sales	569,877	81.3	623,959	82.0	671,571	81.5
Service maintenance agreement commissions	30,583	4.3	30,567	4.0	36,424	4.4
Service revenues	20,278	2.9	22,411	3.0	22,997	2.8
Total net sales	620,738	88.5	676,937	89.0	730,992	88.7
Finance charges and other	80,410	11.5	83,720	11.0	93,136	11.3
Total revenues	$ 701,148	100.0%	$ 760,657	100.0%	$ 824,128	100.0

Within these major product categories (excluding service maintenance agreements, service revenues and delivery and installation), we offer our customers over 2,800 SKU's in a wide range of price points. Most of these products are manufactured by brand name companies, including General Electric, Whirlpool, Frigidaire, Maytag, LG, Mitsubishi, Samsung, Sony, Toshiba, Hitachi, Serta, Simmons, Ashley, Lane, Hewlett Packard, Compaq, Poulan, Husqvarna and Toro. As part of our good-better-best merchandising strategy, our customers are able to choose from products ranging from low-end to mid- to high-end models in each of our key product categories, as follows:

Category	Products	Selected Bra
Home appliances	Refrigerators, freezers, washers, dryers, ranges, dishwashers, built-ins, air conditioners and vacuum cleaners	General Electric, Frigi Whirlpool, Maytag, LG, Sharp, Friedrich, Roper Eureka
Consumer electronics	LCD, plasma, and DLP televisions, and home theater systems	Sony, Samsung, Mitsubis Toshiba, Hitachi, Yamah
Track	Computers, computer peripherals, camcorders, digital cameras, DVD players, audio components, compact disc players, GPS devices, video game equipment, speakers and portable	Hewlett Packard, Compaq Garmin, Nintendo, Micro Yamaha

	electronics (e.g. iPods)	
Other	Lawn and garden, furniture and mattresses	Poulan, Husqvarna, Toro Weedeater, Ashley, Lane Simmons and Serta

Purchasing. We purchase products from over 100 manufacturers and distributors. Our agreements with these manufacturers and distributors typically cover a one or two year time period, are renewable at the option of the parties and are terminable upon 30 days written notice by either party. Similar to other specialty retailers, we purchase a significant portion of our total inventory from a limited number of vendors. During fiscal 2008, 54.8% of our total inventory purchases were from six vendors, including 13.1%, 13.0% and 9.1% of our total inventory from Whirlpool, Samsung and Electrolux, respectively. The loss of any one or more of these key vendors or our failure to establish and maintain relationships with these and other vendors could have a material adverse effect on our results of operations and financial condition. We have no indication that any of our suppliers will discontinue selling us merchandise. We have not experienced significant difficulty in maintaining adequate sources of merchandise, and we generally expect that adequate sources of merchandise will continue to exist for the types of products we sell.

Merchandising Strategy. We focus on providing a comprehensive selection of high-quality merchandise to appeal to a broad range of potential customers. Consistent with our good-better-best merchandising strategy, we offer a wide range of product selections from entry-level models through high-end models. We primarily sell brand name warranted merchandise. Our established relationships with major appliance and electronic vendors and our affiliation with NATM, a major buying group with $3.8 billion in purchases annually, give us purchasing power that allows us to offer custom-featured appliances and electronics and provides us a competitive selling advantage over other independent retailers. As part of our merchandising strategy, we operate four clearance centers with two in Houston, one in San Antonio and one in Dallas to help sell damaged, used or discontinued merchandise.

Pricing. We emphasize competitive pricing on all of our products and maintain a low price guarantee that is valid in all markets for 10 to 30 days after the sale, depending on the product. At most of our stores, to print an invoice that contains pricing other than the price maintained within our computer system, sales personnel must call a special "hotline" number at the corporate office for approval. Personnel staffing this hotline number are familiar with competitor pricing and are authorized to make price adjustments to fulfill our low price guarantee when a customer presents acceptable proof of the competitor's lower price. This centralized function allows us to maintain control of pricing and gross margins, and to store and retrieve pricing data of our competitors.

Customer Service

We focus on customer service as a key component of our strategy. We believe our next day delivery option is one of the keys to our success. Additionally, we attempt to answer and resolve all customer complaints within 48 hours of receipt. We track customer complaints by individual salesperson, delivery person and service technician. We send out over 38,000 customer satisfaction survey cards each month covering all deliveries and service calls. Based upon a response rate from our customers of approximately 15%, we consistently report an average customer satisfaction level of approximately 91%.

Store Operations

Stores. At the end of fiscal 2008 we operated 69 retail and clearance stores located in Texas, Louisiana and Oklahoma. The following table illustrates our markets, the number of freestanding and strip mall stores in each market and the calendar year in which we opened our first store in each market:

	Number of Stores		
Market	Stand Alone	Strip Mall	First Store Opened
Houston	6	16	1983
San Antonio/Austin	6	9	1994
Golden Triangle (Beaumont, Port Arthur and Orange, Texas and Lake Charles, Louisiana)	1	4	1937
Baton Rouge/Lafayette	1	4	1975
Corpus Christi	1	0	2002
Dallas/Fort Worth	1	16	2003
South Texas	0	3	2004
Oklahoma	0	1	2008
Total	16	53	

Our stores have an average selling space of approximately 22,000 square feet, plus a rear storage area averaging approximately 5,500 square feet for fast-moving or smaller products that customers prefer to carry out rather than wait for in-home delivery. Four of our stores are clearance centers for discontinued product models and damaged merchandise, returns and repossessed product located in our San Antonio, Houston and Dallas markets and contain 48,800 square feet of combined selling space. All stores are open from 10:00 a.m. to 9:30 p.m. Monday through Friday, from 9:00 a.m. to 9:30 p.m. on Saturday, and from 11:00 a.m. to 7:00 p.m. on Sunday. We also offer extended store hours during the holiday selling season.

Approximately 77% of our stores are located in strip shopping centers and regional malls, with the balance being stand-alone buildings in "power centers" of big box consumer retail stores. All of our locations have parking available immediately adjacent to the store's front entrance. Our storefronts have a distinctive front that guides the customer to the entrance of the store. Inside the store, a large colorful tile track circles the interior floor of the store. One side of the track leads the customer to major appliances, while the other side of the track leads the customer to a large display of television and projection television products. The inside of the track contains various home office and consumer electronic products such as computers, laptops, printers, DVD players, camcorders, digital cameras, MP3 players, video game equipment and GPS devices. Mattresses, furniture and lawn and garden equipment displays occupy the rear of the sales floor. To reach the cashier's desk at the center of the track area, our customers must walk past our products. We believe this increases sales to customers who have purchased products from us on credit in the past and who return to our stores to make their monthly credit payments.

We have updated many of our stores in the last three years. We expect to continue to update our stores as needed to address each store's specific needs. All of our updated stores, as well as our new stores, include modern interior selling spaces featuring attractive signage and display areas specifically designed for each major product type. Our prototype store for future expansion has from 20,000 to 25,000 square feet of retail selling space, which approximates the average size of our existing stores and a rear storage area of between 5,000 and 7,000 square feet. Our investment to update our stores has averaged approximately $105,000 per store over the past three years, and as a

result of the updating, we expect to increase same store sales at those stores. Over the last three years, we have invested approximately $5.1 million updating, refurbishing or relocating our existing stores.

Site Selection. Our stores are typically located adjacent to freeways or major travel arteries and in the vicinity of major retail shopping areas. We prefer to locate our stores in areas where our prominent storefront will be the anchor of the shopping center or readily visible from major thoroughfares. We also attempt to locate our stores in the vicinity of major home appliance and electronics superstores. We have typically entered major metropolitan markets where we can potentially support at least 10 to 12 stores. We believe this number of stores allows us to optimize advertising and distribution costs. We have and may continue to elect to experiment with opening lower numbers of new stores in smaller communities where customer demand for products and services outweighs any extra cost. Other factors we consider when evaluating potential markets include the distance from our distribution centers, our existing store locations and store locations of our competitors and population, demographics and growth potential of the market.

Store Economics. We lease 64 of our 69 current store locations, with an average monthly rent of $20,000. Our average per store investment for the 12 new leased stores we have opened in the last two years was approximately $1.6 million, including leasehold improvements, fixtures and equipment and inventory (net of accounts payable). Our total investment for the location that was built in the last two years totaled approximately $6.8 million, including land, buildings, fixtures and equipment and inventory (net of accounts payable). For these new stores, excluding the clearance center, the net sales per store have averaged $0.7 million per month.

Our new stores have typically been profitable on an operating basis within their first three to six months of operation and, on average have returned our net cash investment in 20 months or less. We consider a new store to be successful if it achieves $8 million to $9 million in sales volume and 2% to 5% in operating margins before other ancillary revenues and allocations of overhead and advertising in the first full year of operation. We expect successful stores that have matured, which generally occurs after two to three years of operations, to generate annual sales of approximately $12 million to $15 million and 5% to 9% in operating margins before other ancillary revenues and overhead and allocations. However, depending on the credit and insurance penetration of an individual store, we believe that a store that does not achieve these levels of sales can still contribute significantly to our pretax margin.

Personnel and Compensation. We staff a typical store with a store manager, an assistant manager, an average of 20 sales personnel and other support staff including cashiers and/or porters based on store size and location. Managers have an average tenure with us exceeding five years and typically have prior sales floor experience. In addition to store managers, we have four district managers that generally oversee from seven to ten stores in each market. Our district managers generally have six to twenty years of sales experience and report to our senior vice president of sales, who has over twenty years of sales experience.

We compensate the majority of our sales associates on a straight commission arrangement, while we generally compensate store managers on a salary basis plus incentives and cashiers at an hourly rate. In some instances, store managers receive earned commissions plus base salary. We believe that because our store compensation plans are tied to sales, they generally provide us an advantage in attracting and retaining highly motivated employees.

Training. New sales personnel must complete an intensive classroom training program conducted in each of our markets. We then require them to spend an additional week riding in delivery and service trucks to gain an understanding of how we serve our customers after the sale is made. Installation and delivery staff and service personnel receive training through an on-the-job program in which individuals are assigned to an experienced installation and delivery or service employee as helpers prior to working alone. In addition, our employees benefit from on-site training conducted by many of our vendors.

We attempt to identify store manager candidates early in their careers with us and place them in a defined program of training. They generally first attend our in-house training program, which provides guidance and direction for the development of managerial and supervisory skills. They then attend a Dale Carnegie certified management course that helps solidify their management knowledge and builds upon their internal training. After completion of these training programs, manager candidates work as assistant managers for six to twelve months and are then allowed to manage one of our smaller stores, where they are supervised closely by the store's district manager. We give new managers an opportunity to operate larger stores as they become more proficient in their management skills. Each store manager attends mandatory training sessions on a monthly basis and also attends bi-weekly sales training meetings where participants receive and discuss new product information.

Marketing

We design our marketing and advertising programs to increase our brand name recognition, educate consumers about our products and services and generate customer traffic in order to increase sales. We conduct our advertising programs primarily through newspapers, radio and television stations and direct marketing through direct mail, telephone and our website. Our promotional programs include the use of discounts, rebates, product bundling and no-interest financing plans.

Our website, www.conns.com, provides customers the ability to purchase our products on-line, offers information about our selection of products and provides useful information to the consumer on pricing, features and benefits for each product, in addition to required corporate governance information. Our website also allows the customers residing in the markets in which we operate retail locations to apply and be considered for credit. The website currently averages approximately 11,000 visits per day from potential and existing customers and during fiscal 2008, was the source of credit applications. The website is linked to a call center, allowing us to better assist customers with their credit and product needs.

Distribution and Inventory Management

We typically locate our stores in close proximity of our five regional distribution centers located in Houston, San Antonio, Dallas and Beaumont, Texas and Lafayette, Louisiana and smaller cross-dock facilities in Austin and Harlingen, Texas and Oklahoma City, Oklahoma. This enables us to deliver products to our customers quickly, reduces inventory requirements at the individual stores and facilitates regionalized inventory and accounting controls.

In our retail stores we maintain an inventory of fast-moving items and products that the customer is likely to carry out of the store. Our sophisticated Distribution Inventory Sales computer system and the use of scanning technology in our distribution centers allow us to determine, on a real-time basis, the exact location of any product we sell. If we do not have a product at the desired retail store at the time of sale, we can provide it through our distribution system on a next day basis.

We maintain a fleet of tractors and trailers that allow us to move products from market to market and from distribution centers to stores to meet customer needs. Our fleet of home delivery vehicles enables our highly-trained delivery and installation specialists to quickly complete the sales process, enhancing customer service. We receive a delivery fee based on the products sold and the services needed to complete the delivery. Additionally, we are able to complete deliveries to our customers on the day after the sale for approximately 93% of our customers who have scheduled delivery during that timeframe.

Finance Operations

General. We sell our products for cash or for payment through major credit cards, in addition to offering our customers several financing alternatives through our proprietary credit programs. In the last three fiscal years, we financed, on average, approximately 59% of our retail sales through one of our two credit programs. We offer our customers a choice of installment payment plans and revolving credit plans through our primary credit portfolio. We also offer an installment program through our secondary credit portfolio to a limited number of customers who do not qualify for credit under our primary credit portfolio. Additionally, the most credit worthy customers in our primary credit portfolio may be eligible for no-interest financing plans. The following table shows our product and service maintenance agreements sales, net of returns and allowances, by method of payment for the periods indicated.

	Year Ended January 31,					
	2006		2007		2008	
	Amount	%	Amount	%	Amount	%
Cash and other credit cards..	$ 254,047	42.3%	$ 274,533	42.0%	$ 267,931	37.8%
Primary credit portfolio:						
Installment.....	263,667	43.9	262,653	40.1	340,274	48.1
Revolving.....	30,697	5.1	43,225	6.6	34,025	4.8
Secondary credit portfolio...	52,049	8.7	74,115	11.3	65,765	9.3
Total.....	$ 600,460	100.0%	$ 654,526	100.0%	$ 707,995	100.0%

Credit Approval. Our credit programs are managed by our centralized credit underwriting department staff, independent of sales personnel. As part of our centralized credit approval process, we have developed a proprietary standardized scoring model that provides preliminary credit decisions, including down payment amounts and credit terms, based on both customer and product risk. The weighted average origination credit score of the receivables included in the sold portfolio was 611 at January 31, 2008, excluding bankruptcy accounts and accounts that had no credit score. While we automatically approve some credit applications from customers, approximately 92% of our credit decisions are based on evaluation of the customer's creditworthiness by a qualified credit grader. As of January 31, 2008, we employed over 450 full-time and part-time employees who focus on credit approval, collections and credit customer service. Employees in these operational areas are trained to follow our strict methodology in approving credit, collecting our accounts, and charging off any uncollectible accounts based on pre-determined aging criteria, depending on their area of responsibility.

A significant part of our ability to control delinquency and net charge-off is based on the level of down payments that we require and the purchase money security interest that we obtain in the product financed, which reduce our credit risk and increase our customers' ability and willingness to meet their future obligations. We require the customer to purchase or provide proof of credit property insurance coverage to offset potential losses relating to theft or damage of the product financed.

Installment accounts are paid over a specified period of time with set monthly payments. Revolving accounts provide customers with a specified amount which the customer may borrow, repay and re-borrow so long as the credit limit is not exceeded. Most of our installment accounts provide for payment over 12 to 36 months, with the average account in the primary credit portfolio remaining outstanding for approximately 12 to 14 months. Our revolving accounts remain outstanding approximately 13 to 15 months. During fiscal 2008, approximately 12% of the applications approved under the primary program were approved automatically through our computer system based on the customer's credit history. The remaining applications, of both new and repeat customers, are sent to an experienced in-house credit grader.

We created our secondary credit portfolio program to meet the needs of those customers who do not qualify for credit under our primary program, typically due to past credit problems or lack of credit history. If we cannot approve a customer's application for credit under our primary portfolio, we automatically send the application to the credit staff of our secondary portfolio for further consideration, using stricter underwriting criteria. The additional requirements include verification of employment and recent work history, reference checks and higher required down payment levels. We offer only the installment program to those customers that qualify under these stricter underwriting criteria. An experienced, in-house credit grader administers the credit approval process for all applications received under our secondary portfolio program. Most of the installment accounts approved under this program provide for repayment over 12 to 36 months, with the average account was remaining outstanding for approximately 18 to 20 months.

The following tables present, for comparison purposes, information regarding our two credit portfolios.

	Primary Portfolio (1)		
	Year Ended January 31,		
	2006	2007	2008
	(total outstanding balance in thousands)		
Total outstanding balance (period end)	$ 421,649	$ 435,607	$ 511,586
Average outstanding customer balance	$ 1,284	$ 1,250	$ 1,287
Number of active accounts (period end)	328,402	348,593	397,606
Total applications processed (2)	684,674	778,784	823,627
Percent of retail sales financed	49.0%	46.7%	52.9%
Total applications approved	52.8%	45.8%	48.6%
Average down payment	7.6%	10.6%	7.4%
Average interest spread (3)	12.0%	11.0%	12.9%

	Secondary Portfolio		
	Year Ended January 31,		

	2006	2007	2008
	(total outstanding balance in thousands)		
Total outstanding balance (period end)	$ 98,072	$ 133,944	$ 143,281
Average outstanding customer balance	$ 1,128	$ 1,212	$ 1,264
Number of active accounts (period end)	86,936	110,472	113,316
Total applications processed (2)	314,698	404,543	400,592
Percent of retail sales financed	8.7%	11.3%	9.3%
Total applications approved	34.1%	32.1%	29.8%
Average down payment	26.4%	25.1%	24.4%
Average interest spread (3)	14.1%	13.5%	14.0%

	Combined Portfolio (1)		
	Year Ended January 31,		
	2006	2007	2008
	(total outstanding balance in thousands)		
Total outstanding balance (period end)	$ 519,721	$ 569,551	$ 654,867
Average outstanding customer balance	$ 1,251	$ 1,241	$1,282
Number of active accounts (period end)	415,338	459,065	510,922
Total applications processed (2)	999,372	1,183,327	1,224,219
Percent of retail sales financed	57.7%	58.0%	62.2%
Total applications approved	44.3%	41.7%	45.3%
Average down payment	10.9%	13.7%	9.9%
Average interest spread (3)	12.4%	11.5%	13.2%

(1) The Primary Portfolio consists of owned and sold receivables.

(2) Unapproved credit applications in the primary portfolio are automatically referred to the secondary portfolio.

(3) Difference between the average interest rate yield on the portfolio and the average cost of funds under the securitization program plus the allocated interest related to funds required to finance the credit enhancement portion of the portfolio. Also reflects the loss of interest income resulting from interest free promotional programs.

Credit Quality. We enter into securitization transactions to sell our retail receivables to a qualifying special purpose entity or QSPE, which we formed for this purpose. After the sale, we continue to service these receivables under a contract with the QSPE. We closely monitor these credit portfolios to identify delinquent accounts early and dedicate resources to contacting customers concerning past due accounts. We believe that our local presence, ability to work with customers and flexible financing alternatives contribute to the historically low net charge-off rates on these portfolios. In addition, our customers have the opportunity to make their monthly payments in our stores, and approximately 56% of our active credit accounts did so at some time during the last 12 months. We believe that these factors help us maintain a relationship with the customer that keeps losses low while encouraging repeat purchases.

Our collection activities involve a combination of efforts that take place in our corporate office and San Antonio collection centers, and outside collection efforts that involve a visit by one of our credit counselors to the customer's home. We maintain a predictive dialer system and letter campaign that helps us contact between 25,000 and 30,000 delinquent customers daily. We also maintain an experienced skip-trace department that utilizes current technology to locate customers who have moved and left no forwarding address. Our outside collectors provide on-site contact with the customer to assist in the collection

process or, if needed, to actually repossess the product in the event of non-payment. Repossessions are made when it is clear that the customer is unwilling to establish a reasonable payment program. Our legal department represents us in bankruptcy proceedings and filing of delinquency judgment claims and helps handle any legal issues associated with the collection process.

Generally, we deem an account to be uncollectible and charge it off if the account is 120 days or more past due and we have not received a payment in the last seven months. Over the last 36 months, we have recovered approximately 12% of charged-off amounts through our collection activities. The income that we realize from our interest in securitized receivables depends on a number of factors, including expected credit losses. Therefore, it is to our advantage to maintain a low delinquency rate and loss ratio on these credit portfolios.

Our accounting and credit staff consistently monitor trends in charge-offs by examining the various characteristics of the charge-offs, including store of origination, product type, customer credit information, down payment amounts and other identifying information. We track our charge-offs both gross, before recoveries, and net, after recoveries. We periodically adjust our credit granting, collection and charge-off policies based on this information.

The following tables reflects the performance of our two credit portfolios, net of unearned interest.

	Primary Portfolio (1)			Secondary P	
	Year Ended January 31,			Year Ended J	
	2006	2007	2008	2006	200
	(dollars in thousands)			(dollars in	
Total outstanding balance (period end)	$ 421,649	$ 435,607	$ 511,586	$ 98,072	$ 133,
Average total outstanding balance	$ 387,464	$ 417,747	$ 465,429	$ 83,461	$ 116,
Account balances over 60 days old (period end)	$ 26,029	$ 26,024	$ 31,558	$ 9,508	$ 11,
Percent of balances over 60 days old to total outstanding (period end) (2)	6.2%	6.0%	6.2%	9.7%	
Bad debt write-offs (net of recoveries)	$ 9,852	$ 13,507	$ 12,429	$ 1,915	$ 3,
Percent of write-offs (net) to average outstanding (3)	2.5%	3.2%	2.7%	2.2%	

	Combined Portfolio (1)		
	Year Ended January 31,		
	2006	2007	2008
	(dollars in thousands)		
Total outstanding balance (period end)	$ 519,721	$ 569,551	$ 654,867
Average total outstanding balance	$ 470,925	$ 534,496	$ 606,628
Account balances over 60 days old (period end)	$ 35,537	$ 37,662	$ 49,778
Percent of balances over 60 days old to total outstanding (period end) (2)	6.8%	6.6%	7.6%
Bad debt write-offs (net of recoveries)	$ 11,767	$ 17,403	$ 17,418

Percent of write-offs (net) to average outstanding (3).....	2.5%	3.3%	2.9%

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(1) The Primary Portfolio consists of owned and sold receivables.

(2) At January 31, 2006, the percent of balances over 60 days old was elevated due to the impact of Hurricanes Katrina and Rita. See additional discussion in Management's Discussion and Analysis of Financial Condition and Results of Operations.

(3) The fiscal year ended January 31, 2007, was impacted by the disruption to our credit collection operations caused by Hurricane Rita.

The following table presents information regarding the growth of our combined credit portfolios, including unearned interest.

	Year Ended January 31,		
	2006	2007	2008
	(dollars in thousands)		
Beginning balance.....	$ 514,204	$ 620,736	$ 675,253
New receivables financed.....	495,553	511,158	615,606
Revolving finance charges.....	3,858	3,892	3,838
Returns on account.....	(5,397)	(5,465)	(5,474)
Collections on account.....	(375,342)	(437,665)	(491,487)
Accounts charged off.....	(14,392)	(19,538)	(19,622)
Recoveries of charge-offs.....	2,252	2,135	2,204
Ending balance.....	620,736	675,253	780,318
Less unearned interest at end of period.....	(101,015)	(105,702)	(125,451)
Total portfolio, net.....	$ 519,721	$ 569,551	$ 654,867

Product Support Services

Credit Insurance. Acting as agents for unaffiliated insurance companies, we sell credit life, credit disability, credit involuntary unemployment and credit property insurance at all of our stores. These products cover payment of the customer's credit account in the event of the customer's death, disability or involuntary unemployment or if the financed property is lost or damaged. We receive sales commissions from the unaffiliated insurance company at the time we sell the coverage, and we recognize retrospective commissions, which are additional commissions paid by the insurance carrier if insurance claims are less than earned premiums.

We require proof of property insurance on all installment credit purchases, although we do not require that customers purchase this insurance from us. During fiscal 2008, approximately 75.2% of our credit customers purchased one or more of the credit insurance products we offer, and approximately 18.9% purchased all of the insurance products we offer. Commission revenues from the sale of credit insurance contracts represented approximately 2.4%, 2.4% and 2.6% of total revenues for fiscal years 2006, 2007 and 2008, respectively.

Warranty Service. We provide service for all of the products we sell and only for the products we sell. Customers purchased service maintenance agreements on products representing approximately 49.4% of our total retail sales for fiscal 2008. These agreements broaden and extend the period of covered manufacturer warranty service for up to five years from the date of purchase,

depending on the product, and cover certain items during the manufacturer's warranty period. These agreements are sold at the time the product is purchased. Customers may finance the cost of the agreements along with the purchase price of the associated product. We contact the customer prior to the expiration of the service maintenance period to provide them the opportunity to renew the period of warranty coverage.

We have contracts with unaffiliated third party insurers that issue the service maintenance agreements to cover the costs of repairs performed by our service department under these agreements. The initial service contract is between the customer and the independent insurance company, but we are the insurance company's first choice to provide service when it is needed. We receive a commission on the sale of the contract, and we bill the insurance company for the cost of the service work that we perform. Commissions earned on the sales of these third party contracts are recognized in revenues at the time of the sale. We are the obligor under renewal contracts sold after the primary warranty and third party service maintenance agreements expire. Under renewal contracts we recognize revenues received, and direct selling expenses incurred, over the life of the contracts, and expense the cost of the service work performed as products are repaired.

Of the 16,000 to 23,000 repairs that we perform each month, approximately 32.6% are covered under these service maintenance agreements, approximately 35.3% are covered by manufacturer warranties and the remainder are "walk-in" repairs from our customers. Revenues from the sale of service maintenance agreements represented approximately 4.9%, 4.5%, and 5.0% of net sales during fiscal years 2006, 2007 and 2008, respectively.

Management Information Systems

We have a fully integrated management information system that tracks, on a real-time basis, point-of-sale information, inventory receipt and distribution, merchandise movement and financial information. The management information system also includes a local area network that connects all corporate users to e-mail, scheduling and various servers. All of our facilities are linked by a wide-area network that provides communication for in-house credit authorization and real-time capture of sales and merchandise movement at the store level. In our distribution centers, we use wireless terminals to assist in receiving, stock put-away, stock movement, order filling, cycle counting and inventory management. At our stores, we currently use desktop terminals to provide sales, and inventory receiving, transferring and maintenance capabilities.

Our integrated management information system also includes extensive functionality for management of the complete credit portfolio life cycle as well as functionality for the management of product service. The credit system continues from our in-house credit authorization through account set up and tracking, credit portfolio condition, collections, credit employee productivity metrics, skip-tracing, and bankruptcy, fraud and legal account management. The service system provides for service order processing, warranty claims processing, parts inventory management, technician scheduling and dispatch, technician performance metrics and customer satisfaction measurement. The sales, credit and service systems share a common customer and product sold database.

Our point of sale system uses an IBM Series i5 hardware system that runs on the i5OS operating system. This system enables us to use a variety of readily available applications in conjunction with software that supports the system. All of our current business application software, except our website, accounting, human resources and credit legal systems, has been developed in-house by our management information system employees. We believe our management information systems efficiently support our current operations and provide a foundation for future growth.

We employ Nortel telephone switches and state of the art Avaya predictive dialers, as well as a redundant data network and cable plant, to improve the efficiency of our collection and overall corporate communication efforts.

As part of our ongoing system availability protection and disaster recovery planning, we have implemented a secondary IBM Series i5 system. We installed and implemented the back-up IBM Series i5 system in our corporate offices to provide the ability to switch production processing from the primary system to the secondary system within thirty minutes should the primary system become disabled or unreachable. The two machines are kept synchronized utilizing third party software. This backup system provides "high availability" of the production processing environment. The primary IBM Series i5 system is geographically removed from our corporate office for purposes of disaster recovery and security. Our disaster recovery plan worked as designed during our evacuation from our corporate headquarters in Beaumont, Texas, due to Hurricane Rita in September 2005. While we were displaced, our store, distribution and service operations that were not impacted by the hurricane continued to have normal system availability and functionality.

Competition

According to Twice, total industry manufacturer sales of home appliances and consumer electronics products in the United States, including imports, to the top 100 dealers were estimated to be $24.0 billion and $113.1 billion, respectively, in 2006. The retail home appliance market is large and concentrated among a few major suppliers. Sears has historically been the leader in the retail home appliance market, with a market share among the top 100 retailers of approximately 39% in 2005 and 37% in 2006. The consumer electronics market is highly fragmented. We estimate that the two largest consumer electronics superstore chains accounted for approximately 32% of the total electronics sales attributable to the 100 largest retailers in 2006. However, new entrants in both industries have been successful in gaining market share by offering similar product selections at lower prices.

As reported by Twice, based upon revenue in 2006, we were the 9th largest retailer of home appliances and the 37th largest retailer of consumer electronics. Our competitors include national mass merchants such as Sears and Wal-Mart, specialized national retailers such as Circuit City and Best Buy, home improvement stores such as Lowe's and Home Depot, and locally-owned regional or independent retail specialty stores. The availability and convenience of the Internet is increasing as a competitive factor in our industry.

We compete primarily based on enhanced customer service through our unique sales force training and product knowledge, next day delivery capabilities, proprietary in-house credit program, guaranteed low prices and product repair service.

Regulation

The extension of credit to consumers is a highly regulated area of our business. Numerous federal and state laws impose disclosure and other requirements on the origination, servicing and enforcement of credit accounts. These laws include, but are not limited to, the Federal Truth in Lending Act, Equal Credit Opportunity Act and Federal Trade Commission Act. State laws impose limitations on the maximum amount of finance charges that we can charge and also impose other restrictions on consumer creditors, such as us, including restrictions on collection and enforcement. We routinely review our contracts and procedures to ensure compliance with applicable consumer credit laws. Failure on our part to comply with applicable laws could expose us to

substantial penalties and claims for damages and, in certain circumstances, may require us to refund finance charges already paid and to forego finance charges not yet paid under non-complying contracts. We believe that we are in substantial compliance with all applicable federal and state consumer credit and collection laws.

Our sale of credit life, credit disability, credit involuntary unemployment and credit property insurance products is also highly regulated. State laws currently impose disclosure obligations with respect to our sales of credit and other insurance products similar to those required by the Federal Truth in Lending Act, impose restrictions on the amount of premiums that we may charge and require licensing of certain of our employees and operating entities. We believe we are in substantial compliance with all applicable laws and regulations relating to our credit insurance business.

Employees

As of January 31, 2008, we had approximately 2,800 full-time employees and 100 part-time employees, of which approximately 1,300 were sales personnel. We offer a comprehensive benefits package including health, life, short and long term disability, and dental insurance coverage as well as a 401(k) plan, employee stock purchase plan, paid vacation and holiday pay. None of our employees are covered by collective bargaining agreements and we believe our employee relations are good. Conn's has formal dispute resolution plan that requires mandatory arbitration for employment related issues. The plan covers all applicants and current employees, and covers former employees who left Conn's on or after March 1, 2006.

Tradenames and Trademarks

We have registered the trademarks "Conn's" and our logos.

Available Information

We are subject to reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, and its rules and regulations. The Exchange Act requires us to file reports, proxy and other information statements and other information with the Securities and Exchange Commission (SEC). Copies of these reports, proxy statements and other information can be inspected and copied at the SEC Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also obtain these materials electronically by accessing the SEC's home page on the internet at www.sec.gov.

Our board has adopted a code of business conduct and ethics for our employees, a code of ethics for our chief executive officer and senior financial professionals and a code of business conduct and ethics for our board of directors. A copy of these codes are published on our website at www.conns.com under "Investor Relations." We intend to make all required disclosures concerning any amendments to, waivers from, these codes on our website. In addition, we make available, free of charge on our internet website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file this material with, or furnish it to, the SEC. You may review these documents, under the heading "Conn's Investor Relations," by accessing our website at www.conns.com. Also, reports and other information concerning us are available for inspection and copying at NASDAQ Capital Markets.

ITEM 1A. RISK FACTORS.

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

OUR SUCCESS DEPENDS ON OUR ABILITY TO OPEN AND OPERATE PROFITABLY NEW STORES IN EXISTING, ADJACENT AND NEW GEOGRAPHIC MARKETS.

We plan to continue our expansion by opening an additional seven to 10 new stores in fiscal 2009. We have not yet selected sites for all of the stores that we plan to open within the next fiscal year. We may not be able to open all of these stores, and any new stores that we open may not be profitable or meet our goals. Any of these circumstances could have a material adverse effect on our financial results.

There are a number of factors that could affect our ability to open and operate new stores consistent with our business plan, including:

- competition in existing, adjacent and new markets;
- competitive conditions, consumer tastes and discretionary spending patterns in adjacent and new markets that are different from those in our existing markets;
- a lack of consumer demand for our products or financing programs at levels that can support new store growth;
- inability to make customer financing programs available that allow consumer to purchase products at levels that can support new store growth;
- limitations created by covenants and conditions under our credit facilities and our asset-backed securitization program;
- the availability of additional financial resources;
- the substantial outlay of financial resources required to open new stores and the possibility that we may recognize little or no related benefit;
- an inability or unwillingness of vendors to supply product on a timely basis at competitive prices;
- the failure to open enough stores in new markets to achieve a sufficient market presence;
- the inability to identify suitable sites and to negotiate acceptable leases for these sites;
- unfamiliarity with local real estate markets and demographics in adjacent and new markets;
- problems in adapting our distribution and other operational and management systems to an expanded network of stores;

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

- higher costs for print, radio and television advertising.

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

IF WE ARE UNABLE TO MANAGE OUR GROWING BUSINESS, OUR REVENUES MAY NOT INCREASE AS ANTICIPATED, OUR COST OF OPERATIONS MAY RISE AND OUR PROFITABILITY MAY DECLINE.

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

THE INABILITY TO OBTAIN FUNDING FOR OUR CREDIT OPERATIONS THROUGH SECURITIZATION FACILITIES OR OTHER SOURCES MAY ADVERSELY AFFECT OUR BUSINESS AND EXPANSION PLANS.

We finance most of our customer receivables through asset-backed securitization facilities. The trust arrangement governing these facilities currently provides for three separate series of asset-backed notes that allowed us, as of January 31, 2008, to borrow up to $640 million to finance customer receivables. Under each note series, we transfer customer receivables to a qualifying special purpose entity we formed for this purpose, in exchange for cash, subordinated securities and the right to receive cash flows equal to the interest rate spread between the transferred receivables and the notes issued to third parties. This qualifying special purpose entity, in turn, issues notes collateralized by these receivables that entitle the holders of the notes to participate in certain cash flows from these receivables. The 2002 Series A program is a $450 million variable funding note, of which $278.0 million was drawn as of January 31, 2008. The 2002 Series A program consists of a $250 million 364-day tranche that is up for renewal in July 2008, and a $200 million tranche that matures in August 2011. If the $250 million 364-day commitment is not renewed in July 2008, the qualifying special purpose entity would be required to use the proceeds from collections on the receivables portfolio to pay off the portion of the 2002 Series A note that is greater than $200 million. If that were to occur, and if we are not able to complete the issuance of an additional series of medium-term notes, we would be required to fund new receivables generated using our existing cash flows, borrowings on our credit facilities and may be required to obtain new sources of financing to continue funding our credit operations. The 2002 Series B program consists of $40.0 million in private bond placements that began scheduled principal payments in October 2006. The 2006 Series A program consists of $150 million in private bond placements that will require scheduled principal payments beginning in September 2010.

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

These factors include:

- conditions in the securities and finance markets generally;
- conditions in the markets for securitized instruments;
- the credit quality and performance of our customer receivables;
- our ability to obtain financial support for required credit enhancement;
- our ability to adequately service our financial instruments;
- the absence of any material downgrading or withdrawal of ratings given to our securities previously issued in securitizations; and
- prevailing interest rates.

Our ability to finance customer receivables under our current asset-backed securitization facilities depends on our continued compliance with covenants relating to our business and our customer receivables. If these programs reach their capacity or otherwise become unavailable, and we are unable to arrange substitute securitization facilities or other sources of financing, we may have to limit the amount of credit that we make available through our customer finance programs. This may adversely affect revenues and results of operations. Further, our inability to obtain funding through securitization facilities or other sources may adversely affect the profitability of outstanding accounts under our credit programs if existing customers fail to repay outstanding credit due to our refusal to grant additional credit. Since our cost of funds under our bank credit facility is expected to be greater than our cost of funds under our current securitization facility, increased reliance on our bank credit facility may adversely affect our net income.

We also have a revolving credit facility of $50 million that can be used for working capital purposes, including funding credit portfolio growth. The credit facility has an accordion feature that allows further expansion of the facility to $90 million, under certain conditions. This facility has a maturity date of November 1, 2010, and provides a sublimit of $5 million for standby letters of credit.

AN INCREASE IN INTEREST RATES MAY ADVERSELY AFFECT OUR PROFITABILITY.

The interest rates on our bank credit facility and the 2002 Series A program under our asset-backed securitization facility fluctuate up or down based upon the LIBOR rate, the prime rate of our administrative agent or the federal funds rate in the case of the bank credit facility and the commercial paper rate in the case of the 2002 Series A program. Additionally, the level of interest rates in the market in general will impact the interest rate on medium-term notes issued under our asset-backed securitization facility. To the extent that such rates increase, the fair value of our interests in securitized assets will decline and our interest expense could increase, which may result in a decrease in our profitability.

WE HAVE SIGNIFICANT FUTURE CAPITAL NEEDS WHICH WE MAY BE UNABLE TO FUND, AND WE MAY NEED ADDITIONAL FUNDING SOONER THAN CURRENTLY ANTICIPATED.

We will need substantial capital to finance our expansion plans, including funds for capital expenditures, pre-opening costs and initial operating losses related to new store openings. We may not be able to obtain additional financing on acceptable terms. If adequate funds are not available, we will have to curtail projected growth, which could materially adversely affect our business, financial condition, operating results or cash flows.

We estimate that capital expenditures during fiscal 2009 will be approximately $20 million to $25 million and that capital expenditures during future years may exceed this amount. We expect that cash provided by operating activities, available borrowings under our credit facility, and access to the unfunded portion of our asset-backed securitization program will be sufficient to fund our operations, store expansion and updating activities and capital expenditure programs for at least 12 months. However, this may not be the case. We may be required to seek additional capital earlier than anticipated if future cash flows from operations fail to meet our expectations and costs or capital expenditures related to new store openings exceed anticipated amounts.

A DECREASE IN OUR CREDIT SALES OR A DECLINE IN CREDIT QUALITY COULD LEAD TO A DECREASE IN OUR PRODUCT SALES AND PROFITABILITY.

In the last three fiscal years, we financed, on average, approximately 59% of our retail sales through our internal credit programs. Our ability to provide credit as a financing alternative for our customers depends on many factors, including the quality of our accounts receivable portfolio. Payments on some of our credit accounts become delinquent from time to time, and some accounts end up in default, due to several factors, such as general and local economic conditions, including the impact of rising interest rates on sub-prime mortgage borrowers. As we expand into new markets, we will obtain new credit accounts that may present a higher risk than our existing credit accounts since new credit customers do not have an established credit history with us. A general decline in the quality of our accounts receivable portfolio could lead to a reduction of available credit provided through our finance operations. As a result, we might sell fewer products, which could adversely affect our earnings. Further, because approximately 56% of our credit customers make their credit account payments in our stores, any decrease in credit sales could reduce traffic in our stores and lower our revenues. A decline in the credit quality of our credit accounts could also cause an increase in our credit losses, which could result in a decrease in our securitization income or increase the provision for bad debts on our statement of operations and result in an adverse effect on our earnings. A decline in credit quality could also lead to stricter underwriting criteria which might have a negative impact on sales.

A DOWNTURN IN THE ECONOMY MAY AFFECT CONSUMER PURCHASES OF DISCRETIONARY ITEMS, WHICH COULD REDUCE OUR NET SALES.

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

WE FACE SIGNIFICANT COMPETITION FROM NATIONAL, REGIONAL AND LOCAL RETAILERS OF HOME APPLIANCES AND CONSUMER ELECTRONICS.

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

We may not be able to compete successfully against existing and future competitors. Some of our competitors have financial resources that are substantially greater than ours and may be able to purchase inventory at lower costs and better sustain economic downturns. Our competitors may respond more quickly to new or emerging technologies and may have greater resources to devote to promotion and sale of products and services. If two or more competitors consolidate their businesses or enter into strategic partnerships, they may be able to compete more effectively against us.

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

- expansion by our existing competitors or entry by new competitors into markets where we currently operate;
- the decreased size of flat-panel televisions allowing new entrants to display and sell the product;
- lower pricing;
- aggressive advertising and marketing;
- extension of credit to customers on terms more favorable than we offer;
- larger store size, which may result in greater operational efficiencies, or innovative store formats; and
- adoption of improved retail sales methods.

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

IF NEW PRODUCTS ARE NOT INTRODUCED OR CONSUMERS DO NOT ACCEPT NEW PRODUCTS, OUR SALES MAY DECLINE.

Our ability to maintain and increase revenues depends to a large extent on the periodic introduction and availability of new products and technologies. We believe that the introduction and continued growth in consumer acceptance of new products, such as digital video recorders and digital, high-definition televisions, will have a significant impact on our ability to increase revenues. These products are subject to significant technological changes and pricing limitations and are subject to the actions and cooperation of third parties, such as movie distributors and television and radio broadcasters, all of which could affect the success of these and other new consumer electronics technologies. It is possible that new products will never achieve widespread consumer acceptance.

IF WE FAIL TO ANTICIPATE CHANGES IN CONSUMER PREFERENCES, OUR SALES MAY DECLINE.

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

A DISRUPTION IN OUR RELATIONSHIPS WITH, OR IN THE OPERATIONS OF, ANY OF OUR KEY SUPPLIERS COULD CAUSE OUR SALES TO DECLINE.

The success of our business and growth strategies depends to a significant degree on our relationships with our suppliers, particularly our brand name suppliers such as General Electric, Whirlpool, Frigidaire, Maytag, LG, Mitsubishi, Samsung, Sony, Toshiba, Hitachi, Serta, Simmons, Ashley, Lane, Hewlett Packard, Compaq, Poulan, Husqvarna and Toro. We do not have long term supply agreements or exclusive arrangements with the majority of our vendors. We typically order our inventory through the issuance of individual purchase orders to vendors. We also rely on our suppliers for cooperative advertising support. We may be subject to rationing by suppliers with respect to a number of limited distribution items. In addition, we rely heavily on a relatively small number of suppliers. Our top six suppliers represented 54.8% of our purchases for fiscal 2008, and the top two suppliers represented approximately 26.1% of our total purchases. The loss of any one or more of these key vendors or our failure to establish and maintain relationships with these and other vendors could have a material adverse effect on our results of operations and financial condition.

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

Furthermore, we rely on credit from vendors to purchase our products. As of January 31, 2008, we had $30.4 million in accounts payable and $81.5 million in merchandise inventories. A substantial change in credit terms from vendors or vendors' willingness to extend credit to us would reduce our ability to obtain the merchandise that we sell, which could have a material adverse effect on our sales and results of operations.

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

YOU SHOULD NOT RELY ON OUR COMPARABLE STORE SALES AS AN INDICATION OF OUR FUTURE RESULTS OF OPERATIONS BECAUSE THEY FLUCTUATE SIGNIFICANTLY.

Our historical same store sales growth figures have fluctuated significantly from quarter to quarter. For example, same store sales growth for each of the quarters of fiscal 2008 were -0.3%, 5.0%, 6.8%, and 1.9%, respectively. A number of factors have historically affected, and will continue to affect, our comparable store sales results, including:

- changes in competition;
- general economic conditions;
- new product introductions;
- consumer trends;
- changes in our merchandise mix;
- changes in the relative sales price points of our major product categories;
- ability to offer credit programs attractive to our customers;

- the impact of our new stores on our existing stores, including potential decreases in existing stores' sales as a result of opening new stores;
- weather conditions in our markets;
- timing of promotional events;
- timing, location and participants of major sporting events; and
- our ability to execute our business strategy effectively.

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

BECAUSE WE EXPERIENCE SEASONAL FLUCTUATIONS IN OUR SALES, OUR QUARTERLY RESULTS WILL FLUCTUATE, WHICH COULD ADVERSELY AFFECT OUR COMMON STOCK PRICE.

We experience seasonal fluctuations in our net sales and operating results. In fiscal 2008, we generated 27.4% of our net sales and 33.0% of our net income in the fiscal quarter ended January 31 (which included the holiday selling season). We also incur significant additional expenses during this fiscal quarter due to higher purchase volumes and increased staffing. If we miscalculate the demand for our products generally or for our product mix during the fiscal quarter ending January 31, our net sales could decline, resulting in excess inventory or increased sales discounts to sell excess inventory, which could harm our financial performance. A shortfall in expected net sales, combined with our significant additional expenses during this fiscal quarter, could cause a significant decline in our operating results. This could adversely affect our common stock price.

OUR BUSINESS COULD BE ADVERSELY AFFECTED BY CHANGES IN CONSUMER PROTECTION LAWS AND REGULATIONS.

Federal and state consumer protection laws and regulations, such as the Fair Credit Reporting Act, limit the manner in which we may offer and extend credit. Since we finance a substantial portion of our sales, any adverse change in the regulation of consumer credit could adversely affect our total revenues and gross margins. For example, new laws or regulations could limit the amount of interest or fees that may be charged on consumer credit accounts or restrict our ability to collect on account balances, which would have a material adverse effect on our earnings. During 2005, new bankruptcy laws went into effect that impacted our customers' ability to file for bankruptcy. Historically, we had been relatively effective in pursuing our position as a secured creditor of bankrupt borrowers and obtaining payments on the related accounts and contracts.

However, at this time we cannot be certain what long term impact these changes will have on our delinquency or loss experience. Compliance with existing and future laws or regulations could require us to make material expenditures, in particular personnel training costs, or otherwise adversely affect our business or financial results. Failure to comply with these laws or regulations, even if inadvertent, could result in negative publicity, fines or additional licensing expenses, any of which could have an adverse effect on our results of operations and stock price.

PENDING LITIGATION RELATING TO THE SALE OF CREDIT INSURANCE AND THE SALE OF SERVICE MAINTENANCE AGREEMENTS IN THE RETAIL INDUSTRY COULD ADVERSELY AFFECT OUR BUSINESS.

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

IF WE LOSE KEY MANAGEMENT OR ARE UNABLE TO ATTRACT AND RETAIN THE QUALIFIED SALES AND CREDIT GRANTING AND COLLECTION PERSONNEL REQUIRED FOR OUR BUSINESS, OUR OPERATING RESULTS COULD SUFFER.

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

BECAUSE OUR STORES ARE LOCATED IN TEXAS, LOUISIANA AND OKLAHOMA, WE ARE SUBJECT TO REGIONAL RISKS.

Our 69 stores are located exclusively in Texas, Louisiana and Oklahoma. This subjects us to regional risks, such as the economy, weather conditions, hurricanes and other natural disasters. If the region suffered an economic

downturn or other adverse regional event, there could be an adverse impact on our net sales and profitability and our ability to implement our planned expansion program. Several of our competitors operate stores across the United States and thus are not as vulnerable to the risks of operating in one region.

OUR INFORMATION TECHNOLOGY INFRASTRUCTURE IS VULNERABLE TO DAMAGE THAT COULD HARM OUR BUSINESS.

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

- power loss, computer systems failures and Internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of data or security breaches, misappropriation and similar events;
- computer viruses;
- intentional acts of vandalism and similar events; and
- hurricanes, fires, floods and other natural disasters.

The software that we have developed to use in our daily operations may contain undetected errors that could cause our network to fail or our expenses to increase. Any failure due to any of these causes, if it is not supported by our disaster recovery plan, could cause an interruption in our operations and result in reduced net sales and profitability.

IF WE ARE UNABLE TO MAINTAIN OUR INSURANCE LICENSES IN THE STATES WE OPERATE OUR OPERATING RESULTS COULD SUFFER.

We derive a significant portion of our revenues and operating income from the sale of various insurance products to our customers. These products include credit insurance, service maintenance agreements and product replacement policies. If for any reason we were unable to maintain our insurance licenses in the states we operate our operating results could suffer.

IF WE ARE UNABLE TO MAINTAIN OUR CURRENT INSURANCE COVERAGE FOR OUR SERVICE MAINTENANCE AGREEMENTS, OUR CUSTOMERS COULD INCUR ADDITIONAL COSTS AND OUR REPAIR EXPENSES COULD INCREASE, WHICH COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

There are a limited number of insurance carriers that provide coverage for our service maintenance agreements. If insurance becomes unavailable from our current carriers for any reason, we may be unable to provide replacement coverage on the same terms, if at all. Even if we are able to obtain replacement coverage, higher premiums could have an adverse impact on our profitability if we are unable to pass along the increased cost of such coverage to our customers. Inability to obtain insurance coverage for our service maintenance agreements could cause fluctuations in our repair expenses and greater volatility of earnings.

IF WE ARE UNABLE TO MAINTAIN GROUP CREDIT INSURANCE POLICIES FROM INSURANCE CARRIERS, WHICH ALLOW US TO OFFER THEIR CREDIT INSURANCE PRODUCTS TO OUR CUSTOMERS PURCHASING ON CREDIT, OUR REVENUES COULD BE REDUCED AND BAD DEBTS MIGHT INCREASE.

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

CHANGES IN PREMIUM AND COMMISSION RATES ALLOWED BY REGULATORS ON OUR CREDIT INSURANCE AND SERVICE MAINTENANCE AGREEMENTS AS ALLOWED BY THE LAWS AND REGULATIONS IN THE STATES IN WHICH WE OPERATE COULD AFFECT OUR REVENUES.

We derive a significant portion of our revenues and operating income from the sale of various insurance products to our customers. These products include credit insurance and service maintenance agreements. If the rate we are allowed to charge on those products declines, our operating results could suffer.

CHANGES IN TRADE REGULATIONS, CURRENCY FLUCTUATIONS AND OTHER FACTORS BEYOND OUR CONTROL COULD AFFECT OUR BUSINESS.

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

WE MAY BE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS, WHICH COULD IMPAIR OUR NAME AND REPUTATION.

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

FAILURE TO PROTECT THE SECURITY OF OUR CUSTOMER'S INFORMATION COULD EXPOSE US TO LITIGATION, JUDGMENTS FOR DAMAGES AND UNDERMINE THE TRUST PLACED WITH US BY OUR CUSTOMERS.

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

ANY CHANGES IN THE TAX LAWS OF THE STATES IN WHICH WE OPERATE COULD AFFECT OUR STATE TAX LIABILITIES. ADDITIONALLY, BEGINNING OPERATIONS IN NEW STATES COULD ALSO AFFECT OUR STATE TAX LIABILITIES.

As we experienced in fiscal year 2007 with the change in the Texas tax law, legislation could be introduced at any time that changes our state tax liabilities in a way that has an adverse impact on our results of operations. The Texas margin tax is expected to increase our effective rate from approximately 35.3%, before its introduction, to between 36.5% and 37.5% in the future. Our recent commencement of operations in Oklahoma and the potential to enter new states in the future could adversely affect our results of operations, dependent upon the tax laws in place in those states.

A FURTHER RISE IN OIL AND GASOLINE PRICES COULD AFFECT OUR CUSTOMERS' DETERMINATION TO DRIVE TO OUR STORES, AND CAUSE US TO RAISE OUR DELIVERY CHARGES.

A further significant increase in oil and gasoline prices could adversely affect our customers' shopping decisions and patterns. We rely heavily on our internal distribution system and our next day delivery policy to satisfy our customers' needs and desires, and any such significant increases could result in increased distribution charges. Such increases may not significantly affect our competitors.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The following summarizes the geographic location of our stores, warehouse and distribution centers and corporate facilities by major market area:

Geographic Location	No. of Locations	Leased Facilities	Total Square Feet	Storage Square Feet	Lease With Option Expiri Beyond Year
Golden Triangle District (1).	5	5	157,129	30,456	
Louisiana District.....	5	5	148,628	38,394	
Houston District.....	22	19	538,342	89,235	
San Antonio/Austin District..	15	15	458,637	87,849	
Corpus Christi.....	1	1	61,864	18,960	
South Texas.....	3	3	91,697	15,484	
Oklahoma District.....	1	1	31,385	6,385	
Dallas District.....	17	15	492,193	86,809	
Store Totals.....	69	64	1,979,875	373,572	
Warehouse/Distribution Centers.....	7	4	721,453	721,453	
Service Centers.....	5	3	191,932	133,636	
Corporate Offices.....	1	1	106,783	25,000	
Total.....	82	72	3,000,043	1,253,661	

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(1) Includes one store in Lake Charles, Louisiana.

ITEM 3. LEGAL PROCEEDINGS.

We are involved in routine litigation incidental to our business from time to time. We do not expect the outcome of any of this routine litigation to have a material effect on our financial condition or results of operation. However, the results of their proceedings cannot be predicted with certainty, and changes in facts and circumstances could impact our estimate of reserves for litigation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

WHAT IS THE PRINCIPAL MARKET FOR OUR COMMON STOCK?

The principal market for our common stock is the NASDAQ Global Select Market. Our common stock is listed on the NASDAQ Global Select Market under the symbol "CONN." Information regarding the high and low sales prices for our common stock for each quarterly period within the two most recent fiscal years as reported on NASDAQ is summarized as follows:

	High	Low
Quarter ended April 30, 2006	$ 44.99	$ 31.81
Quarter ended July 31, 2006	$ 35.52	$ 24.02
Quarter ended October 31, 2006	$ 26.75	$ 17.61
Quarter ended January 31, 2007	$ 25.33	$ 21.00
Quarter ended April 30, 2007	$ 28.27	$ 22.66
Quarter ended July 31, 2007	$ 32.19	$ 24.35
Quarter ended October 31, 2007	$ 28.54	$ 19.60
Quarter ended January 31, 2008	$ 25.87	$ 14.05

HOW MANY COMMON STOCKHOLDERS DO WE HAVE?

As of March 14, 2008, we had approximately 51 common stockholders of record and an estimated 7,500 beneficial owners of our common stock.

DID WE DECLARE ANY CASH DIVIDENDS IN FISCAL 2007 OR FISCAL 2008?

No cash dividends were paid in fiscal 2007 or 2008. We do not anticipate paying dividends in the foreseeable future. Any future payment of dividends will be at the discretion of the Board of Directors and will depend upon our results of operations, financial condition, cash requirements and other factors deemed relevant by the Board of Directors, including the terms of our indebtedness. Provisions in agreements governing our long-term indebtedness restrict the amount of dividends that we may pay to our stockholders. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of

Operations - Liquidity and Capital Resources."

HAS THE COMPANY HAD ANY SALES OF UNREGISTERED SECURITIES DURING THE LAST YEAR?

The Company has had no sales of unregistered securities during fiscal 2008.

HAS THE COMPANY PURCHASED ANY OF ITS SECURITIES DURING THE PAST QUARTER?

On August 25, 2006, we announced that our Board of Directors had authorized a common stock repurchase program, permitting us to purchase, from time to time, in the open market and in privately negotiated transactions, up to an aggregate of $50.0 million of our common stock, dependent on market conditions and the price of the stock. During the quarter ended January 31, 2008, we effected the following repurchases of our common stock:

Period	Total # of shares purchased	Average Price Paid per share	Total # of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Progra
November 1 - November 30, 2007.....	-	$ -	-	$ 25,498,15
December 1 - December 31, 2007.....	443,600	$ 19.64	443,600	$ 16,784,11
January 1 - January 31, 2008.....	238,420	$ 15.93	238,420	$ 12,985,01
Total.....	682,020		682,020	

ITEM 6. SELECTED FINANCIAL DATA.

	Year Ended January 31, (A)			
	2004	2005	2006	2007
	(dollars and shares in thousands, except per shar			
Statement of Operations:				
Total revenues.....	$498,378	$565,821	$701,148	$760,657
Operating expense:				
Cost of goods sold, including warehousing and occupancy cost.....	300,935	339,887	427,843	473,064
Selling, general and administrative expense.....	152,234	173,349	208,259	224,979
Provision for bad debts.....	2,504	2,589	1,133	1,476
Total operating expense.....	455,673	515,825	637,235	699,519
Operating income.....	42,705	49,996	63,913	61,138
Interest (income) expense, net and minority				

interest	4,577	2,477	400	(676)
Other (income) expense	(175)	126	69	(772)
Earnings before income taxes	38,303	47,393	63,444	62,586
Provision for income taxes	13,260	16,706	22,341	22,275
Net income	25,043	30,687	41,103	40,311
Less preferred stock dividends (1)	(1,954)	-	-	-
Net income available for common stockholders	$23,089	$30,687	$41,103	$40,311
Earnings per common share:				
Basic	$1.30	$1.32	$1.76	$1.70
Diluted	$1.26	$1.30	$1.71	$1.66
Average common shares outstanding:				
Basic	17,726	23,192	23,412	23,663
Diluted	18,257	23,646	24,088	24,289
Other Financial Data:				
Stores open at end of period	45	50	56	62
Same store sales growth (2)	2.6%	3.6%	16.9%	3.6%
Inventory turns (3)	6.5	6.0	6.6	6.1
Gross margin percentage (4)	39.6%	39.9%	39.0%	37.8%
Operating margin (5)	8.6%	8.8%	9.1%	8.0%
Return on average equity (6)	20.9%	16.1%	17.7%	14.7%
Capital expenditures	$9,401	$19,619	$18,490	$18,425
Balance Sheet Data:				
Working capital	$121,154	$156,006	$190,073	$220,740
Total assets	240,081	276,716	355,617	389,947
Total debt	14,512	10,532	136	198
Total stockholders' equity	171,911	208,734	255,861	292,528

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(1) Dividends declared and paid related to 2004.

(2) 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 period. Sales from closed stores have been removed from each period. Sales from relocated stores have been included in each period because each such store was relocated within the same general geographic market. Sales from expanded stores have been included in each period.

(3) Inventory turns are defined as the cost of goods sold, excluding warehousing and occupancy cost, divided by the average product inventory balance, excluding consigned goods.

(4) Gross margin percentage is defined as total revenues less cost of goods and parts sold, including warehousing and occupancy cost, divided by total revenues.

(5) Operating margin is defined as operating income divided by total revenues.

(6) Return on average equity is calculated as current period net income divided by the average of the beginning and ending equity.

(A) In order to present our results on a basis that is more comparable with others in our industry, we have reclassified advertising expenditures that were previously included in costs of goods sold to selling, general and administrative expense.

(B) Fiscal 2008 was impacted by a non-cash fair value adjustment of $4.8 million which reduced the fair value of our interests in securitized assets.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward-Looking Statements

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

- the success of our growth strategy and plans regarding opening new stores and entering adjacent and new markets, including our plans to continue expanding into the Dallas/Fort Worth Metroplex, South Texas and Oklahoma;
- 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, capital expenditures, 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;
- the effect of rising interest rates that could increase our cost of borrowing or reduce securitization income; the
- 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 like 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 points that could result in declines in revenues;

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

- the ability to attract and retain qualified personnel;

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

- changes in laws and regulations and/or interest, premium and commission rates allowed by regulators on our credit, credit insurance and 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 this Form 10-K. 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 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.

Through our 69 retail stores, we provide products and services to our customers in seven primary market areas, including Houston, San Antonio/Austin, Dallas/Fort Worth, southern Louisiana, Southeast and South Texas and Oklahoma. Products and services offered through retail sales outlets include home appliances, consumer electronics, home office equipment, lawn and garden products, mattresses, furniture, service maintenance agreements, customer credit programs, including installment and revolving credit account programs, and various credit insurance products. These activities are supported through our extensive service, warehouse and distribution system. Our stores bear the "Conn's" name, after our founder's family, and deliver the same products and services to our customers. All of our 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 the retail stores and considers the credit programs, service contracts and distribution system to be an integral part of the Company's retail operations.

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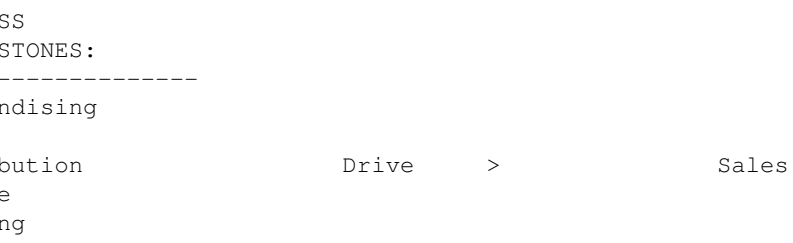
On February 1, 2007, we were required to adopt Statement of Financial Accounting Standard (SFAS) No. 155, Accounting for Certain Hybrid Financial Instruments. Among other things, this statement established a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. Additionally, we had the option to choose to early adopt the provisions of SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. We elected to early adopt SFAS No. 159 because we believe it provides a more easily understood presentation for financial statement users. This election resulted in us including all changes in the fair value of our Interests in securitized assets in current earnings, in Finance charges and other, beginning February 1, 2007. Previously, most changes in the fair value of our Interests in securitized assets were recorded in Other comprehensive income, which was included in Stockholders' equity. SFAS Nos. 155 and 159 do not allow for retrospective application of these changes in accounting principle, as such, no adjustments have been made to the amounts disclosed in the financial statements for periods ending prior to February 1, 2007. Additionally, effective February 1, 2007, we adopted SFAS No. 157, Fair Value Measurements, which established a framework for measuring fair value, based on the assumptions we believe market participants would use to value assets or liabilities to be exchanged. 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 fiscal year ended January 31, 2008, risk premiums required by market participants on many investments increased significantly as a result of disruption in the asset-backed securities markets due to increased losses and delinquencies in sub-prime real estate mortgages. 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 estimated risk premium we believe a market participant would require if purchasing the asset. Based on a review of the changes in market risk premiums during the fiscal year ended

January 31, 2008, and discussions with our investment bankers and financial advisors, we estimated that a market participant would require an approximately 500 basis point increase in the required discount rate risk premium. As a result, we increased the weighted average discount rate assumption from 14.6% at January 31, 2007, to 16.5% at January 31, 2008, after reflecting a 280 basis point decrease in the risk-free interest rate included in the discount rate assumption. We have also included an expected market participant-based assumption related to the estimated cost of a bond issuance contemplated by the QSPE, and an increase in the credit loss rate on the credit portfolio 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 interest in securitized assets and Finance charges and other would have been reduced by $6.7 million as of January 31, 2008. 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 $2.3 million. As of the date of the filing of this Annual Report on Form 10-K, we understand that risk premiums and borrowing costs have continued to increase since January 31, 2008, and could result in a significant adjustment to the fair value of our interests in securitized assets in future periods.

We were also required to adopt the provisions of SFAS No. 156, Accounting for Servicing of Financial Assets, effective on February 1, 2007. As a result of the adoption of this pronouncement, along with the requirements of SFAS No. 157, we recorded a $1.1 million servicing liability on the balance sheet in Deferred revenues and allowances. Any changes in the fair value of the liability are recorded in the period of change in the statement of operations in Finance charges and other. As with the other changes discussed above, no adjustments have been made to the financial statements for periods ending prior to February 1, 2007.

Presented below is a diagram setting forth our five cornerstones which represent, in our view, the five components of our sales goal - strong merchandising systems, flexible credit options for our customers, an extensive warehousing and distribution system, a service system to support our customers needs during and beyond the product warranty periods, and our uniquely, well-trained employees in each area. Each of these systems combine to create a "nuts and bolts" support system for our customers needs and desires. Each of these systems is discussed at length in the Business section of this report.



We, of course, derive a large part of our revenue from our product sales. However, unlike many of our competitors, we provide in-house credit options for our customers' product purchases. In the last three years, we have financed, on average, approximately 59% of our retail sales through these programs. In turn, we finance (convert to cash) substantially all of our customer receivables from

these credit options through an asset-backed securitization facility. See "Business - Finance Operations" for a detailed discussion of our in-house credit programs. 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 to issue medium-term and variable funding notes serviced by the receivables to finance its acquisition of the receivables. We transfer our receivables, consisting of retail installment and revolving account receivables extended to our customers, to the issuer in exchange for cash and subordinated securities.

While our warehouse and distribution system does not directly generate revenues, other than the fees paid by our customers for delivery and installation of the products to their homes, it is our extra, "value-added" program that our existing customers have come to rely on, and our new customers are hopefully sufficiently impressed with to become repeat customers. We derive revenues from our repair services on the products we sell. Additionally, acting as an agent for unaffiliated companies, we sell credit insurance to protect our customers from credit losses due to death, disability, involuntary unemployment and damage to the products they have purchased; to the extent they do not already have it.

Executive Overview

This overview is intended to provide an executive level overview of our operations for our fiscal year ended January 31, 2008. A detailed explanation of the changes in our operations for the fiscal year ended January 31, 2008, as compared to the prior year is included beginning under Results of Operations. Following are significant financial items in managements view:

- Our revenues for the fiscal year ended January 31, 2008, increased by 8.3 percent, or $63.5 million, from fiscal year 2007, to $824.1 million due primarily to product sales growth which drove higher service maintenance agreement commissions and finance charge and other revenues. Our same store sales growth rate for the fiscal year ended January 31, 2008, was 3.2%, versus 3.6% for fiscal 2007.

- The addition of stores in our existing Dallas/Fort Worth, Houston, San Antonio and South Texas markets and our first store in Oklahoma had a positive impact on our revenues. We achieved approximately $35.0 million of increases in product sales and service maintenance agreement (SMA) commissions for the year ended January 31, 2008, from the opening of thirteen new stores in these markets since February 2006. Our plans provide for the opening of seven to ten additional stores, primarily in existing markets, and expand our presence in Oklahoma, during fiscal 2009 as we focus on opportunities in markets in which we have 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 fiscal year ended January 31, 2008, $193.4 million, or 28.8%, of our product sales were financed by deferred interest and "same as cash" plans. This volume of promotional credit as a percent of product sales is consistent with our use of this type of credit product before the hurricanes in late 2005. For the comparable period in the prior year, product sales financed by deferred interest and "same as cash" sales were $152.3 million, or 24.4%. Our promotional credit programs (same as cash and deferred interest programs), which require monthly

payments, are reserved for our highest credit quality customers, thereby reducing the overall risk in the portfolio, and are 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 was 37.2% for fiscal 2008, a decrease from 37.8% in fiscal 2007, primarily as a result of a $4.8 million reduction in the fair value of our interest in securitized assets and reduced gross margin realized on product sales from 25.3% in the year ended January 31, 2007, to 24.2% in fiscal year 2008. Excluding the decrease in the fair value of our interest in securitized assets we would have achieved a 37.6% gross margin.

- Our operating margin decreased to 7.2% in fiscal 2008, from 8.0% in fiscal 2007, primarily as a result of the $4.8 million decrease in the fair value of our interest in securitized assets. Excluding the decrease in the fair value of our interest in securitized assets, we would have achieved a 7.8% operating margin. In fiscal year 2008, SG&A expense as a percent of revenues increased to 29.8% from 29.6% when compared to the prior year, primarily from increases in payroll and payroll related expenses.

- Cash flows used in operations was $5.6 million during fiscal 2008 due primarily to increased investment in credit portfolio growth and increased investment in inventory due to the timing of receipts of inventory.

- Our pretax income for fiscal 2008 decreased by 2.2% or approximately $1.4 million, from fiscal 2007 to $61.2 million in fiscal 2008. The decrease was driven by $4.8 million non-cash reduction in the fair value of our interest in securitized assets.

Operational Changes and Outlook

We have implemented, continued increased focus on, or modified several initiatives in fiscal 2008 that we believe will positively impact our future operating results, including:

- Increased promotion of flat panel technology in our stores as the price point becomes more affordable for our customers; and

- Increased emphasis on the sale of small electronics, including video game equipment and GPS devices; and

- Increased emphasis on the sales of furniture, and additional product lines added to this category; and

- A thorough review of our staffing and cost structure to ensure we are effectively leveraging the infrastructure in place and that it is sufficient to support our growth plans.

While the hurricanes that hit the Gulf Coast on August and September of 2005 impacted our customer's ability to pay on their accounts, its biggest impact was the disruption to our credit collection operations, including payment processing delays caused by disruption in the mail service. The credit collection operations were negatively affected by the loss of personnel, as some employees did not return to work, and by the increase in the number of delinquent accounts, resulting in increased workloads for the personnel that returned to work. To address the staffing issues caused by the disruption we saw

after Hurricane Rita that hit the Gulf Coast during September of 2005, we intensified our recruiting efforts to attract individuals to our Beaumont, Texas collection center. Further, during 2008, we opened a second collection center in San Antonio, Texas and closed our collection center in Dallas, Texas. We identified and have been successful in recruiting highly qualified, bi-lingual credit collectors in the San Antonio market that we were not able to recruit in sufficient numbers in Dallas. Additionally, non-storm factors that may be negatively affecting delinquencies and charge-offs include the impact of the bankruptcy law change in October 2005 and other economic factors on our customers, including the impact of rising interest rates on sub-prime mortgages. In addition to opening the San Antonio collection center, we have reorganized the management team over our credit operations to achieve a flatter organization to put key managers closer to the customer. As a result of the changes made, we have been successful in reducing delinquencies and expect to maintain net credit losses around 3%.

On May 18, 2006, the Governor of Texas signed a tax bill that modifies the existing franchise tax, with the most significant change being the replacement of the existing base with a tax based on margin. Taxable margin is generally defined as total federal tax revenues minus the greater of (a) cost of goods sold or (b) compensation. The tax rate to be paid by retailers and wholesalers is 0.5% on taxable margin. This will result in an increase in taxes paid by us, as franchise taxes paid totaled less than $50,000 per year for the years prior to fiscal 2007. During June 2007, we completed a reorganization to simplify our legal entity structure by merging certain of our Texas limited partnerships into their corporate partners. The reorganization also resulted in the one-time elimination of the Texas margin tax owed by those partnerships, representing virtually all of the margin tax owed by us. Accordingly, we reversed approximately $0.9 million of accrued Texas margin tax as of June 2007, net of federal income tax. We began accruing the margin tax for the entities that acquired the operations through the mergers in July 2007. Going forward, we expect our effective tax rate on Income before income taxes to increase to between 36.5% and 37.5%, from the 35.3% we experienced prior to the initiation of the new tax.

During the year, we opened one new store in the Houston market, three in the Dallas/Fort Worth market, one in San Antonio, Texas, one in Brownsville, Texas and one in Oklahoma City, Oklahoma. The Dallas/Fort Worth market continues to perform at the mid-point of our range of expectations and we believe we have significant upside potential in that market through growth in the existing stores and our intention to continue to expand the number of stores in that market. We have several other locations in Texas, Louisiana and Oklahoma that we believe are promising and are in various stages of development for opening in fiscal year 2009. We also continue to look at other markets, including neighboring states for opportunities.

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

Application of Critical Accounting Policies

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

On February 1, 2007, we were required to adopt SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. Among other things, this statement establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. Additionally, we had the option to choose to early adopt the provisions of SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. Essentially, we had to decide between bifurcation of the embedded derivative and the fair value option in determining how we would account for our Interests in securitized assets. We elected to early adopt SFAS No. 159 because we believe it provides a more easily understood presentation for financial statement users. Historically, we had valued and reported our 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 our Interests in securitized assets in current earnings, in Finance charges and other, beginning February 1, 2007. SFAS Nos. 155 and 159 do not allow for retrospective application of these changes in accounting principle and, as such, no adjustments have been made to the amounts disclosed in the financial statements for periods ending prior to February 1, 2007. However, the balance in Other comprehensive income, as of January 31, 2007, of $6.3 million, which represented unrecognized gains on the fair value of the Interests in securitized assets, was included in a cumulative-effect adjustment that was recorded in Retained earnings, effective February 1, 2007.

Because of our adoption of SFAS No. 159, effective February 1, 2007, we were required to adopt the provisions of SFAS No. 157, Fair Value Measurements. This statement establishes a framework for measuring fair value and defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." 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 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 our earnings.

Additionally, as a result of our adoption of SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, effective February 1, 2007, we record all changes in the fair value of our Interests in securitized assets in current earnings, in Finance charges and other. Previously, most changes in the fair value of our Interests in securitized assets were recorded in Other comprehensive income. Effective February 1, 2007, we adopted SFAS No. 157, Fair Value Measurements, which established a framework for measuring fair value, based on the assumptions a company believes market participants would use to value assets or liabilities to be exchanged. The gain or loss recognized on the sales of the receivables is based on our best estimates of key assumptions, including forecasted credit losses, payment rates, forward yield curves, costs of servicing the accounts and appropriate discount rates, based on our expectations of the assumptions that a market participant would use.

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We were required to adopt the provisions of SFAS No. 156, Accounting for Servicing of Financial Assets, effective on February 1, 2007. As a result of the adoption of this pronouncement we recorded a servicing liability on the balance sheet in Deferred revenues and allowances and any changes in the fair value of the liability are recorded in the period of change in the statement of operations in Finance charges and other. We estimate the fair value of our servicing liability using the portfolio performance and discount rate assumptions discussed above, and an estimate of the servicing fee a market participant would require to service the portfolio.

The use of different estimates or assumptions in the valuation of our Interest in securitized assets or servicing liability could produce different financial results. Additionally, changes in the assumptions over time, including varying credit portfolio performance, market interest rate changes or risk premiums required, or a shift in the mix of funding sources, could result in significant volatility in the fair value of the Interests in securitized assets, and thus our earnings. During the fiscal year ended January 31, 2008, risk premiums required by market participants on many investments increased significantly as a result of disruption in the asset-backed securities markets due to increased losses and delinquencies in sub-prime mortgages. 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 fiscal year ended January 31, 2008, and discussions with our investment bankers and financial advisors, we estimated that a market participant would require an approximately 500 basis point increase in the required risk premium. As a result, the Company increased the weighted average discount rate assumption from 14.6% at January 31, 2007, to 16.5% at January 31, 2008, after reflecting a 280 basis point decrease in the risk-free interest rate included in the discount rate assumption. We have also included an expected market participant-based assumption related to the estimated cost of a bond issuance contemplated by the QSPE, and an increase in the credit loss rate on the credit portfolio 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 interest in securitized assets and Finance charges and other would have been reduced by $6.7 million as of January 31, 2008. 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 $2.3 million.

Revenue Recognition. Revenues from the sale of retail products are recognized at the time the product is delivered to the customer. Such revenues are recognized net of any adjustments for sales incentive offers such as discounts, coupons, rebates, or other free products or services. We sell service maintenance agreements and credit insurance contracts on behalf of unrelated third parties. For contracts where the third parties are the obligor 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. When we sell service maintenance 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 direct obligor 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 and 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 amounts of service maintenance agreement revenue deferred at January 31, 2007 and 2008 were $3.6 million and $5.4 million, respectively, and are included in Deferred revenue in the accompanying balance sheets. The amounts of service maintenance agreement revenue recognized for the fiscal years ended January 31, 2006, 2007 and 2008 were $5.0 million, $4.7 million and $5.7 million, respectively.

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. We received $25.3 million, $27.2 million and $36.1 million in vendor allowances during the fiscal year ended January 31, 2006, 2007 and 2008, respectively, of which $5.8 million, $7.2 million and $6.6 million, respectively, represented advertising assistance allowances.

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. The use of different estimates could produce different financial results. See Notes 1 and 8 to our financial statements for additional information.

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.

Results of Operations

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

	Year ended January 31, (A)		
	2006	2007	2008
Revenues:			
Product sales	81.3 %	82.0 %	81.5 %
Service maintenance agreement commissions (net)	4.3	4.0	4.4
Service revenues	2.9	3.0	2.8
Total net sales	88.5	89.0	88.7
Finance charges and other	11.5	11.0	11.3
Total revenues	100.0	100.0	100.0
Cost and expenses:			

Cost of goods sold, including warehousing and occupancy costs	60.3	61.3	61.7
Cost of parts sold, including warehousing and occupancy costs	0.7	0.9	1.0
Selling, general and administrative expense	29.7	29.6	29.8
Provision for bad debts	0.2	0.2	0.3
Total costs and expenses	90.9	92.0	92.8
Operating income	9.1	8.0	7.2
Interest (income) expense	0.1	(0.1)	(0.1)
Other (income) expense	0.0	(0.1)	(0.1)
Earnings before income taxes	9.0	8.2	7.4
Provision for income taxes	3.1	2.9	2.6
Net income	5.9 %	5.3 %	4.8 %

(A) - In order to present our results on a basis that is more comparable with others in our industry, we have reclassified advertising expenditures that were previously included in costs of goods sold to selling, general and administrative expense.

The table above identifies several changes in our operations for the periods presented, including changes in revenue and expense categories expressed as a percentage of revenues. These changes are discussed in the Executive Overview, and in more detail in the discussion of operating results beginning in the analysis below.

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 have been 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 our 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 of merchandising our products, including amounts related to purchasing the product in selling, general and administrative expense. It is our understanding that other retailers may include such costs as part of cost of goods sold.

The following table presents certain operations information in dollars and percentage changes from year to year:

Refer to the above Analysis of Consolidated Statements of Operations in condensed form while reading the operations review on a year by year basis.

Analysis of Consolidated Statements of Operations
(in thousands except percentages)

Year Ended January 31, (A)	2007 vs. 2006 Incr/(Decr)	2008 vs. 20 Incr/(Dec

	2006	2007	2008	Amount	Pct	Amount
Revenues						
Product sales	$569,877	$623,959	$671,571	$54,082	9.5%	$47,612
Service maintenance agreement commissions (net)	30,583	30,567	36,424	(16)	(0.1)	5,857
Service revenues	20,278	22,411	22,997	2,133	10.5	586
Total net sales	620,738	676,937	730,992	56,199	9.1	54,055
Finance charges and other	80,410	83,720	93,136	3,310	4.1	9,416
Total revenues	701,148	760,657	824,128	59,509	8.5	63,471
Cost and expenses						
Cost of goods and parts sold	427,843	473,064	517,166	45,221	10.6	44,102
Gross Profit	273,305	287,593	306,962	14,288	5.2	19,369
Gross Margin	39.0%	37.8%	37.2%			
Selling, general and administrative expense	208,259	224,979	245,317	16,720	8.0	20,338
Provision for bad debts	1,133	1,476	1,908	343	30.3	432
Operating income	63,913	61,138	59,737	(2,775)	(4.3)	(1,401)
Operating Margin	9.1%	8.0%	7.2%			
Interest (income) expense	400	(676)	(515)	(1,076)	(269.0)	161
Other (income) expense	69	(772)	(943)	(841)	(1218.8)	(171)
Pretax Income	63,444	62,586	61,195	(858)	(1.4)	(1,391)
Provision for income taxes	22,341	22,275	21,509	(66)	(0.3)	(766)
Net income available for common stockholders	$41,103	$40,311	$39,686	($792)	(1.9)%	($625)

(A) - In order to present our results on a basis that is more comparable with others in our industry, we have reclassified advertising expenditures that were previously included in costs of goods sold to selling, general and administrative expense.

Year Ended January 31, 2007 Compared to the Year Ended January 31, 2008

(Dollars in Millions)	2008	200
Net sales	$731.0	
Finance charges and other	93.1	
Revenues	824.1	

The $54.1 million increase in net sales was made up of the following:

- a $20.4 million increase resulted from a same store sales increase of 3.2%.
- a $35.0 million increase generated by thirteen retail locations that were not open for twelve consecutive months in each period,

- a $1.9 million decrease resulted from an increase in discounts on promotional credit sales, and

- a $0.6 million increase resulted from an increase in service revenues.

The components of the $54.1 million increase in net sales were a $47.6 million increase in product sales and an $6.5 million net increase in service maintenance agreement commissions and service revenues. The $47.6 million increase in product sales resulted from the following:

- approximately $4.6 million was attributable to increases in unit sales, due primarily to increased consumer electronics (especially flat-panel televisions) and furniture sales, partially offset by a decline in appliance and track sales, and

- approximately $43.0 million was attributable to an overall increase in the average unit price. The increase was driven primarily by a change in the mix of product sales, as consumer electronics, which has the highest average price, became a larger share of our total product sales and was partially offset by the $1.9 million increase in discounts on extended-term promotional credit sales.

The following table presents the makeup of net sales by product category in each period, 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.

	Year Ended January 31,					
	2007		2008		Percent	
Category	Amount	Percent	Amount	Percent	Increase	
Home appliances	$230,963	34.1%	$223,967	30.6%	(3.0)%	(1)
Consumer electronics	214,271	31.7	244,040	33.4	13.9	(2)
Track	94,395	13.9	102,031	14.0	8.1	(3)
Delivery	11,380	1.7	12,524	1.7	10.1	(4)
Lawn and garden	16,741	2.5	20,914	2.9	24.9	(5)
Bedding	17,721	2.6	16,424	2.3	(7.3)	(6)
Furniture	33,357	4.9	46,373	6.3	39.0	(7)
Other	5,131	0.8	5,298	0.7	3.3	
Total product sales	623,959	92.2	671,571	91.9	7.6	
Service maintenance agreement commissions	30,567	4.5	36,424	5.0	19.2	(8)
Service revenues	22,411	3.3	22,997	3.1	2.6	(9)
Total net sales	$676,937	100.0%	$730,992	100.0%	8.0%	

(1) While the industry is down nationally, we expect to outperform the national trend and are taking steps to improve our performance relative to merchandising, advertising and promotion of this category. Additionally, we

experienced higher than normal demand for these products in the prior year due to consumers replacing appliances after Hurricanes Katrina and Rita, especially during the first three months of the period.

(2) This increase is due to increased unit volume in the area of flat-panel televisions, partially offset by a decline in the sale of tube and projection televisions.

(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 laptop computer and video game equipment sales and was partially offset by reduced sales of portable electronics, including camcorders, digital cameras and portable CRT televisions.

(4) This increase was due to an increase in the delivery fee charged to our customers, as the total number of deliveries declined slightly as compared to the prior year.

(5) This category benefited from a high level of rainfall in the current year and an increase in sales of higher priced lawn and garden equipment, such as zero turn radius mowers and tractors.

(6) This decrease is due to the impact of our change in strategy as we move to a multi-vendor relationship.

(7) This increase is due to the increased emphasis on the sales of furniture, primarily sofas, recliners and entertainment centers, and new products added to this category.

(8) This increase is due to the increase in product sales, increased sales penetration and decreased SMA cancellations as credit charge-offs declined as compared to the prior year period.

(9) This increase is driven by increased units in operation as we continue to grow product sales and an increase in the cost of parts used to repair higher-priced technology (flat-panel televisions, etc.).

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Finance charges and other increased due primarily to an increase in securitization income of $7.4 million, or 11.9% and an increase in insurance commissions of $2.9 million, and a decrease in other items of $0.9 million. The securitization income, which grew due to growth in the portfolio and lower net credit losses on receivables transferred to the QSPE, was negatively impacted by a non-cash, decrease in the fair value of our Interests in securitized assets. The non-cash fair value adjustment of $4.8 million was recorded primarily as a result of the recent turmoil in the financial markets. We increased the risk premium included in the discount rate assumption in the determination of the fair value of our interests in securitized assets based on our estimate of the risk premium we believe a market participant would require if they purchased our Interests in securitized assets. Additionally, we increased the loss rate and borrowing cost assumptions we believe a market participant would use in determining the fair value of our interest in securitized assets (See Note 2 to the financial statements for additional information). The securitization income comparison was impacted by a $1.5 million impairment charge recorded in the prior year for higher projected credit losses due to the impact in the prior year of Hurricane Rita on our credit collection operations and increased bankruptcy filings due to the new bankruptcy laws that took effect in October 2005. Our net credit loss rate of 2.9% for the year ended January 31, 2008, was in-line with our expected long-term net loss rate of between 2.5% and 3.0%. Insurance commissions increased primarily due to increased sales and reduced

insurance cancellations as credit charge-offs declined from the prior year period.

(Dollars in Millions)	2008	2007
Cost of goods sold	$508.8	$466.3
As a percent of net product sales	75.8%	74.7%

Cost of products sold increased from 74.7% of net product sales in the 2007 period to 75.8% in the 2008 period due to pricing pressures in retailing in general, and especially on flat-panel TV's.

(Dollars in Millions)	2008	2007
Cost of service parts sold	$8.4	$6.8
As a percent of service revenues	36.4%	30.4%

This increase was due primarily to a 22.8% increase in parts sales, which grew faster than labor sales.

(Dollars in Millions)	2008	2007
Selling, general and administrative expense	$245.3	$225.0
As a percent of total revenues	29.8%	29.6%

The increase in expense as a percentage of total revenues resulted primarily from increased payroll and payroll related expenses, as a percent of revenues.

(Dollars in Millions)	2008	2007
Provision for bad debts	$1.9	$1.5
As a percent of total revenues	.23%	.19%

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 increased primarily as a result of provision adjustments due to increased net credit losses. Additionally, the provision for bad debts in the year ended January 31, 2007, benefited from a $0.1 million reserve adjustment related to the special reserves recorded as a result of the hurricanes in 2005.

See the notes to the financial statements for information regarding the performance of the credit portfolio.

(Dollars in Millions)	2008	2007
Interest income, net	$(515)	$(676)

The net decrease in 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.

(Dollars in Millions)	2008	2007
Other income	$(943)	$(772)

Both periods included gains recognized on the sales of company assets. Additionally, during the year ended January 31, 2008, there were gains realized, but not recognized, on transactions qualifying for sale-leaseback accounting that have been deferred and will be amortized as a reduction of rent expense on a straight-line basis over the minimum lease terms.

(Dollars in Millions)	2008	2007
Provision for income taxes	$21.5	$22.3

This decrease in taxes was impacted primarily by the 1.4% decrease in pretax income. Additionally, the effective tax rate declined from 35.6% for the year ended January 31, 2007, to 35.1% for the year ended January 31, 2008. The decrease in the effective tax rate is attributable to the reversal of previously accrued Texas margin tax as a result of the legal entity reorganization completed during the three months ended July 31, 2007. In July 2007, we began accruing margin tax for the entities that acquired the operations through the mergers completed during the quarter.

Year Ended January 31, 2006 Compared to the Year Ended January 31, 2007

(Dollars in Millions)	2007	20
Net sales	$676.9	
Finance charges and other	83.7	

Revenues	760.6

The $56.2 million increase in net sales was made up of the following:

- a $21.1 million increase resulted from a same store sales increase of 3.6%. The fiscal 2007 growth rate was impacted as a result of being compared to the very strong, hurricane-impacted prior year sales, which resulted in a same store sales growth rate of 16.9% achieved in the year ended January 31, 2006.

- a $35.2 million increase generated by twelve retail locations that were not open for twelve consecutive months in each period,

- a $2.2 million decrease resulted from an increase in discounts on promotional credit sales, and

- a $2.1 million increase resulted from an increase in service revenues.

The components of the $56.2 million increase in net sales were a $54.1 million increase in product sales and an $2.1 million net increase in service maintenance agreement commissions and service revenues. The $54.1 million increase in product sales resulted from the following:

- approximately $34.1 million was attributable to increases in unit sales, due primarily to increased appliances, consumer electronics (especially LCD, plasma and DLP televisions) and furniture sales, partially offset by a decline in track sales, and

- approximately $20.0 million was attributable to increases in unit price points. The price point impact was driven primarily by consumers selecting higher priced appliance products, including high-efficiency washers and dryers and stainless steel kitchen appliances and increased delivery fees, partially offset by a decline in consumer electronics as prices for new technology erode and the $2.2 million increase in discounts on extended-term promotional credit sales.

The following table presents the makeup of net sales by product category in each period, 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.

	Year Ended January 31,				
	2006		2007		
Category	Amount	Percent	Amount	Percent	Percent Increase
Home appliances	$223,294	36.0%	$230,963	34.1%	3.4%(1)
Consumer electronics	186,663	30.1	214,271	31.7	14.8 (2)
Track	99,184	16.0	94,395	13.9	(4.8)(3)
Delivery	9,931	1.6	11,380	1.7	14.6 (2)
Lawn and garden	17,567	2.8	16,741	2.5	(4.7)(4)

Bedding	13,120	2.1	17,721	2.6	35.1 (5)
Furniture	15,320	2.4	33,357	4.9	117.7 (5)
Other	4,798	0.8	5,131	0.8	6.9 (2)
Total product sales	569,877	91.8	623,959	92.2	9.5
Service maintenance agreement commissions	30,583	4.9	30,567	4.5	(0.1)(6)
Service revenues	20,278	3.3	22,411	3.3	10.5 (7)
Total net sales	$620,738	100.0%	$676,937	100.0%	9.1%

(1) Fiscal year 2006 appliance sales were benefited by strong customer demand after Hurricanes Katrina and Rita in that year.

(2) These increases are consistent with overall increase in product sales and improved unit prices.

(3) The decline in track sales (consisting largely of computers, computer peripherals, portable electronics and small appliances) is due primarily to reduced sales of computers and portable CRT televisions.

(4) A slower late-summer selling season due to dry weather impacted this category.

(5) This increase is due to the increased emphasis on the sales of mattresses and furniture, primarily sofas, recliners and entertainment centers, and new product lines added to the furniture category.

(6) This decrease is due to increased SMA cancellations driven by higher credit charge-offs and reduced sales penetration as we introduced products (furniture and mattresses) that are not SMA-eligible.

(7) This increase is driven by increased units in operation as we continue to grow product sales and an increase in the prices of parts used to repair higher-priced technology (flat-panel televisions, etc.).

This increase in revenue resulted primarily from increases in securitization income of $3.4 million, a $2.0 million decrease in service maintenance agreement retrospective commissions and a net increase in insurance commissions and other revenues of $1.9 million. Securitization income grew at a slower pace than net sales because of higher credit losses experienced during the year ended January 31, 2007, as a result of the disruption to our credit operations caused by Hurricane Rita. As a result of the higher loss rate experienced, we recorded an impairment charge of $1.5 million during the quarter ended July 31, 2006, reducing the value of our interest in securitized assets. The credit net charge-off rate has returned to historical levels and is expected to approximate 3.0% during fiscal 2008. We recorded an impairment charge of $0.9 million during the quarter ended October 31, 2005, for anticipated credit losses due to the impact of Hurricane Rita on our credit operations and an increase in bankruptcy filings due to the new bankruptcy law that took effect in October 2005. Securitization income growth is attributable to higher product sales and increases in our retained interest in assets transferred to the QSPE, due

primarily to increases in the transferred balances. Insurance commissions and other revenue growth was driven by the increase in product sales The decline in service maintenance agreement retrospective commissions was due to a change in the commission structure that became effective during fiscal 2006. The change resulted in us receiving a greater portion of the income at the time of the sale of the service maintenance agreement, which is included in Total net sales, with

a corresponding decrease in the retrospective commissions received.

(Dollars in Millions)	2007	2006
Cost of Goods Sold	$466.3	$422.5
As a percent of net product sales	74.7%	74.1%

Cost of products sold increased due to pricing pressures on flat-panel TV's and the fact that the strong fiscal 2006 sales, after the hurricanes, were achieved with very little discounting.

(Dollars in Millions)	2007	2006
Cost of Service Parts Sold	$6.8	$5.3
As a percent of service revenue	30.4%	26.1%

Cost of service parts sold, including warehousing and occupancy cost, increased due to a 34.8% increase in parts sales.

(Dollars in Millions)	2007	2006
Selling, General and Administrative Expense	$225.0	$208.3
As a percent of total revenue	29.6%	29.7%

The decrease in expense as a percentage of total revenues resulted primarily from decreased payroll and payroll related expenses and net advertising expense, as a percent of revenues. Additionally, $0.9 million of expenses, net of insurance proceeds, were incurred in the year ended January 31, 2006, due to Hurricane Rita.

(Dollars in Millions)	2007	2006
Provision for Bad Debts	$1.5	$1.1
As a percent of total revenue	.19%	.16%

The provision for bad debts on non-credit portfolio receivables and credit portfolio receivables retained by the Company and not transferred to the QSPE increased primarily as a result of provision adjustments due to increased credit losses.

(Dollars in Millions)	2007	2006
Interest (Income) Expense, net	$(676)	$400

The net improvement in interest (income) expense was attributable to the following factors:

- expiration in April 2005 of $20.0 million in our interest rate hedges and the discontinuation of hedge accounting for derivatives resulted in a net decrease in interest expense of approximately $244,000; and
- increased interest income from invested funds of approximately $539,000.

The remaining change of $317,000 resulted from lower average outstanding debt balances and capitalization of interest on construction in progress.

(Dollars in Millions)	2007	2006
Other (Income) Expense, net	$(772)	$69

This change was primarily the result of a $0.7 million gain recognized on the sale of a building and the related land.

(Dollars in Millions)	2007	2006
Provision for Income Taxes	$22.3	$22.4

The decrease in the Provision for income taxes is attributable to lower Income before income taxes, state tax refunds received during the period and adjustments to reconcile final tax returns to previous estimates, partially offset by additional tax expense from the new Texas margin tax. The impact of the new Texas margin tax was partially offset by the one-time benefit of deferred tax assets recorded as a result of the new tax. Our effective rate for the year ended January 31, 2007 was 35.6%, as compared to 35.2% for the year ended January 31, 2006, as impact of the Texas margin tax was partially offset by the refunds and return adjustments.

Impact of Inflation

We do not believe that inflation has a material effect on our net sales or results of operations. However, a continuing significant increase in oil and gasoline prices could adversely affect our customers' shopping decisions and patterns. We rely heavily on our internal distribution system and our next day

delivery policy to satisfy our customers' needs and desires, and any such significant increases could result in increased distribution charges. Such increases may not affect our competitors in the same manner as it affects us.

Seasonality and Quarterly Results of Operations

Our business is somewhat seasonal, with a higher portion of sales and operating profit realized during the quarter that ends January 31, due primarily to the holiday selling season. Over the four quarters of fiscal 2008, gross margins were 34.8%, 33.8%, 32.6% and 32.8%. During the same period, operating margins were 9.4%, 6.7%, 3.4% and 9.0%. A portion of the fluctuation in gross margins and operating margins is due to planned infrastructure cost additions, such as increased warehouse space and larger stores, additional personnel and systems required to absorb the significant increase in revenues that we have experienced over the last several years. We also recorded a reduction in the fair value of our interests in securitized assets by $4.0 million in the quarter ended October 31, 2007, which caused both the gross margin and operating margin for that quarter to be reduced.

Additionally, quarterly results may fluctuate materially depending on factors such as the following:

o timing of new product introductions, new store openings and store relocations;

o sales contributed by new stores;

o increases or decreases in comparable store sales;

o adverse weather conditions;

o shifts in the timing of certain holidays or promotions; and

o changes in our merchandise mix.

Results for any quarter are not necessarily indicative of the results that may be achieved for a full year.

The following tables sets forth certain unaudited quarterly statement of operations information for the eight quarters ended January 31, 2008. The unaudited quarterly information has been prepared on a consistent basis and includes all normal recurring adjustments that management considers necessary for a fair presentation of the information shown.

	Fiscal Year 2007 (A)			
	Quarter Ended			
	Apr. 30	Jul. 31	Oct. 31	Ja
	(dollars and shares in thousands, excep share amounts)			
Revenues				
Product sales	$158,509	$150,647	$139,594	
Service maintenance agreement commissions (net)	7,967	7,063	6,845	
Service revenues	5,229	5,927	5,951	
Total net sales	171,705	163,637	152,390	

Finance charges and other	20,483	18,567	21,303
Total revenues	192,188	182,204	173,693
Percent of annual revenues	25.3%	24.0%	22.8%
Cost and expenses			
Cost of goods sold, including warehousing and occupancy costs	118,552	112,760	104,124
Cost of service parts sold, including warehousing and occupancy costs	1,565	1,389	1,834
Selling, general and administrative expense	53,841	55,421	56,204
Provision for bad debts	43	390	526
Total cost and expenses	174,001	169,960	162,688
Operating Income	18,187	12,244	11,005
Operating Profit as a % total revenues	9.5%	6.7%	6.3%
Interest (income) expense	(184)	(187)	(141)
Other (income) expense	(33)	(721)	(19)
Income before income taxes	18,404	13,152	11,165
Provision for income taxes	6,455	4,608	4,011
Net income	$11,949	$8,544	$7,154
Net income as a % of revenue	6.2%	4.7%	4.1%
Outstanding shares:			
Basic	23,596	23,676	23,698
Diluted	24,448	24,344	24,165
Earnings per share:			
Basic	$0.51	$0.36	$0.30
Diluted	$0.49	$0.35	$0.30

(A) - In order to present our results on a basis that is more comparable with others in our indus have reclassified advertising expenditures that were previously included in costs of goods sold selling, general and administrative expense.

	Fiscal Year 2008 (A)			
	Quarter Ended			
	Apr. 30	Jul. 31	Oct. 31	Ja
	(dollars and shares in thousands, excep share amounts)			
Revenues				
Product sales	$166,639	$163,793	$155,657	
Service maintenance agreement commissions (net)	9,281	9,071	8,336	
Service revenues	5,445	6,137	6,059	

Total net sales	181,365	179,001	170,052
Finance charges and other	23,945	24,526	19,314
Total revenues	205,310	203,527	189,366
Percent of annual revenues	24.9%	24.7%	23.0%
Cost and expenses			
Cost of goods sold, including warehousing and occupancy costs	124,393	125,297	118,191
Cost of service parts sold, including warehousing and occupancy costs	1,866	2,123	2,257
Selling, general and administrative expense	59,214	62,113	61,928
Provision for bad debts	560	348	582
Total cost and expenses	186,033	189,881	182,958
Operating Income	19,277	13,646	6,408
Operating Profit as a % total revenues	9.4%	6.7%	3.4%
Interest (income) expense	(240)	(251)	(110)
Other (income) expense	(831)	(55)	(34)
Income before income taxes	20,348	13,952	6,552
Provision for income taxes	7,402	4,295	2,531
Net income	$12,946	$9,657	$4,021
Net income as a % of revenue	6.3%	4.7%	2.1%
Outstanding shares:			
Basic	23,567	23,489	23,077
Diluted	24,121	24,058	23,550
Earnings per share:			
Basic	$0.55	$0.41	$0.17
Diluted	$0.54	$0.40	$0.17

(A) - In order to present our results on a basis that is more comparable with others in our indus have reclassified advertising expenditures that were previously included in costs of goods sold selling, general and administrative expense.

Liquidity and Capital Resources

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. At January 31, 2008, we had a revolving lines of credit in the amount of $58 million, under which we had no borrowings outstanding, but utilized $2.4 million of availability to issue letters of credit. We expect that our cash requirements for the foreseeable future, including those for our capital expenditure requirements, will be met with our available lines of credit and our $6.4 million of excess cash and cash equivalents, which were invested in short-term, tax-free instruments, at January 31, 2008, together with cash generated from operations. Our current plans are to grow our store base by

approximately 10% a year. We expect we will invest in inventory, real estate and customer receivables to support the additional stores and same store sales growth. Depending on market conditions we may, at times, enter into sale-leaseback transactions to finance our real estate or seek alternative financing sources for new store expansions and customer receivables growth, including expansion of existing lines of credit, and accessing new debt or equity markets.

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. This facility matures in November 2010. This increase in the facility brings our total availability under revolving lines of credit to $105.6 million at March 26, 2008.

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. We expect to fund these purchases with a combination of excess cash, cash flow from operations, borrowings under our revolving credit facilities and proceeds from the sale of owned properties. Through January 31, 2008, we had spent $37.1 million under this authorization to acquire 1,723,205 shares of our common stock. Future stock repurchases will be dependent upon the availability of sufficient capital and liquidity to support our growth plans and the repurchase program.

The following is a comparison of our statement of cash flows for our fiscal years 2007 and 2008:

During the year ended January 31, 2008, net cash provided by (used in) operating activities decreased $34.5 million from $28.9 million provided by operating activities in the year ended January 31, 2007, to $5.6 million used in the January 31, 2008. Operating cash flows for both periods were negatively impacted by higher than normal payments on accounts payable and accrued expenses, as discussed below. The cash used in operations for the year ended January 31, 2008, was driven primarily by payments on accounts payable, which was driven by the timing of receipts of inventory and increased investment in accounts receivable. Our increased investment in accounts receivable was due primarily to increased balances in the sold portfolio and a lower funding rate as a percentage of the sold portfolio. The lower funding rate is primarily the result of the QSPE's pay down of its 2002 Series B bond issuance. We expect the funding rate to improve once the pay down is completed, which is scheduled for completion in May, 2008. The cash provided by operations for the year ended January 31, 2007, resulted primarily from net income plus depreciation plus the benefit of the QSPE completing its medium-term bond issuance in August 2006. The completion of the bond issuance resulted in an increase in the funding rate, providing additional cash to be advanced to us on receivables transferred. Offsetting the cash provided was cash used primarily due to increased investment in inventory and the timing of payments of accounts payable and federal income and employment taxes, which had been extended due to the impact of hurricanes in the prior fiscal year. Those extended terms ended and deadlines were reached in the quarter ended April 30, 2006, and we were required to satisfy those obligations, negatively impacting our operating cash flows by approximately $18.9 million.

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, or 12 months; in fiscal year 2005 we increased these terms to include 18, 24 and 36 months. 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 20.0% as of January 31, 2007, and at January 31, 2008, the percentage was 23.0% The weighted average promotional period was 13.1 months and 15.1 months for promotional receivables outstanding as of January 31, 2007 and 2008, respectively. The weighted average remaining term on those same promotional receivables was 9.8 months and 10.7 months as of January 31, 2007 and 2008, respectively. While overall these promotional receivables have a much shorter weighted average term than non-promotional receivables for the customers that take advantage of the promotional terms, 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 was $16.1 million and $10.0 million in fiscal year 2007 and fiscal year 2008, respectively. Cash used for purchases of property and equipment was approximately $18.4 million in fiscal year 2007 and $19.0 fiscal year 2008. 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. We estimate that capital expenditures for the 2009 fiscal year will approximate $20 million to $25 million.

We lease 64 of our 69 stores, and our plans for future store locations include primarily leases, but does not exclude store ownership. Our capital expenditures for future store projects should primarily be for our tenant improvements to the property leased (including any new distribution centers and warehouses), the cost of which is approximately $1.6 million per store, and for our existing store remodels, in the range of $105,000 per store remodel,

depending on store size. In the event we purchase existing properties, our capital expenditures will depend on the particular property and whether it is improved when purchased. We are continuously reviewing new relationship and funding sources and alternatives for new stores, which may include "sale-leaseback" or direct "purchase-lease" programs, as well as other funding sources for our purchase and construction of those projects. If we are successful in these relationship developments, our direct cash needs should include only our capital expenditures for tenant improvements to leased properties and our remodel programs for existing stores, but could include full ownership if it meets our cash investment strategy.

Net cash used in financing activities increased $28.6 million from $1.3 million for the year ended January 31, 2007, to $29.9 million for the year ended January 31, 2008. This change resulted primarily from the use of $33.3 million for the purchase of our common stock in fiscal year 2008.

We entered into our existing bank credit facility on October 31, 2005. The agreement provides a line of credit to $50 million, with an accordion feature to allow further expansion of the facility to $90 million, under certain conditions. The credit facility has a maturity date of November 1, 2010. Additionally, the facility provides sublimits of $8 million for a swingline line of credit for faster advances on borrowing requests, and $5 million for standby letters of credit. Loans under our revolving credit facility may, at our option, bear interest at either the alternate base rate, which is the greater of the administrative agent's prime rate or the federal funds rate, or the LIBOR rate for the applicable interest period, in each case plus an applicable interest margin. The interest margin is between 0.00% and 0.50% for base rate loans and

between 0.75% and 1.75% for LIBOR alternative rate loans. The interest margin will vary depending on our debt coverage ratio. Additionally we pay commitment fees for the undrawn portion of our revolving credit facility. At January 31, 2008, based on the LIBOR rate, the interest rate on the revolving facility was 4.15%.

Effective August 28, 2006, we entered into an amendment to our $50 million revolving credit facility with the existing lenders. The amendment increases our restricted payment capacity, which includes payments for repurchases of capital stock, from $25 million to $50 million. There were no other modifications of the Credit Agreement.

A summary of the significant financial covenants that govern our bank credit facility compared to our actual compliance status at January 31, 2008, is presented below:

	Actual	Required Minimum/ Maximum
Debt service coverage ratio must exceed required minimum	4.09 to 1.00	2.00 to 1.00
Total adjusted leverage ratio must be lower than required maximum	1.65 to 1.00	3.00 to 1.00
Adjusted consolidated net worth must exceed required minimum	$301.2 million	$214.8 millio
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	0.03 to 1.00	0.05 to 1.00
30-day delinquency ratio must be lower than required maximum	0.10 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.

Events of default under the credit facility include, subject to grace periods and notice provisions in certain circumstances, non-payment of principal, interest or fees; violation of covenants; material inaccuracy of any representation or warranty; default under or acceleration of certain other indebtedness; bankruptcy and insolvency events; certain judgments and other liabilities; certain environmental claims; and a change of control. If an event of default occurs, the lenders under the credit facility are entitled to take various actions, including accelerating amounts due under the credit facility and requiring that all such amounts be immediately paid in full. Our obligations under the credit facility are secured by all of our and our subsidiaries' assets, excluding customer receivables owned by the QSPE and certain inventory subject to vendor floor plan arrangements.

The following table reflects outstanding commitments for borrowings and letters of credit, and the amounts utilized under those commitments, as of January 31, 2008:

	Commitment Expires in Fiscal Year Ending January 31,							Balance at January 31,	A J
	2009	2010	2011	2012	2013	Thereafter	Total	2008	
	(in thousands)								
Revolving Bank									

Facility (1)		$50,000					$50,000	$2,442
Unsecured Line of Credit	8,000						8,000	-
Inventory Financing (2)	40,000						40,000	14,766
Letters of Credit	25,000						25,000	847
Total	$73,000	$50,000	$-	$-	$-	$-	$123,000	$18,055

(1) Includes letter of credit sublimit. There was $2.4 million of letters of credit issued at January 31, 2008.

(2) Included in accounts payable on the consolidated balance sheet as of January 31, 2008.

Since we extend credit in connection with a large portion of our retail, service maintenance and credit insurance sales, we created a QSPE in 2002 to purchase customer receivables from us and to issue medium-term and variable funding notes secured by the receivables to third parties to finance its purchase of these receivables. We transfer receivables, consisting of retail installment and revolving accounts receivables extended to our customers, to the issuer in exchange for cash, subordinated securities and the right to receive the interest spread between the assets held by the QSPE and the notes issued to third parties and our servicing fees. The subordinated securities issued to us accrue interest based on prime rates and are subordinate to these third party notes.

Both the bank credit facility and the asset-backed securitization program are significant factors relative to our ongoing liquidity and our ability to meet the cash needs associated with the growth of our business. Our inability to use either of these programs because of a failure to comply with their covenants would adversely affect our continued growth. Funding of current and future receivables under the asset-backed securitization program can be adversely affected if we exceed certain predetermined levels of re-aged receivables, write-offs, bankruptcies or other ineligible receivable amounts. If the funding under the asset-backed securitization program were reduced or terminated, we would have to draw down our bank credit facility more quickly than we have estimated.

A summary of the total receivables managed under the credit portfolio, including quantitative information about delinquencies, net credit losses and components of securitized assets, is presented in Note 3 to our consolidated financial statements.

Based on current operating plans, we believe that cash provided by operating activities, available borrowings under our credit facility, access to the unfunded portion of the variable funding portion of our asset- backed securitization program and our current cash and cash equivalents will be sufficient to fund our operations, store expansion and updating activities and capital expenditure programs for at least the next 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), or as a result of a change in the mix of funding sources available to the QSPE, requiring higher collateral levels;

- inability to renew or 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 the program costs (interest and administrative fees relative to our receivables portfolio) associated with the funding of our receivables;

- increases in personnel costs required for us to stay competitive in our markets; and

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

If cash provided by operating activities during this period is less than we expect or if we need additional financing for future growth, we may need to increase our revolving credit facility or undertake additional equity or debt offerings. We may not be able to obtain such financing on favorable terms, if at all.

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 asset-backed and variable funding notes to third parties to obtain cash for these purchases. We transfer receivables with a weighted average life of 1.2 years, 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 January 31, 2008, the issuer has issued three series of notes: the 2002 Series A variable funding note with a total availability of $450.0 million, three classes of 2002 Series B notes in the aggregate amount outstanding of $40.0 million, of which $4.0 million was required to be placed in a restricted cash account for the benefit of the bondholders, and three classes of 2006 Series A bonds with an aggregate amount outstanding of $150.0 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 2011. The 364-day commitment was recently renewed and increased, in the amount of $150 million, by the note holders until July 31, 2008. The $150 million increase in the 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 the time of the increase in the note, an additional bank joined as the second note holder in the facility. The commercial paper underlying the 2002 Series A variable funding note is rated A1/P1 by Standard and Poors and Moody's, respectively. These ratings represent the highest rating (highest quality) of each rating agency's three short-term investment grade ratings, except that Standard and Poors could add a "+" which would convert the highest quality rating to an extremely strong rating. The 2002 Series B notes consist of: Class A notes in the amount $24.0 million, rated Aaa by Moody's representing the highest rating (highest quality) of the four long term investment grade ratings provided by this organization; Class B notes in the amount $11.6 million, rated A2 by Moody's representing the middle of the third rating (upper medium quality) of the four long term investment grade ratings provided by this organization; and Class C notes in the amount of $4.4 million, rated Baa2/BBB by Moody's and Fitch, respectively. The 2006 Series A notes consist of: Class A notes in the amount $90.0 million, rated Aaa by Moody's representing the highest rating (highest quality) of the four long term investment grade ratings provided by this organization; Class B notes in the amount $43.3 million, rated A2 by Moody's representing the middle of the third rating (upper medium quality) of the four long term investment grade ratings provided by this organization; and Class C notes in the amount of $16.7 million, rated Baa2 by Moody's. The Baa2/BBB ratings represent the lowest of the four investment grades (medium quality) provided by these organizations. The ratings disclosed are not recommendations to buy, sell or hold securities. These ratings may be changed or withdrawn at any time without notice, and each of the ratings should be evaluated independently of any other rating. We are not aware of a rating by any other rating organization and are not aware of any changes in these ratings. Private institutional investors, primarily insurance companies, purchased the 2002 Series B notes and 2006 Series A notes. The issuer used the proceeds of these issuances to purchase eligible accounts receivable from us and to fund the required restricted cash accounts for credit enhancement of the notes. 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 January 31,2008, the net portfolio yield was in compliance with this requirement.

We are entitled to 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 plus 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 the 2002 Series A, 2002 Series B, or 2006 Series A note holders, the servicing fee and additional earnings to the extent they are available.

After the September 10, 2007, amendment, the 2002 Series A variable funding note now permits the issuer to borrow funds up to $450 million to purchase receivables from us, 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 January

31, 2008, borrowings under the 2002 Series A variable funding note were $278.0 million.

Recent turmoil in the financial markets, especially with respect to asset-backed securities, has resulted in reduced liquidity available for issuances of these securities and rising costs for issuers. As a result, the issuer has delayed the marketing of an additional series of fixed rate bonds. It is currently anticipated that the issuer will attempt to complete a transaction in the second or third quarter of the fiscal year ending January 31, 2009, but no assurance can be given that a transaction can be completed on terms favorable to it.. The proceeds of a new issuance would provide the issuer additional capacity for the purchase of our receivables. If the issuer is unable to complete the new bond issuance or renew or increase the total availability under the 2002 Series A variable funding note, then, after its current funding sources are exhausted, we may have to fund growth in the receivables portfolio until the issuer can obtain additional funding. 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.

At January 31, 2008, we had $6.4 million of excess cash and $55.6 million of availability under our revolving credit facilities, among other liquidity sources, to provide funding, if needed, to fund receivable portfolio growth. As such, we believe we have sufficient sources of liquidity to fund our operations, including credit portfolio growth, for at least the next 12 months.

The Series A variable funding note bears interest at the commercial paper rate plus an applicable margin, in most instances of 0.8%. The 2002 Series B notes have fixed rates of 4.469%, 5.769% and 8.180% for the Class A, B and C notes, respectively. The 2006 Series A notes have fixed rates of 5.507%, 5.854% and 6.814% for the Class A, B and C notes, respectively. In addition, there is an annual administrative fee and a non-use fee associated with the unused portion of the committed facility.

While we are not directly liable to the lenders under the asset-backed securitization facility, any shortfall in the cash necessary to repay the note and bond holders and our subordinated notes would first reduce the amount paid to us under the subordinated notes. As such, we bear the risk of losses incurred by the issuer, to the extent of our retained interest, before the issuer's third-party lenders are exposed to losses. If the issuer is unable to repay the 2002 Series A note, 2002 Series B bonds and 2006 Series A bonds due to its inability to collect the transferred customer accounts and the issuer could not pay the subordinated notes it has issued to us in partial payment for transferred customer accounts, the 2002 Series B and 2006 Series A bond holders could claim the balance in its $10.0 million restricted cash account. We are also contingently liable under a $20.0 million letter of credit that secures our 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 the 2002 Series B and 2006 Series A bonds, including covenants that restrict, subject to specified exceptions: the incurrence of additional 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 covenants 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.

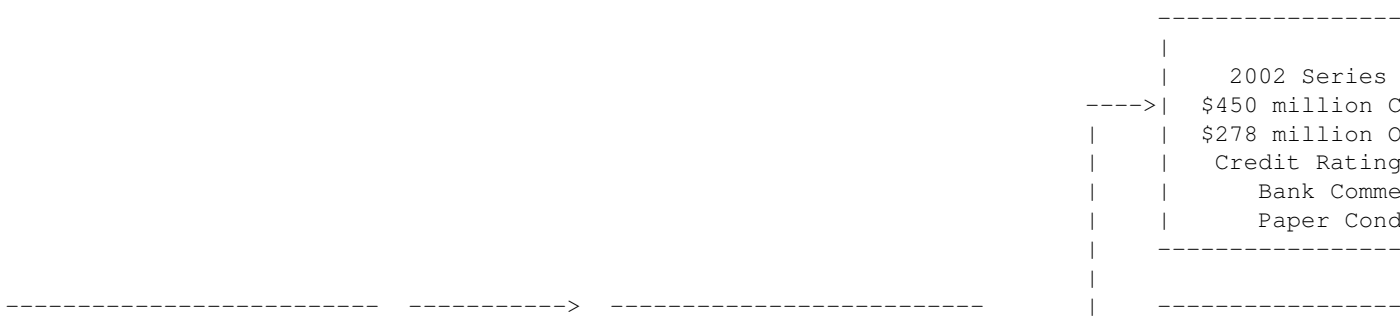
A summary of the significant financial covenants that govern the 2002 Series A variable funding note compared to actual compliance status at January 31, 2008, is presented below:

	As reported
Issuer interest must exceed required minimum	$78.5 million
Gross loss rate must be lower than required maximum	4.1%
Net portfolio yield must exceed required minimum	8.7%
Payment rate must exceed required minimum	7.0%

Note: All terms in the above table are defined by the asset backed credit facility 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 2002 Series B and Series 2006 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 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



					2002 Series
		Qualifying			$40 milli
Retail		Special Purpose			