CONNS INC
Form 10-Q
August 26, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 31, 2010 Commission File Number 000-50421

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

A Delaware Corporation	06-1672840
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3295 College Street
Beaumont, Texas 77701
(409) 832-1696
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

NONE
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer [ ] Accelerated filer [x] Non-accelerated filer [ ] smaller reporting company [ ]

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 24, 2010:

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

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

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

Stockholders' equity		
Preferred stock ($0.01 par value, 1,000,000 shares authorized; none issued or outstanding)	-	-
Common stock ($0.01 par value, 40,000,000 shares authorized; 24,194,555 and 24,212,843 shares issued at January 31, 2010 and July 31, 2010, respectively)	242	242
Additional paid-in capital	106,226	107,465
Accumulated other comprehensive loss	(218)	(155)
Retained earnings	269,984	277,216
Treasury stock, at cost, 1,723,205 shares	(37,071)	(37,071)
Total stockholders' equity	339,163	347,697
Total liabilities and stockholders' equity	$892,466	$892,337

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

1. Summary of Significant Accounting Policies

Basis of Presentation. The accompanying unaudited, condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature, except as otherwise described herein. Operating results for the three and six month periods ended July 31, 2010, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2011. The financial statements should be read in conjunction with the Company's (as defined below) audited consolidated financial statements and the notes thereto included in the Company's Current Report on Form 8-K filed on July 7, 2010.

The Company's balance sheet at January 31, 2010, has been derived from the audited financial statements at that date, revised for the retrospective application of the new accounting principles discussed below, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for a complete financial presentation. Please see the Company's Form 8-K filed on July 7, 2010 for a complete presentation of the audited financial statements for the fiscal year ended January 31, 2010, together with all required footnotes, and for a complete presentation and explanation of the components and presentations of the financial statements.

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

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

- a transfer of financial assets;

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

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

a) The power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance, and

b) The obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity.

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

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

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

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

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

Principles of Consolidation. The consolidated financial statements include the accounts of Conn's, Inc. and all of its wholly-owned subsidiaries (the Company), including the Company's VIE. The liabilities of the VIE and the assets specifically collateralizing those obligations are not available for the general use of the Company and have been parenthetically presented on the face of the Company's balance sheet. All material intercompany transactions and balances have been eliminated in consolidation.

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

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

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

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

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

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

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

Interest Income on Customer Accounts Receivable. Interest income is accrued using the Rule of 78's method for installment contracts and the simple interest method for revolving charge accounts, and is reflected in Finance charges and other. Typically, interest income is accrued until the contract or account is paid off or charged-off and we provide an allowance for estimated uncollectible interest. Interest income is recognized on interest-free promotion credit programs based on the Company's historical experience related to customers that fail to satisfy the requirements of the interest-free programs. Additionally, for sales on deferred interest and "same as cash" programs that exceed one year in duration, the Company discounts the sales to their fair value, resulting in a reduction in sales and customer receivables, and accretes the discount amount to Finance charges and other over the term of the program. The amount of customer receivables carried on the Company's consolidated balance sheet that were past due 90 days or more and still accruing interest was $54.8 million and $46.7 million at January 31, 2010, and July 31, 2010, respectively.

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

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

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

Comprehensive Income.

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

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

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

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

2. Supplemental Disclosure of Finance Charges and Other Revenue

The following is a summary of the classification of the amounts included as Finance charges and other for the three and six months ended July 31, 2009 and 2010 (in thousands):

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

3. Supplemental Disclosure of Customer Receivables

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

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

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

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

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

4. Debt and Letters of Credit

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

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

The Company's $210 million asset-based revolving credit facility provides funding based on a borrowing base calculation that includes customer accounts receivable and inventory and matures in August 2011. The credit facility bears interest at LIBOR plus a spread ranging from 325 basis points to 375 basis points, based on a fixed charge coverage ratio. In addition to the fixed charge coverage ratio, the revolving credit facility includes a total liabilities to tangible net worth requirement, a minimum customer receivables cash recovery percentage requirement, a net capital expenditures limit and combined portfolio performance covenants. The Company was in compliance with the covenants, as amended, at July 31, 2010. Additionally, the agreement contains cross-default provisions, such that, any default under another credit facility of the Company or its VIE would result in a default under this agreement, and any default under this agreement would result in a default under those agreements. The asset-based revolving credit facility is secured by the assets of the Company not otherwise encumbered.

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

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

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

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

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

As of July 31, 2010, the Company had approximately $57.1 million under its asset-based revolving credit facility, net of standby letters of credit issued, and $10.0 million under its unsecured bank line of credit immediately available for general corporate purposes. The Company also had $21.8 million that may become available under its asset-based revolving credit facility if it grows the balance of eligible customer receivables and its total eligible inventory balances.

The Company's asset–based revolving credit facility provides it the ability to utilize letters of credit to secure its obligations as the servicer under its VIE's asset-backed securitization program, deductibles under the Company's property and casualty insurance programs and international product purchases, among other acceptable uses. At July 31, 2010, the Company had outstanding letters of credit of $21.7 million under this facility. The maximum potential amount of future payments under these letter of credit facilities is considered to be the aggregate face amount of each letter of credit commitment, which totals $21.7 million as of July 31, 2010.

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

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

Fair Values of Derivative Instruments

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

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

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

5. Contingencies

Legal Proceedings. The Company is involved in routine litigation and claims incidental to its business from time to time, and, as required, has accrued its estimate of the probable costs for the resolution of these matters. These estimates have been developed in consultation with counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible, however, that future results of operations for any particular period could be materially affected by changes in the Company's assumptions or the effectiveness of its strategies related to these proceedings. However, the results of these proceedings cannot be predicted with certainty, and changes in facts and circumstances could impact the Company's estimate of reserves for litigation.

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

Reconciliation of deferred revenues on repair service agreements

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

6. Segment Reporting

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

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

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

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

(b) – Selling, general and administrative expenses include the direct expenses of the retail and credit operations, allocated overhead expenses and a charge to the credit segment to reimburse the retail segment for expenses it incurs related to occupancy, personnel, advertising and other direct costs of the retail segment which benefit the credit operations by sourcing credit customers and collecting payments. The reimbursement received by the retail segment from the credit segment is estimated using an annual rate of 2.5% times the average portfolio balance for each applicable period. The amount of overhead allocated to each segment was approximately $1.7 million and $1.6 million for the three months ended July 31, 2010 and 2009, respectively. The amount of overhead allocated to each segment was approximately $3.4 million and $3.2 million for the six months ended July 31, 2010 and 2009, respectively. The amount of the reimbursement made to the retail segment by the credit segment was approximately $4.4 million and $4.6 million for the three months ended July 31, 2010 and 2009, respectively. The amount of the reimbursement made to the retail segment by the credit segment was approximately $8.9 million and $9.3 million for the six months ended July 31, 2010 and 2009, respectively.

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

(d) - Selling, general and administrative expenses of the retail segment include depreciation and amortization expense of approximately $6.4 million and $6.5 million for the six months ended July 31, 2010 and 2009, respectively. Selling, general and administrative expenses of the credit segment include depreciation and amortization expense of approximately $2.1 million and $0.9 million for the six months ended July 31, 2010 and 2009, respectively.

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

Forward-Looking Statements

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

- our ability to obtain capital for required capital expenditures and costs related to the opening of new stores or to update, relocate or expand existing stores;
- our ability to fund our operations, capital expenditures, debt repayment and expansion from cash flows from operations, borrowings from our revolving line of credit and proceeds from securitizations, and proceeds from accessing debt or equity markets;
- our ability to renew or replace our existing borrowing facilities on or before the maturity dates of the facilities;
- the cost or terms of any amended, renewed or replacement credit facilities;
- our ability to obtain additional funding for the purpose of funding the customer receivables generated by us, including limitations on our ability to obtain financing through the commercial paper-based funding sources in our securitization program;
- our inability to maintain compliance with debt covenant requirements, including taking the actions necessary to maintain compliance with the covenants, such as obtaining amendments to the borrowing facilities that modify the covenant requirements, which could result in higher borrowing costs;
- reduced availability under our asset-based revolving credit facility as a result of borrowing base requirements and the impact on the borrowing base calculation of changes in the performance or eligibility of the customer receivables financed by that facility;
- increases in the retained portion of our customer receivables portfolio under our asset-backed securitization program as a result of changes in performance or types of customer receivables transferred, or as a result of a change in the mix of funding sources available to the securitization program, requiring higher collateral levels, or limitations on our ability to obtain financing through commercial paper-based funding sources;
- the success of our growth strategy and plans regarding opening new stores and entering adjacent and new markets, including our plans to continue expanding into existing markets;
- our ability to open and profitably operate new stores in existing, adjacent and new geographic markets;
- our intention to update or expand existing stores;
- our ability to introduce additional product categories;

- the ability of the financial institutions providing lending facilities to us to fund their commitments;
- the effect of any downgrades by rating agencies of our lenders on borrowing costs;
- the effect on our borrowing cost of changes in laws and regulations affecting the providers of debt financing;

- the effect of rising interest rates or borrowing spreads that could increase our cost of borrowing or reduce securitization income;
- the effect of rising interest rates or other economic conditions on mortgage borrowers that could impair our customers' ability to make payments on outstanding credit accounts;
- our inability to make customer financing programs available that allow consumers to purchase products at levels that can support our growth;
- the potential for deterioration in the delinquency status of the transferred or owned credit portfolios or higher than historical net charge-offs in the portfolios could adversely impact earnings;
- technological and market developments, growth trends and projected sales in the home appliance and consumer electronics industry, including, with respect to digital products like Blu-ray players, HDTV, LED and 3-D televisions, GPS devices, home networking devices and other new products, and our ability to capitalize on such growth;
- the potential for price erosion or lower unit sales points that could result in declines in revenues;
- the effect of changes in oil and gas prices that could adversely affect our customers' shopping decisions and patterns, as well as the cost of our delivery and service operations and our cost of products, if vendors pass on their additional fuel costs through increased pricing for products;
- the ability to attract and retain qualified personnel;
- both the short-term and long-term impact of adverse weather conditions (e.g. hurricanes) that could result in volatility in our revenues and increased expenses and casualty losses;
- changes in laws and regulations and/or interest, premium and commission rates allowed by regulators on our credit, credit insurance and repair service agreements as allowed by those laws and regulations;
- our relationships with key suppliers and their ability to provide products at competitive prices and support sales of their products through their rebate and discount programs;
- the adequacy of our distribution and information systems and management experience to support our expansion plans;
- the accuracy of our expectations regarding competition and our competitive advantages;
- changes in our stock price or the number of shares we have outstanding;
- the potential for market share erosion that could result in reduced revenues;
- the accuracy of our expectations regarding the similarity or dissimilarity of our existing markets as compared to new markets we enter;
- the use of third parties to complete certain of our distribution, delivery and home repair services;
- general economic conditions in the regions in which we operate; and

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

Additional important factors that could cause our actual results to differ materially from our expectations are discussed under "Risk Factors" in our filings with the Securities and Exchange Commission, including our Form 10-K/A filed on April 12, 2010 and our Form 10-Q/A filed on July 7, 2010. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report might not happen.

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

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

General

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

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

Unlike many of our competitors, we provide flexible in-house credit options for our customers. In the last three years, we financed, on average, approximately 61% of our retail sales through our internal credit programs. In addition to interest-bearing installment and revolving charge contracts, at times, we offer promotional credit programs to certain customers that provide for “same as cash” or deferred interest interest-free periods of varying terms, generally three, six, 12, 18, 24 and 36 months, and require monthly payments beginning in the month after the sale. In turn, we finance substantially all of our customer receivables from these credit programs with cash flow from operations and through an asset-based revolving credit facility and an asset-backed securitization facility. In addition to our own credit programs, we use third-party financing programs to provide a portion of the non-interest bearing financing for purchases made by our customers and to provide our customers a rent-to-own payment option.

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

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

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

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

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

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(1) The Portfolios consist of owned and transferred receivables.
(2) Unapproved and not declined credit applications in the primary portfolio are referred to the secondary portfolio.
(3) Is calculated as 1 minus the percent of actual bad debt charge-offs (net of recoveries) of reage balances as a percent of average reage balances. The reage bad debt charge-offs are included as a component of Percent of bad debt charge-offs (net of recoveries) to average outstanding balance.
(4) Accounts that become delinquent after being reaged are included in both the delinquency and reaged amounts.

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

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

Executive Overview

This narrative is intended to provide an executive level overview of our operations for the three and six months ended July 31, 2010. A detailed explanation of the changes in our operations for this period as compared to the prior year period is included under Results of Operations. Some of the more specific items impacting our operating and pretax income were:

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

- more challenging economic conditions in Texas compared to the same quarter in the prior year, as evidenced by the unemployment rate rising from an average of 7.5% to 8.2% for the three month periods ended July 31, 2009 and 2010, respectively, and

- management's emphasis on improving retail gross margin, which increased from 23.6% to 25.4% for the three months ended July 31, 2009, and 2010, respectively, while maintaining price competitiveness.

- For the six months ended July 31, 2010, compared to the same period last year, Total net sales decreased 12.4% and Finance charges and other decreased 13.3%. Total revenues decreased 12.6% while same store sales decreased 13.3% for the six months ended July 31, 2010. The sales decline was primarily driven by the same reasons discussed above for the quarter.

- Finance charges and other decreased 13.4% and 13.3% for the three and six months ended July 31, 2010, when compared to the same period last year, primarily due to a decrease in interest income and fees as the average interest income and fee yield earned on the portfolio fell from 18.9% and 18.8 % for the three and six months ended July 31, 2009, to 17.2% and 17.1%, for the three and six months ended July 31, 2010, and the average balance of customer accounts receivable outstanding during the six months ended July 31, 2010 fell 4.4%, as compared to the prior year period. The interest income and fee yield fell as a result of the higher level of charge-offs experienced, resulting in an increase in the reversal of accrued interest and increased reserves for uncollectible interest, and the reduced amount of new credit accounts originated in the three and six month periods ended July 31, 2010, as compared to the same periods in the prior fiscal year. The reduction in new credit accounts originated negatively impacts the yield since interest income is recognized using the Rule of 78's, which accelerates the recognition of interest earnings.

- Deferred interest and "same as cash" plans under our consumer credit programs continue to be an important part of our sales promotion plans and are utilized to provide a wide variety of financing to enable us to appeal to a broader customer base. For the three and six months ended July 31, 2010, $39.8 million, or 23.9% and $65.4 million, or 20.6%, respectively, of our product sales were financed by our deferred interest and "same as cash" plans. For the comparable period in the prior year, product sales financed by our deferred interest and "same as cash" sales were $32.0 million, or 18.3% and $59.2 million, or 16.4%. Our promotional credit programs (same as cash and deferred interest programs), which require monthly payments, are reserved for our highest credit quality customers, thereby reducing the overall risk in the portfolio, and are typically used to finance sales of our highest margin products. We expect to continue to offer promotional credit in the future. In addition to the amounts above, we used third-party consumer credit programs to finance approximately $3.4 million and $27.7 million, of our product and repair service agreement sales during the six months ended July 31, 2009 and 2010, respectively.

- Our total gross margin (Total revenues less Cost of goods sold) increased from 37.7% to 38.0% for the three months ended July 31, 2010, when compared to the same period in the prior year. The increase resulted primarily from:

- an increase in retail gross margins (includes gross profit from product sales and repair service agreement commissions) from 23.6% for the three months ended July 31, 2009, to 25.4% for the three months ended July 31, 2010, respectively, which improved the total gross margin by 150 basis points. The increase was driven largely by a 200 basis point increase in product gross margins to 21.7% for the three months ended July 31, 2010, as we focused on improving pricing discipline on the sales floor while maintaining price competitiveness in the marketplace, and

- a change in the revenue mix in the three months ended July 31, 2010, such that higher gross margin finance charge and other revenues contributed a lesser percentage of total revenues, resulted in a decrease in the total gross margin of approximately 120 basis points.

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

- During the three months ended July 31, 2010, Selling, general and administrative (SG&A) expense was reduced by $1.5 million, though it increased as a percent of revenues to 29.7% from 28.2% in the prior year period, due to the deleveraging effect of the decline in total revenues. The $1.5 million reduction in SG&A expense was driven primarily by lower compensation and related expense and reduced general insurance expense, partially offset by increased amortization expense due to the amendments completed to our credit facilities, higher charges related to the increased use of third-party finance providers and increased use of contract delivery and installation services. The prior year period also included a $0.3 million charge to increase our litigation reserves. SG&A expense for the six month period decreased $3.5 million, though it increased as a percent of revenues to 30.2% from 27.2% in the prior year period, due to the deleveraging effect of the decline in total revenues.

- The Provision for bad debts increased to $9.0 million and $15.3 million for the three and six months ended July 31, 2010, respectively. Our total net charge-offs of customer and non-customer accounts receivable increased by $1.8 million and $4.5 million for the three and six months ended July 31, 2010 as compared to the same periods in the prior fiscal year. In the six months ended July 31, 2010 we experienced an improvement in our credit portfolio performance (specifically, the trends in the delinquency rate, payment rate, net charge-off rate and percent of the portfolio reaged) as compared to the fourth quarter of fiscal 2010. Based on our expectations about future credit portfolio performance we increased the allowance for bad debts $0.5 million during the three months ended July 31, 2010, though it has been reduced $1.4 million during the six months ended July 31, 2010.

- Net interest expense increased in the three months and six months ended July 31, 2010, due primarily to a $0.9 million fee paid during the three months ended July 31, 2010, to the lenders providing the variable funding note under the securitization facility.

- The provision for income taxes for the three months and six months ended July 31, 2010, was impacted primarily by the change in pre-tax income.

Operational Changes and Resulting Outlook

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

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

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

While we benefited from our operations being concentrated in the Texas, Louisiana and Oklahoma region in the earlier months of 2009, recent weakness in the health of the national and state economies have and will present significant challenges to our operations in the coming quarters. Specifically, future sales volumes, gross profit margins and credit portfolio performance could be negatively impacted, and thus impact our overall profitability. Additionally, declines in our future operating performance could impact compliance with our credit facility covenants, which we recently renegotiated to avoid potentially triggering the default provisions of the credit facilities. As a result, while we will strive to maintain our market share, improve credit portfolio performance and reduce expenses, we will also work to maintain our access to the liquidity necessary to maintain our operations through these challenging times.

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

Application of Critical Accounting Policies

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

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

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

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

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

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

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

Results of Operations

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

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