CONNS INC
Form 10-Q
December 13, 2011

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 October 31, 2011 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 [x] No [ ]

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

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

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of December 5, 2011:

Class	Outstanding
Common stock, $.01 par value per share	31,972,901

TABLE OF CONTENTS

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

Assets	January 31, 2011	October 31, 2011 (unaudited)
Current assets		
Cash and cash equivalents	$10,977	$6,510
Customer accounts receivable, net of allowance of $18,763 and $21,885, respectively	342,754	305,623
Other accounts receivable, net of allowance of $60 and $50 respectively	30,476	30,515
Inventories	82,354	96,703
Deferred income taxes	19,477	21,388
Federal income taxes recoverable	3,942	4,629
Prepaid expenses and other assets	6,476	5,994
Total current assets	496,456	471,362
Long-term portion of customer accounts receivable, net of allowance of $15,874 and $18,285, respectively	289,965	255,346
Property and equipment		
Land	7,264	7,264
Buildings	10,379	10,454
Equipment and fixtures	25,394	25,855
Transportation equipment	1,558	1,529
Leasehold improvements	85,415	85,909
Subtotal	130,010	131,011
Less accumulated depreciation	(83,120)	(90,392)
Total property and equipment, net	46,890	40,619
Non-current deferred income tax asset	8,009	9,721
Other assets, net	10,118	10,004
Total assets	$851,438	$787,052
Liabilities and Stockholders' Equity		
Current Liabilities		
Current portion of long-term debt	$167	$679
Accounts payable	57,740	59,480
Accrued compensation and related expenses	5,477	7,425
Accrued expenses	25,423	29,579
Income taxes payable	2,103	1,756
Deferred revenues and allowances	20,822	20,155
Total current liabilities	111,732	119,074
Long-term debt	373,569	309,997
Other long-term liabilities	12,395	13,149
Fair value of interest rate caps	-	181
Deferred gain on sale of property	845	724
Stockholders' equity		
Preferred stock ($0.01 par value, 1,000,000 shares authorized; none issued or outstanding)	-	-
Common stock ($0.01 par value, 40,000,000 shares authorized; 33,488,565 and 31,884,879 shares issued at January 31, 2011 and October 31, 2011, respectively)	335	319

Accumulated other comprehensive loss	(71)	(118)
Additional paid in capital	131,590	134,090
Retained earnings	258,114	209,636
Treasury stock at cost (1,723,205 shares at January 31, 2011)	(37,071)	-
Total stockholders’ equity	352,897	343,927
Total liabilities and stockholders' equity	$851,438	$787,052

See notes to consolidated financial statements.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2010	2011	2010	2011
Revenues				
Product sales	$125,817	$140,404	$439,492	$422,914
Repair service agreement commissions (net)	6,064	5,613	22,493	21,723
Service revenues	3,768	3,950	12,709	11,650
Total net sales	135,649	149,967	474,694	456,287
Finance charges and other	34,915	29,578	106,719	98,081
Total revenues	170,564	179,545	581,413	554,368
Cost and expenses				
Cost of goods sold, including warehousing and occupancy costs	99,546	113,022	343,979	328,133
Cost of service parts sold, including warehousing and occupancy costs	1,642	1,647	6,134	4,973
Selling, general and administrative expense	55,288	59,623	174,589	172,062
Costs related to store closings	-	(313)	-	3,345
Impairment of long-lived assets	-	688	-	688
Provision for bad debts	10,813	19,322	28,786	31,852
Total cost and expenses	167,289	193,989	553,488	541,053
Operating income (loss)	3,275	(14,444)	27,925	13,315
Interest expense, net	7,722	3,919	20,234	18,479
Costs related to financing transactions not completed	2,896	-	2,896	-
Loss from early extinguishment of debt	-	-	-	11,056
Other (income) expense, net	(16)	(5)	167	81
Income (loss) before income taxes	(7,327)	(18,358)	4,628	(16,301)
Provision (benefit) for income taxes	(2,547)	(5,635)	2,123	(4,877)
Net income (loss)	$(4,780)	$(12,723)	$2,505	$(11,424)
Earnings (loss) Per Share				
Basic	$(0.19)	$(0.40)	$0.10	$(0.36)
Diluted	$(0.19)	$(0.40)	$0.10	$(0.36)
Average common shares outstanding				
Basic	24,951	31,881	24,941	31,819
Diluted	24,951	31,881	24,944	31,819

See notes to consolidated financial statements.

Conn’s, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY
Nine Months Ended October 31, 2011
(unaudited)
(in thousands)

	Common Stock Shares	Common Stock Amount	Accumulated Other Comprehensive Income (Loss)	Paid in Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	TOTAL
Balance January 31, 2011	33,488	$ 335	$ (71)	$ 131,590	$ 258,114	(1,723)	$ (37,071)	$ 352,897
Exercise of options, including tax benefit	100	1		790				791
Issuance of common stock under Employee Stock Purchase Plan	20			89				89
Stock-based compensation				1,691				1,691
Cost related to issuance of common stock				(70)				(70)
Treasury stock shares cancelled	(1,723)	(17)			(37,054)	1,723	37,071	-
Net loss					(11,424)			(11,424)
Other comprehensive income (loss):								
Adjustment of fair value of hedges, net of tax of $25			(47)					(47)
Total comprehensive income (loss)								(11,471)
Balance October 31, 2011	31,885	$ 319	$ (118)	$ 134,090	$ 209,636	-	$ -	$ 343,927

See notes to consolidated financial statements.

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

	Nine Months Ended October 31,	
	2010	2011
Cash flows from operating activities		
Net income (loss)	$2,505	$(11,424)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	9,776	8,137
Amortization, net	2,026	1,223
Loss from early extinguishment of debt	-	11,056
Costs related to financing transactions not completed	2,896	-
Provision for bad debts and uncollectible interest	35,422	36,402
Stock-based compensation	1,690	1,691
Costs and impairment charges related to store closings	-	4,033
Provision for deferred income taxes	1,021	(3,624)
Loss from sale of property and equipment	176	65
Discounts and accretion on promotional credit	(1,570)	(1,086)
Change in operating assets and liabilities:		
Customer accounts receivable	19,573	36,435
Other accounts receivable	(2,771)	15
Inventory	(20,230)	(14,349)
Prepaid expenses and other assets	(1,558)	1,162
Accounts payable	53	1,740
Accrued expenses	(6,157)	3,161
Income taxes payable	2,207	(1,010)
Deferred revenues and allowances	(2,459)	1,243
Net cash provided by operating activities	42,600	74,870
Cash flows from investing activities		
Purchase of property and equipment	(2,340)	(2,313)
Proceeds from sales of property	601	-
Changes in restricted cash balances	(6,532)	-
Net cash used in investing activities	(8,271)	(2,313)
Cash flows from financing activities		
Net proceeds from stock issued under employee benefit plans, including tax benefit	129	880
Costs related to the issuance of common stock	-	(70)
Cash paid for interest rate caps	-	(699)
Proceeds from real estate note	-	8,000
Borrowings under lines of credit	200,171	185,451
Payments on lines of credit	(224,769)	(162,828)
Payment of term loan	-	(100,000)
Payment of prepayment premium	-	(4,830)
Payment of debt issuance costs	(9,576)	(2,787)
Payment of promissory notes	(109)	(141)

Net cash used in financing activities	(34,154)	(77,024)
Net change in cash	175	(4,467)
Cash and cash equivalents		
Beginning of the year	12,247	10,977
End of the year	$12,422	$6,510

See notes to consolidated financial statements.

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

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 nine-month period ended October 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2012. The financial statements should be read in conjunction with the Company's (as defined below) audited consolidated financial statements and the notes thereto included in the Company's Current Report on Form 10-K filed for the year ended January 31, 2011.

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

Business Activities. The Company, through its retail stores, provides products and services to its customer base in seven primary market areas, including southern Louisiana, southeast Texas, Houston, South Texas, San Antonio/Austin, Dallas/Fort Worth and Oklahoma. Products and services offered through retail sales outlets include home appliances, consumer electronics, home office equipment, lawn and garden products, mattresses, furniture, repair service agreements, installment and revolving credit account programs, and various credit insurance products. These activities are supported through an extensive service, warehouse and distribution system. The Company's 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. For the reasons discussed below, the Company has aggregated its results into two operating segments: credit and retail. The Company's retail stores bear the "Conn's" name, and deliver the same products and services to a common customer group. The Company's customers generally are individuals rather than commercial accounts. All of the retail stores follow the same procedures and methods in managing their operations. The Company's management evaluates performance and allocates resources based on the operating results of its retail and credit segments. The separate financial information is disclosed in Note 8 - "Segment Reporting".

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

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

Change in Accounting Estimate. At January 31, 2011, the Company increased its reserve for inventory valuation to adjust for the Company's recent experience selling aged items, both through store locations and external sources. The recent sales activity indicated the recoverable value for those items was less than originally estimated and that many items had minimal value through any distribution channel. An additional reserve in the amount of $4.7 million was recorded during the three months ended October 31, 2011 as an adjustment to appropriately value inventory. This adjustment reduced October 31, 2011 net income by $3.3 million and basic and diluted earnings per share by $.10.

Earnings per Share. The Company calculates basic earnings (loss) per share by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted earnings per share include the dilutive effects of any stock options and restricted stock units granted, to the extent not anti-dilutive, which is calculated using the treasury-stock method. Due to the net loss incurred for the three months ending October 31, 2010 and the three and nine months ended October 31, 2011, no stock options or restricted stock units were included in the computation of diluted loss per share for that period. During the second quarter, the Company revised its fiscal year 2009, 2010 and 2011 consolidated financial statements to correct its calculation of the number of shares used in calculating its basic and diluted earnings (loss) per share for the impact of a stock rights offering, which required basic and diluted earnings (loss) per share to be adjusted retroactively for all periods presented for the bonus element contained in the rights offering.

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

	Three Months Ended October 31,	
	2010	2011
Common stock outstanding, net of treasury stock, beginning of period	22,489,638	31,878,305
Weighted average common stock issued in stock option exercises	-	337
Weighted average common stock issued to employee stock purchase plan	3,194	1,939
Adjustment based on retrospective application of rights offering	2,458,233	-
Shares used in computing basic earnings per share	24,951,065	31,880,581
Dilutive effect of stock options and restricted stock units, net of assumed repurchase of treasury stock	-	-
Adjustment based on retrospective application of rights offering	-	-
Shares used in computing diluted earnings (loss) per share	24,951,065	31,880,581

	Nine Months Ended October 31,	
	2010	2011
Common stock outstanding, net of treasury stock, beginning of period	22,471,350	31,765,360
Weighted average common stock issued in stock option exercises	-	44,617
Weighted average common stock issued to employee stock purchase plan	12,549	9,328
Adjustment based on retrospective application of rights offering	2,457,257	-
Shares used in computing basic earnings per share	24,941,156	31,819,305
Dilutive effect of stock options and restricted stock units, net of assumed repurchase of treasury stock	2,606	-
Adjustment based on retrospective application of rights offering	285	-
Shares used in computing diluted earnings per share	24,944,047	31,819,305

During the periods presented, options with an exercise price in excess of the average market price of the Company’s common stock, or that are otherwise anti-dilutive, are excluded from the calculation of the dilutive effect of stock options and restricted stock units for diluted earnings per share calculations. The weighted average number of options not included in the calculation of the dilutive effect of stock options and restricted stock units was 2.7 million and 2.2 million for each of the three months ended October 31, 2010 and 2011, respectively and 2.7 million and 2.4 million for each of the nine months ended October 31, 2010 and 2011, respectively.

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

Property and Equipment Impairment. Property and equipment are evaluated for impairment at the retail store level. The Company performs a periodic assessment of assets for impairment. Additionally, an impairment evaluation is performed whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. The most likely condition that would necessitate an assessment would be an adverse change in historical and estimated future results of a retail store's performance. For property and equipment to be held and used, the Company recognizes an impairment loss if its carrying amount is not recoverable through its undiscounted cash flows and measures the impairment loss based on the difference between the carrying amount and fair value. Fair value is determined by discounting the anticipated cash flows over the remaining term of the lease utilizing certain unobservable inputs (Level 3). No impairment was recorded in the period ended October 31, 2010 and an impairment charge of $0.7 million was recorded for the period ended October 31, 2011.

Customer Accounts Receivable. Customer accounts receivable are originated at the time of sale and delivery of the various products and services. The Company records the amount of principal and accrued interest on customer receivables that is expected to be collected within the next twelve months, based on contractual terms, in current assets on its consolidated balance sheet. Those amounts expected to be collected after twelve months, based on contractual terms, are included in long-term assets. Typically, customer receivables are considered delinquent if a payment has not been received on the scheduled due date. Additionally, the Company offers reage programs to customers with past due balances that have experienced a financial hardship, if they meet the conditions of the Company's reage policy. Reaging a customer's account can result in updating an account from a delinquent status to a current status. During the quarter ended July 31, 2011, the Company implemented a new policy which limits the number of months that an account can be reaged to a maximum of 18 months. During the quarter ended October 31, 2011, the Company further modified the policy to reduce the number of months that an account can be reaged to a maximum of 12 months. As of July 31, 2011, the Company changed its charge-off policy so that an account that is delinquent more than 209 days as of the end of each month is charged-off against the allowance for doubtful accounts and interest accrued subsequent to the last payment is reversed and charged against the allowance for uncollectible interest. Prior to July 31, 2011, the Company charged off all accounts that were delinquent more than 120 days and for which no payment had been received in the past seven months. 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. The Company defines Troubled Debt Restructuring (TDR) accounts that originated in the current fiscal year as accounts that have been reaged in excess of three months or refinanced. For accounts originating in prior fiscal years, if the cumulative reaging exceeds three months and the accounts were reaged in this fiscal year then the account is considered TDR.

Interest Income on Customer Accounts Receivable. Interest income is accrued using the interest method for installment contracts and the simple interest method for revolving charge accounts, and is reflected in Finance charges and other. Typically, interest income is accrued until the contract or account is paid off or charged-off and the Company provides an allowance for estimated uncollectible interest. The Company typically only places accounts in non-accrual status when legally required to do so. Interest accrual is resumed on those accounts once a legally-mandated settlement arrangement is reached or other payment arrangements are made with the customer. Interest income is recognized on interest-free promotional credit programs based on the Company's historical experience related to customers that fail to satisfy the requirements of the interest-free programs. Additionally, for sales on deferred interest and "same as cash" programs that exceed one year in duration, the Company discounts the sales to present value, resulting in a reduction in sales and customer receivables, and amortizes the discount amount to Finance charges and other over the term of the program. The amount of customer receivables carried on the Company's balance sheet that were in non-accrual status was $10.5 million and $12.5 million at January 31, 2011 and October 31, 2011, respectively. The amount of customer receivables carried on the Company's consolidated balance sheet that were past due 90 days or more and still accruing interest was $43.5 million and $32.8 million at January 31, 2011 and October 31, 2011, respectively.

Allowance for Doubtful Accounts. The Company records an allowance for doubtful accounts, including estimated uncollectible interest, for its Customer and Other accounts receivable, based on its historical cash collections and net loss experience and expectations for future cash collections and losses. In addition to pre-charge-off cash collections and charge-off information, estimates of post-charge-off recoveries, including cash payments, amounts realized from the repossession of the products financed and, at times, payments received under credit insurance policies are also considered. Effective April 5, 2011, the FASB issued ASU No. 2011-02, A Creditor's Determination of Whether Restructuring is a Troubled Debt Restructuring, which clarifies when a loan modification or restructuring is considered a TDR. This guidance clarifies what constitutes a concession and whether the debtor is experiencing financial difficulties, even if not currently in default. The amendments in ASU 2011-02 are effective for the first interim or annual period beginning on or after June 15, 2011, or for the third quarter of fiscal 2012 for the Company, and should be applied retrospectively to restructurings occurring on or after the beginning of the annual period of adoption with early adoption permitted. The Company determines reserves for those accounts that are TDRs based on the discounted present value of cash flows expected to be collected over the life of those accounts. The excess of the carrying amount over the discounted cash flow amount is recorded as a reserve for loss on those accounts. The Company estimates its allowance for bad debts by evaluating the credit portfolio based on the number of months reaged, if any. 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 could be impacted. If these accounts had been charged-off sooner the historical net loss rates might have been higher. During the quarter ended July 31, 2011, the Company implemented a new policy which limits the number of months that an account can be reaged to a maximum of 18 months which was further limited to a maximum of 12 months during the quarter ended October 31, 2011. This change in the reage policy has the impact of increasing delinquencies and accelerating charge-offs. The Company monitors the aging of its past due accounts closely and focuses its collection efforts on preventing accounts from becoming 60 days past due or greater, which is a leading indicator of potential charge-offs. As of July 31, 2011, the Company changed its charge-off policy such that an account that is delinquent more than 209 days as of the end of each month is charged-off against the allowance for doubtful accounts and interest accrued subsequent to the last payment is reversed and charged against the allowance for uncollectible interest. Prior to July 31, 2011, the Company charged off all accounts that were delinquent more than 120 days and for which no payment had been received in the past seven months. As a result of the change, approximately $4.4 million in charge-offs were accelerated and charged against the allowance for doubtful accounts and approximately $1.4 million in accrued interest was charged off and charged against the allowance for uncollectible interest during the second quarter. The balance in the allowance for doubtful accounts and uncollectible interest for customer receivables was $34.6 million and $40.2 million, at January 31, 2011 and October 31, 2011, respectively. The adoption of the TDR guidance in the quarter ended October 31, 2011 resulted in determining the balance of accounts considered to be TDRs of $51.9 million. The amount included in the allowance for doubtful accounts associated with principal and interest on these loans was $21.4 million as of October 31, 2011. Additionally, another $6.1 million was reserved and included in accrued expenses for repair service agreement and credit insurance cancellations on these TDRs, bringing the total amount reserved against TDR accounts at October 31, 2011 to $27.5 million. TDR accounts are segregated from the credit score stratification for reporting and measurement purposes. The Company recorded a pre-tax charge during the quarter of $14.1 million, net of previously provided reserves, related to the adoption of the accounting guidance related to TDR accounts.

Income Taxes. The Company is subject to U.S. federal income tax as well as income tax in multiple state jurisdictions. The Company follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the tax rates and laws that are expected to be in effect when the differences are expected to reverse. To the extent penalties and interest are incurred, the Company records these charges as a component of its Provision for income taxes. The Company has experienced a loss before income taxes for the nine month period which does not allow the estimation of a reliable annual effective tax rate, as small changes in ordinary income cause large changes in the estimated annual tax rate. As a result, the Company is using its estimated effective tax rate for the nine month period as its best estimate of the annual effective tax rate. Tax returns for the fiscal years subsequent to January 31, 2007, remain open for examination by the Company's major taxing jurisdictions.

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 asset-based revolving credit facility approximated its carrying value at October 31, 2011 due to the fact that the facility was amended and extended in July 2011 at current market rates. The fair value of the Company's real estate loan approximated its carrying value at October 31, 2011 due to the fact that the loan rate was amended on October 31, 2011 at current market rates. The carrying amount of the long-term debt as of October 31, 2011 was approximately $310.0 million. The Company's interest rate cap options are presented on the balance sheet at fair value.

Reclassifications. Certain reclassifications have been made in the prior years' financial statements to conform to the current year's presentation. Approximately $8.0 million for the fiscal year ended January 31, 2011 was reclassified from Deferred revenue and allowances to Other long-term liabilities on the consolidated balance sheets. Approximately $2.9 million of Cost related to financing transactions not completed for the periods ended October 31, 2010, was reclassified from Cost and expenses to Other (income) expense.

Comprehensive Income (Loss). Comprehensive income (loss) for the prior year three month and nine month period is as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2010	2011	2010	2011
(Dollars in thousands)				
Net income (loss)	$ (4,780)	$ (12,723)	$ 2,505	$ (11,424)
Adjustment of fair value of interest hedges, net of tax	36	(118)	98	(47)
Total Comprehensive income (loss)	$ (4,744)	$ (12,841)	$ 2,603	$ (11,471)

Recently Issued Accounting Pronouncements Presentation of Comprehensive Income. In June 2011, the FASB issued new accounting guidance that revises the manner in which comprehensive income is required to be presented in financial statements. The new guidance, when effective, will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. The guidance eliminates the option to present components of other comprehensive income in the statement of changes in stockholders' equity. It does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified from other comprehensive income to net income. The guidance requires retrospective application and is effective for interim and annual periods beginning on or after December 15, 2011. The Company intends to adopt the guidance in the first quarter of fiscal 2013, ending April 30, 2012. The adoption of the guidance will have no effect on its financial condition, results of operations or liquidity since it impacts presentation only.

8

2. Revision of Financial Statements.

The Company revised its fiscal year 2010 and 2011 consolidated financial statements to correct its accounting for interest income on installment contracts included in customer accounts receivable when it released its audited January 31, 2011 annual report. Subsequent to its year-end report, the Company determined, based on a detailed analysis with the assistance of its credit accounts processor, that its original estimate to revise its interest income accounting was incorrect. As a result, the Company is revising its consolidated financial statements to correct its previous estimate, shown as "Revision - interest adjustment" in the tables below. The Company also revised its fiscal year 2010 and 2011 consolidated financial statements in the first fiscal quarter ended April 30, 2011 to correct its accounting for interest income on customer accounts receivable related to the charge-off of those accounts. As a result, revisions have been made that have increased revenue from Finance charges and other, Repair service agreement commissions, net, and expense related to the Provision for bad debts for those periods, shown as "Revision - charge-off interest reclass" in the tables below. The net effect of the revision in the first quarter was no change to Operating income, Income before income taxes or Net income for any period. The Company revised its fiscal year 2009, 2010 and 2011 consolidated financial statements in the second quarter to correct its calculation of the number of shares used in calculating its basic and diluted earnings (loss) per share for the impact of a stock rights offering, which required basic and diluted earnings (loss) per share to be adjusted retroactively for all periods presented for the bonus element contained in the rights offering shown as "Shares Revision" in the table below. Management has concluded that the impact of these revisions on the prior reporting periods is not material to the Company's consolidated financial statements. The revision to the individual financial statement line items impacted for the prior periods presented are as follows:

	Year Ended January 31, 2010				
(Dollars in thousands, except share amounts)	Quarter Ending				
	4/30/2009	7/31/2009	10/31/2009	1/31/2010	Fiscal Year
Consolidated Statements of Operations:					
As Reported					
Finance charges and other	$ 39,439	$ 39,903	$ 36,064	$ 36,805	$ 152,211
Total revenues	239,590	229,929	197,190	207,270	873,979
Revision - charge-off interest reclass	397	651	719	281	2,048
Revision - interest adjustment	596	(153)	226	505	1,174
As Revised					
Finance charges and other	40,432	40,401	37,009	37,591	155,433
Total revenues	240,583	230,427	198,135	208,056	877,201
As Reported					
Operating income (loss)	23,101	13,987	(13,764)	5,988	29,312
Income (loss) before income taxes	17,755	8,310	(19,379)	763	7,449
Revision - interest adjustment	596	(153)	226	505	1,174
As Revised					

Operating income (loss)	23,697	13,834	(13,538)	6,493	30,486
Income (loss) before income taxes	$ 18,351	$ 8,157	$ (19,153)	$ 1,268	$ 8,623
As Reported					
Provision (benefit) for income taxes	$ 6,568	3,232	(4,973)	$ (922)	$ 3,905
Revision - interest adjustment	210	(54)	80	178	413
As Revised					
Provision (benefit) for income taxes	$ 6,778	3,178	(4,893)	(744)	$ 4,318
As Reported					
Net Income (loss)	$ 11,187	5,078	(14,406)	1,685	$ 3,544
Revision - interest adjustment	386	(99)	146	327	761
As Revised					
Net Income (loss)	$ 11,573	$ 4,979	$ (14,260)	$ 2,012	$ 4,305
Shares					
As Reported					
Basic	22,447	22,454	22,459	22,466	22,456
Diluted	22,689	22,660	22,459	22,467	22,610
Shares Revision - Basic	2,453	2,454	2,455	2,455	2,454
Shares Revision - Diluted	2,480	2,477	2,455	2,455	2,471
As Revised					
Basic	24,900	24,908	24,914	24,921	24,910
Diluted	25,169	25,137	24,914	24,922	25,081
As Reported					
Earnings (loss) per share					
Basic	$ 0.50	$ 0.23	$ (0.64)	$ 0.08	$ 0.16
Diluted	$ 0.49	$ 0.22	$ (0.64)	$ 0.07	$ 0.16
As Revised					
Earnings (loss) per share					
Basic	$ 0.46	$ 0.20	$ (0.57)	$ 0.08	$ 0.17
Diluted	$ 0.46	$ 0.20	$ (0.57)	$ 0.08	$ 0.17

(Dollars in thousands, except share amounts)	Year Ended January 31, 2011					Six Months Ended July 31, 2011	
	Quarter Ending					Quarter Ending	
	4/30/2010	7/31/2010	10/31/2010	1/31/2011	Fiscal Year	4/30/2011	7/31/2011
Consolidated Statements of Operations:							
As Reported							
Finance charges and other	$ 34,860	$ 34,640	$ 33,141	$ 34,165	$ 136,806	$ 33,619	$ 33,744
Repair service agreement commissions, net	$ 7,917	$ 8,341	6,035	6,495	28,788	3,889	8,589
Total revenues	196,549	211,825	168,761	213,389	790,524	189,309	184,375
Revision - charge-off interest reclass - interest income	1,216	1,264	1,412	1,842	5,734	-	-
Revision - charge-off interest reclass - repair service agreement commissions, net	144	27	29	80	280	-	-
Revision - interest adjustment	139	(315)	362	(285)	(99)	630	509
As Revised							
Finance charges and other	36,215	35,589	34,915	35,722	142,441	34,249	34,253
Repair service agreement commissions, net	8,061	8,368	6,064	6,575	29,068	3,889	8,589
Total revenues	198,048	212,801	170,564	215,026	796,439	189,939	184,884
As Reported							
Operating income (a)	15,351	9,475	2,913	5,129	32,868	14,160	12,461
Income (loss) before income taxes	9,397	2,734	(7,689)	(4,277)	165	6,552	(5,633)
Revision - interest adjustment	139	(315)	362	(285)	(99)	630	509
As Revised							
Operating income (loss)	15,490	9,160	3,275	4,844	32,769	14,790	12,970
Income (loss) before income taxes	$ 9,536	$ 2,419	$ (7,327)	$ (4,562)	$ 66	$ 7,182	$ (5,124)
As Reported							

Provision (benefit) for income taxes	3,604	1,128	(2,674)	(884)	$ 1,174	2,559	(2,201)
Revision - interest adjustment	49	(111)	127	(100)	(35)	222	179
As Revised Provision (benefit) for income taxes	3,653	1,017	(2,547)	(984)	$ 1,139	2,781	(2,022)
As Reported Net Income (loss)	$ 5,793	1,606	(5,015)	(3,393)	$ (1,009)	$ 3,993	(3,432)
Revision - interest adjustment	90	(204)	235	(185)	(64)	408	330
As Revised Net Income (loss)	$ 5,883	$ 1,402	$ (4,780)	$ (3,578)	$ (1,073)	$ 4,401	$ (3,102)
Shares							
As Reported							
Basic	22,475	22,484	22,484	28,741	24,061	31,768	31,808
Diluted	22,477	22,488	22,484	28,741	24,061	31,772	31,808
Shares Revision - Basic	2,456	2,457	2,457	750	2,024	-	-
Shares Revision - Diluted	2,457	2,459	2,457	750	2,027	-	-
As Revised							
Basic	24,931	24,941	24,941	29,491	26,085	31,768	31,808
Diluted	24,934	24,947	24,941	29,491	26,088	31,772	31,808
As Reported Earnings (loss) per share							
Basic	$ 0.26	$ 0.07	$ (0.22)	$ (0.12)	$ (0.04)	$ 0.13	$ (0.11)
Diluted	$ 0.26	$ 0.07	$ (0.22)	$ (0.12)	$ (0.04)	$ 0.13	$ (0.11)
As Revised Earnings (loss) per share							
Basic	$ 0.24	$ 0.06	$ (0.19)	$ (0.12)	$ (0.04)	$ 0.14	$ (0.10)
Diluted	$ 0.24	$ 0.06	$ (0.19)	$ (0.12)	$ (0.04)	$ 0.14	$ (0.10)

(a) Costs relating to financing transactions not completed of $2.9 million during the quarter ended October 31, 2010 and $1.4 million during the quarter ended January 31, 2011 were previously included in Cost and expenses and are now reclassified to Other (income) expense to conform to current presentation.

	January 31, 2011			
(Dollars in thousands)	As reported	Revision - Charge-off interest reclass	Revision - interest adjustment	As revised
Consolidated Balance Sheet:				
Deferred income taxes	$ 16,681	$ -	$ 2,796	$ 19,477
Total current assets	$ 493,870	$		