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

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# FORM 8-K

**CURRENT REPORT**
**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

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**Date of Report (Date of earliest event reported): July 7, 2010**

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# Conn's, Inc.
(Exact name of registrant as specified in its charter)

| **Delaware** | **000-50421** | **06-1672840** |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| **3295 College Street Beaumont, Texas** | **77701** |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: **(409) 832-1696**

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**Not applicable**
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 8.01. Other Events.**

We are filing this Current Report on Form 8-K to retrospectively revise portions of our Annual Report on Form 10-K for the fiscal year ended January 31, 2010, filed on March 25, 2010 and amended by our Form 10-K/A filed on April 12, 2010, our January 31, 2010 Form 10-K, to reflect: (1) the retrospective application of our adoption of a new accounting principle, effective February 1, 2010, that resulted in a change in our accounting for our interest in a variable interest entity, and (2) a change in reportable business segments creating two reportable segments.

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;
- a transferor's continuing involvement, if any, in transferred financial assets; and
- improvements in financial reporting by companies involved with variable interest entities (VIE) 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 VIE. This analysis identifies the primary beneficiary of a VIE as the enterprise that has both of the following characteristics:
    a) The power to direct the activities of a VIE 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 VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

As a result of the Company's adoption of the provisions of the new guidance, effective February 1, 2010, the Company's VIE, which is engaged in customer receivable financing and securitization, is 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.

As a result of our adoption of a new accounting principle that resulted in the consolidation of our finance subsidiary and the changes in the financial markets and availability of capital, we have expanded the operational reporting now being used by management to provide more detailed operating performance information for our retail and credit operations, including modification of the financial information reported to the chief decision maker and the board of directors. As such, we have concluded, beginning with fiscal 2011, that it is appropriate to include additional financial information about our retail and credit segments.

The attached exhibits contain the portions of our January 31, 2010 Form 10-K that are affected by the retrospective application of the adoption of the abovementioned new authoritative guidance and the resulting two reporting segments. Exhibit 99.1 reflects changes made to Item 1 — *Business.* Exhibit 99.2 reflects changes made to Item 6 — *Selected Financial Data*. Exhibit 99.3 reflects changes made to Item 7 — *Management's Discussion and Analysis of Financial Condition and Results of Operations.* Exhibit 99.4 contains Item 8 — *Financial Statements and Supplementary Data*, which includes the complete set of consolidated financial statements from our January 31, 2010 Form 10-K as adjusted for the retrospective application of the new accounting principle and the addition of the reporting segments discussed above.

The information presented in the exhibits to this Current Report on Form 8-K updates the information set forth in our January 31, 2010 Form 10-K and the related consent of our independent registered public accounting firm. None of the exhibits to this Current Report on Form 8-K reflect events after the filing of our January 31, 2010 Form 10-K or modifies or updates the disclosure in our January 31, 2010 Form 10-K other than (i) certain information in Exhibit 99.1 updates Item 1 — *Business* to include certain data and financial information for our fiscal quarter ended April 30, 2010, and (ii) to reflect the changes related to the retrospective application of the adoption of the new accounting principle and the additional reporting segments discussed above; thus, all other sections and exhibits to our January 31, 2010 Form 10-K remain unchanged.

**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits. The following exhibits are filed with this report:

| Exhibits | Description |
|---|---|
| 12.1 | Statement of computation of Ratio of Earnings to Fixed Charge |
| 23.1 | Consent of Ernst & Young LLP |
| 99.1 | 2010 10-K, Item 1 — *Business* |

| Exhibits | Description |
| --- | --- |
| 99.2 | 2010 10-K, Item 6 — *Selected Financial Data* |
| 99.3 | 2010 10-K, Item 7 — *Management's Discussion and Analysis of Financial Condition and Results of Operations* |
| 99.4 | 2010 10-K, Item 8 — *Financial Statements and Supplementary Data* |

## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**CONN'S, INC.**

Date: July 7, 2010

By: /s/ Michael J. Poppe
Name: Michael J. Poppe
Title: Executive Vice President and Chief Financial Officer

**Exhibit 12.1**

## Statement of Computation of Ratio of Earnings to Fixed Charges

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Income before minority interest and income taxes | $ 8,035 | $ 63,642 | $ 64,242 | $58,234 | $61,482 |
| Fixed charges | 34,880 | 37,105 | 36,560 | 32,299 | 26,467 |
| Capitalized interest | (89) | (164) | (252) | (299) | — |
| Total earnings | $42,826 | $100,583 | $100,550 | $90,234 | $87,949 |
| Interest expense (including capitalized interest) | $20,666 | $ 24,072 | $ 25,853 | $22,505 | $17,647 |
| Amortized premiums and expenses | 1,414 | 1,022 | 498 | 508 | 457 |
| Estimated interest within rent expense | 12,800 | 12,011 | 10,209 | 9,286 | 8,363 |
| Total fixed charges | $34,880 | $ 37,105 | $ 36,560 | $32,299 | $26,467 |
| Ratio of earnings to fixed charges | 1.2 | 2.7 | 2.8 | 2.8 | 3.3 |

## Schedule II — Valuation and Qualifying Accounts
## Conn's, Inc.

| | | Additions | | | |
|---|---|---|---|---|---|
| Description | Balance at Beginning of Period | Charged to Costs and Expenses | Charged to Other Accounts-Describe | Deductions-Describe[1] | Balance at End of Period |
| **Year ended January 31, 2008** | | | | | |
| Reserves and allowances from asset accounts: | | | | | |
| Allowance for doubtful accounts | $17,520 | $19,465 | $— | $(18,142) | $18,843 |
| **Year ended January 31, 2009** | | | | | |
| Reserves and allowances from asset accounts: | | | | | |
| Allowance for doubtful accounts | $18,843 | $27,952 | $— | $(19,814) | $26,981 |
| **Year ended January 31, 2010** | | | | | |
| Reserves and allowances from asset accounts: | | | | | |
| Allowance for doubtful accounts | $26,981 | $36,843 | $— | $(27,972) | $35,852 |

1 Uncollectible accounts written off, net of recoveries.

Note: The schedule has been restated to reflect the retrospective adoption of a new accounting principle that required the consolidation of the Company's variable interest entity as discussed in Note 2 to the consolidated financial statements.

**Exhibit 23.1**

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Form S-8 No. 333-111280

(2) Form S-8 No. 333-111281

(3) Form S-8 No. 333-111282

(4) Form S-8 No. 333-111208

(5) Form S-3 No. 333-157390

of our report dated March 25, 2010, except for Notes 2 and 14 as to which the date is July 7, 2010, with respect to the consolidated financial statements and schedule of Conn's, Inc. for the year ended January 31, 2010 included in the Current Report (Form 8-K),

/s/ Ernst & Young, LLP

Houston, Texas
July 7, 2010

## ITEM 1. BUSINESS

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

### *Company overview*

We are a leading specialty retailer of durable consumer products, and we also provide consumer credit to support our customers' purchases of the products that we offer. Currently, we derive our revenue primarily from two sources: (i) retail sales and delivery of consumer electronics, home appliances, furniture and mattresses, lawn and garden equipment and repair service agreements; and (ii) our in-house consumer credit program, including sales of related credit insurance products. We operate a highly integrated and scalable business through our 76 retail stores and our website, providing our customers with a broad range of brand name products, in-house financing options, next day delivery capabilities, and outstanding product repair service through well-trained and knowledgeable sales, consumer credit and service personnel. Through our wide range of in-house proprietary consumer credit programs, we provided financing for 60.1% of our retail sales during the twelve months ended April 30, 2010.

We offer over 3,000 product items, or SKUs, at good-better-best price points in our core retail product categories of:

- Consumer Electronics, which includes LED, LCD, plasma, DLP and 3-D televisions, camcorders, digital cameras, computers and computer accessories, Blu-ray and DVD players, video game equipment, portable audio, MP3 players, GPS devices and home theater products. We represent such brands as Samsung, Sony, LG, Toshiba, Hewlett Packard, Panasonic, Mitsubishi, Compaq, Bose, Canon and JVC. As reported in "*This Week in Consumer Electronics*," or *Twice,* we were the 35th largest retailer of consumer electronics in the United States in 2009;
- Home Appliances, which includes refrigerators, freezers, washers, dryers, dishwashers, ranges and room air conditioners. We represent such brands as Whirlpool, Maytag, Frigidaire, Kitchen Aid, Samsung, LG, General Electric and Friedrich. As reported by *Twice*, we were the 9th largest appliance retailer in the United States in 2009;
- Furniture and Mattresses, which includes living room, bedroom and dining room furniture. We represent such brands as Serta, Lady Americana, Better Homes and Gardens, Ashley, Lane, Broyhill, Franklin and Jackson Furniture;
- Lawn and Garden Equipment, which includes lawn mowers, lawn tractors and handheld equipment. We represent such brands as Poulan, Husqvarna and Toro; and
- Repair service agreements, which provide product repair and replacement services for customers who purchase such agreements.

We offer our products through 76 retail stores located in three states: Texas (67), Louisiana (6) and Oklahoma (3), as well as through our website. We sell our products for cash or for payment through major credit cards, in addition to offering our customers several financing alternatives through our proprietary credit programs and third-party financing. Under our proprietary in-house credit program, we offer our customers a choice of installment payment plans and revolving credit plans through our primary credit portfolio. We also offer an installment program through our secondary credit portfolio to a limited number of customers who do not qualify for credit under our primary credit portfolio. Additionally, the most credit worthy customers in our primary credit portfolio may be eligible for no-interest financing plans.

We began as a small plumbing and heating business in 1890. We started selling home appliances to the retail market in 1937 through one store located in Beaumont, Texas. In 1959 we

opened our second store and have since grown to 76 stores. We have been known for providing excellent customer service for over 119 years. We believe that our customer-focused business strategies make us an attractive alternative to appliance and electronics superstores, department stores and other national, regional and local retailers. We strive to provide our customers with:

- a broad selection of products at various price points;
- next day delivery and installation capabilities;
- a high level of customer service;
- flexible financing alternatives through our proprietary in-house credit programs and third-party financing;
- commissioned and trained sales force; and
- outstanding product repair or replacement service.

For over 40 years we have offered flexible consumer credit through our proprietary in-house credit program to our credit-worthy customers for purchases of only the products we offer. We believe our consumer credit program differentiates us from our competitors who do not offer similar in-store consumer credit programs, and generates strong customer loyalty and repeat business for us. We believe that our credit customers represent an underserved market that seeks to purchase the latest in consumer goods through access to flexible consumer credit alternatives that are not widely available to them.

We believe that these strategies drive repeat purchases and enable us to generate substantial brand name recognition and customer loyalty. During the twelve months ended April 30, 2010, approximately 68% of our credit customers, based on the number of invoices written, were repeat customers, and we have a 90% customer satisfaction rate in surveys our customers voluntarily complete.

Our decisions to extend consumer credit to our retail customers are made by our internal credit underwriting department located at our corporate office — separate and distinct from our retail sales department. As of April 30, 2010, we employed 21 credit underwriters who make credit granting decisions using our proprietary underwriting process. Our underwriting process considers one or more of the following elements: credit bureau reporting; income verification; current income and debt levels; a review of the customer’s previous credit history with us; the credit risk of the particular products being purchased; and the level of the down payment made at the time of purchase.

In addition to our underwriting personnel, as of April 30, 2010, we employed approximately 600 people in our collections department who service 100% of our consumer credit portfolio. Our in-house credit financed sales are secured by the products purchased, which we believe gives us a distinct advantage over other creditors when pursuing collections, especially given that many of the products we finance are necessities for the home. We employ an intensive credit collection strategy that includes dialer-based calls, virtual calling and messaging systems, field collectors that contact borrowers at their home or place of employment, collection letters, a legal staff that files lawsuits and attends bankruptcy hearings, and voluntary repossession.

By combining our front-end underwriting discipline with the back-end rigor in monitoring and collections, we have achieved an average net loss ratio of 3.4% over the past three fiscal years. As of April 30, 2010, our total portfolio balance was $700.5 million and the percentage of borrowers who were more than 60 days delinquent was 8.6%. Additionally, we work with our borrowers after they experience financial hardships in order to help them re-establish their regular payment habits through our reaging program. As of April 30, 2010, 19.1% of the total portfolio balance had been reaged during the term of the financing, thereby extending the total term of those customers’ financing agreements. For the three

months ended April 30, 2010 and the fiscal year ended January 31, 2010, our ratio of net charge-offs as a percentage of our total receivables balance was 4.6% and 3.9%, respectively.

In 1994, we realigned and added to our management team, enhanced our infrastructure and refined our operating strategy to position ourselves for future growth. From fiscal 1994[1] to fiscal 1999, we selectively grew our store base from 21 to 26 stores while improving operating margins. Since fiscal 1999, we have generated significant growth in our number of stores and revenue. Specifically:

- we have grown from 26 stores to 76 stores, an increase of over 192%, and although we have no new store openings currently planned, we plan to continue our store development in the future, dependent on capital availability, to fund the expansion of consumer financial operations;
- total revenues have grown 257%, at a compounded annual rate of 12.3%, from $245.1 million in fiscal 1999, to $875.6 million in fiscal 2010 and our same store sales growth from fiscal 1999 through fiscal 2010 has averaged 5.7%; it decreased by 13.8% for fiscal 2010;
- our operating margin has averaged 8.6% since fiscal 2006; it was 3.3% for fiscal 2010; and
- our consumer credit portfolio has grown 356.3%, at a compound annual growth rate of 14.8%, from $161.3 million at July 31, 1999 to $736.0 million at January 31, 2010.

**Industry overview**

The products we sell are generally home necessities used by our customers in their everyday lives.

We believe we will continue to benefit from several key industry trends and characteristics, including:

- introduction of new technologies driving consumers to upgrade existing appliances and electronics (i.e. 3-D televisions, energy-efficient front-load laundry);
- increasing demand for large screen (42 inches and greater) televisions, which are large items that cannot be easily carried out of the retail store, and therefore typically require delivery and installation;
- rationalization of several national and regional players leading to market share opportunities; and
- reductions in consumer lending, especially for lower tier credit score customers.

As measured by *Twice*, the top 100 consumer electronics retailers in the United States reported consumer electronic sales of $121.3 billion in 2009, a 1.8% increase from the $119.1 billion reported in 2008. The consumer electronics market is highly fragmented with sales coming from large appliance and electronics superstores, national chains, small regional chains, single-store operators, and consumer electronics departments of selected department and discount stores. We estimate, based on data provided in *Twice*, that Best Buy and Wal-Mart, the two largest consumer electronics retailers, together accounted for approximately 42% of the total electronics sales attributable to the 100 largest retailers in 2009. Based on revenue in 2009, we were the 35th largest retailer of consumer electronics in the United States. For the twelve months ended April 30, 2010, we generated $237.9 million, or 37.6%, of total product sales from the sale of consumer electronics.

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1 Effective August 1, 2001, we changed our fiscal year end from July 31 to January 31.

Technological advancements and the introduction of new products have largely driven growth in the consumer electronics market. Recently, industry growth has been fueled primarily by the introduction of products that incorporate digital technology, such as high definition flat-panel (including 3-D, LCD, and LED technology) and projection televisions, Blu-ray and traditional DVD players, digital cameras and camcorders, digital stereo receivers, satellite technology and MP3 products. Digital products offer significant advantages over their analog counterparts, including better clarity and quality of video and audio, durability of recording and compatibility with computers. Due to these advantages, we believe that digital technology will continue to drive industry growth.

Based on data published in *Twice* the top 100 major appliance retailers reported sales of approximately $22.6 billion in 2009, down approximately 3.7% from reported sales in 2008 of approximately $23.5 billion. The retail appliance market is large and concentrated among a few major dealers, with sales coming primarily from large appliance and electronics superstores, national chains, small regional chains and home improvement centers. Sears has been the leader in the retail appliance market, with a market share of the top 100 retailers of approximately 32% in 2009 and 33% in 2008. Lowe's and Home Depot held the second and third place positions, respectively, in national market share in 2008. We were the 9th largest appliance retailer in the United States in 2009. For the twelve months ended April 30, 2010, we generated $199.3 million, or 31.5%, of total product sales from the sale of home appliances.

In the home appliance market, many factors impact sales, including consumer confidence, economic conditions, household formations and new product introductions. Product design and innovation have recently been a key driver of sales in this market, while the reduction in sales of homes has negatively impacted appliance sales. Products recently introduced include high efficiency, front-loading laundry appliances and three door refrigerators, and variations on these products, including new features.

According to the U.S. Department of Commerce — Bureau of Economic Analysis, personal consumption expenditures for household furniture were estimated to be approximately $85.8 billion in 2009, down from $92.8 billion in the prior year. The household furniture and mattress market is highly fragmented with sales coming from manufacturer-owned stores, independent dealers, furniture centers, specialty sleep product stores, national and local chains, mass market retailers, department stores and, to a lesser extent, home improvement centers, decorator showrooms, wholesale clubs, catalog retailers, and the Internet. For the twelve months ended April 30, 2010, retail sales of furniture and mattresses comprised approximately 10.7% of our total product sales, and, other than accessories, which account for less than 2% of our total product sales, generated our highest individual product category gross margin of 32% versus our overall retail product margin of 21% for the twelve months ended April 30, 2010. Given our ability to provide consumer financing and next day delivery, we believe that we have significant growth opportunities in this market, and expect to continue to expand this product line.

Based on data from the Federal Reserve System, estimated total consumer credit outstanding, which excludes primarily loans secured by real estate, was $2.45 trillion as of December 31, 2009, down 4.3% from $2.56 trillion at December 31, 2008. As a result of the recession that began in late 2007, consumers have increased their rate of savings and reduced their level of borrowing to fund purchases. Consumers obtain credit from banks, credit unions, finance companies and non-financial businesses that offer credit, including retailers. The credit obtained takes many forms, including revolving (e.g., credit cards) or fixed-term (e.g., automobile loans) credit, and at times is secured by the products being purchased.

***Our competitive strengths***

*Distinct shopping experience.*

We strive to offer our customers a distinct shopping experience through a continuing focus on execution in five key areas: merchandising, consumer credit, distribution, product service and training. Successful execution in each area relies on the following strategies:

- *Providing a high level of customer serv*ice. We endeavor to maintain a high level of customer service as a key component of our culture. Our sales associates serve as ongoing resources for our customers, including assisting with the credit application process, scheduling delivery and installation, and acting as a point of contact for service issues. We believe this commitment to our customers drives customer loyalty and generates a high level of repeat purchases. Our customer service resolution department takes more than 18,000 calls or online requests for assistance each month and attempts to assist customers within 72 hours of contact.
- *Offering a broad range of brand name products*. We offer a comprehensive selection of high-quality, brand name merchandise to our customers at guaranteed low prices. Consistent with our good-better-best merchandising strategy, we offer a wide range of product selections from entry-level models through high-end models. We maintain strong relationships with the approximately 200 manufacturers and distributors that enable us to offer over 3,000 SKUs to our customers. We carry the latest in consumer brand names in our core product categories, including: Samsung; Sony; LG; Toshiba; Hewlett Packard; Panasonic; Mitsubishi; Compaq; Bose; Canon; JVC; Whirlpool; Maytag; Frigidaire; Kitchen Aid; General Electric; Friedrich; Serta; Lady Americana; Better Homes and Gardens; Ashley; Lane; Broyhill; Franklin and Jackson Furniture.
- *Employing a commissioned and trained sales force*. Through a targeted sales compensation incentive structure, regular product and sales training, and our "good-better-best" merchandising strategy, our sales effort is focused on driving sales volume towards products that both provide better value to the customer and typically generate higher margins for our business. We require all sales personnel to complete an intensive classroom training program and additional time riding in a delivery truck and a service truck to observe how we serve our customers after the sale is made. After the initial new hire training, all sales personnel participate in regular training programs to learn about new products and refresh their knowledge of the general sales process and maintaining a high level of customer service. Additionally, we also require all credit personnel to complete a two week classroom training program. Classroom instruction includes negotiation techniques and credit policy training to ensure customer retention and compliance with debt collection regulations. Post graduation, the collection trainees undergo additional skill set assessment training, coaching, and call monitoring within their respective department assignments. All credit personnel are required to complete monthly and quarterly refresher training and testing.
- *Maintaining next day delivery and installation capabilities*. We maintain four regional distribution centers and two other related facilities that, in combination with outsourced third-party distribution arrangements, cover all of the markets in which we operate. These facilities are part of a sophisticated inventory management system that also includes a fleet of approximately 70 transfer and delivery vehicles that service all of our customers not serviced by our third-party providers. Our distribution operations have enabled us to deliver products on the day after the sale for approximately 94% of our customers who scheduled delivery during that timeframe.
- *Offering outstanding product repair or replacement services*. For all products that are either covered by warranties or for customers who purchase repair service agreements, we provide repair or replacement services. We service every product that we sell, and we service only

the products that we sell. In this way, we can assure our customers that they will receive our service technicians' exclusive attention to their product repair needs. We will repair the product ourselves, make house calls if necessary or facilitate replacement products. All of our service centers are authorized factory service facilities that provide trained technicians to offer in-home diagnostic and repair service utilizing a fleet of approximately 120 service vehicles as well as on-site service and repairs for products that cannot be repaired in the customer's home. At times, we also use third-party service providers to allow us to cover some of the markets outside our traditional service areas and maintain the appropriate level of customer service.

- *Endeavoring to maintain a high level of customer satisfaction*. Our customer satisfaction level, which is measured for the sales floor, delivery operation and service department, averaged approximately 90% over the past three fiscal years, based on customer surveys which typically have a response rate of approximately 17%. We measure customer satisfaction on the sales floor, in our delivery operation and in our service department by sending survey cards to all customers to whom we have delivered or installed a product or made a service call.

*Proprietary in-house credit program.*

Our consumer in-house credit program is an integral part of our business, and we believe it is a major driver of customer loyalty. We have offered flexible financing alternatives to our customers through our proprietary in-house credit programs for over 40 years. Our credit program allows us to differentiate ourselves from our competitors who do not offer similar programs.

As of April 30, 2010, the aggregate outstanding account balances in our consumer credit portfolio were $700.5 million, of which 40% was financed through our own capital and 60% was financed by our borrowings. Historically, our equity investment in our credit portfolio has been greater than 35%. We believe that our deeply rooted collections culture stems in large part from our dedication to protecting this investment, and since a significant portion of our own capital is at stake, we believe it is important for us to control the credit process from initial underwriting to final collection. Thus, we do not outsource our credit operations. We believe that it is this high level of attention, from our strict underwriting standards to our robust in-house monitoring and collections practices, when combined with the secured nature of our portfolio, which drives the strong long-term performance of our credit portfolio.

In the last three years, we financed, on average, approximately 61% of our retail sales through our proprietary in-house credit programs. We believe that our credit programs provide our customers access to financing alternatives that our competitors typically do not offer and, as a result they:

- expand our potential customer base,
- increase our sales revenue,
- enhance customer loyalty, and
- enhance our overall profitability through earnings from financing income.

Our credit department makes all credit decisions internally, entirely independent of our sales personnel. We provide special consideration to customers with good credit history with us. Before extending credit, we consider our loss experience by product category and the customer's credit worthiness and income to debt level in determining the down payment amount and other credit terms. This facilitates product sales while keeping our credit risk within an acceptable range, allowing us to generate the performance of our credit portfolio despite the recent difficult economic conditions. We provide a full range of credit products, including interest-free programs for the highest credit quality customers and our secondary portfolio for our credit-challenged customers. The secondary portfolio, which has generally lower average credit scores than our primary portfolio, undergoes more intense

internal underwriting scrutiny to mitigate the inherently greater risk, including address and employment verification and reference checks. Approximately 60% of our customers who have active credit accounts with us take advantage of our in-store payment option and come to our stores each month to make their payments, which we believe results in additional sales to these customers. We employ a rigorous series of measures to ensure collection of our customer credit receivables including contacting customers with past due accounts daily and attempt to work with them to collect payments in times of financial difficulty or periods of economic downturn. Our experience in credit underwriting and the collections process has enabled us to achieve an average net loss ratio of 3.3% over the past three years on the credit portfolio that we manage, including customer receivables sold to our bankruptcy-remote variable interest entity, or VIE.

*Strong presence in desirable geographic region.*

We believe our typical customer is a working class repeat buyer living in a mature neighborhood who comes to our store to replace older household goods with newer items. Our stores are often strategically located as the anchor store in a strip center, where we can improve access to this target customer segment.

With 67 of our 76 stores in Texas, we believe we benefit from strong demographic trends. According to the Bureau of Economic Analysis, Texas was the second largest state by nominal GDP in 2008. In addition, from 2000 to 2009, Texas experienced population growth of 18.8% compared to the U.S. population growth of 9.1% over the same period. Moreover, Texas' average unemployment rate continues to trend below the national rate (8.3% in Texas versus 9.7% nationally as of May 2010).

*Long history of providing credit to an underserved customer base.*

Many of our customers have a long credit history with us, providing us with valuable information when making underwriting decisions. Our long history of providing consumer finance in our markets and our in-depth understanding of the credit profile of our customers gives us the ability to offer flexible financing options to an underserved market.

*Flexible and scalable operating platform.*

Our highly integrated retail and credit business model allows us to adapt a changing economic environment and appropriately manage our liquidity. As recent economic conditions deteriorated, we:

- adjusted our credit standards, thereby improving the credit quality of the additions to our credit portfolio; as a result, we decreased the size of our credit portfolio and debt balances and reduced the use of cash for working capital;
- reduced expenses, in addition to those expenses that are directly variable with changes in net sales, which we believe will improve our operating leverage in the future; and
- emphasized pricing discipline on the sales floor, while maintaining our competitive pricing position in the marketplace, to drive an increase in our retail gross margin to 27.9% in the three months ended April 30, 2010, as compared to 25.0% for the same period in the prior fiscal year;

We have the ability to open up new stores with minimal capital requirements (less than $1.5 million of capital expenditure per leased store) and can easily integrate them into our existing infrastructure. Our credit operations are in a central location and our vendor relationships provide us access to stock the necessary inventory.

*Experienced management team and collections personnel.*

Our executive management team has spent an average of approximately 13 years with the Company. The senior management team of our retail operations has experience in all aspects of that business and has an average of approximately 15 years with the Company. The seven senior credit underwriters possess an average of over 21 years of credit experience, supervise a group of 21 underwriters and oversee the credit underwriting process. This level of experience ensures that both our retail and credit operations are closely monitored.

***Our strategies***

Our strategies to maximize and grow returns for our stakeholders by offering customers quality products, excellent customer service and flexible consumer credit options, include:

*Be the leading specialty retailer of consumer electronics, appliances and furniture and mattresses in our geographic footprint.*

We seek to drive improved store productivity through comparable store sales growth, expansion of retail gross margin and increased operational efficiencies. We expect to grow sales by expanding existing categories, especially furniture and mattresses, which we expanded in our stores over the past five years, through improved merchandising, by reviewing and adjusting our product and brand offerings to meet customer demand, and by a continued focus on customer service. Specifically, we plan to increase our same store sales by:

- adding new merchandise to our existing product lines;
- re-merchandising our product offerings in response to changes in consumer interest and demand;
- increasing sales of our merchandise, finance products, repair service agreements and credit insurance through direct mail and in-store credit promotion programs;
- continuing to offer quality products at competitive prices;
- continuing to provide a high level of customer service in sales, delivery and servicing of our products;
- training our sales personnel to increase sales closing rates; and
- updating our stores as needed.

*Maintain strong credit portfolio performance.*

During fiscal 2010, we re-assessed the underlying delinquency and charge-off performance of our credit portfolio in light of the deterioration of the economy and tightened our underwriting standards in response. The implementation of stricter underwriting standards is also a reflection of our assessment of the profitability of our credit operation relative to the capital requirements of that business. Our adjusted approach to underwriting credit with enhanced data verification requirements sequentially improved our portfolio credit metrics in the first quarter of fiscal 2011 compared to the fourth quarter of fiscal 2010. Cash collections have improved since the fourth quarter of fiscal 2010 with 60-day delinquencies down 140 basis points and re-aged receivables down 50 basis points since the end of fiscal 2010, compared to a decline of 40 basis points and an increase of 10 basis points, respectively, in the first quarter of the prior fiscal year. Our net portfolio charge-offs (as a percent of average outstanding receivables) have averaged 3.4% over the last three fiscal years, using a weighted average, although our net charge-offs have increased from 3.2% for the year ended January 31, 2009 to 3.9% for the year ended January 31, 2010, as a result of challenging economic conditions. Though net charge-offs increased from 3.0% for the quarter ended April 30, 2009, to 4.6% for the quarter ended April 30, 2010, the total amounts charged off

decreased $0.6 million and as a percent, from 4.8%, compared to the quarter ended January 31, 2010, despite the reduction in the outstanding balance of the portfolio. We believe that the key drivers of our strong portfolio performance are:

- a significant portion of our credit portfolio is financed with our capital; we control all aspects of the credit process and do not sell our receivables to third parties;
- we service 100% of our portfolio in-house;
- our loans to our customers are secured by the items purchased;
- customized front-end underwriting procedures tailored to our customer base, including customer and product risk assessment and down payment determination;
- credit history of our large pool of repeat customers;
- rigorous collection process;
- 64% of our loans are covered by credit insurance which covers borrowers in certain events, and
- 64% of the products securing our loans are covered by repair service agreements.

*Controlled growth of our store base and credit offerings.*

As a result of the recent volatility in the capital markets we modified our store opening plans, and currently have no new store openings planned. However, in the future we intend to reinitiate our new store development program and increase our market presence by opening new stores in our existing markets and in adjacent markets as we identify the need and opportunity, in each case, dependent upon future capital availability. New store openings in these locations will allow us to leverage our existing advertising presence, brand name recognition, reputation and infrastructure. This infrastructure includes our proprietary management information systems, training processes, distribution network, merchandising capabilities, supplier relationships, product service capabilities and centralized credit approval and collection management processes. We have historically grown our new store count by about 10% per year, except as appropriate or necessary to take advantage of unique market opportunities, and expect to return to this modest, controlled pace based on capital availability to support the resultant growth in our credit operations. As we increase our capital base, we intend to increase the amount of credit originations to our underserved customer base, to help them purchase products and services they may not be able to purchase otherwise.

We intend to expand our store base in existing, adjacent and new markets, as follows:

- *Existing and adjacent markets*. Over the long-term, we intend to increase our market presence by opening new stores in our existing markets and in adjacent markets as we identify the need and opportunity. New store openings in these locations will allow us to maximize opportunity in those markets and leverage our existing distribution network, advertising presence, brand name recognition and reputation. In fiscal 2010, we opened one new store in each of Dallas and Houston.
- *New markets*. During fiscal 2008 we opened our first store in Oklahoma and opened two additional stores in the market during fiscal 2009. We intend to consider new markets over the next several fiscal years, beginning with markets in states in which we currently operate. We expect that new store growth will include major metropolitan markets in Texas and have also identified a number of smaller markets within Texas, Louisiana and Oklahoma in which we expect to explore new store opportunities. Our long-term growth plans include markets in other areas of significant population density in neighboring states.

The addition of new stores and new and expanded product categories have played a significant role in our continued growth and success. We currently operate 76 retail stores located in Texas,

Louisiana and Oklahoma. We opened seven stores in each of fiscal 2008 and 2009 and two stores in fiscal 2010. Additionally, we closed two of our clearance center locations in fiscal 2010. We believe that continuing our strategies of updating existing stores, growing our store base and locating our stores in desirable geographic markets is important to our future success.

### *Customers*

We do not have a significant concentration of sales with any individual customer and, therefore, the loss of any one customer would not have a material impact on our business. No single customer accounts for more than 10% of our total revenues; in fact, no single customer accounted for more than $250,000 during the year ended January 31, 2010.

### *Products and merchandising*

*Product categories.*

Each of our stores sells the major categories of products shown below. The following table, which has been adjusted from previous filings to ensure comparability, presents a summary of total revenues for the years ended January 31, 2008, 2009, and 2010:

| (Dollars in Thousands) | Year ended January 31, 2008 | | 2009 | | 2010 | |
|---|---|---|---|---|---|---|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| Consumer electronics | $244,872 | 28.1% | $305,056 | 31.8% | $262,751 | 30.0% |
| Home appliances | 223,877 | 25.7 | 221,474 | 23.1 | 208,470 | 23.8 |
| Track | 101,289 | 11.6 | 109,799 | 11.4 | 97,463 | 11.1 |
| Furniture and mattresses | 62,797 | 7.2 | 68,869 | 7.2 | 68,208 | 7.8 |
| Other | 38,736 | 4.5 | 38,531 | 4.0 | 30,509 | 3.4 |
| Total product sales | 671,571 | 77.1 | 743,729 | 77.5 | 667,401 | 76.1 |
| Repair service agreement commissions | 36,424 | 4.2 | 40,199 | 4.2 | 33,272 | 3.8 |
| Service revenues | 22,997 | 2.7 | 21,121 | 2.2 | 22,115 | 2.5 |
| Total net sales | 730,992 | 84.0 | 805,049 | 83.9 | 722,788 | 82.4 |
| Finance charges and other | 139,538 | 16.0 | 154,492 | 16.1 | 152,797 | 17.5 |
| Total revenues | $870,530 | 100.0% | $959,541 | 100.0% | $875,585 | 100.0% |

Within these major product categories (excluding repair service agreements, service revenues and delivery and installation), we offer our customers over 3,000 SKUs in a wide range of price points. Most of these products are manufactured by brand name companies, including General Electric, Whirlpool, Frigidaire, Friedrich, Maytag, LG, Mitsubishi, Samsung, Sony, Toshiba, Bose, Canon, JVC, Serta, Simmons, Spring Air, Ashley, Lane, Broyhill, Franklin, Hewlett Packard, Compaq, Poulan, Husqvarna and Toro. As part of our good-better-best merchandising strategy, our customers are able to choose from products ranging from low-end to mid- to high-end models in each of our key product categories, as follows:

| Category | Products | Selected Brands |
|---|---|---|
| Home appliances | Refrigerators, freezers, washers, dryers, ranges, dishwashers, builtins, air conditioners and vacuum cleaners | Whirlpool, Maytag, Frigidaire, Kitchen Aid, Samsung, LG, General Electric, Friedrich, Roper, Hoover, Dyson and Eureka |
| Consumer electronics | 3D, LCD, plasma, and DLP televisions, and home theater systems | Samsung, Sony, LG, Toshiba, Panasonic, Mitsubishi and Bose |
| Track | Computers, computer peripherals, | Hewlett Packard, Compaq, Sony, |

| Category | Products | Selected Brands |
| --- | --- | --- |
| | camcorders, digital cameras, DVD players, audio components, compact disc players, GPS devices, video game equipment, speakers and portable electronics (e.g. MP3 players) | Canon, Garmin, Panasonic, Nintendo, Microsoft and JVC |
| Furniture and mattresses | Furniture and mattresses | Serta, Lady Americana, Better Homes and Gardens, Ashley, Lane, Broyhill, Franklin and Jackson Furniture |
| Other | Lawn and garden | Poulan, Husqvarna, Toro, Weedeater |

*Purchasing.*

We purchase products from over 200 manufacturers and distributors. Our agreements with these manufacturers and distributors typically cover a one-year time period, are renewable at the option of the parties and are terminable upon 30 days written notice by either party. Similar to other specialty retailers, we purchase a significant portion of our total inventory from a limited number of vendors. During fiscal 2010, 58.3% of our total inventory purchases were from six vendors, including 12.6%, 10.7% and 10.2% of our total inventory purchases from Samsung, LG and Toshiba, respectively. The loss of any one or more of these key vendors or our failure to establish and maintain relationships with these and other vendors could have a material adverse effect on our results of operations and financial condition. We have no indication that any of our suppliers will discontinue selling us merchandise. We have not experienced significant difficulty in maintaining adequate sources of merchandise, and we generally expect that adequate sources of merchandise will continue to exist for the types of products we sell.

*Merchandising strategy.*

We focus on providing a comprehensive selection of high-quality merchandise to appeal to a broad range of potential customers. Consistent with our good-better-best merchandising strategy, we offer a wide range of product selections from entry-level models through high-end models. We primarily sell brand name warranted merchandise. Our established relationships with major appliance and electronic vendors and our affiliation with NATM, a major buying group with $5 billion in purchases annually, give us purchasing power that allows us to offer custom-featured appliances and electronics at prices which compare favorably with national retailers and provides us a competitive selling advantage over other independent retailers. As part of our merchandising strategy, we operate two clearance centers with one in Houston and one in Dallas to help sell damaged, used or discontinued merchandise.

*Pricing.*

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

***Store operations***

*Stores.*

We currently operate 76 retail and clearance stores located in Texas, Louisiana and Oklahoma. We recently closed our clearance center in San Antonio, Texas, to provide additional space for the expansion of our credit collection center, which was located in the same facility, and closed and sold our

clearance center in Baytown, Texas. The following table illustrates our markets, the number of freestanding and strip mall stores in each market and the calendar year in which we opened our first store in each market:

| Market | Number of Stores | | First Store Opened |
|---|---|---|---|
| | Stand Alone | Strip Mall | |
| Houston | 5 | 18 | 1983 |
| San Antonio/Austin | 5 | 9 | 1994 |
| Golden Triangle (Beaumont, Port Arthur, Lufkin and Orange, Texas and Lake Charles, Louisiana) | 1 | 5 | 1937 |
| Baton Rouge/Lafayette | 1 | 4 | 1975 |
| Corpus Christi | 1 | 1 | 2002 |
| Dallas/Fort Worth | 1 | 18 | 2003 |
| South Texas | 1 | 3 | 2004 |
| Oklahoma | 0 | 3 | 2008 |
| Total | 15 | 61 | |

Our stores have an average selling space of approximately 22,000 square feet, plus a rear storage area averaging approximately 5,500 square feet for fast-moving or smaller products that customers prefer to carry out rather than wait for in-home delivery. Two of our stores are clearance centers for discontinued product models, damaged merchandise, returns and repossessed product located in our Houston and Dallas markets and contain 30,630 square feet of combined selling space. All stores are open from 10:00 a.m. to 9:30 p.m. Monday through Friday, from 9:00 a.m. to 9:30 p.m. on Saturday, and from 11:00 a.m. to 7:00 p.m. on Sunday. We also offer extended store hours during the holiday selling season.

Approximately 80% our stores are located in strip shopping centers and regional malls, with the balance being stand-alone buildings in "power centers" of big box consumer retail stores. All of our locations have parking available immediately adjacent to the store's front entrance. Our storefronts have a distinctive front that guides the customer to the entrance of the store. Inside the store, a large colorful tile track separates the interior floor of the store for our "track products". One track leads the customer to major appliances, while the other track leads the customer to a large display of television and home theater products. The inside of the track contains various home office and consumer electronic products such as computers, laptops, printers, Blu-ray and DVD players, camcorders, digital cameras, MP3 players, video game equipment and GPS devices. We are expanding the rear floor areas of our stores for the display of furniture, mattresses, and lawn and garden equipment. To reach the cashier's desk at the center of the track area, our customers must walk past our products. We believe this increases sales to customers who have purchased products from us on credit in the past and who return to our stores to make their monthly credit payments.

We have updated many of our stores in the last three fiscal years. We expect to continue to update our stores as needed to address each store's specific needs. We continue to update our prototype store model and implement it at new locations and in existing locations in which the market demands support the required design changes. As we continue to add new stores or update or replace existing stores, we intend to modify our floor plan to include elements of this new model. All of our updated stores, as well as our new stores, include modern interior selling spaces featuring attractive signage and display areas specifically designed for each major product type. Our prototype store for future expansion has from 20,000 to 25,000 square feet of retail selling space, which approximates the average size of our existing stores and a rear storage area of between 5,000 and 7,000 square feet. Our investment to update our stores has averaged approximately $168,025 per store over the past three years, and we expect these improvements to benefit sales at those stores over time. Over the last three years, we have invested approximately $10.4 million updating, refurbishing or relocating our existing stores. We

continuously evaluate our existing and potential sites to position our stores in desirable locations and relocate stores that are not properly positioned. We typically lease rather than purchase our stores to retain the flexibility of managing our financial commitment to a location if we later decide that the store is performing below our standards or the market would be better served by a relocation. After updating, expanding or relocating a store, we expect to increase same store sales at the store.

*Site selection.*

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

*Store economics.*

We lease 72 of our 76 current store locations, with an average monthly rent of $20,900. Our average per store investment for the 14 new leased stores we have opened in the last three years was approximately $1.4 million, including leasehold improvements, fixtures and equipment and inventory (net of accounts payable). Our total investment for the owned location that was built in 2008 totaled approximately $4.6 million, including land, buildings, fixtures and equipment and inventory (net of accounts payable). For these new stores, excluding the clearance center opened in San Antonio and subsequently closed to expand our call center in that location, the net sales per store have averaged $0.5 million per month.

Our new stores have typically been profitable on an operating basis within their first three to six months of operation and, on average, have returned our net cash investment in 20 months or less. We consider a new store to be successful if it achieves $8 million to $9 million in sales volume and 4% to 7% in operating margins before other ancillary revenues and allocations of overhead and advertising in the first full year of operation. We expect successful stores that have matured, which generally occurs after two to three years of operations, to generate annual sales of approximately $12 million to $15 million and 9% to 12% in operating margins before other ancillary revenues and overhead and allocations. However, depending on the credit and insurance penetration of an individual store, we believe that a store that does not achieve these levels of sales can still contribute significantly to our pretax margin.

*Personnel and compensation.*

We staff a typical store with a store manager, an assistant manager, an average of 17 sales personnel and other support staff including cashiers and/or porters based on store size and location. Managers have an average tenure with us of approximately five years and typically have prior sales floor experience. In addition to store managers, we have seven district management personnel that generally oversee from seven to ten stores in each market. The senior management team of retail operations have an average of approximately 15 years of experience with us.

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

*Training.*

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

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

***Marketing***

We design our marketing and advertising programs to increase our brand name recognition, educate consumers about our products and services and generate customer traffic in order to increase sales. We conduct our advertising programs primarily through newspapers, radio and television stations, direct mail, telephone and our website. Our promotional programs include the use of discounts, rebates, product bundling and no-interest financing plans. Our website and the information contained on our website is not incorporated in this annual report or Form 8-K or any other document filed with the SEC.

Our website provides customers the ability to purchase our products on-line, offers information about our selection of products and provides useful information to the consumer on pricing, features and benefits for each product. Our website also allows the customers residing in the markets in which we operate retail locations to apply and be considered for credit. The website currently averages approximately 15,000 visits per day from potential and existing customers and during fiscal 2010 was a source of retail sales and credit applications. The website is linked to a call center, allowing us to better assist customers with their credit and product needs.

***Distribution and inventory management***

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

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

We maintain a fleet of tractors and trailers that allow us to move products from market to market and from distribution centers to stores to meet customer needs. We outsource a portion of our deliveries to a third party. Our fleet of home delivery vehicles enables our highly-trained delivery and installation specialists, in combination with the outsourced distribution arrangements to quickly complete the sales process, enhancing customer service. We receive a delivery fee based on the products sold and the services needed to complete the delivery. Additionally, we are able to complete deliveries to our

customers on the day after the sale for approximately 94% of our customers who have scheduled delivery during that timeframe.

***Finance operations***

*General.*

We sell our products for cash or for payment through major credit cards and third-party financing, in addition to offering our customers several financing alternatives through our proprietary credit programs. In the last three fiscal years, we financed, on average, approximately 61% of our retail sales through one of our two credit programs. We offer our customers a choice of installment payment plans and revolving credit plans through our primary credit portfolio. We also offer an installment program through our secondary credit portfolio to a limited number of customers who do not qualify for credit under our primary credit portfolio. Additionally, the most credit worthy customers in our primary credit portfolio may be eligible for no-interest financing plans. We use a third-party finance company to provide a portion of our no-interest financing offerings.

The following table shows our product and repair service agreements sales, net of returns and allowances, by method of payment for the periods indicated.

| | Year Ended January 31, | | | | | |
|---|---|---|---|---|---|---|
| **(Dollars in Thousands)** | **2008** | | **2009** | | **2010** | |
| | **Amount** | % | **Amount** | % | **Amount** | % |
| Cash and other credit cards | $267,931 | 37.8% | $293,131 | 37.4% | $293,512 | 41.9% |
| Primary credit portfolio: | | | | | | |
| Installment | 340,274 | 48.1 | 390,040 | 49.8 | 336,337 | 48.0 |
| Revolving | 34,025 | 4.8 | 23,105 | 2.9 | 28,638 | 4.1 |
| Secondary credit portfolio | 65,765 | 9.3 | 77,652 | 9.9 | 42,186 | 6.0 |
| Total | $707,995 | 100.0% | $783,928 | 100.0% | $700,673 | 100.0% |

*Credit underwriting.*

Our decisions to extend consumer credit to our retail customers are made by our internal credit underwriting department located at our corporate office — separate and distinct from our retail sales department. The seven senior credit underwriters possess an average of 21 years of credit experience. These senior underwriters supervise 21 credit underwriters who make credit granting decisions using our proprietary underwriting process and oversees our credit underwriting process. Our underwriting process considers one or more of the following elements: credit bureau reporting; income verification; current income and debt levels; a review of the customer's previous credit history with us; the credit risk of the particular products being purchased; and the level of the down payment made at the time of purchase.

Our credit programs are managed by our centralized credit underwriting department staff, independent of sales personnel. As part of our centralized credit approval process, we have developed a proprietary standardized scoring model that provides preliminary credit decisions, including down payment amounts and credit terms, based on customer risk, income level, and product risk. While we automatically approve some credit applications from customers, approximately 85% of all of our credit decisions are based on evaluation of the customer's creditworthiness by a qualified in-house credit underwriter. As of April 30, 2010, we employed over 620 full-time and part-time employees who focus on credit approval, collections and credit customer service. Employees in these operational areas are trained to follow our strict methodology in approving credit, collecting our accounts, and charging off any uncollectible accounts based on pre-determined aging criteria, depending on their area of responsibility.

Part of our ability to control delinquency and net charge-off is based on the level of down payments that we require and the purchase money security interest that we obtain in the product financed, which reduce our credit risk and increase our customers' ability and willingness to meet their

future obligations. We require the customer to purchase or provide proof of credit property insurance coverage to offset potential losses relating to theft or damage of the product financed.

Installment accounts are paid over a specified period of time with set monthly payments. Revolving accounts provide customers with a specified amount which the customer may borrow, repay and re-borrow so long as the credit limit is not exceeded. Most of our installment accounts provide for payment over 12 to 36 months, with the average account in the primary credit portfolio remaining outstanding for approximately 14 to 16 months. Our revolving accounts remain outstanding approximately 14 to 16 months. During fiscal 2010, approximately 34% of the applications approved under the primary program were approved automatically through our computer system based on the customer's credit history. The remaining applications, of both new and repeat customers, are sent to an experienced in-house credit underwriter.

We created our secondary credit portfolio program to meet the needs of those customers who do not qualify for credit under our primary program, typically due to past credit problems or lack of credit history. If we cannot approve a customer's application for credit under our primary portfolio, we automatically send the application to the credit staff of our secondary portfolio for further consideration, using stricter underwriting criteria. The additional requirements include verification of employment and recent work history, reference checks and higher required down payment levels. We only offer the installment program to those customers who qualify under these stricter underwriting criteria, and these customers are not eligible for our no-interest programs. An experienced, in-house credit underwriter administers the credit approval process for all applications received under our secondary portfolio program. Most of the installment accounts approved under this program provide for repayment over 12 to 36 months, with the average account remaining outstanding for approximately 21 to 23 months.

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

| Primary Portfolio (1) | Year Ended January 31, | | | Three Months Ended January 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | (total outstanding balance in thousands) | | | | |
| Total outstanding balance (period end) | $511,586 | $589,922 | $597,360 | $589,922 | $597,360 |
| Average outstanding customer balance | $ 1,287 | $ 1,403 | $ 1,339 | $ 1,403 | $ 1,339 |
| Number of accounts (period end) | 397,606 | 420,585 | 446,203 | 420,585 | 446,203 |
| Weighted average credit score of outstanding balances | 605 | 603 | 600 | 603 | 600 |
| Total applications processed (2) | 823,627 | 850,538 | 802,765 | 257,840 | 206,422 |
| Percent of retail sales financed | 52.9% | 52.7% | 52.1% | 48.9% | 54.7% |
| Weighted average origination credit score of sales financed | 634 | 633 | 632 | 636 | 631 |
| Total applications approved | 49.8% | 50.0% | 51.1% | 49.9% | 52.7% |
| Average down payment | 7.4% | 5.9% | 5.2% | 5.5% | 4.5% |

| Secondary Portfolio (1) | 2008 | 2009 | 2010 | 2009 | 2010 |
|---|---|---|---|---|---|
| | (total outstanding balance in thousands) | | | | |
| Total outstanding balance (period end) | $143,281 | $163,591 | $138,681 | $163,591 | $138,681 |
| Average outstanding customer balance | $ 1,264 | $ 1,394 | $ 1,319 | $ 1,394 | $ 1,319 |
| Number of accounts (period end) | 113,316 | 117,372 | 105,109 | 117,372 | 105,109 |
| Weighted average credit score of outstanding balances | 521 | 521 | 526 | 521 | 526 |
| Total applications processed (2) | 400,592 | 386,126 | 351,613 | 114,133 | 89,615 |
| Percent of retail sales financed | 9.3% | 9.9% | 6.0% | 9.4% | 6.0% |
| Weighted average origination credit score of sales financed | 537 | 533 | 550 | 540 | 555 |
| Total applications approved | 29.8% | 29.4% | 20.2% | 23.2% | 19.3% |
| Average down payment | 24.6% | 20.5% | 21.2% | 20.1% | 21.2% |

| Combined Portfolio (1) | 2008 | 2009 | 2010 | 2009 | 2010 |
|---|---|---|---|---|---|
| | (total outstanding balance in thousands) | | | | |
| Total outstanding balance (period end) | $ 654,867 | $ 753,513 | $ 736,041 | $753,513 | $736,041 |
| Average outstanding customer balance | $ 1,282 | $ 1,401 | $ 1,335 | $ 1,401 | 1,335 |
| Number of accounts (period end) | 510,922 | 537,957 | 551,312 | 537,957 | 551,312 |
| Weighted average credit score of outstanding balances | 587 | 585 | 586 | 585 | 586 |
| Total applications processed (2) | 1,224,219 | 1,236,664 | 1,154,378 | 371,973 | 296,037 |
| Percent of retail sales financed | 62.2% | 62.5% | 58.1% | 58.3% | 60.7% |
| Weighted average origination credit score of sales financed | 614 | 612 | 620 | 620 | 621 |
| Total applications approved | 45.3% | 43.6% | 41.7% | 41.7% | 42.6% |
| Average down payment | 10.1% | 8.2% | 6.9% | 7.4% | 6.2% |

(1) The Portfolios consist of owned customer receivables and customer receivables sold to our VIE.

(2) Unapproved and not declined credit applications in the primary portfolio are automatically referred to the secondary portfolio.

*Credit monitoring and collections.*

In addition to our underwriting personnel, as of April 30, 2010, we employed approximately 600 people in our collections department who service 100% of our consumer credit portfolio. Our in-house credit financed sales are secured by the products purchased, which we believe gives us a distinct advantage over other creditors when pursuing collections, especially given that many of the products we finance are necessities for the home. We employ a very intensive credit collection strategy that includes dialer-based calls, virtual calling and messaging systems, field collectors that contact borrowers at their home or place of employment, collection letters, a legal staff that files lawsuits and attends bankruptcy hearings, and voluntary repossession.

We closely monitor the credit portfolios to identify delinquent accounts early and dedicate resources to contacting customers concerning past due accounts. We believe that our unique underwriting model, secured interest in the products financed, required down payments, local presence, ability to work with customers, relative to their product, service and credit insurance needs, and the flexible financing alternatives we offer contribute to the historically low net charge-off rates on these portfolios. In addition, our customers have the opportunity to make their monthly payments in our stores, and approximately 60% of our active credit accounts did so at some time during the twelve months ended January 31, 2010. We believe that these factors help us maintain a relationship with the customer that keeps losses lower while encouraging repeat purchases.

Our collection activities involve a combination of efforts that take place in our Beaumont, Texas and San Antonio collection centers, and field collection efforts that involve a visit by one of our credit counselors to the customer’s home. We maintain a predictive dialer system, including virtual collection systems, and letter campaign that helps us contact over 35,000 delinquent customers daily. We also maintain an experienced skip-trace department that utilizes current technology to locate customers who have moved and left no forwarding address. Our field collectors provide on-site contact with the customer to assist in the collection process or, if needed, to voluntarily repossess the product in the event of non-payment. As part of our effort to work with our customers to achieve and maintain a habit of making consistent monthly payments on their credit accounts with us we will, at times, extend their contractual payment terms, also known as reaging, which usually results in updating the past due status of the account to reflect it as current. Typically, we will agree to reage an account when a customer has experienced a financial hardship, such as temporary loss of employment, if, after discussing the situation with the customer, we validate that they will be able to resume making their regularly scheduled payments. Generally, for the reage process to be completed, the customer is required to pay interest on the account for the number of months reaged and at times may require one or more full monthly

payments. An account can be reaged multiple times over its life, but the use of the reage program is limited and must comply with company guidelines. We believe our reaging programs reduce our ultimate net charge-offs and enhance our ability to collect the full amounts due to us from sales under our credit programs and results in building long-term relationships with those customers that help drive future sales. Repossessions are made when it is clear that the customer is unwilling to establish a reasonable payment program and voluntarily relinquishes control of the purchased merchandise to our field collectors. Our legal department processes our legal collection efforts and helps handle any legal issues associated with the collection process.

Generally, we deem an account to be uncollectible and charge it off if the account is 120 days or more past due and we have not received a payment in the last seven months. Over the last 36 months, we have recovered approximately 11% of charged-off amounts through our collection activities. The income that we realize from the customer receivables portfolio that we manage depends on a number of factors, including expected credit losses. Therefore, it is to our advantage to maintain a low delinquency rate and net loss ratio on the credit portfolios.

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

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

| Primary Portfolio (1) | Year Ended January 31, | | | Three Months Ended January 31, | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2009 | 2010 |
| | (total outstanding balance in thousands) | | | | |
| Total outstanding balance (period end) | $511,586 | $589,922 | $597,360 | $589,922 | $597,360 |
| Average total outstanding balance | $465,429 | $538,673 | $592,376 | $579,539 | $601,763 |
| Account balances over 60 days old (period end) | 31,558 | 35,153 | 48,775 | 35,153 | 48,775 |
| Percent of balances over 60 days old to total outstanding (period end) | 6.2% | 6.0% | 8.2% | 6.0% | 8.2% |
| Total account balances reaged (2) | 71,883 | 90,560 | 95,038 | 90,560 | 95,038 |
| Percent of balances reaged to total outstanding (period end) (2) | 14.1% | 15.4% | 15.9% | 15.4% | 15.9% |
| Account balances reaged more than six months | 35,631 | 36,452 | 35,448 | 36,452 | 35,448 |
| Bad debt charge-offs (net of recoveries) | 12,429 | 15,071 | 20,777 | 4,280 | 6,516 |
| Percent of charge-offs (net of recoveries) to average outstanding | 2.7% | 2.8% | 3.5% | 3.0% | 4.3% |
| Estimated percent of reage balances collected (3) | 89.7% | 89.5% | 86.4% | 89.5% | 82.8% |

| Secondary Portfolio (1) | 2008 | 2009 | 2010 | 2009 | 2010 |
|---|---|---|---|---|---|
| | (total outstanding balance in thousands) | | | | |
| Total outstanding balance (period end) | $143,281 | $163,591 | $138,681 | $163,591 | $138,681 |
| Average total outstanding balance | $141,202 | $157,529 | $151,380 | $163,320 | $141,125 |
| Account balances over 60 days old (period end) | 18,220 | 19,988 | 24,616 | 19,988 | 24,616 |
| Percent of balances over 60 days old to total outstanding (period end) | 12.7% | 12.2% | 17.8% | 12.2% | 17.8% |
| Total account balances reaged (2) | 35,844 | 50,602 | 49,135 | 50,602 | 49,135 |
| Percent of balances reaged to total outstanding (period end) (2) | 25.0% | 30.9% | 35.4% | 30.9% | 35.4% |

| Secondary Portfolio (1) | 2008 | 2009 | 2010 | 2009 | 2010 |
|---|---|---|---|---|---|
| | (total outstanding balance in thousands) | | | | |
| Account balances reaged more than six months | 15,599 | 19,860 | 21,920 | 19,860 | 21,920 |
| Bad debt charge-offs (net of recoveries) | 4,989 | 7,291 | 8,165 | 2,043 | 2,325 |
| Percent of charge-offs (net of recoveries) to average outstanding | 3.5% | 4.6% | 5.4% | 5.0% | 6.6% |
| Estimated percent of reage balances collected (3) | 90.7% | 89.8% | 88.7% | 90.3% | 86.2% |

| Combined Portfolio (1) | 2008 | 2009 | 2010 | 2009 | 2010 |
|---|---|---|---|---|---|
| | (total outstanding balance in thousands) | | | | |
| Total outstanding balance (period end) | $654,867 | $753,513 | $736,041 | $753,513 | $736,041 |
| Average total outstanding balance | $606,631 | $696,202 | $743,756 | $742,859 | $742,888 |
| Account balances over 60 days old (period end) | 49,778 | 55,141 | 73,391 | 55,141 | 73,391 |
| Percent of balances over 60 days old to total outstanding (period end) | 7.6% | 7.3% | 10.0% | 7.3% | 10.0% |
| Total account balances reaged (2) | 107,727 | 141,162 | 144,173 | 141,162 | 144,173 |
| Percent of balances reaged to total outstanding (period end) (2) | 16.5% | 18.7% | 19.6% | 18.7% | 19.6% |
| Account balances reaged more than six months | 51,230 | 56,312 | 57,368 | 56,312 | 57,368 |
| Bad debt charge-offs (net of recoveries) | 17,418 | 22,362 | 28,942 | 6,323 | 8,841 |
| Percent of charge-offs (net of recoveries) to average outstanding | 2.9% | 3.2% | 3.9% | 3.4% | 4.8% |
| Estimated percent of reage balances collected (3) | 90.0% | 89.6% | 87.2% | 89.8% | 84.0% |

(1) The Portfolios consist of owned customer receivables and transferred customer receivables sold to our VIE.

(2) Unapproved and not declined credit applications in the primary portfolio are automatically referred to the secondary portfolio.

(3) Calculated as 1 minus the percent of 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 the percent of bad debt charge-offs (net of recoveries) to average outstanding balance.

By combining our front-end underwriting discipline with the back-end rigor in monitoring and collections, we have achieved an average net loss ratio of 3.4% over the past three fiscal years. As of April 30, 2010, our total portfolio balance was $700.5 million and the percentage of borrowers who were more than 60 days delinquent was 8.6%. Additionally, we work with our borrowers after they experience financial hardships in order to help them re-establish their regular payment habits through our reaging program. As of April 30, 2010, 19.1% of the total portfolio balance had been reaged during the term of the financing, thereby extending the total term of those customers' financing agreements. For the three months ended April 30, 2010 and the fiscal year ended January 31, 2010, our ratio of net charge-offs as a percentage of our total receivables balance was 4.6% and 3.9%, respectively.

***Product support services***

*Credit insurance.*

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

We require proof of property insurance on all installment credit purchases, although we do not require that customers purchase this insurance from us. During fiscal 2010, approximately 72.3% of our credit customers purchased one or more of the credit insurance products we offer, and approximately 14.9% purchased all of the insurance products we offer. Commission revenues from the sale of credit insurance contracts represented approximately 2.5%, 2.1% and 1.9% of total revenues for fiscal years 2008, 2009 and 2010, respectively.

*Warranty service.*

We provide service for all of the products we sell and only for the products we sell. Customers purchased repair service agreements that we sell for third-party insurers on products representing approximately 45.1% of our total product sales for fiscal 2010. These agreements broaden and extend the period of covered manufacturer warranty service for up to four years from the date of purchase, depending on the product. These agreements are sold at the time the product is purchased. Customers may finance the cost of the agreements along with the purchase price of the associated product. We contact the customer prior to the expiration of the repair service agreement period to provide them the opportunity to purchase an extended period of coverage for which we are the direct obligor.

We have contracts with unaffiliated third party insurers that issue the initial repair service agreements to cover the costs of repairs performed under these agreements. The initial service agreement is between the customer and the independent third-party insurance company, and, through our agreements with the third-party insurance company, we are obligated to provide service when it is needed under each agreement sold. We receive a commission on the sale of the contract, which is recognized in revenues at the time of the sale, and we receive retrospective commissions, which are additional commissions paid by the insurance carrier over time if the cost of repair claims are less than earned premiums. Additionally, we bill the insurance company for the cost of the service work that we perform. We are the obligor under the renewal contracts sold after the primary warranty and third-party repair service agreements expire. Under renewal contracts we recognize revenues received, and direct selling expenses incurred, over the life of the contracts, and expense the cost of the service work performed as products are repaired. We also sell furniture protection program agreements at the time of sale of furniture, for which we are the obligor. We recognize revenues for this program the same as we do for the renewal contracts.

Of the 16,000 repairs, on average, that we perform each month, approximately 47.3% are covered under repair service agreements, approximately 40.9% are covered by manufacturer warranties and the remainder are cash and customer accommodation repairs. Revenues from the sale of repair service agreements and the other product protection products that we sell represented approximately 5.0%, 5.0% and 4.6% of net sales during fiscal years 2008, 2009 and 2010, respectively.

***Management information systems***

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

Our integrated management information system also includes extensive functionality for management of the complete credit portfolio life cycle as well as functionality for the management of product service. The credit system provides in-house credit underwriting, new account set up and tracking, credit portfolio reporting, collections, credit employee productivity metrics, skip-tracing, and bankruptcy, fraud and legal account management. The service system provides for service order processing, warranty claims processing, parts inventory management, technician scheduling and

dispatch, technician performance metrics and customer satisfaction measurement. The sales, credit and service systems share a common customer and product sold database.

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

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

As part of our ongoing system availability protection and disaster recovery planning, we have implemented a secondary IBM Series i5 system. We installed and implemented the back-up IBM Series i5 system in our corporate offices to provide the ability to switch production processing from the primary system to the secondary system within thirty minutes should the primary system become disabled or unreachable. The two machines are kept synchronized utilizing third party software. This backup system provides “high availability” of the production processing environment. The primary IBM Series i5 system is geographically removed from our corporate office for purposes of disaster recovery and security. Our disaster recovery plan worked as designed during our evacuation from our corporate headquarters in Beaumont, Texas, due to Hurricane Rita in September 2005, and Hurricanes Gustav and Ike in September 2008. While we were displaced, our store, distribution and service operations that were not impacted by the hurricane continued to have normal system availability and functionality.

***Competition***

As measured by *Twice*, the top 100 consumer electronics retailers in the United States reported electronic sales of $121.3 billion in 2009, a 1.8% increase from the $119.1 billion reported in 2008. The consumer electronics market is highly fragmented with sales coming from large appliance and electronics superstores, national chains, small regional chains, single-store operators, and consumer electronics departments of selected department and discount stores. We estimate, based on data provided in *Twice*, that Best Buy and Wal-Mart, the two largest consumer electronics retailers, together accounted for approximately 42% of the total electronics sales attributable to the 100 largest retailers in 2009. According to the most recently available data reported by *Twice*, based on revenue in 2009, we were the 35th largest retailer of consumer electronics in the United States.

Based on data published in *Twice*, the top 100 major appliance retailers reported sales of approximately $22.6 billion in 2009, down approximately 3.7% from reported sales in 2008 of approximately $23.5 billion. The retail appliance market is large and concentrated among a few major dealers, with sales coming primarily from large appliance and electronics superstores, national chains, small regional chains and home improvement centers. Sears has been the leader in the retail appliance market, with a market share of the top 100 retailers of approximately 32% in 2009 and 33% in 2008. Lowe’s and Home Depot held the second and third place positions, respectively, in national market share in 2008. According to the most recently available data reported by *Twice*, we were the 9th largest appliance retailer in the United States in 2009.

According to the U.S. Department of Commerce — Bureau of Economic Analysis, personal consumption expenditures for household furniture were estimated to be approximately $85.8 billion in 2009, down from $92.8 billion in the prior year. The household furniture and mattress market is highly fragmented with sales coming from manufacturer-owned stores, independent dealers, furniture centers, specialty sleep product stores, national and local chains, mass market retailers, department stores and, to a lesser extent, home improvement centers, decorator showrooms, wholesale clubs, catalog retailers, and the Internet.

Based on data from the Federal Reserve System, estimated total consumer credit outstanding, which excludes primarily loans secured by real estate, was $2.45 trillion as of December 31, 2009, down 4.3% from $2.56 trillion at December 31, 2008. As a result of the recession that began in late 2007, consumers have increased their rate of savings and reduced their level of borrowing to fund purchases. Consumers obtain credit from banks, credit unions, finance companies and non-financial businesses that offer credit, including retailers. The credit obtained takes many forms, including revolving (e.g., credit cards) or fixed-term (e.g., automobile loans) credit, and at times is secured by the products being purchased.

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

***Regulation***

The extension of credit to consumers is a highly regulated area of our business. Numerous federal and state laws impose disclosure and other requirements on the origination, servicing and enforcement of credit accounts. These laws include, but are not limited to, the Federal Truth in Lending Act, Equal Credit Opportunity Act and Federal Trade Commission Act. State laws impose limitations on the maximum amount of finance charges that we can charge and also impose other restrictions on consumer creditors, such as us, including restrictions on collection and enforcement. We routinely review our contracts and procedures to ensure compliance with applicable consumer credit laws. Failure on our part to comply with applicable laws could expose us to substantial penalties and claims for damages and, in certain circumstances, may require us to refund finance charges already paid and to forego finance charges not yet paid under non-complying contracts. We believe that we are in substantial compliance with all applicable federal and state consumer credit and collection laws.

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

***Employees***

As of April 30, 2010, we had approximately 2,500 full-time employees and 200 part-time employees, of which approximately 1,350 were sales personnel. We offer a comprehensive benefits package including health, life, short and long term disability, and dental insurance coverage as well as a 401(k) plan, employee stock purchase plan, paid vacation and holiday pay, for eligible employees. None of our employees are subject to collective bargaining agreements governing their employment with us and we believe that our employee relations are good. Conn’s has a formal dispute resolution plan that requires mandatory arbitration for employment related issues.

***Tradenames and trademarks***

We have registered the trademarks “Conn’s” and our logos.

***Available information***.

We are subject to reporting requirements of the Securities and Exchange Act of 1934, or the Exchange Act, and its rules and regulations. The Exchange Act requires us to file reports, proxy and other information statements and other information with the Securities and Exchange Commission (SEC). Copies of these reports, proxy statements and other information can be inspected an copied at the SEC Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also obtain these materials electronically by accessing the SEC’s home page on the Internet at www.sec.gov.

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

**Exhibit 99.2**

## ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected historical financial information as of and for the periods indicated and reflects our retrospective adoption, for all periods presented, of a change in our accounting for our interest in our variable interest entity, or VIE. See Note 2 in our Notes to Consolidated Financial Statements for the year ended January 31, 2010 for additional information. We have provided the following selected historical financial information for your reference. We have derived the selected statement of operations and balance sheet data as of January 31, 2010 and 2009 and for each of the years ended January 31, 2010, 2009 and 2008 from our audited consolidated financial statements included as Exhibit 99.4 to this Current Report on Form 8-K. Balance sheet data as of January 31, 2008 and statement of operations data for the years ended January 31, 2007 and 2006 have been derived from our unaudited consolidated financial statements which do not appear in this in this Current Report on Form 8-K.

| | Year Ended January 31, (dollars and shares in thousands, except per share amounts) | | | | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 |
| **Statement Operations:** | | | | | |
| Revenues: | | | | | |
| Product sales | $569,877 | $623,959 | $671,571 | $743,729 | $667,401 |
| Repair service agreement commissions, net (1) | 30,583 | 30,567 | 36,424 | 40,199 | 33,272 |
| Service revenues (2) | 20,278 | 22,411 | 22,997 | 21,121 | 22,115 |
| **Total net sales** | 620,738 | 676,937 | 730,992 | 805,049 | 722,788 |
| Finance charges and other (3) | 109,250 | 122,649 | 139,538 | 154,492 | 152,797 |
| **Total revenues** | $729,988 | $799,586 | $870,530 | $959,541 | $875,585 |
| Costs and expenses: | | | | | |
| Cost of goods sold, including warehousing and occupancy cost | 422,533 | 466,279 | 508,787 | 580,423 | 534,299 |
| Cost of parts sold, including warehousing and occupancy costs | 5,310 | 6,785 | 8,379 | 9,638 | 10,401 |
| Selling, general and administrative expense | 208,652 | 225,434 | 245,761 | 254,172 | 255,942 |
| Goodwill impairment (4) | — | — | — | — | 9,617 |
| Provision for bad debts | 14,519 | 22,173 | 19,465 | 27,952 | 36,843 |
| **Total costs and expenses** | $651,014 | $720,671 | $782,392 | $872,185 | $847,102 |
| Operating income | 78,974 | 78,915 | 88,138 | 87,356 | 28,483 |
| Interest expense, net | 17,423 | 21,454 | 24,839 | 23,597 | 20,571 |
| Other (income) expense (5) | 69 | (772) | (943) | 117 | (123) |
| Income before income taxes | 61,482 | 58,233 | 64,242 | 63,642 | 8,035 |
| Provision for income taxes | 21,380 | 20,613 | 22,575 | 23,624 | 4,111 |
| **Net income** | $ 40,102 | $ 37,620 | $ 41,667 | $ 40,018 | $ 3,924 |
| Earnings per common share: | | | | | |
| Basic | $ 1.71 | $ 1.59 | $ 1.80 | $ 1.79 | $ 0.17 |
| Diluted | $ 1.66 | $ 1.55 | $ 1.76 | $ 1.77 | $ 0.17 |
| Average common shares outstanding: | | | | | |
| Basic | 23,412 | 23,663 | 23,193 | 22,413 | 22,456 |
| Diluted | 24,088 | 24,289 | 23,673 | 22,577 | 22,610 |
| | | | | | |
| **Other Financial Data:** | | | | | |
| Stores open at end of period | 56 | 62 | 69 | 76 | 76 |
| Same stores sales growth (6) | 16.9% | 3.6% | 3.2% | 2.0% | (13.8)% |
| Inventory turns (7) | 6.1 | 5.7 | 5.7 | 6.0 | 6.1 |
| Gross margin percentage (8) | 41.4% | 40.8% | 40.6% | 38.5% | 37.8% |

| | Year Ended January 31, (dollars and shares in thousands, except per share amounts) | | | | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 |
| Operating margin (9) | 10.8% | 9.9% | 10.1% | 9.1% | 3.3% |
| Ratio of earnings to fixed charges (10) | 3.3 | 2.8 | 2.8 | 2.7 | 1.2 |
| Return on average equity (11) | 18.7% | 14.7% | 14.8% | 12.9% | 1.2% |
| Capital expenditures | $ 18,490 | $ 18,425 | $ 18,955 | $ 17,597 | $ 10,255 |
| **Balance Sheet Data:** | | | | | |
| Working capital | $307,948 | $372,668 | $387,730 | $277,296 | $340,122 |
| Cash and cash equivalents | $ 45,179 | $ 56,598 | $ 11,024 | $ 11,909 | $ 12,247 |
| Inventory | 73,986 | 87,098 | 81,495 | 95,971 | 63,499 |
| Other accounts receivable, net | 17,796 | 22,329 | 27,722 | 32,505 | 23,254 |
| Total assets | 721,447 | 810,511 | 835,499 | 957,566 | 892,466 |
| Total debt, including current maturities | $385,136 | $438,198 | $468,119 | $505,417 | $452,304 |
| Total stockholders' equity | $236,962 | $274,182 | $288,726 | $332,784 | $339,163 |

| | Year Ended January 31, (dollars and shares in thousands) | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| **Other Relevant Data:** | | | |
| Rent expense (12) | $18,905 | $22,242 | $23,703 |
| Percent of retail sales financed | 62.2% | 62.6% | 58.1% |
| Allowance for bad debts as a percent of average outstanding balance (13) | 3.5% | 3.9% | 4.8% |
| Weighted average monthly payment rate (14) | 5.7% | 5.5% | 5.2% |

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(1) Includes commissions from sales of third-party repair service agreements and replacement product programs, and income from company-obligor repair service agreements.

(2) Includes revenues derived from parts sales and labor sales on products serviced for customers, both covered under manufacturer warranty and outside manufacturer's warranty coverage.

(3) Includes primarily interest income and fees earned on credit accounts and commissions earned from the sale of third-party credit insurance products.

(4) Includes the write-off of the carrying amount of goodwill after interim testing in the third quarter of fiscal 2010 determined that the goodwill was fully impaired.

(5) Includes primarily gains or losses resulting from sales of fixed assets during the period.

(6) Same store sales is calculated by comparing the reported sales for all stores that were open during the entirety of a period and the entirety of the same period during the prior fiscal year. Sales from closed stores, if any, are removed from each period. Sales from relocated stores have been included in each period because each such store was relocated within the same general geographic market. Sales from expanded stores have been included in each period.

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

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

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

(10) Ratio of earnings to fixed charges is calculated as income before provision for income taxes plus fixed charges (excluding capitalized interest), divided by fixed charges. Fixed charges consist of the sum of interest expensed and capitalized, amortized premiums, discounts and capitalized expenses related to indebtedness and an estimate of the interest within rental expense.

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

(12) Rent expense includes rent expense incurred on our properties, equipment and vehicles, and is net of any rental income received.

(13) Includes Reserve for uncollectible interest.

(14) Represents the monthly weighted average of gross cash collections received on the credit portfolio as a percentage of the average monthly portfolio balances for each period.

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and related notes included as Exhibit 99.4 to this Current Report on Form 8-K.

This report includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results, and therefore are, or may be deemed to be, "forward-looking statements." These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "anticipates," "expects," "estimates," "seeks," "projects," "intends," "plans," "may," "will" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We believe that these risks and uncertainties include, but are not limited to:

- 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 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;
- 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;
- 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 obtain additional funding for the purpose of funding the customer receivables generated by us, including limitations on our ability to obtain financing through our commercial paper-based funding sources and our ability to maintain the current credit rating issued by a recognized statistical rating organization;
- our ability to renew or replace our revolving credit facility on or before its maturity date;
- the cost or terms of any amended, renewed or replacement credit facilities;
- the ability of the financial institutions to provide lending facilities to us and fund their commitments;

- the effect of any downgrades by rating agencies on our 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 and maintain profitable operations;
- the potential for deterioration in the delinquency status of our credit portfolio or higher than historical net charge-offs in the customer receivables portfolio 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, repair service and product replacement 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 Annual Report on Form 10-K. These factors should not be construed as exhaustive and should be read with the other cautionary statements in this report.

Although we base these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods.

Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. Any forward-looking statements which we make in this report speak only as of the date of such statement, and we do not undertake, and specifically decline, any obligation to update such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

***General***

We intend 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.

Through our 76 retail stores, we provide products and services to our customers in seven primary market areas, including Houston, San Antonio/Austin, Dallas/Fort Worth, southern Louisiana, Southeast and South Texas and Oklahoma. Products and services offered through retail sales outlets include home appliances, consumer electronics, home office equipment, lawn and garden products, mattresses, furniture, repair service agreements, customer credit programs, including installment and revolving credit account programs, and various credit insurance products. These activities are supported through our extensive service, warehouse and distribution system. Our stores bear the “Conn’s” name, after our founder’s family, and deliver the same products and services to our customers. All of our stores follow the same procedures and methods in managing their operations. Our management evaluates performance and allocates resources based on the operating results of its retail and credit segments.

The five cornerstones of our business which represent, in our view, the five components of our business model that drive profitability are — strong merchandising systems, flexible credit options for our customers, extensive warehousing and distribution systems, service systems to support our customer’s needs during and beyond the product warranty periods, and our uniquely, well-trained employees in each area. Each of these systems combine to create a “nuts and bolts” support system for our customers needs and desires. Each of these systems is discussed at length in our Business discussion included as Exhibit 99.1 to this Current Report on Form 8-K.

We derive the majority of our revenues from our product sales and repair service agreement commissions, which are generated by sales of third-party and company-obligor repair service agreements and product replacement policies. However, unlike many of our competitors, we provide in-house credit options for our customers’ product purchases. Additionally, we derive a portion of our revenues from the sale of credit insurance products of third-party insurers to our customers.

In the last three years, we have financed, on average, approximately 61% of our retail sales through our credit programs. We offer our customers a choice of installment payment plans and revolving credit plans through our primary credit portfolio. We also offer an installment program through our secondary credit portfolio to a limited number of customers who do not qualify for credit under our primary credit portfolio. In addition to interest-bearing installment and revolving charge contracts, at times, we offer promotional credit programs to certain of our primary credit portfolio 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 options through our 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. As part of our asset-backed securitization facility, we have created a bankruptcy-remote variable interest entity, which we refer to as the VIE, to purchase customer receivables from us and to issue medium-term and variable funding notes secured by the customer receivables to finance its acquisition of the customer receivables. We transfer eligible customer receivables, consisting of retail installment and revolving account receivables extended to our customers, to the VIE in exchange for cash and subordinated securities. The VIE is consolidated in our financial statements. Customer receivables not sold to the VIE have been funded by our revolving credit facility.

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

**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.

*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 twelve 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 account*s.

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, and 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 $26.9 million and $35.8 million, at January 31, 2009, and 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 19.6% of the total portfolio balance at January 31, 2010. If the loss rate used to calculate the allowance for doubtful accounts was increased by 10% at January 31, 2010, we would have increased our Provision for bad debts by approximately $3.6 million for fiscal 2010.

*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 revenues deferred at January 31, 2009 and 2010 were $7.2 million and $7.3 million, respectively, and are included in Deferred revenues and allowances in the accompanying consolidated balance sheets. The amounts of repair service agreement revenue recognized for the fiscal years ended January 31, 2008, 2009 and 2010 were $5.7 million, $6.5 million and $7.0 million, respectively.

*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. We received $36.1 million, $46.2 million and $51.3 million in vendor allowances during the fiscal years ended January 31, 2008, 2009 and 2010, respectively, of which $6.6 million, $6.4 million and $5.1 million, respectively, represented advertising assistance allowances. The increase in fiscal year 2010 was due to increased use of instant rebates by vendors to drive sales. Over the past three years we have received funds from approximately 50 vendors, with the terms of the programs ranging between one month and one year.

*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.

**Year ended January 31, 2009 compared to the year ended January 31, 2010**

***Executive overview***

This overview is intended to provide an executive level overview of our operations for our fiscal year ended January 31, 2010. Our performance during fiscal 2010 was impacted by the slowdown in the

economy and rising unemployment in our markets that occurred during the year. Following are significant financial items in management's view:

- Our revenues for the fiscal year ended January 31, 2010, decreased by 8.7%, or $83.9 million, from fiscal year 2009, to $875.6 million due primarily to a decline in product sales and related reduction in repair service agreement commissions. Sales declined during the year largely as a result of the slowdown in the economic conditions in our markets, reduced average selling prices for televisions and were also impacted by tighter credit underwriting standards implemented during the year to improve the credit quality of our consumer receivable portfolio. Our same store sales declined 13.8% in the fiscal year ended January 31, 2010, as compared to an increase of 2.0% for fiscal 2009, with the sharpest decline occurring in the fourth quarter, when same store sales fell 31.7%.
- The addition of stores in our existing Dallas/Fort Worth, Houston, Southeast and South Texas markets and the opening of three stores in Oklahoma in fiscal 2009 had a positive impact on our revenues. We achieved approximately $20.3 million of increases in product sales and repair service agreement (RSA) commissions for the year ended January 31, 2010, from the opening of nine new stores in these markets since February 2008. While we have no current plans to open additional stores, we have additional sites under consideration for future development and continue to evaluate our store opening plans for future periods, provided we have adequate capital availability.
- Deferred interest and "same as cash" plans continue to be an important part of our sales promotion plans and are utilized to provide a wide variety of financing to enable us to appeal to a broader customer base. For the fiscal year ended January 31, 2010, $130.7 million, or 19.6%, of our product sales were financed by deferred interest and "same as cash" plans. We have been able to reduce the volume of promotional credit as a percent of product sales, as compared to the prior year. For the comparable period in the prior year, product sales financed by deferred interest and "same as cash" sales were $155.8 million, or 21.0%. Our promotional credit programs (same as cash and deferred interest programs), which require monthly payments, are reserved for our highest credit quality customers, thereby reducing the overall risk in the portfolio, and are used primarily to finance sales of our highest margin products. We expect to continue to offer extended term promotional credit in the future. During the fiscal year ended January 31, 2010, we began offering promotional credit programs through third-party consumer credit programs, which financed $15.3 million of our product and repair service agreement sales during the year.
- Finance charges and other decreased 1.1% for the fiscal year ended January 31, 2010, when compared to the same period last year, primarily due to a decline in insurance commissions and retrospective commissions on our repair service agreements, which offset a slight increase in interest income and other fees.
- Our gross margin, defined as total revenues less cost of goods and parts sold, was 37.8% for fiscal 2010, a decrease from 38.5% in fiscal 2009, primarily as a result of:
  - reduced gross margin realized on product sales from 22.0% in the year ended January 31, 2009, to 19.9% in fiscal year 2010, which negatively impacted the total gross margin by 150 basis points. The product gross margins were negatively impacted by a highly price-competitive retail market and our successful strategy early in the fiscal year to grow market share through competitive pricing, and
  - a change in the revenue mix in the year ended January 31, 2010, such that higher gross margin finance charge and other revenues contributed a larger percentage of total revenues, partially offset by reduced revenue contribution from repair service agreement commissions, which contributed a smaller percentage of total revenues, and resulted in an increase in the total gross margin of approximately 80 basis points.
- During the fiscal year ended January 31, 2010, Selling, general and administrative (SG&A) expense increased as a percent of revenues to 29.2% from 26.5% in the prior year period, primarily due to the litigation reserves we established to reflect our best estimate of the amount we expect will be required to settle outstanding litigation as well as the increase in expenses

related to the new stores opened during the prior fiscal year and the general de-leveraging effect of the decline in same store sales.

- During the fiscal year ended January 31, 2010, we determined, as a result of the sustained decline in our market capitalization, the increasingly challenging economic environment and its impact on our comparable store sales, credit portfolio performance and operating results, that an interim goodwill impairment test was necessary. A two-step method was utilized for determining goodwill impairment. Our valuation was performed utilizing the services of outside valuation consultants using both an income approach utilizing our discounted debt-free cash flows and comparable valuation multiples. Upon completion of the impairment test, we concluded that the carrying value of our recorded goodwill was impaired. As a result, we recorded a goodwill impairment charge of $9.6 million to write-off the carrying value of our goodwill during the three month period ended October 31, 2009.
- The provision for bad debts increased to $36.8 million in fiscal 2010, from $28.0 million in the prior year. This increase is due to higher actual and expected net credit charge-offs on customer receivables. Actual net charge-offs increased approximately $6.6 million, or 29.4%, in fiscal 2010, compared to fiscal 2009. As a result of the recent credit portfolio performance and expectations about future net charge-offs, the bad debt and uncollectible interest reserves for customer receivables were increased, as a percent of the customer receivable balance, to 5.0% at January 31, 2010, from 3.6% at January 31, 2009.
- Net interest expense decreased in fiscal 2010, due primarily to reduced outstanding debt balances.
- The provision for income taxes was negatively impacted by the effect of the taxes for the state of Texas, which are based on gross margin, instead of income before taxes.

***Operational changes and outlook***

We have implemented, continued to focus on, or modified operating initiatives that we believe will positively impact future results, including:

- Increased emphasis on sales of furniture and mattresses by enhancing our product offerings and displays;
- Increased emphasis on improving gross margin; and
- Adjusted credit underwriting guidelines to improve the credit quality and profitability of our in-house credit programs.

During the year, we opened one new store in the Houston market and one in the Dallas/Fort Worth market and closed two of our clearance centers, one in the Houston market and one in the San Antonio market. We have additional areas under consideration for future store locations and continue to evaluate our store opening plans for future periods, provided we have adequate capital availability.

In order to improve the credit quality of our credit portfolio and reduce the amount of capital used in our credit operations, we reduced the amount of credit granted as a percentage of sales during the past fiscal year. Additionally, as a result of these changes, we have seen the mix between the primary and secondary customer receivables portfolios shift to a greater proportion of the customer receivables being in the higher quality primary portfolio.

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 national and state economies, including instability in the financial markets, declining consumer confidence and the volatility of oil prices, 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 our 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.

***Results of operations***

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

| | Year Ended January 31, | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| **Revenues:** | | | |
| Product sales | 77.2% | 77.5% | 76.2% |
| Repair service agreement commissions (net) | 4.2 | 4.2 | 3.8 |
| Service revenues | 2.6 | 2.2 | 2.5 |
| Total net sales | 84.0 | 83.9 | 82.5 |
| Finance charges and other | 16.0 | 16.1 | 17.5 |
| Total revenues | 100.0 | 100.0 | 100.0 |
| **Cost and expenses:** | | | |
| Cost of goods sold, including warehousing and occupancy costs | 58.4 | 60.5 | 61.0 |
| Cost of parts sold, including warehousing and occupancy costs | 1.0 | 1.0 | 1.2 |
| Selling, general and administrative expense | 28.2 | 26.5 | 29.2 |
| Goodwill impairment | 0.0 | 0.0 | 1.1 |
| Provision for bad debts | 2.2 | 2.9 | 4.2 |
| Total costs and expenses | 89.8 | 90.9 | 96.7 |
| **Operating income** | 10.2 | 9.1 | 3.3 |
| **Interest expense** | 2.9 | 2.5 | 2.4 |
| **Other (income) expense** | (0.1) | 0.0 | 0.0 |
| **Earnings before income taxes** | 7.4 | 6.6 | 0.9 |
| **Provision for income taxes** | 2.6 | 2.4 | 0.5 |
| **Net income** | 4.8% | 4.2% | 0.4% |

***Analysis of consolidated statements of operations***

The presentation of our gross margins may not be comparable to other retailers since we include the cost of our in-home delivery service as part of selling, general and administrative expense. Similarly, we include the cost of merchandising our products, including amounts related to purchasing the product in selling, general and administrative expense. It is our understanding that other retailers may include such costs as part of cost of goods sold.

The following table presents certain operations information, on a consolidated and segment basis, in dollars and percentage changes from year to year:

Total Consolidated:

| | Year Ended January 31, | | | 2009 vs. 2008 Incr/(Decr) | | 2010 vs. 2009 Incr/(Decr) | |
|---|---|---|---|---|---|---|---|
| *(in thousands except percentages)* | 2008 | 2009 | 2010 | Amount | Pct | Amount | Pct |
| **Revenues** | | | | | | | |
| Product sales | $671,571 | $743,729 | $667,401 | $72,158 | 10.7% | $(76,328) | (10.3)% |
| Repair service agreement commissions (net) | 36,424 | 40,199 | 33,272 | 3,775 | 10.4 | (6,927) | (17.2) |
| Service revenues | 22,997 | 21,121 | 22,115 | (1,876) | (8.2) | 994 | 4.7 |
| **Total net sales** | 730,992 | 805,049 | 722,788 | 74,057 | 10.1 | (82,261) | (10.2) |
| Finance charges and other | 139,538 | 154,492 | 152,797 | 14,954 | 10.7 | (1,695) | (1.1) |
| **Total revenues** | 870,530 | 959,541 | 875,585 | 89,011 | 10.2 | (83,956) | (8.7) |
| **Cost and expenses** | | | | | | | |
| Cost of goods and parts sold | 517,166 | 590,061 | 544,700 | 72,895 | 14.1 | (45,361) | (7.7) |
| **Gross Profit** | 353,364 | 369,480 | 330,885 | 16,116 | 4.6 | (38,595) | (10.4) |
| ***Gross Margin*** | *40.6%* | *38.5%* | *37.8%* | | | | |
| Selling, general and administrative expense | 233,633 | 241,631 | 241,930 | 7,998 | 3.4 | 299 | 0.1 |
| Depreciation and amortization | 12,128 | 12,541 | 14,012 | 413 | 3.4 | 1,471 | 11.7 |
| Goodwill impairment | — | — | 9,617 | — | N/A | 9,617 | N/A |

| (in thousands except percentages) | Year Ended January 31, 2008 | 2009 | 2010 | 2009 vs. 2008 Incr/(Decr) Amount | Pct | 2010 vs. 2009 Incr/(Decr) Amount | Pct |
|---|---|---|---|---|---|---|---|
| Provision for bad debts | 19,465 | 27,952 | 36,843 | 8,487 | 43.6 | 8,891 | 31.8 |
| **Operating income** | 88,138 | 87,356 | 28,483 | (782) | (0.9) | (58,873) | (67.4) |
| ***Operating Margin*** | *10.1%* | *9.1%* | *3.3%* | | | | |
| Interest expense | 24,839 | 23,597 | 20,571 | (1,242) | (5.0) | (3,026) | (12.8) |
| Other (income) expense | (943) | 117 | (123) | 1,060 | (112.4) | (240) | (205.1) |
| **Pretax Income** | 64,242 | 63,642 | 8,035 | (600) | (0.9) | (55,607) | (87.4) |
| **Provision for income taxes** | 22,575 | 23,624 | 4,111 | 1,049 | 4.6 | (19,513) | (82.6) |
| **Net Income** | $41,667 | $40,018 | $ 3,924 | $(1,649) | (4.0)% | $(36,094) | (90.2)% |

Retail Segment:

| (in thousands except percentages) | Year Ended January 31, 2008 | 2009 | 2010 | 2009 vs. 2008 Incr/(Decr) Amount | Pct | 2010 vs. 2009 Incr/(Decr) Amount | Pct |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Product sales | $671,571 | $743,729 | $667,401 | $72,158 | 10.7% | $(76,328) | (10.3)% |
| Repair service agreement commissions (net) (a) | 44,735 | 50,778 | 44,119 | 6,043 | 13.5 | (6,659) | (13.1) |
| Service revenues | 22,997 | 21,121 | 22,115 | (1,876) | (8.2) | 994 | 4.7 |
| **Total net sales** | 739,303 | 815,628 | 733,635 | 76,325 | 10.3 | (81,993 | (10.1) |
| Finance charges and other | 950 | 2,161 | 532 | 1,211 | 127.5 | (1,629) | (75.4) |
| **Total revenues** | 740,253 | 817,789 | 734,167 | 77,536 | 10.5 | (83,622) | (10.2) |
| **Cost and expenses** | | | | | | | |
| Cost of goods and parts sold | 517,166 | 590,061 | 544,700 | 72,895 | 14.1 | (45,361) | (7.7) |
| **Gross Profit** | 223,087 | 227,728 | 189,467 | 4,641 | 2.1 | (38,261) | (16.8) |
| ***Gross Margin*** | *30.1%* | *27.8%* | *25.8%* | | | | |
| Selling, general and administrative expense (b) | 179,354 | 182,703 | 180,911 | 3,349 | 1.9 | (1,792) | (1.0) |
| Depreciation and amortization | 11,331 | 11,218 | 12,288 | (113) | (1.0) | (1,070 | 9.5 |
| Provision for bad debts | 190 | 160 | 97 | (30) | (15.8) | (63) | (39.4) |
| **Operating income (loss)** | 32,212 | 33,647 | (3,829) | 1,435 | 4.5 | (37,476) | (111.4) |
| ***Operating Margin*** | *4.4%* | *4.1%* | *(0.5)%* | | | | |
| Other (income) expense | (943) | 117 | (123) | 1,060 | (112.4) | (240) | (205.1) |
| **Segment income (loss) before income taxes** | $ 33,155 | $ 33,530 | $(3,706) | $ 375 | 1.1% | $(37,236) | 111.1% |

*Credit Segment:*

| (in thousands except percentages) | Year Ended January 31, 2008 | 2009 | 2010 | 2009 vs. 2008 Incr/(Decr) Amount | Pct | 2010 vs. 2009 Incr/(Decr) Amount | Pct |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Repair service agreement commissions (net) (a) | $ (8,311) | $ (10,579) | $ (10,847) | $ (2,268) | (27.3)% | $ (268) | (2.5)% |
| **Total net sales** | (8,311) | (10,579) | (10,847) | (2,268) | (27.3) | (268) | (2.5) |
| Finance charges and other | 138,588 | 152,331 | 152,265 | 13,743 | 9.9 | (66) | (0.0) |
| **Total revenues** | 130,277 | 141,752 | 141,418 | 11,475 | 8.8 | (334) | (0.2) |
| **Cost and expenses** | | | | | | | |
| Selling, general and administrative expense (b) | 54,279 | 58,928 | 61,019 | 4,649 | 8.6 | 2,091 | 3.5 |
| Depreciation and amortization | 797 | 1,323 | 1,724 | 526 | 66.0 | 401 | 30.3 |
| Goodwill impairment | — | — | 9,617 | — | N/A | 9,617 | N/A |

| (in thousands except percentages) | Year Ended January 31, 2008 | 2009 | 2010 | 2009 vs. 2008 Incr/(Decr) Amount | Pct | 2010 vs. 2009 Incr/(Decr) Amount | Pct |
|---|---|---|---|---|---|---|---|
| Provision for bad debts | 19,275 | 27,792 | 36,746 | 8,517 | 44.2 | 8,954 | 32.2 |
| **Operating income** | 55,926 | 53,709 | 32,312 | (2,217) | (4.0) | (21,397) | (39.8) |
| ***Operating Margin*** | *42.9%* | *37.9%* | *22.8%* | | | | |
| Interest expense | 24,839 | 23,597 | 20,571 | (1,242) | (5.0) | (3,026) | (12.8) |
| **Segment income before income taxes** | $31,087 | $30,112 | $11,741 | $ (975) | (3.1)% | $(18,371) | (61.0)% |

(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 $7.4 million, $9.6 million and $9.1 million for the fiscal years ended January 31, 2010, 2009 and 2008, respectively. The amount of reimbursement made to the retail segment by the credit segment was approximately $18.6 million, $17.4 million and $15.2 million for the fiscal years ended January 31, 2010, 2009 and 2008, respectively.

***Year ended January 31, 2010 compared to the year ended January 31, 2009.***

Refer to the above Analysis of consolidated statements of operations while reading the operations review on a year-by-year basis.

| (Dollars in Millions) | Year ended January 31, 2010 | 2009 | Change $ | % |
|---|---|---|---|---|
| Net sales | $ 722.8 | $ 805.1 | (82.3) | (10.2) |
| Finance charges and other | 152.8 | 154.4 | (1.6) | (1.0) |
| Total Revenues | $ 875.6 | $ 959.5 | (83.9) | (8.7) |

The $82.3 million decrease in net sales was made up of the following:

- a $104.5 million decrease resulted from a same store sales decrease of 13.8%,
- a $20.2 million increase generated by nine retail locations that were not open for twelve consecutive months in each period,
- a $1.0 million increase resulted from a decrease in discounts on promotional credit sales, and
- a $1.0 million increase resulted from an increase in service revenues.

The components of the $82.3 million decrease in net sales were a $76.3 million decrease in product sales and a $5.9 million net decrease in repair service agreement commissions and service revenues. The $76.3 million decrease in product sales resulted from the following:

- approximately $40.2 million decrease attributable to an overall decrease in the average unit price. The decrease was due primarily to declines in the average unit price in consumer electronics, furniture, bedding and track, partially offset by an increase in the average unit price for appliances. Consumer electronics, driven primarily by televisions, saw the largest decline with a 26.0% drop in the average unit price, and
- approximately $36.1 million was attributable to decreases in unit sales, due primarily to reduced sales in appliances and track unit sales, partially offset by increases in consumer electronics (especially flat-panel televisions), furniture and bedding sales.

The $5.9 million decrease in repair service agreement commissions and service revenues consisted of:

- a $6.6 million decrease in the repair service agreement commissions of the retail segment due primarily to the decline in product sales and due to reduced emphasis on this product as a result of our monitoring of the program offered to consumers and the training of our sales associates, in response to the Texas Attorney General's litigation;
- a $0.3 million decrease in the repair service agreement commissions of the credit segment due to the higher level of charge-offs experienced; and
- $1.0 million increase in the service revenues of the retail segment due primarily to increased parts sales.

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

| | Year Ended January 31, | | | | |
|---|---|---|---|---|---|
| | 2009 | | 2010 | | Percentage change |
| Category (dollars in thousands) | Amount | Percentage | Amount | Percentage | |
| Consumer electronics | $305,056 | 37.9% | $262,751 | 36.4% | (13.9)%(1) |
| Home appliances | 221,474 | 27.5 | 208,470 | 28.8 | (5.9) (2) |
| Track | 109,799 | 13.6 | 97,463 | 13.5 | (11.2) (3) |
| Furniture and mattresses | 68,869 | 8.6 | 68,208 | 9.4 | (1.0) (4) |
| Other | 38,531 | 4.8 | 30,509 | 4.2 | (20.8) (5) |
| Total product sales | 743,729 | 92.4 | 667,401 | 92.3 | (10.3) |
| Repair service agreement commissions (net) | 40,199 | 5.0 | 33,272 | 4.6 | (17.2) (6) |
| Service revenues | 21,121 | 2.6 | 22,115 | 3.1 | 4.7 (7) |
| Total net sales | $805,049 | 100.0% | $722,788 | 100.0% | (10.2)% |

(1) This decrease is due to a 26.0% decline in average selling prices on flat-panel televisions, partially offset by an increase in total units sold (increased LCD and plasma unit sales were partially offset by a decline in projection television unit sales).

(2) The home appliance category declined as lower unit sales across the category were partially offset by higher average selling prices, as the appliance market in general showed continued weakness.

(3) The decrease in track sales (consisting largely of computers, computer peripherals, video game equipment, portable electronics and small appliances) is driven primarily by reduced video game equipment, computer monitor, printer, GPS device, camera, camcorder and audio equipment sales. Sales from netbooks and desktop and laptop computers were essentially flat as lower average selling prices offset a 24.4% increase in unit sales of these products.

(4) This decrease is due to the slower economic conditions in our markets in the last half of the fiscal year ended January 31, 2010.

(5) Other category includes lawn and garden, delivery and other miscellaneous items. This category declined primarily due to reduced generator sales as we benefited from an increase in sales of generators in the areas affected by the hurricanes in the prior fiscal year that impacted certain of our markets. Additionally, lower lawn and garden sales due to the drought conditions experienced in many of our markets impacted sales in this category. The decline was also impacted by a reduction in the total number of deliveries due largely to the overall decline in sales.

(6) The repair service agreement commissions decreased due to reduced emphasis on this product as a result of our monitoring of the program offered to consumers and the training of our sales associates, in response to the Texas Attorney General's litigation. We expect sales in this area to trend towards our historical performance levels over time due to the enhancements made as a result of the review.

(7) This increase was driven by an increase in the cost of parts used to repair higher-priced technology (flat-panel televisions, etc.).

| (Dollars in Thousands) | Year ended January 31, 2010 | 2009 | Change $ | % |
|---|---|---|---|---|
| Interest income and fees | $135,828 | $132,270 | 3,558 | 2.7 |
| Insurance commissions | 16,437 | 20,061 | (3,624) | (18.1) |
| Other income | 532 | 2,161 | (1,629) | (75.4) |
| Finance charges and other | $152,797 | $154,492 | (1,695) | (1.1) |

Note: Interest income and fees and insurance commissions are included in Finance charges and other for the credit segment, while Other income is included in Finance charges and other for the retail segment.

The increase in Interest income and fees of the credit segment resulted primarily from a 6.8% increase in the average balance of customer accounts receivable outstanding for fiscal year 2010, partially offset by a decline in the average interest income and fee yield from 19.0% for the fiscal year ended January 31, 2009 to 18.3% for the fiscal year ended January 31, 2010. The interest income and fee yield dropped as a result of the higher level of charge-offs experienced during the fiscal 2010 period.

Insurance commissions of the credit segment have declined due to lower front-end commissions as a result of the decline in sales, lower retrospective commissions, which were negatively impacted by higher claims filings due to Hurricanes Gustav and Ike, and lower interest earnings on funds held by the insurance company for the payment of claims.

Other income of the retail segment declined primarily due to lower retrospective commissions on our repair service agreements which were negatively impacted by higher repair and exchange claims experience.

The following table provides key portfolio performance information for the year ended January 31, 2010 and 2009:

| | Year Ended January 31, 2010 | 2009 |
|---|---|---|
| | (Dollars in thousands) | |
| Interest income and fees (a) | $135,828 | $132,270 |
| Net charge-offs (b) | (28,942) | (22,362) |
| Borrowing costs (c) | (20,666) | (24,072) |
| Net portfolio yield | $ 86,220 | 85,836 |
| | | |
| Average portfolio balance | $743,756 | $696,202 |
| Portfolio yield % | 18.3% | 19.0% |
| Net charge-off % | 3.9% | 3.2% |

(a) Included in Finance charges and other.

(b) Included in Provision for bad debts.

(c) Included in Interest expense.

| (Dollars in Millions) | Year Ended January 31, 2010 | 2009 | Change $ | % |
|---|---|---|---|---|
| **Cost of goods sold** | $534.3 | $580.4 | (46.1) | (7.9) |
| Product gross margin percentage | 19.9% | 22.0% | | (2.1)% |

The product gross margin percentage decreased from the 2009 period to the 2010 period due to a highly competitive retail environment driven by increased competition for market share.

| (Dollars in Millions) | Year Ended January 31, 2010 | 2009 | Change $ | % |
|---|---|---|---|---|
| **Cost of service parts sold** | $10.4 | $ 9.6 | 0.8 | 8.3 |
| As a percent of service revenues | 47.1% | 45.5% | | 1.6% |

This increase was due primarily to a 15.9% increase in parts sales. Parts sales also increased as a percentage of service revenues from 35.5% in the 2009 period to 39.3% in the 2010 period.

| (Dollars in Millions) | Year Ended January 31, 2010 | 2009 | Change $ | % |
|---|---|---|---|---|
| Selling, general and administrative expense — Retail | $193.2 | $193.9 | (0.7) | (0.4) |
| Selling, general and administrative expense — Credit | 62.7 | 60.3 | 2.4 | 4.0 |
| **Selling, general and administrative expense — Total** | $255.9 | $254.2 | 1.7 | 0.7 |
| As a percent of total revenues | 29.2% | 26.5% | | 2.7% |

The increase in SG&A expense was largely attributable to a $4.9 million increase in our litigation reserves to reflect the amount that was required to settle the outstanding Texas Attorney General litigation, the addition of new stores since February 1, 2008, and related increases in employee and employee-related expenses, partially offset by $1.3 million of expenses, net of insurance proceeds, incurred related to the hurricanes in the prior year, and lower advertising, postage, utilities, telephone and fuel expenses in the fiscal year ended January 31, 2010. Additionally, as a result of the decreased product sales volume in the current year, sales compensation as a percentage of revenues increased as reduced commissions were more than offset by minimum wage payment requirements. SG&A expense increased as a percent of revenues due to the general de-leveraging effect of the decline in same store sales.

Significant SG&A expense increases and decreases related to specific business segments included the following:

Retail Segment

The following are the significant factors affecting the retail segment:

- There was an increase in litigation reserves of $4.9 million for the settlement of the Texas Attorney General litigation.
- Net advertising expense decreased by approximately $4.3 million from the 2009 period.
- Total compensation costs and related expenses decreased approximately $3.1 million from the 2009 period, primarily due to the reduced sales volume.
- Total occupancy expenses increased approximately $1.8 million, primarily as a result of the stores opened during fiscal 2009 and fiscal 2010.
- Bank and credit card fees increased by approximately $1.5 million from the 2009 period, primarily due to the use of the third-party finance providers for certain of our interest-free programs.
- The reimbursement received from the credit segment increased approximately $1.2 million due to the growth in the credit portfolio.

Credit Segment

The following are the significant factors affecting the credit segment:

- Total compensation costs and related expenses increased approximately $2.4 million from the 2009 period as staffing was increased to address increased levels of delinquencies in the challenging economic environment.
- The reimbursement of SG&A expenses to the retail segment increased approximately $1.2 million due to growth in the credit portfolio.

- Amortization expense increased approximately $0.4 million from the 2009 period due to entering into our $210 million revolving credit facility in August of fiscal 2009.
- Corporate overhead expenses allocated decreased approximately $2.2 million, primarily due to the reduction of expenses related to the hurricanes which occurred in the prior year and a reduced bonus payout.

| | Year Ended January 31, | | Change | |
|---|---|---|---|---|
| (Dollars in Millions) | 2010 | 2009 | $ | % |
| **Goodwill impairment** | $9.6 | $— | 9.6 | N/A |

During the three months ended October 31, 2009, we determined, as a result of the sustained decline in our market capitalization and the current challenging economic environment and its impact on our comparable store sales, credit portfolio performance and operating results, that an interim goodwill impairment test was necessary. We concluded from our analysis that our goodwill was impaired and recorded a $9.6 million charge to write-off the carrying amount of our goodwill. Since our goodwill was attributable to our acquisition of credit insurance operations and a portion of the credit portfolio, the impairment charge is reflected in our credit segment.

| | Year Ended January 31, | | Change | |
|---|---|---|---|---|
| (Dollars in Millions) | 2010 | 2009 | $ | % |
| **Provision for bad debts** | $36.8 | $28.0 | $8.8 | 31.4 |
| As a percent of total revenues | 4.2 | 2.9% | | 1.3% |

The provision for bad debts is primarily related to our credit segment, with approximately $0.1 million and $0.2 million for the fiscal years ended January 31, 2010 and 2009, respectively, included in the results of operations for the retail segment.

The provision for bad debts on Other receivables and Customer receivables increased primarily as a result of the increase in actual and expected net credit charge-offs on customer receivables. Actual net charge-offs increased approximately $6.6 million, or 29.4%, in fiscal 2010, compared to fiscal 2009. As a result of credit portfolio performance and expectations about future net charge-offs, the bad debt and uncollectible interest reserves for receivables were increased, as a percent of the customer receivable balance, to 5.0% at January 31, 2010, from 3.6% at January 31, 2009. See “Business — Finance operations — Credit quality.”

| | Year Ended January 31, | | Change | |
|---|---|---|---|---|
| (Dollars in Millions) | 2010 | 2009 | $ | % |
| **Interest expense, net** | $20.6 | $23.6 | (3.0) | (12.7) |

All of our interest expense, net, is included in the results of operations for the credit segment.

The decrease in net interest expense was driven by a decrease in outstanding debt balances during the year ended January 31, 2010, as compared to the prior fiscal year.

| | Year Ended January 31, | | Change | |
|---|---|---|---|---|
| (Dollars in Millions) | 2010 | 2009 | $ | % |
| **Provision for income taxes** | $ 4.1 | $23.6 | (19.5) | (82.6) |
| As a percent of income before income taxes | 51.2% | 37.1% | | 14.0% |

The effective tax rate was higher during the 2010 period because taxes for the State of Texas are based on gross margin and are not affected by changes in income before income taxes.

**Year ended January 31, 2008 compared to the year ended January 31, 2009**

| (Dollars in Millions) | Year Ended January 31, 2009 | Year Ended January 31, 2008 | Change $ | Change % |
|---|---|---|---|---|
| Net sales | $805.1 | $731.0 | $74.1 | 10.1 |
| Finance charges and other | 154.4 | 139.5 | 14.9 | 10.7 |
| Revenues | $959.5 | $870.5 | $89.0 | 10.2 |

The $74.1 million increase in net sales was made up of the following:

- a $13.9 million increase resulted from a same store sales increase of 2.0%,
- a $60.6 million increase generated by 14 retail locations that were not open for twelve consecutive months in both periods,
- a $1.5 million increase resulted from a decrease in discounts on promotional credit sales, and
- a $1.9 million decrease resulted from a decrease in service revenues.

The components of the $74.1 million increase in net sales were a $72.2 million increase in product sales and a $1.9 million net increase in repair service agreement commissions and service revenues. The $72.2 million increase in product sales resulted from the following:

- approximately $42.3 million increase attributable to an overall increase in the average unit price. The increase was due primarily to a change in the mix of product sales, driven by an increase in the consumer electronics category, which has the highest average price point of any category, as a percentage of total product sales. Additionally, there were category price point increases as a result of a shift to higher-priced high-efficiency laundry items and increases in price points on furniture and mattresses, partially offset by a decline in the average price points on lawn and garden, and
- approximately $29.9 million was attributable to increases in unit sales, due primarily to increased consumer electronics (especially flat-panel televisions), track and lawn and garden sales, partially offset by a decline in appliance sales. The increase in unit sales reflects the incremental net sales generated by our 14 opened retail locations offset by a unit decline in other retail locations.

The $1.9 million increase in repair service agreement commissions and service revenues consisted of:

- a $6.1 million increase in the repair service agreement commissions of the retail segment due primarily to the increase in product sales;
- a $2.3 million decrease in the repair service agreement commissions of the credit segment due to the higher level of charge-offs experienced; and
- a $1.9 million decrease in the service revenues of the retail segment due primarily to lower service labor revenues.

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

| | Year Ended January 31, | | | | |
|---|---|---|---|---|---|
| | 2009 | | 2008 | | Percentage |
| Category (Dollars in Thousands) | Amount | Percentage | Amount | Percentage | Change |
| Consumer electronics | $305,056 | 37.9% | $244,872 | 33.5% | 24.6%(1) |
| Home appliances | 221,474 | 27.5 | 223,877 | 30.6 | (1.1) (2) |
| Track | 109,799 | 13.6 | 101,289 | 13.9 | 8.4 (3) |
| Furniture and mattresses | 68,869 | 8.6 | 62,797 | 8.6 | 9.7 (4) |
| Other | 38,531 | 4.8 | 38,736 | 5.3 | (0.1) |
| Total product sales | 743,729 | 92.4 | 671,571 | 91.9 | 10.7 |
| Repair service agreement commissions (net) | 40,199 | 5.0 | 36,424 | 5.0 | 10.4 (5) |
| Service revenues | 21,121 | 2.6 | 22,997 | 3.1 | (8.2) (6) |
| Total net sales | $805,049 | 100% | $730,992 | 100% | 10.1% |

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

(2) The home appliance category declined as increased laundry and air conditioning sales were offset by lower refrigeration and cooking sales, as the appliance market in general showed continued weakness.

(3) The increase in track sales (consisting largely of computers, computer peripherals, video game equipment, portable electronics and small appliances) is driven primarily by increased video game equipment, Blu-ray player, laptop computer and GPS device sales, partially offset by declines in camcorder, camera, MP3 player and desktop computer sales.

(4) This increase is due to store expansion and a change in our furniture and mattresses merchandising driven by the multi-vendor strategy implemented during the prior year.

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

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

| | Year Ended January 31, | | Change | |
|---|---|---|---|---|
| (Dollars in Thousands) | 2009 | 2008 | $ | % |
| Interest income and fees | $132,270 | $117,186 | $15,084 | 12.9 |
| Insurance commissions | 20,061 | 21,402 | (1,341) | (6.3) |
| Other income | 2,161 | 950 | 1,211 | 127.5 |
| Finance charges and other | $154,492 | 139,538 | $14,954 | 10.7 |

Note: Interest income and fees and insurance commissions are included in the Finance charges and other for the credit segment, while Other income is included in Finance charges and other for the retail segment.

The increase in Interest income and fees of the credit segment resulted primarily from a 14.8% increase in the average balance of customer accounts receivable outstanding for fiscal year 2009 as compared to 2008.

Insurance commissions of the credit segment have declined due to lower retrospective commissions, which were negatively impacted by higher claims filings due to Hurricanes Gustav and Ike, and lower interest earnings on funds held by the insurance company for the payment of claims.

Other income of the retail segment increased primarily due to increased retrospective commissions in our repair service agreement program.

The following table provides key portfolio performance information for the year ended January 31, 2009 and 2008:

| | Year Ended January 31, 2009 | 2008 |
|---|---|---|
| | (Dollars in thousands) | |
| Interest income and fees (a) | $132,270 | $117,186 |
| Net charge-offs (b) | (22,362) | (17,418) |
| Borrowing costs (c) | (24,072) | (25,853) |
| Net portfolio yield | $ 85,836 | $ 73,915 |
| Average portfolio balance | $696,202 | $606,631 |
| Portfolio yield % | 19.0% | 19.3% |
| Net charge-off % | 3.2% | 2.9% |

(a) Included in Finance charges and other.

(b) Included in Provision for bad debts.

(c) Included in Interest expense.

| (Dollars in Millions) | Year Ended January 31, 2009 | 2008 | Change $ | % |
|---|---|---|---|---|
| **Cost of goods sold** | $580.4 | $508.8 | 71.6 | 14.1 |
| Product gross margin percentage | 22.0% | 24.2% | | (2.2)% |

The product gross margin percentage decreased from the 2008 period to the 2009 period due to pricing pressures in retailing in general, and specifically in consumer electronics and appliances.

| (Dollars in Millions) | Year Ended January 31, 2009 | 2008 | Change $ | % |
|---|---|---|---|---|
| **Cost of service parts sold** | $ 9.6 | $ 8.4 | 1.2 | 14.3 |
| As a percentage of service revenues | 45.5% | 36.5% | | 9.0% |

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

| (Dollars in Millions) | Year Ended January 31, 2009 | 2008 | Change $ | % |
|---|---|---|---|---|
| Selling, general and administrative expense — Retail | $193.9 | $190.7 | 3.3 | 0.2 |
| Selling, general and administrative expense — Credit | 60.3 | 55.1 | 5.1 | 9.3 |
| **Selling, general and administrative expense — Total** | $254.2 | $245.8 | 8.4 | 3.4 |
| As a percentage of total revenues | 26.5% | 28.2% | | (1.7)% |

The increase in SG&A expense was largely attributable to the addition of new stores and expenses of approximately $1.4 million, net of estimated insurance proceeds, that we incurred related to the two hurricanes that occurred during the year. The improvement in our SG&A expense as a percent of revenues was largely driven by lower compensation costs in absolute dollars and as a percent of revenues as compared to the prior year, as well as reduced advertising expense as a percent of revenues. Additionally, reductions in certain store operating expenses, including repairs and maintenance and janitorial services contributed to the improvement. Partially offsetting these improvements were increases in utility, credit data processing and stock-based compensation expenses.

Significant SG&A expense increases and decreases related to specific business segments included the following:

Retail Segment

The following are the significant factors affecting the retail segment:

- Total occupancy expenses increased approximately $2.6 million primarily due to the opening of new stores.
- There was an increase of approximately $0.7 million, net of estimated insurance proceeds, incurred related to the two hurricanes that occurred during the fiscal 2009 period.
- Contract delivery and installation costs increased approximately $2.2 million from the 2008 period primarily driven by increased use of third-parties to provide the service and increased product sales.
- Net advertising expense increased by approximately $0.8 million, but declined as a percent of revenues.
- Total compensation costs and related expenses decreased approximately $1.8 million from the fiscal 2008 period.
- The reimbursement received from the credit segment increased approximately $2.2 million due to the growth in the credit portfolio.

Credit Segment

The following are the significant factors affecting the credit segment:

- The reimbursement of SG&A expenses to the retail segment increased approximately $2.2 million due to growth in the credit portfolio.
- Credit data processing expense increased approximately $1.2 million from the 2008 period, primarily due to the use of a new virtual messaging service beginning in fiscal 2009 and growth in the credit portfolio.
- Forms printing and related postage expense increased approximately $0.8 million from the 2008 period, primarily due to increased collection activity driven by the increase in portfolio balance.
- Amortization expense increased approximately $0.5 million from the 2008 period due to costs associated with the addition of our asset-based revolving credit facility.
- Professional fees and legal expenses increased approximately $0.4 million from the 2008 period.

| | Year Ended January 31, | | Change | |
|---|---|---|---|---|
| (Dollars in Millions) | 2009 | 2008 | $ | % |
| **Provision for bad debts**- | $28.0 | $19.5 | 8.5 | 43.6 |
| As a percentage of total revenues | 2.9% | 2.2% | | 0.7% |

The provision for bad debts is primarily related to our credit segment, with approximately $0.2 million and $0.2 million for the fiscal years ended January 31, 2009 and 2008, respectively, included in the results of operations for the retail segment.

The provision for bad debts on Other receivables and Customer receivables increased primarily as a result of the growth in the customer receivables portfolio and an increase in actual and expected net charge-offs. Actual net charge-offs of Customer receivables increased approximately $4.9 million in fiscal 2009, as compared to fiscal 2008. The allowance for bad debts increased approximately $3.8 million as a result of the growth in the customer receivables portfolio and our expectations about credit portfolio performance. See the notes to the financial statements for information regarding the performance of the credit portfolio.

| | Year Ended January 31, | | Change | |
|---|---|---|---|---|
| (Dollars in Millions) | 2009 | 2008 | $ | % |
| **Interest expense, net** | $23.6 | $24.8 | (1.2) | (4.8) |

All of our interest expense, net, is included in the results of operations for the credit segment, as all of our interest expense is attributable to debt incurred to finance customer receivables.

The decrease in net interest expense was a result of lower interest rates incurred on the debt outstanding, partially offset by higher average balances being outstanding during the 2009 fiscal period.

| (Dollars in Thousands) | Year Ended January 31, | | Change | |
|---|---|---|---|---|
| | 2009 | 2008 | $ | % |
| **Other (income) expense, net** | $117 | $(943) | 1,060 | (112.4) |

We realized gains on sales of property in the year ended January 31, 2008. Additionally, during the year ended January 31, 2008, there were approximately $1.2 million of gains realized, but not recognized, on transactions qualifying for sale-leaseback accounting that were deferred and are being amortized as a reduction of rent expense on a straight-line basis over the minimum lease terms.

| (Dollars in Millions) | Year Ended January 31, | | Change | |
|---|---|---|---|---|
| | 2009 | 2008 | $ | % |
| **Provision for income taxes** | $23.6 | $22.6 | 1.0 | 4.4 |
| As a percent of income before income taxes | 37.1% | 35.1 | % | 2.1% |

The effective tax rate was higher during the 2009 period because taxes for the State of Texas are based on gross margin and are not affected by changes in income before income taxes. The fiscal 2008 effective tax rate was reduced by the reversal of previously accrued Texas margin tax as a result of a legal entity reorganization completed during that year.

***Impact of inflation and changing prices***

We do not believe that inflation has had a material effect on our net sales or results of operations. However, price deflation, primarily in consumer electronics has impacted our net sales and results of operations. A significant increase in oil and gasoline prices could adversely affect our customers' shopping decisions and patterns. We rely heavily on our internal distribution system and our next day delivery policy to satisfy our customers' needs and desires, and any such significant increases could result in increased distribution charges. Such increases may not affect our competitors in the same manner as it affects us.

***Seasonality and quarterly results of operations***

Our business is somewhat seasonal, with a higher portion of sales and operating profit realized during the quarter that ends January 31, due primarily to the holiday selling season. In addition, historically our results of operations and portfolio performance for our first fiscal quarter are stronger than for our second fiscal quarter. Over the four quarters of fiscal 2010, gross margins were 38.1%, 37.7%, 37.4% and 37.9%. During the same period, operating margins were 9.6%, 6.0%, -6.6% and 2.2%. Our quarterly results may fluctuate materially depending on factors such as the following:

- timing of new product introductions, new store openings and store relocations;
- sales contributed by new stores;
- increases or decreases in comparable store sales;
- adverse weather conditions;
- shifts in the timing of certain holidays or promotions;
- one-time charges incurred, such as goodwill impairment and litigation reserves incurred in the third quarter of fiscal 2010; and
- changes in our merchandise mix.

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

The following tables set forth certain unaudited quarterly statement of operations information for the eight quarters ended January 31, 2010. The unaudited quarterly information has been prepared on a consistent basis, includes all normal recurring adjustments that management considers necessary for a fair presentation of the information shown and includes the effects of the retrospective application of our

change in our method of accounting for our interest in our variable interest entity effective February 1, 2010.

| | Fiscal Year 2010 | | | |
|---|---|---|---|---|
| | Quarter Ended | | | |
| | Apr. 30 | Jul. 31 | Oct. 31 | Jan. 31 |
| | (dollars and shares in thousands, except per share amounts) | | | |
| Revenues | | | | |
| Product sales | $184,817 | $175,389 | $148,463 | $158,732 |
| Repair service agreement commissions (net) | 9,790 | 8,858 | 7,320 | 7,304 |
| Service revenues | 5,544 | 6,052 | 5,599 | 4,920 |
| Total net sales | 200,151 | 190,299 | 161,382 | 170,956 |
| Finance charges and other | 39,700 | 40,128 | 36,116 | 36,853 |
| **Total revenues** | 239,851 | 230,427 | 197,498 | 207,809 |
| Percent of annual revenues | 27.4% | 26.3% | 22.6% | 23.7% |
| **Cost and expenses** | | | | |
| Cost of goods sold, including warehousing and occupancy costs | 145,870 | 140,761 | 120,963 | 126,705 |
| Cost of service parts sold, including warehousing and occupancy costs | 2,587 | 2,797 | 2,672 | 2,345 |
| Selling, general and administrative expense | 62,738 | 64,979 | 65,661 | 62,564 |
| Goodwill impairment | — | — | 9,617 | — |
| Provision for bad debts | 5,644 | 8,026 | 12,651 | 10,522 |
| **Total cost and expenses** | 216,839 | 216,563 | 211,564 | 202,136 |
| **Operating income (loss)** | 23,012 | 13,864 | (14,066) | 5,673 |
| Operating profit (loss) as a % total revenues | 9.6% | 6.0% | (7.1)% | 2.7% |
| Interest expense | 5,004 | 5,341 | 5,295 | 4,931 |
| Other income | (8) | (13) | (33) | (69) |
| **Income (loss) before income taxes** | 18,016 | 8,536 | (19,328) | 811 |
| **Provision (benefit) for income taxes** | 6,660 | 3,312 | (4,955) | (906) |
| **Net income (loss)** | $ 11,356 | $ 5,224 | $ (14,373) | $ 1,717 |
| **Net income (loss) as a % of revenue** | 4.7% | 2.3% | (7.3)% | 0.8% |
| Outstanding shares: | | | | |
| Basic | 22,447 | 22,454 | 22,459 | 22,466 |
| Diluted | 22,689 | 22,660 | 22,459 | 22,467 |
| Earnings per share: | | | | |
| Basic | $ 0.51 | $ 0.23 | $ (0.64) | $ 0.08 |
| Diluted | $ 0.50 | $ 0.23 | $ (0.64) | $ 0.08 |

| | Fiscal Year 2009 | | | |
|---|---|---|---|---|
| | Quarter Ended | | | |
| | Apr. 30 | Jul. 31 | Oct. 31 | Jan. 31 |
| | (dollars and shares in thousands, except per share amounts) | | | |
| Revenues | | | | |
| Product sales | $179,911 | $175,240 | $160,253 | $228,325 |
| Repair service agreement commissions (net) | 9,970 | 9,911 | 8,547 | 11,771 |
| Service revenues | 5,192 | 5,488 | 5,129 | 5,312 |
| Total net sales | 195,073 | 190,639 | 173,929 | 245,408 |
| Finance charges and other | 37,044 | 38,838 | 37,863 | 40,747 |
| **Total revenues** | 232,117 | 229,477 | 211,792 | 286,155 |
| Percent of annual revenues | 24.2% | 23.9% | 22.1% | 29.8% |
| **Cost and expenses** | | | | |
| Cost of goods sold, including warehousing and occupancy costs | 139,058 | 136,787 | 127,007 | 177,571 |
| Cost of service parts sold, including warehousing and occupancy costs | 2,330 | 2,264 | 2,479 | 2,565 |
| Selling, general and administrative expense | 60,436 | 62,968 | 62,472 | 68,296 |
| Provision for bad debts | 6,860 | 6,226 | 7,193 | 7,673 |
| **Total cost and expenses** | 208,684 | 208,245 | 199,151 | 256,105 |

| | Fiscal Year 2009 | | | |
|---|---|---|---|---|
| | Quarter Ended | | | |
| | Apr. 30 | Jul. 31 | Oct. 31 | Jan. 31 |
| | (dollars and shares in thousands, except per share amounts) | | | |
| **Operating income** | 23,433 | 21,232 | 12,641 | 30,050 |
| Operating profit as a % total revenues | 10.1% | 9.3% | 6.0% | 10.5% |
| Interest expense | 5,486 | 5,130 | 6,783 | 6,198 |
| Other (income) expense | (22) | 128 | (4) | 15 |
| **Income before income taxes** | 17,969 | 15,974 | 5,862 | 23,837 |
| **Provision for income taxes** | 6,472 | 5,918 | 2,428 | 8,806 |
| **Net income** | $11,497 | $10,056 | $ 3,434 | $15,031 |
| **Net income as a % of revenue** | 5.0% | 4.4% | 1.6% | 5.3% |
| Outstanding shares: | | | | |
| Basic | 22,382 | 22,407 | 22,422 | 22,439 |
| Diluted | 22,560 | 22,620 | 22,632 | 22,494 |
| Earnings per share: | | | | |
| Basic | $ 0.51 | $ 0.45 | $ 0.15 | $ 0.67 |
| Diluted | $ 0.51 | $ 0.44 | $ 0.15 | $ 0.67 |

***Liquidity and capital resources***

*Current activities*.

We require capital to finance our growth as we add new stores and markets to our operations, which in turn requires additional working capital for increased customer receivables and inventory. We have historically financed our operations through a combination of cash flow generated from earnings and external borrowings, including primarily bank debt, extended terms provided by our vendors for inventory purchases, acquisition of inventory under consignment arrangements and transfers of customer receivables to our asset-backed securitization facilities.

Since we extend credit in connection with a large portion of our retail, repair service agreement and credit insurance sales, we have entered into an asset-based revolving credit facility, obtained a $10 million unsecured bank line of credit and created a securitization program to fund the customer receivables generated by the extension of credit. In order to fund the purchases of eligible customer receivables from us under the securitization program, we have issued medium-term and variable funding notes through our variable interest entity, or VIE, secured by the receivables to third parties to obtain cash for these purchases under the securitization program.

*Asset based lending facility*.

Our $210 million asset-based revolving credit facility provides funding based on a borrowing base calculation that includes accounts customer receivable and inventory and matures in August 2011. Our revolving 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, our revolving credit facility includes a total liabilities to tangible net worth ratio requirement, a minimum customer receivables cash recovery percentage requirement, a net capital expenditures limit and combined portfolio performance covenants. Additionally, our revolving credit facility contains cross-default provisions, such that, any default under another of our credit facilities or our VIE’s securitization facilities would result in a default under our revolving credit facility, and any default under our revolving credit facility would result in a default under those agreements. We expect, based on current facts and circumstances, that we will be in compliance with the above covenants through fiscal 2011.

At January 31, 2010, we had additional capacity of $34.1 million under our revolving credit facility and $10 million under an unsecured bank line of credit immediately available to us for general corporate purposes. In addition to the $34.1 million currently available under the revolving credit facility, an additional $46.7 million may become available under the borrowing base calculation as we grow the balance of eligible customer receivables retained by us and when there is growth in total eligible inventory balances. Recent credit portfolio performance resulted in a reduction in availability under the revolving credit facility of approximately $6.0 million at January 31, 2010. This amount may become available in the

future if customer credit portfolio performance improves, however, a further decline in credit performance could lead to further reductions in availability. The principal payments received on customer receivables, which averaged approximately $35 million per month during the fiscal year ended January 31, 2010, will also be available each month to fund new customer receivables generated. The weighted average interest rate on borrowings outstanding under the revolving credit facility at January 31, 2010 was 3.3%, including the interest expense associated with our interest rate swaps. We expect that our cash requirements for the foreseeable future, including those for our capital expenditure requirements, will be met with our available lines of credit, together with cash generated from operations. While we have no new stores currently under development for fiscal 2011, our long-term plans are to grow our store base by approximately 10% a year, dependent upon future capital availability. We expect we will invest in inventory, real estate and customer receivables to support the additional stores and same store sales growth. Depending on market conditions and our liquidity needs we may, at times, slow or suspend our new store growth plans, enter into sale-leaseback transactions to finance our real estate or seek alternative financing sources for new store expansions and customer receivables growth, including expansion of existing lines of credit, and accessing new debt or equity markets.

A summary of the significant financial covenants that govern our revolving credit facility compared to our actual compliance status at January 31, 2010, as amended, is presented below. These covenants were amended in February 2010 as discussed below, and the amendment required the covenants to be calculated on a consolidated basis to reflect the impact of inclusion of the securitization program.

| | **Actual** | **Required Minimum/ Maximum** |
|---|---|---|
| Fixed charge coverage ratio must exceed required minimum (1) | 1.24 to 1.00 | 1.10 to 1.00 |
| Total liabilities to tangible net worth ratio must be lower than the required maximum (1) | 1.61 to 1.00 | 2.00 to 1.00 |
| Cash recovery percentage must exceed required minimum (1) | 5.00% | 4.75% |
| Capital expenditures, net must be lower than the required maximum | $10.1 million | $22.0 million |

(1) These covenants are also covenants of our existing asset-backed securitization facility.

Note: All terms in the above table are defined by our revolving credit facility and may or may not agree directly to the financial statement captions in this document. The covenants are calculated on a trailing four quarter basis, except for the Cash recovery percentage, which is calculated on a trailing three month basis.

As we have done in the past, we will adjust the volume of new customer receivables transferred to the securitization program to allow it to use the proceeds of principal repayments from its customer accounts receivable portfolio to reduce the balance outstanding under its revolving credit facility prior to the commitment reduction date. As of January 31, 2010, the balance under the securitization program's revolving credit facility was $200.0 million. Events of default under our revolving credit facility include, but are not limited to, subject to grace periods and notice provisions in certain circumstances, non-payment of principal, interest or fees; violation of covenants; material inaccuracy of any representation or warranty; default under or acceleration of certain other indebtedness; bankruptcy and insolvency events; certain judgments and other liabilities; certain environmental claims; and a change of control. If an event of default occurs, the lenders under the credit facility are entitled to take various actions, including accelerating amounts due under the credit facility and requiring that all such amounts be immediately paid in full. Any repayment requirement or acceleration of amounts owed could have a material adverse affect on our business operations. Our obligations under our revolving credit facility are secured by all of our and our subsidiaries' assets, excluding customer receivables transferred to the securitization program and certain inventory subject to vendor floor plan arrangements.

*Asset-backed securitization facility.*

During the twelve months ended January 31, 2010, our VIE reduced its receivable portfolio by $123.8 million and paid off $96.1 million in outstanding borrowings, while we borrowed $42.6 million to

finance a $106.3 million increase in customer receivables on balance sheet. As a result, the combined borrowings of us and our VIE declined $53.5 million.

Under our asset-backed securitization facility, the VIE is subject to certain affirmative and negative covenants contained in the transaction documents governing the 2002 Series A variable funding note and 2006 Series A bonds, including covenants that restrict, subject to specified exceptions: the incurrence of non-permitted indebtedness and other obligations and the granting of additional liens; mergers, acquisitions, investments and disposition of assets; maintenance of a minimum net worth by the VIE; and the use of proceeds of the program. The VIE also makes representations and warranties relating to compliance with certain laws, payment of taxes, maintenance of its separate legal entity, preservation of its existence, and protection of collateral and financial reporting.

A summary of the significant financial covenants that govern the 2002 Series A variable funding note compared to actual compliance status at January 31, 2010, is presented below:

| | As reported | Required Minimum/ Maximum |
|---|---|---|
| VIE interest must exceed required minimum | $93.2 million | $84.8 million |
| Gross loss rate must be lower than required maximum (a) | 6.1% | 10.0% |
| Serviced portfolio gross loss rate must be lower than required maximum (b) | 5.2% | 10.0% |
| Net portfolio yield must exceed required minimum (a) | 5.8% | 2.0% |
| Serviced portfolio net portfolio yield must exceed required minimum (b) | 8.0% | 2.0% |
| Payment rate must exceed required minimum (a) | 6.3% | 3.0% |
| Serviced portfolio payment rate must exceed required minimum (a) | 5.00% | 4.75% |
| Consolidated net worth must exceed required minimum | $345.4 million | $246.6 million |

(a) Calculated for those customer receivables transferred to our existing securitization program.

(b) Calculated for the total of customer receivables transferred to our existing securitization program and those retained by us.

Note: All terms in the above table are defined by our existing securitization program and may or may not agree directly to the financial statement captions in this document.

The various “same as cash” and deferred interest credit programs we offer are eligible for securitization up to the limits provided for in our securitization agreements. This limit is currently 30.0% of eligible securitized customer receivables. If we exceed this 30.0% limit, we would be required to use some of our other capital resources to carry the unfunded balances of the customer receivables for the promotional period. The percentage of eligible securitized customer receivables represented by promotional customer receivables was 17.3% and 13.0%, as of January 31, 2009, and 2010, respectively. There is no limitation on the amount of “same as cash” or deferred interest program accounts that can be carried as collateral under our revolving credit facility. The percentage of all managed customer receivables represented by promotional customer receivables was 15.3% as of January 31, 2010, as compared to 16.4% at January 31, 2009.

We expect, based on current facts and circumstances, that we will be in compliance with the above covenants through fiscal 2011. Events of default under the 2002 Series A variable funding note and the 2006 Series A bonds, subject to grace periods and notice provisions in some circumstances, include, among others: failure of the VIE to pay principal, interest or fees; violation by the VIE of any of its covenants or agreements; inaccuracy of any representation or warranty made by the VIE; certain servicer defaults; failure of the trustee to have a valid and perfected first priority security interest in the collateral; default under or acceleration of certain other indebtedness; bankruptcy and insolvency events; failure to maintain certain loss ratios and portfolio yield; change of control provisions and certain other events pertaining to us. The VIE’s obligations under the program are secured by the customer receivables and proceeds.

As a result of the declines in our profitability beginning in the quarter ended October 31, 2009, due to the slowdown in the economic conditions in our markets, we determined that there was a reasonable likelihood that we would trigger the default provisions of our credit facilities. Based on that expectation, we began working with our revolving credit facility lenders and VIE noteholders to amend the covenants in our revolving credit facility and our securitization facilities. We completed the necessary amendments in March 2010, which resulted in the following changes:

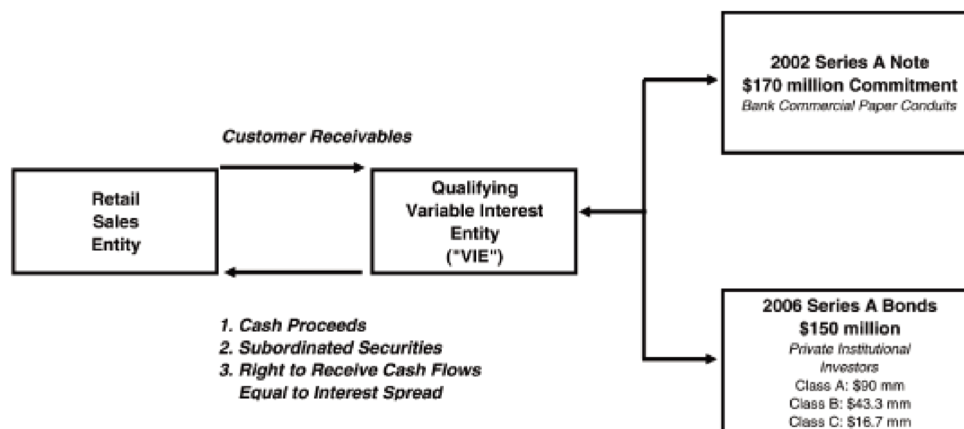
- Fixed charge coverage ratio requirement for our revolving credit facility and our securitization facilities were reduced to 1.1 to 1.0 for the twelve month periods ended January 31, 2010, and April 30, 2010, before returning to a requirement of 1.3 to 1.0 beginning with the quarter ending July 31, 2010,
- The leverage ratio for our revolving credit facility and our securitization facilities was replaced with a maximum total liabilities to tangible net worth requirement, beginning as of January 31, 2010 with a required maximum of 2.00 to 1.00 at January 31, 2010, declining to 1.75 to 1.00 as of July 31, 2010 and then to 1.50 to 1.00 as of April 30, 2011 and each fiscal quarter thereafter,
- The interest rate on our revolving credit facility increased by 100 basis points to LIBOR plus a spread ranging from 325 basis points to 375 basis points,
- We will be required to pay a fee, as servicer of the customer receivables transferred to the securitization program, equal to the following rates multiplied times the total available borrowing commitment under the securitization program's revolving credit 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,
- The total available commitments under the securitization program's revolving credit facility will be reduced from the current level of $200 million to $170 million in April 2010 and then to $130 million in April 2011,
- We will use the proceeds from any capital raising activity to further reduce the commitments and debt outstanding under the securitization program's debt facilities,
- The maturity date on the securitization program's variable funding note was reduced from September 2012 to August 2011, and
- We may be required to complete certain additional tasks as servicer of the customer receivables transferred to the securitization program, so long as commitments remain outstanding under the securitization program's revolving credit facility.

There are two series of notes and bonds outstanding under our securitization program. The 2002 Series A program functions as a revolving credit facility to fund the transfer of eligible customer receivables. When the facility approaches a predetermined amount, the VIE 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, we have been unable to issue medium-term notes or increase the availability under the existing variable funding note program. The 2002 Series A program is renewable annually, at our 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 to $170 million in April 2010. Additionally, in connection with recent amendments to the 2002 Series A facility, we agreed to reduce the total available commitment to $130 million in April 2011. The weighted average interest on the variable funding note during the month of January 2010 was 2.8%. 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 $7.5 million principal payments, which begin in September 2010, will retire the bonds prior to that date. Private institutional investors, primarily insurance companies, purchased the 2006 Series A bonds at a weighted fixed rate of 5.75%. The securitization borrowing agreements contain certain covenants requiring the maintenance of various financial ratios and customer receivables performance standards. If the three-month average net portfolio yield, as defined by agreements, falls below 5.0%, then the VIE may be required to fund additions to the cash reserves in the restricted cash accounts. The three-month average net portfolio yield was 5.8% at January 31, 2010. The investors and the securitization trustee have no recourse to our other assets for failure of our or the VIE's individual customers to pay when due. If the VIE is unable to repay the 2002 Series A note and 2006

Series A bonds due to its inability to collect the transferred customer accounts, the VIE could not pay the subordinated notes it has issued to us in partial payment for transferred customer accounts, and the 2006 Series A bond holders could claim the balance in its $6.0 million restricted cash account. We are responsible under a $20.0 million letter of credit that secures the performance of our obligations or services under the servicing agreement as it relates to the transferred assets that are part of the asset-backed securitization facility.

**Securitization Facilities**

***We finance a portion of our customer receivables through asset-backed securitization facilities***




We continue to service the transferred accounts for the VIE, and we receive a monthly servicing fee, so long as we act as servicer, in an amount equal to .25% multiplied by the average aggregate principal amount of customer receivables serviced, including the amount of average aggregate defaulted customer receivables. The VIE records revenues equal to the interest charged to the customer on the receivables less losses, the cost of funds, the program administration fees paid in connection with either the 2002 Series A or 2006 Series A bond holders, the servicing fee and additional earnings to the extent they are available.

We will continue to finance our operations and future growth through a combination of cash flow generated from operations and external borrowings, including primarily bank debt, extended vendor terms for purchases of inventory, acquisition of inventory under consignment arrangements, and the asset-backed securitization facilities. Based on our current operating plans, we believe that cash generated from operations, available borrowings under our revolving credit facility and unsecured credit line, extended vendor terms for purchases of inventory, acquisition of inventory under consignment arrangements and cash flows from the asset-backed securitization program will be sufficient to fund our operations for at least twelve months, subject to continued compliance with the covenants in the credit facilities. If there is a default under any of the facilities that is not waived by the various lenders, it could result in the requirement to immediately begin repayment of all amounts owed under our credit facilities, as all of the facilities have cross-default provisions that would result in default under all of the facilities if there is a default under any one of the facilities. If the repayment of amounts owed under our credit facilities is accelerated, we may not have sufficient cash and liquid assets at such time to be able to immediately repay all the amounts owed under the facilities.

Both the revolving credit facility and the asset-backed securitization program are significant factors relative to our ongoing liquidity and our ability to meet the cash needs associated with the growth of our business. Our inability to use either of these programs because of a failure to comply with their covenants would adversely affect our business operations. Funding of current and future customer receivables under the borrowing facilities can be adversely affected if we exceed certain predetermined levels of re-aged customer receivables, size of the secondary portfolio, the amount of promotional customer receivables, write-offs, bankruptcies or other ineligible customer receivable amounts.

There are several factors that could decrease cash availability, including:

- reduced demand or margins for our products;
- more stringent vendor terms on our inventory purchases;
- loss of ability to acquire inventory on consignment;
- increases in product cost that we may not be able to pass on to our customers;
- reductions in product pricing due to competitor promotional activities;
- changes in inventory requirements based on longer delivery times of the manufacturers or other requirements which would negatively impact our delivery and distribution capabilities;
- an acceleration of the growth of the credit portfolio;
- increases in the retained portion of our customer receivables portfolio under our current asset-backed securitization program as a result of changes in performance or types of receivables transferred (promotional versus non-promotional and primary versus secondary portfolio), or as a result of a change in the mix of funding sources available under the asset-backed securitization program, requiring higher collateral levels, or limitations on our ability to obtain financing through commercial paper-based funding sources;
- reduced availability under our 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;
- reduced availability under our revolving credit facility or asset-backed securitization facilities as a result of non-compliance with the covenant requirements;
- reduced availability under our revolving credit facility or asset-backed securitization facilities as a result of the inability of any of the financial institutions providing those facilities to fund their commitment,
- reductions in the capacity or inability to expand the capacity available for financing our customer receivables portfolio under existing or replacement asset-backed securitization programs or a requirement that we retain a higher percentage of the credit portfolio under such programs;
- increases in borrowing costs (interest and administrative fees relative to our customer receivables portfolio associated with the funding of our customer receivables);
- increases in personnel costs or other costs for us to stay competitive in our markets; and
- inability to renew or replace all or a portion of our current credit facilities at their annual maturity dates (our asset-based revolving credit facility and the revolving facility of our securitization program mature in August 2011, and the medium term notes issued under the securitization program begin repayment in September 2010 and we expect them to be fully repaid by April 2012).

We are discussing various options to renew or replace our existing credit facilities, including exploring opportunities to raise capital in the various debt and equity capital markets. If we are unable to renew or replace our existing credit facilities we could be required to further reduce the size of the customer credit portfolio in order to repay the amounts outstanding under our credit facilities. In order to reduce the size of the credit portfolio we would be required to reduce, or possibly cease, originating new customer receivables until the amounts due under our credit facilities are repaid. If necessary, in addition to available cash balances, cash flow from operations and borrowing capacity under our revolving facilities, additional cash to fund our operations and customer receivables balances could be obtained by:

- reducing capital expenditures for updates of existing stores or new store openings;
- taking advantage of longer payment terms and financing available for inventory purchases;

- utilizing third-party sources to provide financing to our customers;
- reducing the size of our customer credit portfolio;
- reducing operating costs;
- negotiating to expand the capacity available under existing credit facilities; and
- accessing new debt or equity markets.

We can provide no assurance that we will be able to obtain these sources of funding on favorable terms, if at all.

*Capital expenditures*.

We lease 72 of our 76 stores, and our plans for future store locations include primarily leases, but do not exclude store ownership. Our capital expenditures for future new store projects should primarily be for our tenant improvements to the property leased (including any new distribution centers and warehouses), the cost of which is approximately $1.4 million per store, and for our existing store remodels, in the range of $250,000 per store remodel, depending on store size. In the event we purchase existing properties, our capital expenditures will depend on the particular property and whether it is improved when purchased. We are continuously reviewing new relationship and funding sources and alternatives for new stores, which may include "sale-leaseback" or direct "purchase-lease" programs, as well as other funding sources for our purchase and construction of those projects. If we are successful in these relationship developments, our direct cash needs should include only our capital expenditures for tenant improvements to leased properties and our remodel programs for existing stores, but could include full ownership if it meets our cash investment strategy. As a result of the recent volatility in the capital markets, we modified our store opening plans and currently have no new store openings planned. We have historically grown our new store count by about 10% per year and in the future expect to return to this modest, controlled pace based on capital availability.

*Cash flow.*

Operating activities.

During the year ended January 31, 2010, net operating cash flows increased to $64.2 million provided by operating activities, from $20.5 million used in operating activities in the twelve months ended January 31, 2009. Operating cash flows for the year ended January 31, 2010 were impacted primarily by decreased used of cash flow for customer receivables and a reduction in inventories in light of reduced product sales. Operating cash flows were also increased by a drop in Other accounts receivable, as amounts due from our vendors fell in the year ended January 31, 2010, as our vendors did not use sales incentive programs to the extent they did in fourth quarter of the prior year. These increases were partially offset by a decrease in accounts payable balances, due largely to the reduction of inventory. There was also the impact of the decrease in taxes payable due to the reduction in our taxable income in the year ended January 31, 2010 and the overpayment of estimated taxes leading to the recoverable income taxes balance at year end.

During the year ended January 31, 2009, net cash used in operating activities decreased to $20.5 million, from $39.4 million used in operating activities in the twelve months ended January 31, 2008. Operating cash flows for the current period were impacted primarily by the increased retention of customer accounts receivable and increased inventories to support newly opened stores, partially offset by an increase in accounts payable balances, due to the timing of inventory purchases and taking advantage of payment terms available from our vendors.

Investing activities.

Net cash used in investing activities decreased by $3.2 million, from $13.3 million used in the fiscal 2009 period to $10.1 million used in the fiscal 2010 period. The net decrease in cash used in investing activities resulted primarily from a decline in purchases of property and equipment compared to the prior fiscal year, as we opened fewer new stores in the fiscal 2010 period.

Net cash used in investing activities increased by $7.3 million, from $6.0 million used in the fiscal 2008 period to $13.3 million used in the fiscal 2009 period. The net increase in cash used in investing activities resulted primarily from a decline in proceeds from sales of property and equipment as compared to the same period in the prior fiscal year. The cash expended for property and equipment was used primarily for construction of new stores and the reformatting of existing stores to better support our current product mix.

Financing activities.

Net cash from financing activities decreased by $88.5 million from $34.7 million provided during the year ended January 31, 2009, to $53.8 million used during the year ended January 31, 2010, as we decreased the amount of net borrowings after repayments under our revolving credit facility to fund the customer receivables generated and retained on our consolidated balance sheet.

Net cash from financing activities increased by $34.9 million from $0.2 million used during the year ended January 31, 2008, to $34.7 million provided during the year ended January 31, 2009, as we terminated our stock repurchase program in the period ended January 31, 2009 and increased borrowings under our revolving credit facility to fund the new customer receivables generated and retained on our consolidated balance sheet.

*Certain transactions.*

Since 1996, we have leased a retail store location of approximately 19,150 square feet in Houston, Texas from Mr. Thomas J. Frank, Sr. Mr. Frank served as our Chairman of the Board and Chief Executive Officer until June, 2009 and is the father of our Chief Executive Officer. The lease provides for base monthly rental payments of $17,235 plus escrows for taxes, insurance and common area maintenance expenses of increasing monthly amounts based on expenditures by the management company operating the shopping center of which this store is a part through January 31, 2011. We also have an option to renew the lease for two additional five-year terms. Mr. Frank received total payments under this lease of $206,820 in fiscal 2008, 2009 and 2010, respectively. Based on market lease rates for comparable retail space in the area, we believe that the terms of this lease are no less favorable to us than we could have obtained in an arms' length transaction at the date of the lease commencement.

We engage the services of Direct Marketing Solutions, Inc., or DMS, for a substantial portion of our direct mail advertising. Direct Marketing Solutions, Inc. is partially owned (less than 50%) by SF Holding Corp., members of the Stephens family, Jon E. M. Jacoby, and Douglas H. Martin. SF Holding Corp. and the members of the Stephens family are significant shareholders of ours, and Messrs. Jacoby and Martin are members of our Board of Directors. The fees we paid to DMS during fiscal years ended 2008, 2009 and 2010 amounted to approximately $2.5 million, $4.0 million and $2.4 million, respectively.

*Contractual obligations.*

The following table presents a summary of our known contractual obligations as of January 31, 2010, with respect to the specified categories, classified by payments due per period.

| | | Payments due by period | | | |
|---|---|---|---|---|---|
| | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| | | | (in thousands) | | |
| Long term debt: | | | | | |
| Revolving credit facility (1) | $105,904 | $ 155 | $105,749 | $ — | $ — |
| Fixed rate notes of VIE (2) | 162,755 | 45,884 | 116,871 | — | — |
| Variable rate notes of VIE (3) | 196,400 | 26,400 | 170,000 | — | — |
| Operating leases: | | | | | |
| Real estate | 153,394 | 22,008 | 41,469 | 34,724 | 55,193 |
| Equipment | 4,236 | 1,630 | 1,766 | 385 | 455 |
| Capital leases | | | | | |

| | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
|---|---|---|---|---|---|
| | | Payments due by period | | | |
| | | | (in thousands) | | |
| Purchase obligations(4) | 2,501 | 2,248 | 253 | — | — |
| Total contractual cash obligations | $625,190 | $98,325 | $436,108 | $35,109 | $ 55,648 |

(1) If the outstanding balance as of January 31, 2010 and the interest rate in effect at that time were to remain the same over the remaining life of the facility, interest expense on the facility would be approximately $3.1 million and $1.6 million for the fiscal years ended January 31, 2011 and 2012, respectively.

(2) Includes interest payments due on the notes.

(3) The $200 million 2002 Series A variable funding note is renewable at our option until August 2011. If the outstanding balance as of January 31, 2010 and the interest rate in effect at that time were to remain the same over the remaining lives of the notes, interest expense on the notes would be approximately $5.6 million and $2.8 million for the fiscal years ended January 31, 2011 and 2012, respectively.

(4) Includes contracts for long-term communication services. Does not include outstanding purchase orders for merchandise, services or supplies which are ordered in the normal course of operations and which generally are received and recorded within 30 days.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### Report Of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Conn's, Inc.

We have audited the accompanying consolidated balance sheets of Conn's, Inc. as of January 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended January 31, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Conn's, Inc. at January 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, effective February 1, 2010, the Company retrospectively changed its method of accounting for its investment in its variable interest entity.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Conn's, Inc.'s internal control over financial reporting as of January 31, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 25, 2010, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Houston, Texas
March 25, 2010, except for Notes 2 and 14 as to which
the date is July 7, 2010

**Conn's, Inc.**

**CONSOLIDATED BALANCE SHEETS**

**(in thousands, except share data)**

| | January 31, 2009 | January 31, 2010 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents (includes balances of VIE of $111 and $104, respectively) | $ 11,909 | $ 12,247 |
| Other accounts receivable, net of allowance of $60 and $50, respectively | 32,505 | 23,254 |
| Customer accounts receivable, net of allowance of $13,735 and $19,204, respectively (includes balances of VIE of $310,888 and $279,948, respectively) | 321,907 | 368,304 |
| Inventories | 95,971 | 63,499 |
| Deferred income taxes | 14,203 | 15,237 |
| Federal income taxes recoverable | — | 8,148 |
| Prepaid expenses and other assets | 5,933 | 8,050 |
| **Total current assets** | 482,428 | 498,739 |
| **Long-term portion of customer accounts receivable, net of allowance of $13,186 and $16,598, respectively** (includes balances of VIE of $298,470 and $241,971, respectively) | 389,748 | 318,341 |
| **Property and equipment** | | |
| Land | 7,682 | 7,682 |
| Buildings | 12,011 | 10,480 |
| Equipment and fixtures | 21,670 | 23,797 |
| Transportation equipment | 2,646 | 1,795 |
| Leasehold improvements | 83,361 | 91,299 |
| Subtotal | 127,370 | 135,053 |
| Less accumulated depreciation | (64,819) | (75,350) |
| **Total property and equipment, net** | 62,551 | 59,703 |
| **Goodwill, net** | 9,617 | — |
| **Non-current deferred income tax asset** | 2,025 | 5,485 |
| **Other assets, net** (includes balances of VIE of $7,545 and $7,106, respectively) | 11,197 | 10,198 |
| **Total assets** | $957,566 | $892,466 |
| **Liabilities and Stockholders' Equity** | | |
| **Current Liabilities** | | |
| Current portion of long-term debt (includes balances of VIE of $92,500 and $63,900, respectively) | $ 92,505 | $ 64,055 |
| Accounts payable | 57,809 | 39,944 |
| Accrued compensation and related expenses | 11,473 | 5,697 |
| Accrued expenses | 24,843 | 31,685 |
| Income taxes payable | 4,155 | 2,640 |
| Deferred revenues and allowances | 14,347 | 14,596 |
| **Total current liabilities** | 205,132 | 158,617 |
| **Long-term debt** (includes balances of VIE of $350,000 and $282,500, respectively) | 412,912 | 388,249 |
| **Other long-term liabilities** | 5,702 | 5,195 |
| **Fair value of interest rate swaps** | — | 337 |
| **Deferred gain on sale of property** | 1,036 | 905 |
| **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; 24,167,445 and 24,194,555 shares issued at January 31, 2009 and 2010, respectively) | 242 | 242 |
| Additional paid in capital | 103,553 | 106,226 |
| Accumulated other comprehensive loss | — | (218) |
| Retained earnings | 266,060 | 269,984 |
| Treasury stock, at cost, 1,723,205 shares | (37,071) | (37,071) |
| **Total stockholders' equity** | 332,784 | 339,163 |
| **Total liabilities and stockholders' equity** | $957,566 | $892,466 |

See notes to consolidated financial statements.

**Conn's, Inc.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

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

| | Year Ended January 31, | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| **Revenues** | | | |
| Product sales | $671,571 | $743,729 | $667,401 |
| Repair service agreement commissions (net) | 36,424 | 40,199 | 33,272 |
| Service revenues | 22,997 | 21,121 | 22,115 |
| Total net sales | 730,992 | 805,049 | 722,788 |
| Finance charges and other | 139,538 | 154,492 | 152,797 |
| **Total revenues** | 870,530 | 959,541 | 875,585 |
| **Cost and expenses** | | | |
| Cost of goods sold, including warehousing and occupancy costs | 508,787 | 580,423 | 534,299 |
| Cost of service parts sold, including warehousing and occupancy cost | 8,379 | 9,638 | 10,401 |
| Selling, general and administrative expense | 245,761 | 254,172 | 255,942 |
| Goodwill impairment | — | — | 9,617 |
| Provision for bad debts | 19,465 | 27,952 | 36,843 |
| **Total cost and expenses** | 782,392 | 872,185 | 847,102 |
| **Operating income** | 88,138 | 87,356 | 28,483 |
| Interest expense, net | 24,839 | 23,597 | 20,571 |
| Other (income) expense, net | (943) | 117 | (123) |
| **Income before income taxes** | 64,242 | 63,642 | 8,035 |
| **Provision for income taxes** | 22,575 | 23,624 | 4,111 |
| **Net Income** | $ 41,667 | $ 40,018 | $ 3,924 |
| **Earnings per share** | | | |
| Basic | $ 1.80 | $ 1.79 | $ 0.17 |
| Diluted | $ 1.76 | $ 1.77 | $ 0.17 |
| **Average common shares outstanding** | | | |
| Basic | 23,193 | 22,413 | 22,456 |
| Diluted | 23,673 | 22,577 | 22,610 |

See notes to consolidated financial statements.

**Conn's, Inc.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

**(in thousands)**

| | Common Stock | | Accum. Other Compre-hensive Income (Loss) | Paid in Capital | Retained Earnings | Treasury Stock | | Total |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | Shares | Amount | |
| **Balance January 31, 2007** | 23,810 | $ 238 | $ 6,305 | $ 93,365 | $196,417 | (168) | $ (3,797) | $292,528 |
| Cumulative effect of changes in accounting principles | | | (6,305) | | (12,042) | | | (18,347) |
| Exercise of options, including tax benefit | 279 | 2 | | 3,241 | | | | 3,243 |
| Issuance of common stock under Employee Stock Purchase Plan | 13 | 1 | | 247 | | | | 248 |
| Stock-based compensation | | | | 2,661 | | | | 2,661 |
| Purchase of treasury stock | | | | | | (1,555) | (33,274) | (33,274) |
| Return of shares | (4) | | | | | | | |
| Net income | | | | | 41,667 | | | 41,667 |
| **Balance January 31, 2008** | 24,098 | 241 | — | 99,514 | 226,042 | (1,723) | (37,071) | 288,726 |
| Exercise of options, including tax benefit | 47 | 1 | | 614 | | | | 615 |
| Issuance of common stock under Employee Stock Purchase Plan | 22 | | | 237 | | | | 237 |
| Stock-based compensation | | | | 3,188 | | | | 3,188 |
| Net income | | | | | 40,018 | | | 40,018 |
| **Balance January 31, 2009** | 24,167 | 242 | — | 103,553 | 266,060 | (1,723) | (37,071) | 332,784 |
| Issuance of common stock under Employee stock Purchase Plan | 27 | | | 228 | | | | 228 |
| Stock-based compensation | | | | 2,445 | | | | 2,445 |
| Net income | | | | | 3,924 | | | 3,924 |
| Other comprehensive income (loss): | | | | | | | | |
| Adjustment of fair value of interest rate swaps, net of tax benefit of $118 | | | (218) | | | | | (218) |
| Other comprehensive income (loss) | | | (218) | | | | | (218) |
| Total comprehensive income | | | | | | | | 3,706 |
| **Balance January 31, 2010** | 24,194 | $ 242 | $ (218) | $106,226 | $269,984 | (1,723) | $(37,071) | $339,163 |

See notes to consolidated financial statements.

**Conn's, Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

| | Year Ended January 31, | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| **Cash flows from operating activities** | | | |
| Net income | $ 41,667 | $ 40,018 | $ 3,924 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation | 12,441 | 12,672 | 13,516 |
| Amortization / (Accretion), net | (313) | (131) | 496 |
| Provision for bad debts | 19,465 | 27,952 | 36,843 |
| Stock-based compensation | 2,661 | 3,188 | 2,445 |
| Goodwill impairment | — | — | 9,617 |
| Provision for deferred income taxes | 331 | (4,051) | (3,499) |
| Loss (gain) from sale of property and equipment | (943) | 117 | (123) |
| Discounts and accretion on promotional credit | 1,208 | (1,115) | (639) |
| Change in operating assets and liabilities: | | | |
| Customer accounts receivable | (98,658) | (119,320) | (11,139) |
| Other accounts receivable | (5,390) | (4,783) | 9,251 |
| Inventory | 5,603 | (14,476) | 32,472 |
| Prepaid expenses and other assets | 507 | (1,481) | (2,087) |
| Accounts payable | (22,849) | 29,631 | (17,866) |
| Accrued expenses | 2,208 | 3,540 | 1,066 |
| Income taxes payable | (996) | 2,686 | (10,568) |
| Deferred revenues and allowances | 3,687 | 5,085 | 530 |
| **Net cash provided by (used in) operating activities** | (39,371) | (20,468) | 64,239 |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | (18,955) | (17,597) | (10,255) |
| Proceeds from sales of property | 8,921 | 224 | 152 |
| Changes in restricted cash balances | 4,025 | 4,029 | — |
| **Net cash used in investing activities** | (6,009) | (13,344) | (10,103) |
| **Cash flows from financing activities** | | | |
| Net proceeds from stock issued under employee benefit plans, including tax benefit | 3,188 | 802 | 228 |
| Excess tax benefits from stock-based compensation | 303 | 50 | — |
| Purchase of treasury stock | (33,274) | — | — |
| Borrowings under lines of credit | 150,000 | 300,800 | 270,838 |
| Payments on lines of credit | (120,000) | (263,400) | (324,340) |
| Increase in debt issuance costs | (306) | (3,453) | (440) |
| Payment of promissory notes | (104) | (102) | (84) |
| **Net cash provided by (used in) financing activities** | (193) | 34,697 | (53,798) |
| **Net change in cash** | (45,573) | 885 | 338 |
| **Cash and cash equivalents** | | | |
| Beginning of the year | 56,597 | 11,024 | 11,909 |
| End of the year | $ 11,024 | $ 11,909 | $ 12,247 |
| **Supplemental disclosure of cash flow information** | | | |
| Cash interest paid | $ 25,560 | $ 23,753 | $ 20,449 |
| Cash income taxes paid, net of refunds | 22,935 | 24,950 | 18,163 |
| **Supplemental disclosure of non-cash activity** | | | |
| Purchases of property and equipment with debt financing | 23 | — | 473 |
| Sales of property and equipment financed by notes receivable | — | 1,400 | — |

See notes to consolidated financial statements.

**CONN'S ,INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**January 31, 2010**

## 1. Summary of Significant Accounting Policies

***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, as defined below. 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. 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

***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 in Note 2, which requires the consolidation of the Company's variable interest entity engaged in receivables securitizations, it began separately evaluating the performance of its retail and credit operations. As a result, the Company believes it is appropriate to disclose separate financial information of its retail and credit segments. The separate financial information is disclosed in Note 14 – "Segment Reporting".

***Use of Est*imates**. 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.

***Vendor Programs***. The Company receives funds from vendors for price protection, product rebates (earned upon purchase or sale of product), marketing, training and promotional programs which are recorded on the accrual basis, as a reduction of the related product cost or advertising expense, according to the nature of the program. The Company accrues 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 marketing or promotion of the product, the allowances, credits, or payments are recorded as a reduction of advertising expense in the period in which the expense is incurred. Vendor rebates earned and recorded as a reduction of product cost and cost of goods sold totaled $29.5 million, $39.8 million and $46.2 million for the years ended January 31, 2008, 2009 and 2010, respectively. The increase in the current year is due to increased use of instant rebates by vendors to drive sales. Over the past three years the Company has received funds from approximately 50 vendors, with the terms of the programs ranging between one month and one year.

***Earnings Per Share***. The Company calculates basic earnings per share by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share include the dilutive effects of any stock options granted, which is calculated using the treasury-stock method. The following table sets forth the shares outstanding for the earnings per share calculations (shares in thousands):

| | Year Ended January 31, | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| Common stock outstanding, beginning of period | 23,642 | 22,375 | 22,444 |
| Weighted average common stock issued in stock option exercises | 111 | 29 | — |
| Weighted average common stock issued to employee stock purchase plan | 5 | 9 | 12 |
| Less: Weighted average treasury shares purchased | (565) | — | — |
| Shares used in computing basic earnings per share | 23,193 | 22,413 | 22,456 |
| Dilutive effect of stock options, net of assumed repurchase of treasury stock | 480 | 164 | 154 |
| Shares used in computing diluted earnings per share | 23,673 | 22,577 | 22,610 |

During the periods presented, options with an exercise price in excess of the average market price of the Company's common stock are excluded from the calculation of the dilutive effect of stock options for diluted earnings per share calculations. The weighted average number of options not included in the calculation of the dilutive effect of stock options was 0.4 million, 1.2 million, and 1.5 million for each of the years ended January 31, 2008, 2009, and 2010 respectively.

***Cash and Cash Equivalents***. The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Credit card deposits in-transit of $5.3 million and $4.7 million, as of January 31, 2009 and 2010, respectively, are included in cash and cash equivalents.

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

***Property and Equipment***. Property and equipment are recorded at cost. Costs associated with major additions and betterments that increase the value or extend the lives of assets are capitalized and depreciated. Normal repairs and maintenance that do not materially improve or extend the lives of the respective assets are charged to operating expenses as incurred. Depreciation, which includes amortization of capitalized leases, is computed on the straight-line method over the estimated useful lives of the assets, or in the case of leasehold improvements, over the shorter of the estimated useful lives or the remaining terms of the respective leases. The estimated lives used to compute depreciation expense are summarized as follows:

| | |
|---|---|
| Buildings | 30 years |
| Equipment and fixtures | 3 – 5 years |
| Transportation equipment | 3 years |
| Leasehold improvements | 5 – 15 years |

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. No impairment was recorded in the years ended January 31, 2008, 2009 or 2010.

All gains and losses on sale of assets are included in Other (income) expense in the consolidated statements of operations.

| (in thousands of dollars) | 2008 | 2009 | 2010 |
|---|---|---|---|
| Gain (loss) on sale of assets | 943 | $(117) | 123 |

***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 twelve months, based on contractual terms, are included in long-term assets. Typically, customer receivables are considered delinquent if a payment has not been received on the scheduled due date. Additionally, the Company offers reage programs to customers with past due balances that have experienced a financial hardship; if they meet the conditions of the Company's reage policy. Reaging a customer's account can result in updating an account from a delinquent status to a current status. Generally, an account that is delinquent more than 120 days and for which no payment has been received in the past seven months will be charged-off against the allowance for doubtful accounts and interest accrued subsequent to the last payment will be reversed. 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 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 consolidated balance sheet that were past due 90 days or more and still accruing interest was $41.0 million and $54.8 million at January 31, 2009 and 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 received 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 $26.9 million and $35.8 million, at January 31, 2009 and 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 net loss rates might have been higher.

***Goodwill.*** Goodwill represents the excess of consideration paid over the fair value of tangible and identifiable intangible net assets acquired in connection with the acquisitions of certain of the Company's insurance and finance operations. The Company performs an assessment annually in the fourth quarter testing for the impairment of goodwill, or at any other time when impairment indicators exist. As a result of the sustained decline in the Company's market capitalization, the increasingly challenging economic environment during the current year third quarter, and its impact on the Company's comparable store sales, credit portfolio performance and operating results, the Company determined that an interim goodwill impairment test was necessary during the current year third quarter.

A two-step method was utilized for determining goodwill impairment. The valuation of the Company was performed utilizing the services of outside valuation consultants using both an income approach utilizing discounted debt-free cash flows of the Company and comparable valuation multiples. Upon completion of the impairment test, the Company concluded that the carrying value of the Company's recorded goodwill was impaired. As a result, the Company recorded a goodwill impairment charge of $9.6 million in the current year third quarter, reducing the balance of goodwill on its balance sheet to zero.

***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 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 both January 31, 2009 and 2010.

***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 be in effect when the differences are expected to reverse. To the extent penalties and interest are incurred, the Company records these charges as a component of its Provision for income taxes. Tax returns for the fiscal years subsequent to January 31, 2006, remain open for examination by the Company's major taxing jurisdictions.

***Sales Taxes***. The Company records and reports all sales taxes collected on a net basis in the financial statements.

***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 extend beyond one year. The Company sells repair service agreements and credit insurance contracts on behalf of unrelated third parties. For contracts where third parties are the obligor on the contract, commissions are recognized in revenues at the time of sale, and in the case of retrospective commissions, at the time that they are earned. The Company records a receivable for earned but unremitted retrospective commissions and reserves for future cancellations of repair service agreements and credit insurance contracts estimated based on historical experience. When the Company sells repair service agreements in which it is 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 Company-obligor repair service agreements are contracts which provide customers protection against product repair costs arising after the expiration of the manufacturer's warranty and any third-party obligor contracts. These agreements typically have terms ranging from 12 months to 36 months. These agreements are separate units of accounting and are valued based on the agreed upon retail selling price. The amounts of repair service agreement revenue deferred at January 31, 2009 and 2010, were $7.2 million and $7.3 million, respectively, and are included in Deferred revenue and allowances in the accompanying consolidated balance sheets. Under the contracts, the Company defers and amortizes its direct selling expenses over the contract term and records the cost of the service work performed as products are repaired.

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**

| | Year Ended January 31, | |
|---|---|---|
| | 2009 | 2010 |
| Balance in deferred revenues at beginning of year | $ 6,373 | $ 7,213 |
| Revenues earned during the year | (6,482) | (7,027) |
| Revenues deferred on sales of new agreements | 7,322 | 7,082 |
| Balance in deferred revenues at end of year | $ 7,213 | $ 7,268 |
| | | |
| Total claims incurred during the year, excludes selling expenses | $ 2,529 | $ 3,402 |

Sales on interest-free promotional credit programs are recognized at the time the customer takes possession of the product, consistent with the above stated policy. Considering the short-term nature of interest free programs for terms less than one year, sales are recorded at full value and are not discounted. Sales financed by longer-term (18-, 24- and 36-month) interest free programs are recorded at their net present value. The discount to net present value results in a reduction in net sales, which totaled $7.2 million, $5.8 million and $4.8 million for the years ended January 31, 2008, 2009 and 2010, respectively. Eligible receivables arising out of the Company's interest-free programs are transferred to

the Company's VIE, net of the discount, with other qualifying customer receivables. Customer receivables arising out of the interest-free programs that are retained by the Company are carried on the consolidated balance sheet net of the discount, which is amortized into income over the life of the receivable as an adjustment to Finance charges and other.

The Company classifies amounts billed to customers relating to shipping and handling as revenues. Costs of $22.0 million, $20.8 million and $19.3 million associated with shipping and handling revenues are included in Selling, general and administrative expense for the years ended January 31, 2008, 2009 and 2010, respectively.

***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 is determined by estimating the present value of future cash flows as if the debt were being carried at the interest rate the Company would currently incur if it were to complete a similar transaction. The fair value of the Company's asset-based revolving credit facility as of January 31, 2010 was approximately $104.0 million, based on the assumption that the interest spread would be approximately 100 basis points higher than the current spread in the revolving facility. The carrying amount of the long-term debt as of January 31, 2010 was approximately $105.5 million. The estimated fair value of the VIE's $196.4 million 2002 Series A variable funding note approximates its carrying amount due to its short maturity and the variable nature of its interest rate. The estimated fair value of the VIE's $150 million 2006 Series A medium term notes was approximately $117 million and $139 million as of January 31, 2009 and 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.

***Share-Based Compensation***. For stock option grants after our IPO in November 2003, the Company has used the Black-Scholes model to determine fair value. Share-based compensation expense is recorded, net of estimated forfeitures, on a straight-line basis over the vesting period of the applicable grant. Prior to the IPO, the value of the options issued was estimated using the minimum valuation option-pricing model. Since the minimum valuation option-pricing model does not qualify as a fair value pricing model, the Company followed the intrinsic value method of accounting for share-based compensation to employees for these grants.

***Self-insurance***. The Company is self-insured for certain losses relating to group health, workers' compensation, automobile, general and product liability claims. The Company has stop loss coverage to limit the exposure arising from these claims. Self-insurance losses for claims filed and claims incurred, but not reported, are accrued based upon the Company's estimates of the aggregate liability for claims incurred using development factors based on historical experience.

***Expense Classifications***. The Company records Cost of goods sold as the direct cost of products sold, any related out-bound freight costs, and receiving costs, inspection costs, internal transfer costs, and other costs associated with the operations of its distribution system. Advertising costs are expensed as incurred. Advertising expense included in Selling, general and administrative expense for the years ended January 31, 2008, 2009 and 2010, was:

| | Year Ended January 31, | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | | (in thousands) | |
| Gross advertising expense | $ 35,647 | $ 36,289 | $ 30,552 |
| Less: | | | |
| Vendor rebates | (6,591) | (6,440) | (5,072) |
| Net advertising expense in Selling, general and administrative expense | $ 29,056 | $ 29,849 | $ 25,480 |

In addition, the Company records as Cost of service parts sold the direct cost of parts used in its service operation and the related inbound freight costs, purchasing and receiving costs, inspection costs, internal transfer costs, and other costs associated with the parts distribution operation.

The costs associated with the Company's merchandising function, including product purchasing, advertising, sales commissions, and all store occupancy costs are included in Selling, general and administrative expense.

***Reclassifications.*** Certain reclassifications have been made in the prior years' financial statements to conform to the current year's presentation. The Company reclassified approximately $5.7

million from Deferred revenues and allowances in current liabilities to Other long-term liabilities. This represents the amount of deferred revenues on tenant improvement allowances that will be realized beyond twelve months.

**2. 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;
- transferor's continuing involvement, if any, in transferred financial assets; and
- 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 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 of the Company's adoption of the provisions of the new guidance, effective February 1, 2010, the Company's VIE, which is engaged in customer receivable financing and securitization, is 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 years ended January 31, 2008 and 2009, Income before income taxes was increased by approximately $3.0 million and $22.1 million, respectively, and for the year ended January 31, 2010, Income before income taxes was reduced by approximately $5.9 million.
- For the years ended January 31, 2008 and 2009, Net income was increased by approximately $2.0 million and $14.3 million, respectively, and for the year ended January 31, 2010, Net income was reduced by approximately $3.8 million.
- For the years ended January 31, 2008 and 2009, Basic earnings per share was increased by $0.09 and $0.64, respectively, and for the year ended January 31, 2010, Basic earnings per share was reduced by $0.17.
- For the years ended January 31, 2008 and 2009, Diluted earnings per share was increased by $0.08 and $0.63, respectively, and for the year ended January 31, 2010, Diluted earnings per share was reduced by $0.17.
- For the year ended January 31, 2008, Cash flows from operating activities was reduced by approximately $33.7 million, Cash flows from investing activities was increased by approximately $4.0 million and Cash flows from financing activities was increased by approximately $29.7 million.
- For the year ended January 31, 2009, Cash flows from operating activities was increased by approximately $22.2 million, Cash flows from investing activities was increased by approximately $4.0 million and Cash flows from financing activities was reduced by approximately $26.2 million.
- For the year ended January 31, 2010, Cash flows from operating activities was increased by approximately $96.1 million and Cash flows from financing activities was reduced by approximately $96.1 million.
- As of January 31, 2009, the net of current assets and current liabilities decreased approximately $7.5 million and at January 31, 2010, the net current assets and current liabilities increased approximately $25.4 million;
- As of January 31, 2009 and 2010, Customer accounts receivable, net, were increased approximately $609.4 million and $488.5 million, respectively. Net deferred tax assets were increased approximately $0.8 million and $3.0 million, respectively, and Other assets were increased approximately $7.5 million and $7.1 million, respectively;
- As of January 31, 2009 and 2010, Interests in the securitized assets of its VIE of approximately $176.5 million and $157.7 million, respectively, was eliminated;
- As of January 31, 2009 and 2010, current and long-term debt were increased approximately $92.5 million and $63.9 million and $350.0 million and $282.5 million, respectively; and
- As of January 31, 2009 and 2010, Retained earnings was decreased approximately $1.4 million and $5.2 million, respectively.

In June 2009, the FASB issued SFAS No. 168, "*The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162"* ("ASC 105-10-65/FAS 168"). The standard establishes the FASB Accounting Standards Codification™ (the "Codification" or "ASC") as the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP, and is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification requires companies to change how they reference GAAP throughout the financial statements. The Company adopted the Codification and has provided the pre-Codification reference along with the related ASC references within this section to allow readers an opportunity to see the impact of the Codification on its financial statements and disclosures.

On February 1, 2009, the Company was required to adopt SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*, ("ASC 815-10-65/SFAS 161"). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. ASC 815-10-65/SFAS 161 applies to all

derivative instruments within the scope of SFAS 133, as well as related hedged items, bifurcated derivatives, and non-derivative instruments that are designated and qualify as hedging instruments. ASC 815-10-65/FAS 161 only impacts disclosure requirements and therefore did not have an impact on the Company's financial position, financial performance or cash flows. The required disclosures have been included in Note 4 to the consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board ("APB") Opinion No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, ("ASC 825-10-65/FSP 107-1 and APB 28-1"), which requires the Company to provide disclosures about fair value of financial instruments in each interim and annual period that financial statements are prepared. The Company adopted the provisions of ASC 825-10-65/FSP 107-1 and APB 28-1, which became effective for periods ended after June 15, 2009.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ("ASC 855-10/SFAS165"), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted the provisions of ASC 855-10/SFAS No. 165, which became effective for interim and annual reporting periods ended after June 15, 2009. Subsequent events have been evaluated and material subsequent events that have occurred since January 31, 2010 are discussed in Note 13 to the consolidated financial statements.

### 3. 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 year ended January 31, 2008, 2009 and 2010 (in thousands):

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| Interest income and fees on customer receivables | $117,186 | $132,270 | $135,828 |
| Insurance commissions | 21,402 | 20,061 | 16,437 |
| Other | 950 | 2,161 | 532 |
| Finance charges and other | $139,538 | $154,492 | $152,797 |

### 4. Supplemental Disclosure of Customer Receivables

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

| | Customer Receivables January 31, | | Total Outstanding Balance 60 Days Past Due (1) January 31, | | Reaged (1) January 31, | |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 |
| Primary portfolio: | | | | | | |
| Installment | $551,838 | $555,573 | $33,126 | $46,758 | $ 88,224 | $ 93,219 |
| Revolving | 38,084 | 41,787 | 2,027 | 2,017 | 2,401 | 1,819 |
| Subtotal | 589,922 | 597,360 | 35,153 | 48,775 | 90,625 | 95,038 |
| Secondary portfolio: | | | | | | |
| Installment | 163,591 | 138,681 | 19,988 | 24,616 | 50,537 | 49,135 |
| Total receivables managed | 753,513 | 736,041 | $55,141 | $73,391 | $141,162 | $144,173 |
| Allowance for uncollectible accounts | (26,921) | (35,802) | | | | |
| Allowances for promotional credit programs | (14,937) | (13,594) | | | | |
| Current portion of customer accounts receivable, net | 321,907 | 368,304 | | | | |
| Non-current customer accounts receivable, net | $389,748 | $318,341 | | | | |
| Receivables transferred to the VIE | $645,715 | $521,919 | $52,214 | $59,840 | $131,839 | $122,521 |
| Receivables not transferred to the VIE | 107,798 | 214,122 | 2,927 | 13,551 | 9,269 | 21,652 |
| Total receivables managed | $753,513 | $736,041 | $55,141 | $73,391 | $141,162 | $144,173 |

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

| | Average Balances January 31, | | Net Credit Charge-offs January 31, (2) | |
|---|---|---|---|---|
| | 2009 | 2010 | 2009 | 2010 |
| Primary portfolio: | | | | |
| Installment | $495,489 | $557,033 | | |
| Revolving | 43,184 | 35,343 | | |
| Subtotal | 538,673 | 592,376 | $15,071 | $20,777 |
| Secondary portfolio: | | | | |
| Installment | 157,529 | 151,380 | 7,291 | 8,165 |
| Total receivables managed | $696,202 | $743,756 | $22,362 | $28,942 |
| Receivables transferred to the VIE | $651,420 | $559,028 | $21,573 | $25,335 |
| Receivables not transferred to the VIE | 44,782 | 184,728 | 789 | 3,607 |
| Total receivables managed | $696,202 | $743,756 | $22,362 | $28,942 |

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

**5. Debt and Letters of Credit**

The Company's borrowing facilities consist of a $210 million 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, | |
|---|---|---|
| | 2009 | 2010 |
| Asset-based revolving credit facility | $ 62,900 | $105,498 |
| 2002 Series A Variable Funding Note | 292,500 | 196,400 |
| 2006 Series A Notes | 150,000 | 150,000 |
| Unsecured revolving line of credit for $10 million maturing in September 2010 | — | — |
| Other long-term debt | 17 | 406 |
| Total debt | 505,417 | 452,304 |
| Less current portion of debt | 92,505 | 64,055 |
| Amounts classified as long-term | $412,912 | $388,249 |

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 January 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 restricts the amount of dividends the Company can pay and 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 $200 million that 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. In connection with amendments, discussed in Note 13, to the 2002 Series A facility, the VIE

agreed to reduce the total available commitment to $170 million in April 2010 and 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 $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 January 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.

As of January 31, 2010, the Company had approximately $34.1 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 $46.7 million that may become available under its asset-based revolving credit facility as it grows the balance of eligible customer receivables and its total eligible inventory balances.

The Company's asset–based revolving credit facility provides it the ability to utilize letters of credit to secure its 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 January 31, 2010, the Company had outstanding letters of credit of $23.7 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 $23.7 million as of January 31, 2010.

Interest expense incurred on notes payable and long-term debt totaled $25.9, $24.1 and $20.7 million for the years ended January 31, 2008, 2009 and 2010, respectively. The Company capitalized borrowing costs of $0.3 million, $0.2 million and $0.1 million during the years ended January 31, 2008, 2009 and 2010, respectively. Aggregate maturities of long-term debt as of January 31 in the year indicated are as follows (in thousands):

| | |
|---|---|
| 2011 | $ 64,055 |
| 2012 | 365,665 |
| 2013 | 22,584 |
| Total | $452,304 |

See Note 13 for additional information related to the Company's and the VIE's long-term debt.

The Company held interest rate swaps with notional amounts totaling $40.0 million as of January 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.

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

| | Fair Values of Derivative Instruments Liability Derivatives | | | |
|---|---|---|---|---|
| | January 31, 2009 | | January 31, 2010 | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| **Derivatives designated as hedging instruments under** | | | | |
| Interest rate contracts | Other liabilities | $ — | Other liabilities | $ 337 |
| **Total derivatives designated as hedging instruments** | | $ — | | $ 337 |

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) Year Ended January 31, 2009 | 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) Year Ended January 31 2009 | 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) Year Ended January 31 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|
| Interest Rate Contracts | $ — | $ (218) | Interest income/ (expense) | $ — | $ (308) | Interest income/ (expense) | $ — | $ — |
| Total | $ — | $ (218) | | $ — | $ (308) | | $ — | $ — |

### 6. Income Taxes

Deferred income taxes reflect the net effects of temporary timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred tax assets result primarily from differences between financial and tax methods of accounting for income recognition on service contracts and residual interests, capitalization of costs in inventory, amortization of goodwill, deductions for depreciation and doubtful accounts (in thousands).

| | January 31, 2009 | January 31, 2010 |
|---|---|---|
| **Deferred Tax Assets** | | |
| Allowance for doubtful accounts and warranty and insurance cancellations | $ 10,311 | $ 12,849 |
| Deferred revenue | 2,059 | 2,031 |
| Stock-based compensation | 1,654 | 2,098 |
| Property and equipment | 1,153 | — |
| Inventories | 802 | 559 |
| Goodwill | — | 946 |
| Straight-line rent accrual | 1,960 | 2,209 |
| Margin tax | 837 | 939 |
| Accrued reserves and other | 925 | 2,146 |
| Total deferred tax assets | 19,701 | 23,777 |
| **Deferred Tax Liabilities** | | |
| Sales tax receivable | (1,241) | (1,416) |
| Property and equipment | — | (670) |
| Goodwill | (1,598) | — |

| | January 31, | |
|---|---|---|
| | 2009 | 2010 |
| Other | (634) | (969) |
| Total deferred tax liabilities | (3,473) | (3,055) |
| **Net Deferred Tax Asset** | $ 16,228 | $ 20,722 |

During fiscal year 2010, as a result of the goodwill impairment charge taken during the third quarter, the Company recorded an increase in current tax expense and a decrease in deferred tax expense of $2.5 million.

The significant components of income taxes were as follows (in thousands):

| | Year Ended January 31, | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| Current: | | | |
| Federal | $ 22,279 | $ 26,042 | $ 6,376 |
| State | (33) | 1,636 | 1,217 |
| Total current | 22,246 | 27,678 | 7,593 |
| Deferred: | | | |
| Federal | 300 | (4,015) | (3,441) |
| State | 29 | (39) | (41) |
| Total deferred | 329 | (4,054) | (3,482) |
| Total tax provision | $$22,575 | $ 23,624 | $ 4,111 |

A reconciliation of the statutory tax rate and the effective tax rate for each of the periods presented in the statements of operations is as follows:

| | Year Ended January 31, | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| U.S. Federal statutory rate | 35.0% | 35.0% | 35.0% |
| State and local income taxes, net of federal benefit | 0.0 | 1.8 | 10.2 |
| Non-deductible entertainment, non-deductible stock-based compensation, non-deductible goodwill impairment, tax-free interest income and other | 0.1 | 0.3 | 6.0 |
| Effective tax rate | 35.1% | 37.1% | 51.2% |

Income taxes were impacted during the years ended January 31, 2009 and 2010, by the replacement of the existing franchise tax in Texas with a taxed based on margin. Taxable margin is generally defined as total federal tax revenues minus the greater of (a) cost of goods sold or (b) compensation. The tax rate to be paid by retailer and wholesalers is 0.5% on taxable margin. The increase in the effective rate on permanent differences and other shown above is a function of those line items increasing in absolute dollars in the year ended January 31, 2010, while the Company's pre-tax income declined. During the fourth quarter of the fiscal year ended January 31, 2010, the Company recorded a tax benefit related to litigation costs that had been accrued in prior quarters of the fiscal year ended January 31, 2010. The resulting impact was approximately a $1.6 million benefit to the provision for income taxes.

**7. Leases**

The Company leases certain of its facilities and operating equipment from outside parties and from a stockholder/officer. The real estate leases generally have initial lease periods of from 5 to 15 years with renewal options at the discretion of the Company; the equipment leases generally provide for initial lease terms of three to seven years and provide for a purchase right by the Company at the end of the lease term at the fair market value of the equipment.

The following is a schedule of future minimum base rental payments required under the operating leases that have initial non-cancelable lease terms in excess of one year (in thousands):

| Year Ended January 31, | Third Party | Related Party | Total |
|---|---|---|---|
| 2011 | $ 23,431 | 207 | $ 23,638 |
| 2012 | 23,097 | — | 23,097 |

| Year Ended January 31, | Third Party | Related Party | Total |
|---|---|---|---|
| 2013 | 20,138 | — | 20,138 |
| 2014 | 18,666 | — | 18,666 |
| 2015 | 16,443 | — | 16,443 |
| Thereafter | 55,648 | — | 55,648 |
| Total | $157,423 | $ 207 | $157,630 |

Total lease expense was approximately $19.3 million, $22.6 million and $23.9 million for the years ended January 31, 2008, 2009 and 2010, respectively, including approximately $0.2 million, $0.2 million and $0.2 million paid to related parties, respectively.

Certain of our leases are subject to scheduled minimum rent increases or escalation provisions, the cost of which is recognized on a straight-line basis over the minimum lease term. Tenant improvement allowances, when granted by the lessor, are deferred and amortized as contra-lease expense over the term of the lease.

## 8. Share-Based Compensation

The Company has an Incentive Stock Option Plan and a Non-Employee Director Stock Option Plan to provide for grants of stock options to various officers, employees and directors, as applicable, at prices equal to the market value on the date of the grant. The options vest over one to five year periods (depending on the grant) and expire ten years after the date of grant. The shares available under the Incentive Stock Option Plan are 3,859,767 and the shares available under the Non-Employee Director Stock Option Plan are 600,000. On June 2, 2009, the Company issued seven non-employee directors 70,000 total options to acquire the Company's stock at $16.93 per share. At January 31, 2010, the Company had 120,000 options available for grant under the Non-Employee Director Stock Option Plan.

The Company's Employee Stock Purchase Plan is available to a majority of the employees of the Company and its subsidiaries, subject to minimum employment conditions and maximum compensation limitations. At the end of each calendar quarter, employee contributions are used to acquire shares of common stock at 85% of the lower of the fair market value of the common stock on the first or last day of the calendar quarter. During the years ended January 31, 2008, 2009 and 2010, the Company issued 13,316, 21,774 and 27,110 shares of common stock, respectively, to employees participating in the plan, leaving 1,174,005 shares remaining reserved for future issuance under the plan as of January 31, 2010.

A summary of the Company's Incentive Stock Option Plan activity during the year ended January 31, 2010 is presented below (shares in thousands):

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding, beginning of year | 1,984 | $ 16.02 | | |
| Granted | 453 | $ 6.38 | | |
| Exercised | — | — | | |
| Forfeited | (74) | (13.49) | | |
| Outstanding, end of year | 2,363 | 14.26 | 6.6 | $ 0.00 |
| Exercisable, end of year | 1,331 | 17.10 | 4.8 | $ 0.00 |

During the years ended January 31, 2008, 2009 and 2010, the Company recognized total compensation cost for share-based compensation of approximately $2.7 million, $3.2 million and $2.4 million, respectively, and recognized tax benefits related to that compensation cost of approximately $0.5 million, $0.7 million, and $0.4 million, respectively.

The assumptions used in stock pricing model and valuation information for the years ended January 31, 2008, 2009 and 2010 are as follows:

| | Year Ended January 31, | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| Weighted average risk free interest rate | 3.6% | 2.5% | 2.8% |
| Weighted average expected lives in years | 6.4 | 6.4 | 6.5 |
| Weighted average volatility | 45.0% | 50.0% | 59.4% |

| | Year Ended January 31, | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| Expected dividends | — | — | — |
| Weighted average grant date fair value of options granted during the period | $9.94 | $3.33 | $3.77 |
| Weighted average fair value of options vested during the period (1) | $8.17 | $9.13 | $7.59 |
| Total fair value of options vesting during the period (1) | $ 2.3 million | $ 2.4 million | $ 2.2 million |
| Intrinsic value of options exercised during the period | $ 3.1 million | $ 0.2 million | $ 0.0 million |

(1) Does not include pre-IPO options that were valued using the minimum value option-pricing method.

The Company used a shortcut method to compute the weighted average expected life for the stock options granted in the years ended January 31, 2009 and 2010. The shortcut method is an average based on the vesting period and the contractual term. The Company uses the shortcut method due to the lack of adequate historical experience or other comparable information. The weighted average volatility for the years ended January 31, 2009 and 2010 was calculated using the Company's historical volatility. As of January 31, 2010, the total compensation cost related to non-vested awards not yet recognized totaled $5.7 million and is expected to be recognized over a weighted average period of 3.3 years.

## 9. Significant Vendors

As shown in the table below, a significant portion of the Company's merchandise purchases for years ended January 31, 2008, 2009 and 2010 were made from six vendors:

| | Year Ended January 31, | | |
|---|---|---|---|
| Vendor | 2008 | 2009 | 2010 |
| A | 13.0% | 19.3% | 12.6% |
| B | 13.1 | 11.5 | 10.7 |
| C | 7.5 | 9.9 | 10.2 |
| D | 5.9 | 9.6 | 9.3 |
| E | 9.1 | 6.6 | 8.9 |
| F | 5.8 | 6.4 | 6.6 |
| Totals | 54.4% | 63.3% | 58.3% |

## 10. Related Party Refinancing Transactions

The Company leases one of its stores from Thomas J. Frank, Jr. Mr. Frank served as the Company's Chief Executive Officer and Chairman of the Board until June, 2009. The terms of the lease were entered into prior to becoming a publicly held company. The lease provides for base monthly rental payments of $17,235 plus escrows for taxes, insurance and common area maintenance expenses of increasing monthly amounts based on expenditures by the management company operating the shopping center of which this store is a part through January 31, 2011. We also have an option to renew the lease for two additional five-year terms. Mr. Frank received total payments under this lease of $206,820 in fiscal 2008, 2009 and 2010, respectively. Based on market lease rates for comparable retail space in the area, we believe that the terms of this lease are no less favorable to us than we could have obtained in an arms' length transaction at the date of the lease commencement.

The Company engaged the services of Direct Marketing Solutions, Inc. (DMS), for a substantial portion of its direct mail advertising. DMS, Inc. is partially owned (less than 50%) by SF Holding Corp., members of the Stephens family, Jon E. M. Jacoby, and Douglas H. Martin. SF Holding Corp. and the members of the Stephens family are significant shareholders of the Company, and Messrs. Jacoby and Martin are members of the Company's Board of Directors. The fees the Company paid to DMS during the fiscal years ended 2008, 2009 and 2010, amounted to approximately $2.5 million, $4.0 million and $2.4 million, respectively.

## 11. Benefit Plans

The Company has established a defined contribution 401(k) plan for eligible employees who are at least 21 years old and have completed at least one-year of service. Employees may contribute up to 20% of their eligible pretax compensation to the plan. Historically, the Company has matched 100% of the first 3% of the employees' contributions and 50% of the next 2% of the employees' contributions.

Effective November 1, 2009, the Company changed its matching contribution to match only 100% of the first 3% of employees' contributions. At its option, the Company may make supplemental contributions to the Plan, but has not made such contributions in the past three years. The matching contributions made by the Company totaled $2.1, $1.8 and $1.3 million during the years ended January 31, 2008, 2009 and 2010, respectively.

**12. Contingencies**

***Legal Proceedings***. On November 24, 2009, the Company settled litigation filed against it on May 28, 2009, by the Texas Attorney General in the Texas State District Court of Harris County, Texas, alleging that the Company engaged in unlawful and deceptive practices in violation of the Texas Deceptive Trade Practices-Consumer Protection Act. Under the terms of the settlement with the Texas Attorney General, it did not admit and continues to deny any wrongdoing. As part of the settlement agreement, the Company made two cash payments, one in the amount of $2.5 million on December 17, 2009 and a second payment in the amount of $2.0 million made on February 18, 2010, both to the Texas Attorney General for distribution to consumers as restitution for claims the customers have. The Company also paid $250,000 to the Texas Attorney General in attorney's fees, and agreed to and did donate $100,000 to the University of Houston Law Center for use in its consumer protection programs. This settlement caps the Company's financial exposure under this litigation, in connection with the all of the allegations contained in the suit. These costs are included in Selling, general and administrative costs in the statement of operations for the year ended January 31, 2010.

The Company is also 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. As of January 31, 2010, the Company has recorded approximately $2.0 million in litigation reserves, inclusive of the Attorney General settlement, that reflect its best estimate of what it expects will be required to settle outstanding litigation.

***Insurance***. Because of its inventory, vehicle fleet and general operations, the Company has purchased insurance covering a broad variety of potential risks. The Company purchases insurance policies covering general liability, workers compensation, real property, inventory and employment practices liability, among others. Additionally, the Company has umbrella policies with an aggregate limit of $50.0 million. The Company has retained a portion of the risk under these policies and its group health insurance program. See additional discussion under Note 1. The Company has a $1.7 million letter of credit outstanding supporting its obligations under the property and casualty portion of its insurance program.

***Repair Service Agreement Obligations***. The Company sells repair service agreements under which it 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 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 sales and recorded in revenues in the statement of operations over the life of the agreements. The amounts deferred are reflected on the face of the consolidated balance sheet in Deferred revenues and allowances, see also Note 1 for additional discussion.

**13. Subsequent Events**

As a result of the declines in our profitability beginning in the quarter ended October 31, 2009, due to the slowdown in the economic conditions in the Company's markets, it determined that there was a reasonable likelihood that it would trigger the default provisions of its credit facilities. Based on that expectation, the Company began working with its and its VIE's lenders to amend the covenants in the credit facilities. The Company completed the necessary amendments in February and March, 2010. The Company and its VIE amended the covenants, among other terms, in their credit facilities. The revised covenant calculations include both the operating results and assets and liabilities of the Company and the

Company’s VIE, effective January 31, 2010, for all financial covenant calculations. The completed agreements resulted in the following changes:

- Fixed charge coverage ratio requirement reduced to 1.1 to 1.0 for the twelve month periods ended January 31, 2010, and April 30, 2010, before returning to a requirement of 1.3 to 1.0 beginning with the quarter ending July 31, 2010,
- The leverage ratio was replaced with a maximum total liabilities to tangible net worth requirement, beginning as of January 31, 2010, with a required maximum of 2.00 to 1.00 at January 31, 2010, declining to 1.75 to 1.00 as of July 31, 2010 and then to 1.50 to 1.00 as of April 30, 2011 and each fiscal quarter thereafter,
- The interest rate on our revolving credit facility increased by 100 basis points to LIBOR plus a spread ranging from 325 basis points to 375 basis points,
- We will be required to pay a fee, as servicer of the VIE’s receivables, equal to the following rates multiplied times the total available borrowing commitment under the VIE’s revolving credit 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,
- The total available commitments under the VIE’s revolving credit facility will be reduced from the current level of $200 million to $170 million in April 2010 and then to $130 million in April 2011,
- The Company will use the proceeds from any capital raising activity to further reduce the commitments and debt outstanding under the VIE’s debt facilities,
- The maturity date on the VIE’s revolving credit facility was reduced from September 2012 to August 2011, and
- The Company may be required to complete certain additional tasks as servicer of the VIE’s receivables, so long as commitments remain outstanding under the VIE’s revolving credit facility.

The Company expects, based on current facts and circumstances, that it will be in compliance with the above covenants through fiscal 2011.

### 14. Segment Reporting

Financial information by segment is presented in the following tables for fiscal years ended January 31, 2010, 2009 and 2008 (in thousands):

| | Year Ended January 31, 2010 | | |
|---|---|---|---|
| | Retail | Credit | Total |
| **Revenues** | | | |
| Product sales | $667,401 | $ — | $667,401 |
| Repair service agreement commissions (net) (a) | 44,119 | (10,847) | 33,272 |
| Service revenues | 22,115 | — | 22,115 |
| **Total net sales** | 733,635 | (10,847) | 722,788 |
| Finance charges and other | 532 | 152,265 | 152,797 |

| | Year Ended January 31, 2010 | | |
|---|---|---|---|
| | **Retail** | **Credit** | **Total** |
| **Total revenues** | 734,167 | 141,418 | 875,585 |
| **Cost and expenses** | | | |
| Costs of goods and parts sold, including warehousing and occupancy costs | 544,700 | — | 544,700 |
| Selling, general and administrative expense (b) | 180,911 | 61,019 | 241,930 |
| Depreciation and amortization | 12,288 | 1,724 | 14,012 |
| Goodwill impairment | — | 9,617 | 9,617 |
| Provision for bad debts | 97 | 36,746 | 36,843 |
| **Total cost and expenses** | 737,996 | 109,106 | 847,102 |
| **Operating income (loss)** | (3,829) | 32,312 | 28,483 |
| Interest (income) expense, net | — | 20,571 | 20,571 |
| Other (income) expense, net | (123) | — | (123) |
| **Segment income (loss) before income taxes** | $ (3,706) | $ 11,741 | $ 8,035 |
| Total assets | $195,648 | $696,818 | $892,466 |
| Property and equipment additions | $ 9,808 | $ 447 | $ 10,255 |

| | Year Ended January 31, 2009 | | |
|---|---|---|---|
| | Retail | Credit | Total |
| **Revenues** | | | |
| Product sales | $743,729 | $ — | $743,729 |
| Repair service agreement commissions (net) (a) | 50,778 | (10,579) | 40,199 |
| Service revenues | 21,121 | | 21,121 |
| Total net sales | 815,628 | (10,579) | 805,049 |
| Finance charges and other | 2,161 | 152,331 | 154,492 |
| **Total revenues** | 817,789 | 141,752 | 959,541 |
| **Cost and expenses** | | | |
| Costs of goods and parts sold, including warehousing and occupancy costs | 590,061 | — | 590,061 |
| Selling, general and administrative expense (b) | 182,703 | 58,928 | 241,631 |
| Depreciation and amortization | 11,218 | 1,323 | 12,541 |
| Goodwill impairment | — | — | — |
| Provision for bad debts | 160 | 27,792 | 27,952 |
| **Total cost and expenses** | 784,142 | 88,043 | 872,185 |
| **Operating income** | 33,647 | 53,709 | 87,356 |
| Interest (income) expense, net | — | 23,597 | 23,597 |
| Other (income) expense, net | 117 | — | 117 |
| **Segment income before income taxes** | $ 33,530 | $ 30,112 | $ 63,642 |
| Total assets | $234,672 | $722,894 | $957,566 |
| Property and equipment additions | $ 17,446 | $ 151 | $ 17,597 |

| | Year Ended January 31, 2008 | | |
|---|---|---|---|
| | Retail | Credit | Total |
| **Revenues** | | | |
| Product sales | $671,571 | $ — | $671,571 |
| Repair service agreement commissions (net) (a) | 44,735 | (8,311) | 36,424 |
| Service revenues | 22,997 | — | 22,997 |
| Total net sales | 739,303 | (8,311) | 730,992 |
| Finance charges and other | 950 | 138,588 | 139,538 |
| **Total revenues** | 740,253 | 130,277 | 870,530 |
| **Cost and expenses** | | | |
| Costs of goods and parts sold, including warehousing and occupancy costs | 517,166 | — | 517,166 |
| Selling, general and administrative expense (b) | 179,354 | 54,279 | 233,633 |
| Depreciation and amortization | 11,331 | 797 | 12,128 |
| Goodwill impairment | — | — | — |
| Provision for bad debts | 190 | 19,275 | 19,465 |
| **Total cost and expenses** | 708,041 | 74,351 | 782,392 |
| **Operating income** | 32,212 | 55,926 | 88,138 |
| Interest (income) expense, net | — | 24,839 | 24,839 |
| Other (income) expense, net | (943) | — | (943) |
| **Segment income before income taxes** | $ 33,155 | $ 31,087 | $ 64,242 |
| Total assets | $200,686 | $634,813 | $835,499 |
| Property and equipment additions | $ 17,936 | $ 1,019 | $ 18,955 |

(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 $7.2 million, $9.4 million and $9.0 million for the fiscal years ended January 31, 2010, 2009 and 2008, respectively. The amount of reimbursement made to the retail segment by the credit segment was approximately $18.6 million, $17.4 million and $15.2 million for the fiscal years ended January 31, 2010, 2009 and 2008, respectively.