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

FORM 10-Q

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

For the quarterly period ended July 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 1-34956

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

A Delaware Corporation	**06-1672840**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4055 Technology Forest Blvd, Suite 210, The Woodlands, Texas, 77381
(address of principal executive offices)

(936) 230-5899
(Registrants telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of September 3, 2015:

Class	Outstanding
Common stock, $0.01 par value per share	36,515,901

CONN'S, INC. AND SUBSIDIARIES

FORM 10-Q
FOR THE FISCAL QUARTER ENDED JULY 31, 2015

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This Quarterly Report on Form 10-Q may include our trademarks such as "Conn's," "Conn's HomePlus," "YES Money," "YE$ Money," and our logos, which are protected under applicable intellectual property laws and are the property of Conn's, Inc. This report also contains trademarks, service marks, trade names and copyrights of other companies, which are the property of their respective owners. Solely for convenience, trademarks and trade names referred to in this Annual Report may appear without the ® or TM symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensor to these trademarks and trade names.

Unless the context otherwise indicates, references to "Conn's," the "Company," "we," "us," and "our" refer to the consolidated business operations of Conn's, Inc. and its wholly-owned subsidiaries.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONN'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except per share data)

	July 31, 2015	January 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 6,868	$ 12,223
Customer accounts receivable, net of allowances	685,933	643,094
Other accounts receivable	78,939	67,703
Inventories	173,577	159,068
Deferred income taxes	22,504	20,040
Income taxes recoverable	615	11,058
Prepaid expenses and other current assets	17,198	12,529
Total current assets	**985,634**	**925,715**
Long-term portion of customer accounts receivable, net of allowances	583,082	558,257
Property and equipment, net	133,674	120,218
Deferred income taxes	41,386	33,505
Other assets	8,296	9,627
Total assets	**$ 1,752,072**	**$ 1,647,322**
Liabilities and Stockholders’ Equity		
Current liabilities:		
Current portion of debt	$ 789	$ 395
Accounts payable	105,311	85,355
Accrued compensation and related expenses	10,366	12,151
Accrued expenses	31,309	27,479
Income taxes payable	3,093	3,450
Deferred revenues and other credits	16,215	16,179
Total current liabilities	**167,083**	**145,009**
Deferred rent	62,669	52,792
Long-term debt	811,240	774,015
Other long-term liabilities	22,459	21,836
Total liabilities	**1,063,451**	**993,652**
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock ($0.01 par value, 1,000 shares authorized; none issued or outstanding)	—	—
Common stock ($0.01 par value, 100,000 shares authorized; 36,506 and 36,352 shares issued, respectively)	365	364
Additional paid-in capital	234,130	231,395
Retained earnings	454,126	421,911
Total stockholders’ equity	**688,621**	**653,670**
Total liabilities and stockholders' equity	**$ 1,752,072**	**$ 1,647,322**

See notes to condensed consolidated financial statements.

CONN'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share amounts)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2015	**2014**	**2015**	**2014**
Revenues:				
Product sales	$ 293,739	$ 264,166	$ 565,365	$ 518,386
Repair service agreement commissions	27,756	20,732	51,552	40,986
Service revenues	3,451	3,383	6,508	6,538
Total net sales	324,946	288,281	623,425	565,910
Finance charges and other revenues	71,104	64,683	137,701	122,502
Total revenues	**396,050**	**352,964**	**761,126**	**688,412**
Costs and expenses:				
Cost of goods sold, including warehousing and occupancy costs	187,124	168,717	360,596	329,499
Cost of service parts sold, including warehousing and occupancy costs	1,550	1,871	2,862	3,290
Delivery, transportation and handling costs	13,787	13,164	26,136	25,327
Selling, general and administrative expenses	104,832	94,139	200,507	182,180
Provision for bad debts	51,646	39,585	99,189	61,843
Charges and credits	1,013	1,492	1,632	3,246
Total costs and expenses	**359,952**	**318,968**	**690,922**	**605,385**
Operating income	**36,098**	**33,996**	**70,204**	**83,027**
Interest expense	10,055	6,247	19,483	10,971
Income before income taxes	**26,043**	**27,749**	**50,721**	**72,056**
Provision for income taxes	9,505	10,099	18,506	25,937
Net income	**$ 16,538**	**$ 17,650**	**$ 32,215**	**$ 46,119**
Earnings per share:				
Basic	$ 0.45	$ 0.49	$ 0.88	$ 1.27
Diluted	$ 0.45	$ 0.48	$ 0.87	$ 1.25
Weighted average common shares outstanding:				
Basic	36,466	36,209	36,416	36,172
Diluted	37,042	36,972	36,967	36,951

See notes to condensed consolidated financial statements.

CONN'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(in thousands)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2015	2014	2015	2014
Net income	$ 16,538	$ 17,650	$ 32,215	$ 46,119
Change in fair value of hedges	—	58	—	116
Impact of provision for income taxes on comprehensive income	—	(21)	—	(41)
Comprehensive income	**$ 16,538**	**$ 17,687**	**$ 32,215**	**$ 46,194**

See notes to condensed consolidated financial statements.

CONN'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Six Months Ended July 31, 2015	Six Months Ended July 31, 2014
Cash flows from operating activities:		
Net income	$ 32,215	$ 46,119
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,245	10,655
Provision for bad debts and uncollectible interest	116,217	73,552
Stock-based compensation expense	1,805	2,241
Excess tax benefits from stock-based compensation	(474)	(952)
Charges, net of credits, for store and facility closures and relocations	425	3,246
Deferred income taxes	(10,346)	(12,019)
Loss (gain) on sale of property and equipment	(517)	23
Tenant improvement allowances received from landlords	7,212	5,264
Change in operating assets and liabilities:		
Customer accounts receivable	(183,881)	(168,463)
Other accounts receivable	(7,580)	1,501
Inventories	(14,509)	(17,094)
Other assets	201	(1,385)
Accounts payable	23,658	13,102
Accrued expenses	507	(8,848)
Income taxes	10,086	(4,109)
Deferred revenues and other credits	(880)	2,050
Deferred rent	170	2,441
Net cash used in operating activities	**(13,446)**	**(52,676)**
Cash flows from investing activities:		
Purchase of property and equipment	(29,656)	(38,120)
Proceeds from sale of property	35	19,279
Net cash used in investing activities	**(29,621)**	**(18,841)**
Cash flows from financing activities:		
Borrowings from revolving credit facility	220,246	215,983
Payments on revolving credit facility	(184,450)	(389,750)
Proceeds from issuance of senior notes, net of issuance costs	—	243,400
Proceeds from stock issued under employee benefit plans	1,688	607
Excess tax benefits from stock-based compensation	474	952
Other	(246)	(1,381)
Net cash provided by financing activities	**37,712**	**69,811**
Net change in cash and cash equivalents	**(5,355)**	**(1,706)**
Cash and cash equivalents, beginning of period	12,223	5,727
Cash and cash equivalents, end of period	**$ 6,868**	**$ 4,021**
Non-cash investing and financing activities:		
Capital lease asset additions and related obligations	$ 1,720	$ 304
Property and equipment purchases not yet paid	$ 3,406	$ —

See notes to condensed consolidated financial statements.

CONN'S, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Business. Conn’s is a leading specialty retailer that offers a broad selection of quality, branded durable consumer goods and related services in addition to a proprietary credit solution for its core credit constrained consumers. We operate an integrated and scalable business through our retail stores and website. Our complementary product offerings include furniture and mattresses, home appliances, consumer electronics and home office products from leading global brands across a wide range of price points. Our credit offering provides financing solutions to a large, under-served population of credit constrained consumers who typically have limited banking options.

We operate two reportable segments: retail and credit. Our retail stores bear the "Conn’s" or "Conn’s HomePlus" name and deliver the same products and services to a common customer group. All of the retail stores follow the same procedures and methods in managing their operations. Our retail business and credit business are operated independently from each other. The credit segment is dedicated to providing short- and medium-term financing for our retail customers. The retail segment is not involved in credit approval decisions. Our management evaluates performance and allocates resources based on the operating results of the retail and credit segments.

Subsequent Events. On September 4, 2015, we entered into an agreement to securitize $1.4 billion of customer receivables, with closing expected on or about September 10, 2015. We will transfer the securitized customer receivables to a bankruptcy-remote variable-interest entity ("VIE"). The VIE will issue bonds at a face amount of $1.12 billion secured by the portfolio balance, which will result in net proceeds to us of approximately $1.08 billion, net of transaction costs, and will be used to pay down the entire balance on our revolving credit facility. The lead partner in this deal was Credit Suisse, which will purchase the issued bonds at an advance rate of 77.5% of the outstanding customer receivables portfolio balance, which is approximately 89.5% of the customer accounts receivable balance net of allowances and deferred interest. We will initially hold the residual equity of the VIE, which we are in the process of selling. We may elect to retain all or a portion of the residual equity of the VIE if that is determined to be in our best economic interest. We also plan to execute periodic securitizations of future originated loans.

Under the terms of the securitization transaction, the customer loan principal and interest payment cash flows will go first to the servicer and the holders of the securitization bonds, and then to the residual equity holders. We will retain the servicing of the securitized loan portfolio and will receive a monthly fee of 4.75% (annualized) based on the outstanding balance of the securitized loans. In addition, we will retain all credit insurance income together with certain recoveries related to credit insurance and repair service agreements on charged-off accounts previously reflected as a reduction of net charge-offs.

While holding all or a significant portion of the residual equity of the VIE, we will consolidate the VIE within our financial statements. If we sell all or a significant portion of the residual equity, we will assess if the transaction achieves sale treatment for accounting purposes, which may result in deconsolidation of the VIE. There is no assurance that we will complete a sale of all or a portion of the residual equity of the VIE and there is no assurance we will achieve sale treatment, and no timetable has been set for completion of this process. As a result, we have determined that the loan portfolio does not meet the criteria for treatment as an asset held for sale, which would require recording at the lower of cost, net of allowances, or fair value. We have not made an adjustment to the customer accounts receivable balance as a result of the transaction or in anticipation of any gain or loss that may occur should a sale of the residual portion of the VIE be completed.

On September 2, 2015, the Board of Directors also an aggregate repurchase program of up to $75.0 million (the maximum amount permitted under the Company’s credit facility and senior note indenture) consisting of (i) shares of the Company's outstanding common stock; (ii) 7.250% Senior Notes Due 2022; or (iii) a combination thereof. Common stock and senior note repurchases may be made from time to time on the open market or through privately negotiated transactions, at management’s discretion, based on market and business conditions. We have no obligation to repurchase shares or senior notes under the authorization, and the timing and value of the shares and notes that are repurchased will be at the discretion of management and will depend on a number of factors, including the price of the Company's common stock and the senior notes. We may suspend or discontinue repurchases at any time without notice.

Basis of Presentation. The accompanying unaudited, condensed consolidated financial statements of Conn’s, Inc. and its wholly-owned subsidiaries have been prepared by management in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, we do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature, except as otherwise described herein. The condensed consolidated financial position, results of operations and cash flows for these interim periods are not necessarily indicative of the results that may be expected in future periods. The balance sheet at January 31, 2015 has been derived from the audited financial statements at that date. The financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2015, filed with the United States Securities and Exchange Commission (the "SEC") on April 1, 2015.

Accounting Policies. The complete summary of significant accounting policies is included in the notes to the consolidated financial statements as presented in our Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

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

Fiscal Year. Our fiscal year ends on January 31. References to a fiscal year refer to the calendar year in which the fiscal year ends.

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

Earnings per Share. Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share include the potential dilutive effects of any stock options and restricted stock units granted, which is calculated using the treasury-stock method. The following table sets forth the shares outstanding for the earnings per share calculations:

	Three Months Ended July 31,		**Six Months Ended July 31,**	
(in thousands)	**2015**	**2014**	**2015**	**2014**
Weighted average common shares outstanding - Basic	36,466	36,209	36,416	36,172
Dilutive effect of stock options and restricted stock units	576	763	551	779
Weighted average common shares outstanding - Diluted	37,042	36,972	36,967	36,951

For the three months ended July 31, 2015 and 2014, the weighted average number of stock options and restricted stock units not included in the calculation due to their anti-dilutive effect was 69,000 and 80,000, respectively. For the six months ended July 31, 2015 and 2014, the weighted average number of stock options and restricted stock units not included in the calculation due to their anti-dilutive effect was 187,000 and 58,000, respectively.

Customer accounts receivable and related allowance for doubtful accounts. Customer accounts receivable are originated at the time of sale and delivery of the various products and services. Based on contractual terms, we record the amount of principal and accrued interest on customer receivables that is expected to be collected within the next twelve months in current assets with the remaining balance in long-term assets on the consolidated balance sheet. Customer receivables are considered delinquent if a payment has not been received on the scheduled due date. Accounts that are delinquent more than 209 days as of the end of a month are charged-off against the allowance for doubtful accounts and interest accrued subsequent to the last payment is reversed and charged against the allowance for uncollectible interest.

In an effort to mitigate losses on our accounts receivable, we may make loan modifications to a borrower experiencing financial difficulty. The loan modifications are intended to maximize net cash flow after expenses and avoid the need to repossess collateral or exercise legal remedies available to us. We may extend the loan term, refinance or otherwise re-age an account. We consider accounts that have been re-aged in excess of three months or refinanced as Troubled Debt Restructurings ("TDR" or "Restructured Accounts").

We record an allowance for doubtful accounts, including estimated uncollectible interest, for our non-TDR customer accounts receivable that we expect to charge-off over the next twelve months based on our historical cash collection and net loss experience using a projection of monthly delinquency performance, cash collections and losses. In addition to pre-charge-off cash collections and charge-off information, estimates of post-charge-off recoveries, including cash payments, amounts realized from the repossession of the products financed and payments received under credit insurance policies are also considered. We determine allowances for those accounts that are TDR based on the discounted present value of cash flows expected to be collected over the life of those accounts. The excess of the carrying amount over the discounted cash flow amount is recorded as an allowance for loss on those accounts.

Interest income on customer accounts receivable. Interest income is accrued using the interest method for installment contracts and is reflected in finance charges and other. Typically, interest income is accrued until the contract or account is paid off or charged-off. We provide an allowance for estimated uncollectible interest. Interest income on installment contracts with our customers is calculated using the rule of 78s. In order to convert the interest income recognized to the interest method, we have recorded the excess earnings of rule of 78s over the interest method as deferred revenue on our balance sheets. This deferred interest will ultimately be brought into income as the accounts pay off or accounts amortize to the point that interest income under the interest method exceeds that which is being earned under rule of 78s. At July 31, 2015 and January 31, 2015, there was $11.1 million and $11.2 million, respectively, of deferred interest included in deferred revenues and other credits and other long-term liabilities.

We offer 12-month no-interest finance programs. If the customer is delinquent in making a scheduled monthly payment or does not repay the principal in full by the end of the no-interest program period (grace periods are provided), the account does not qualify for the no-interest provision and the terms of the account revert back to those of the executed installment contract resulting in interest over the entire term. Interest income is recognized based on our historical experience related to customers that fail to satisfy the requirements of the programs.

In October 2014, we began offering 18- and 24-month equal-payment, no-interest finance programs to certain higher credit quality borrowers, which are discounted to their present value at origination, resulting in a reduction in sales and customer receivables, and the discount amount is amortized into finance charges and other revenues over the term of the contract. If a customer is delinquent in making a scheduled monthly payment (grace periods are provided), the account begins accruing interest based on the contract rate from the date of the last payment made, which is a higher rate than the discount rate.

We recognize interest income on TDR accounts using the interest income method, which requires reporting interest income equal to the increase in the net carrying amount of the loan attributable to the passage of time. Cash proceeds and other adjustments are applied to the net carrying amount such that it always equals the present value of expected future cash flows.

We typically only place accounts in non-accrual status when legally required. Payments received on non-accrual loans will be applied to principal and reduce the amount of the loan. Interest accrual is resumed on those accounts once a legally-mandated settlement arrangement is reached or other payment arrangements are made with the customer. At July 31, 2015 and January 31, 2015, customer receivables carried in non-accrual status were $16.3 million and $13.7 million, respectively. At July 31, 2015 and January 31, 2015, customer receivables that were past due 90 days or more and still accruing interest totaled $93.6 million and $97.1 million, respectively.

Fair Value of Financial Instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities recorded at fair value are categorized using defined hierarchical levels related to subjectivity associated with the inputs to fair value measurements as follows:

- Level 1 – Quoted prices available in active markets for identical assets or liabilities
- Level 2 – Pricing inputs not quoted in active markets but either directly or indirectly observable
- Level 3 – Significant inputs to pricing that have little or no transparency with inputs requiring significant management judgment or estimation.

The fair value of cash and cash equivalents and accounts payable approximate their carrying amounts because of the short maturity of these instruments. The fair value of customer accounts receivables, determined using a Level 3 discounted cash flow analysis using data from the recent securitization transaction, approximates their carrying amount. The fair value of our revolving credit facility approximates carrying value based on the current borrowing rate for similar types of borrowing arrangements. At July 31, 2015, the fair value of our 7.25% senior notes, which was determined using Level 1 inputs, was $238.8 million as compared to the carrying value of $250.0 million, excluding the impact of the related discount.

Stockholders' Rights Plan. On October 6, 2014, we adopted a one-year stockholders' rights plan whereby the Board of Directors of the Company ("Board of Directors") declared a dividend of one right for each outstanding share of the Company's common stock to stockholders of record on October 16, 2014. Each right entitles the registered holder to purchase from the Company one one-thousandth of a share of the Company's Series A Junior Participating Preferred Stock at a price of $155.00 per right. The rights are not presently exercisable and remain attached to the shares of common stock until the occurrence of certain triggering events. Subject to certain exceptions, the rights will separate from the shares of common stock and a distribution date will be deemed to occur on the earlier of (i) the tenth business day after a public announcement or filing that a person or group has become a beneficial owner of 10% or more of the Company's outstanding common stock after the adoption of the stockholders' rights plan, or (ii) the tenth business day (or such later date as the Board of Directors may determine) after the commencement of, or announcement of an intention to commence, a tender or exchange offer that, if consummated, would result in a person or group becoming a beneficial owner of 10% or more of the Company's outstanding common stock. The rights will expire on October 5, 2015, unless exercised, redeemed or exchanged prior to that time. The Board of Directors may terminate the rights plan before the expiration date or extend the expiration date. The rights have no voting or dividend privileges and, unless and until they become exercisable, have no dilutive effect on the earnings of the Company.

On September 2, 2015, the Board of Directors approved the termination of the Company's stockholder rights plan, effective at the close of the securitization transaction, currently anticipated to be on or about September 10, 2015.

Related Party Transactions. From time to time, we have engaged Stephens Inc. to act as our financial advisor. Stephens Inc. and its affiliates beneficially own shares of our common stock and one of our board of directors, Douglas H. Martin, is a Senior Managing Director of Stephens Inc. On March 31, 2015, we announced that we had engaged Stephens Inc., as a financial advisor to assist us with the process of pursuing a sale of all or a portion of the loan portfolio, or other refinancing of our loan portfolio. We have agreed to pay Stephens Inc. a success fee in the event we consummate one or more of these transactions. The disinterested members of our board of directors have determined that it is in the Company's best interest to engage Stephens Inc. in such capacity to assist us in analyzing and advising us with respect to the opportunity. The engagement of Stephens Inc. as financial advisor was approved by the independent members of our board of directors after full disclosure of the conflicts of interests of the related parties in the transaction. Douglas H. Martin did not participate in the approval process.

Recent Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive accounting standard for revenue recognition for contracts with customers and supersedes current guidance. Upon adoption of ASU 2014-09, entities are required to recognize revenue using the following comprehensive model: (1) identify contracts with customers, (2) identify the performance obligations in contracts, (3) determine transaction price, (4) allocate the transaction price to the performance obligations, and (5) recognize revenue as each performance obligation is satisfied. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of Effective Date,* which defers the effective date of ASU 2015-14 by one year and allows early adoption on a limited basis. ASU 2014-09 is now effective for us beginning in the first quarter of fiscal year 2019 and will result in retrospective application, either in the form of recasting all prior periods presented or a cumulative adjustment to equity in the period of adoption. We are currently assessing the impact the new standard will have on our financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation: Amendments to the Consolidation Analysis,* which focuses on a reporting company's consolidation evaluation to determine whether they should consolidate certain legal entities. ASU 2014-09 is effective for us beginning in the first quarter of fiscal year 2017 and allows early adoption, including adoption in an interim period. We have early adopted ASU 2015-02 beginning with the quarter ended July 31, 2015, which did not have an impact to our financial statements.

Reclassifications. Certain reclassifications have been made to prior year fiscal year amounts to conform to the presentation in the current fiscal year. On the consolidated statement of operations, delivery, transportation and handling costs is shown separately and was reclassified out of selling, general and administrative expenses. On the consolidated statements of cash flows, tenant improvement allowances received from landlords, changes in other accounts receivables and changes in deferred rents is shown separately and was reclassified out of changes in other assets and accrued expenses. These reclassifications did not impact consolidated operating income, net income, or net cash used in operating activities.

2. Charges and Credits

Charges and credits consisted of the following:

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands)	2015	2014	2015	2014
Store and facility closure and relocation costs	$ —	$ 1,492	$ 425	$ 3,246
Legal and professional fees related to the exploration of strategic alternatives and securities-related litigation	1,013	—	1,207	—
	$ 1,013	$ 1,492	$ 1,632	$ 3,246

3. Finance Charges and Other Revenues

Finance charges and other revenues consisted of the following:

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands)	2015	2014	2015	2014
Interest income and fees	$ 57,383	$ 52,226	$ 112,802	$ 98,716
Insurance commissions	13,062	12,113	24,091	22,976
Other revenues	659	344	808	810
	$ 71,104	$ 64,683	$ 137,701	$ 122,502

Interest income and fees and insurance commissions are derived from the credit segment operations, whereas other revenues is derived from the retail segment operations. For the three months ended July 31, 2015 and 2014, interest income and fees was reduced by provisions for uncollectible interest of $8.9 million and $6.6 million, respectively. For the six months ended July 31, 2015 and 2014, interest income and fees was reduced by provisions for uncollectible interest of $17.4 million and $12.0 million, respectively. For the three months ended July 31, 2015 and 2014, the amount included in interest income and fees related to TDR accounts was $3.3 million and $1.8 million, respectively. For the six months ended July 31, 2015 and 2014, the amount included in interest income and fees related to TDR accounts was $6.5 million and $3.1 million, respectively.

4. Customer Accounts Receivable

Customer accounts receivable consisted of the following:

			Total Outstanding Balance			
	Customer Accounts Receivable		60 Days Past Due [1]		Re-aged [1]	
(in thousands)	July 31, 2015	January 31, 2015	July 31, 2015	January 31, 2015	July 31, 2015	January 31, 2015
Customer accounts receivable	$ 1,350,447	$ 1,277,135	$ 105,737	$ 112,365	$ 87,640	$ 94,304
Restructured accounts	101,490	88,672	27,172	20,722	101,490	88,672
Total customer portfolio balance	1,451,937	1,365,807	$ 132,909	$ 133,087	$ 189,130	$ 182,976
Allowance for uncollectible accounts	(164,330)	(146,982)				
Allowance for short-term, no-interest programs	(18,592)	(17,474)				
Total customer accounts receivable, net	1,269,015	1,201,351				
Short-term portion of customer accounts receivable, net	(685,933)	(643,094)				
Long-term portion of customer accounts receivable, net	$ 583,082	$ 558,257				

(1) Due to the fact that an account can become past due after having been re-aged, accounts could be represented as both past due and re-aged. As of July 31, 2015 and January 31, 2015, the amounts included within both past due and re-aged was $47.7 million and $44.9 million, respectively. As of July 31, 2015 and January 31, 2015, the total customer portfolio balance past due one day or greater was $327.1 million and $316.0 million, respectively. These amounts include the 60 days past due balances shown.

The following presents the activity in our balance in the allowance for doubtful accounts and uncollectible interest for customer receivables:

	Six Months Ended July 31, 2015			Six Months Ended July 31, 2014		
(in thousands)	**Customer Accounts Receivable**	**Restructured Accounts**	**Total**	**Customer Accounts Receivable**	**Restructured Accounts**	**Total**
Allowance at beginning of period	$ 118,786	$ 28,196	$ 146,982	$ 54,448	$ 17,353	$ 71,801
Provision (1)	91,821	24,396	116,217	61,317	12,235	73,552
Principal charge-offs (2)	(71,280)	(14,190)	(85,470)	(49,367)	(8,338)	(57,705)
Interest charge-offs	(13,056)	(2,599)	(15,655)	(8,824)	(1,490)	(10,314)
Recoveries (2)	1,881	375	2,256	6,807	1,150	7,957
Allowance at end of period	$ 128,152	$ 36,178	$ 164,330	$ 64,381	$ 20,910	$ 85,291
Average total customer portfolio balance	$ 1,297,951	$ 95,652	$ 1,393,603	$ 1,057,875	$ 52,626	$ 1,110,501

(1) Includes provision for uncollectible interest, which is included in finance charges and other revenues.

(2) Charge-offs include the principal amount of losses (excluding accrued and unpaid interest), and recoveries include principal collections during the period shown of previously charged-off balances. Net charge-offs are calculated as the net of principal charge-offs and recoveries.

5. Accrual for Store Closures

We have closed or relocated retail locations that did not perform at a level we expect for mature store locations. Certain of the closed or relocated stores had noncancelable lease agreements, resulting in the accrual of the present value of the remaining lease payments and estimated related occupancy obligations, net of estimated sublease income. Adjustments to these projections for changes in estimated marketing times and sublease rates, as well as other revisions, are made to the obligation as further information related to the actual terms and costs become available.

The following table presents detail of the activity in the accrual for store closures:

	Six Months Ended July 31,	
(in thousands)	**2015**	**2014**
Balance at beginning of period	$ 2,556	$ 4,316
Accrual for additional closures	318	3,108
Adjustments	(32)	138
Cash payments, net of sublease income	(698)	(4,254)
Balance at end of period	2,144	3,308
Current portion, included in accrued expenses	(640)	(1,181)
Long-term portion, included in other long-term liabilities	$ 1,504	$ 2,127

6. Debt

Debt consisted of the following:

(in thousands)	July 31, 2015	January 31, 2015
Revolving credit facility	$ 563,907	$ 528,112
Senior Notes	250,000	250,000
Other debt	2,445	933
Total debt	816,352	779,045
Less:		
Discount on debt	(4,323)	(4,635)
Current portion of debt	(789)	(395)
Long-term debt	$ 811,240	$ 774,015

Senior Notes. On July 1, 2014, we issued $250.0 million in senior unsecured notes due July 2022 (the "Senior Notes"), bearing interest at 7.25%, pursuant to an indenture dated July 1, 2014 (the "Indenture"), among Conn’s, Inc., its subsidiary guarantors (the "Guarantors") and U.S. Bank National Association, as trustee. The Senior Notes were sold at par, and resulted in net proceeds of $243.4 million, after deducting the initial purchasers’ discounts and commissions and other offering expenses. The net proceeds were used to repay outstanding borrowings under our revolving credit facility. The effective interest rate of the Senior Notes after giving effect to offering fees and debt discount is 7.6%.

The Indenture restricts the Company's and certain of its subsidiaries' ability to: (i) incur indebtedness; (ii) pay dividends or make other distributions in respect of, or repurchase or redeem, our capital stock; (iii) prepay, redeem or repurchase debt that is junior in right of payment to the notes; (iv) make loans and certain investments; (v) sell assets; (vi) incur liens; (vii) enter into transactions with affiliates; and (viii) consolidate, merge or sell all or substantially all of our assets. These covenants are subject to a number of important exceptions and qualifications. During any time when the Senior Notes are rated investment grade by either of Moody's Investors Service, Inc. or Standard & Poor's Ratings Services and no Default (as defined in the Indenture) has occurred and is continuing, many of such covenants will be suspended, and we will cease to be subject to such covenants during such period.

Events of default under the Indenture include customary events, such as a cross-acceleration provision in the event that we default in the payment of other debt due at maturity or upon acceleration for default in an amount exceeding $25.0 million, as well as in the event a judgment is entered against us in excess of $25.0 million that is not discharged, bonded or insured.

The Senior Notes are fully and unconditionally guaranteed on a senior unsecured basis by the Guarantors. The only direct or indirect subsidiaries of Conn’s, Inc. that are not Guarantors are minor subsidiaries. There are no restrictions on the ability of any of the Guarantors to transfer funds to Conn’s, Inc. in the form of loans, advances or dividends, except as provided by applicable law.

On April 24, 2015, the SEC declared effective the Company’s registration statement on Form S-4 pursuant to which we exchanged the Senior Notes for an equivalent amount of 7.25% Senior Notes due July 2022 that are registered under the Securities Act of 1933, as amended (the “Exchange Notes”). The exchange offer was completed on June 1, 2015, and all of the outstanding Senior Notes were tendered in exchange for the Exchange Notes. The terms of the Exchange Notes are substantially identical to the Senior Notes.

Revolving Credit Facility. Conn's, Inc. and certain of its subsidiaries (the "Borrowers") amended its asset-based revolving credit facility in connection with the issuance of the Senior Notes. The amendment provides for, among other things, the issuance of the Senior Notes and Indenture as well as related guarantees, upstream distributions from subsidiaries to Conn’s, Inc. (a holding company) for the payment of interest and principal on the Senior Notes and under certain circumstances optional and mandatory prepayment of the Senior Notes. The amendment also allows holders of the Senior Notes to receive payments even though they may be stockholders of the Company.

Our revolving credit facility with a syndicate of banks has capacity of $880.0 million and matures in November 2017. The revolving credit facility provides funding based on a borrowing base calculation that includes customer accounts receivable and inventory. The amended and restated credit facility bears interest at LIBOR plus a spread ranging from 250 basis points to 325 basis points, based on a leverage ratio (defined as total liabilities to tangible net worth). As of July 31, 2015, the weighted average interest rate on borrowings outstanding under the revolving credit facility was 3.6%.

In addition to the leverage ratio, the revolving credit facility includes a fixed charge coverage requirement, a minimum customer receivables cash recovery percentage requirement and a net capital expenditures limit. The obligations under the revolving credit facility are secured by all assets of the Borrowers. The revolving credit facility restricts the amount of dividends we can pay. We were in compliance with our debt covenants at July 31, 2015.

As of July 31, 2015, we had immediately available borrowing capacity of $315.0 million under our revolving credit facility, net of standby letters of credit issued, for general corporate purposes. We pay fees in the amount of 25 basis points for the additional commitment amount. Our revolving credit facility provides us the ability to utilize letters of credit to secure deductibles under our property and casualty insurance programs, among other acceptable uses. At July 31, 2015, we had outstanding letters of credit of $1.1 million under this facility.

7. Contingencies

Securities Class Action Litigation. We and two of our current executive officers are defendants in a consolidated securities class action lawsuit pending in the Southern District of Texas, In re Conn’s Inc. Securities Litigation, Cause No. 14-CV-00548 (the “Consolidated Securities Action”). The plaintiffs in the Consolidated Securities Action allege that the defendants made false and misleading statements and/or failed to disclose material adverse facts about our business, operations, and prospects. They allege violations of sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and seek to certify a class of all persons and entities that purchased or otherwise acquired Conn’s common stock and/or call options, or sold/wrote Conn’s put options between April 3, 2013 and December 9, 2014. The complaint does not specify the amount of damages sought.

On June 30, 2015, the Court held a hearing on the defendants’ motion to dismiss plaintiffs’ complaint. At the hearing, the Court dismissed Brian Taylor, a former executive officer, and certain other aspects of the complaint. The Court ordered plaintiffs to further amend their complaint in accordance with its ruling, and the plaintiffs filed their Fourth Consolidated Amended Complaint on July 21, 2015. The remaining defendants filed a motion to dismiss on August 28, 2015.

The defendants intend to vigorously defend against all of these claims. It is not possible at this time to predict the timing or outcome of any of this litigation.

Derivative Litigation. On December 1, 2014, an alleged shareholder filed, purportedly on behalf of the Company, a derivative shareholder lawsuit against us and certain of our current and former directors and executive officers in the United States District Court for the Southern District of Texas captioned Robert Hack, derivatively on behalf of Conn’s, Inc., v. Theodore M. Wright, Bob L. Martin, Jon E.M. Jacoby, Kelly M. Malson, Douglas H. Martin, David Schofman, Scott L. Thompson, Brian Taylor, a former executive officer, and Michael J. Poppe and Conn’s, Inc., Case No. 4:14-cv-03442 (the “Original Derivative Action”). The complaint asserts claims for breach of fiduciary duty, unjust enrichment, gross mismanagement, and insider trading based on substantially similar factual allegations as those asserted in the Consolidated Securities Action. The plaintiff seeks unspecified damages against these persons and does not request any damages from us. The court approved a stipulation among the parties to stay the action pending resolution of the motion to dismiss in the Consolidated Securities Action, and the parties have requested that the Court extend the stay pending resolution of the anticipated motion to dismiss.

Another derivative action was filed on January 27, 2015, captioned, Richard A. Dohn v. Wright, et al., Cause No. 2015-04405, filed in the 281st District Court, Harris County, Texas. This action makes substantially similar allegations to the Original Derivative Action against the same defendants. The parties have entered into an agreed stay pending resolution of the motion to dismiss in the Consolidated Securities Action.

On February 25, 2015, a third derivative action was filed in the United States District Court for the Southern District of Texas, captioned 95250 Canada LTEE, derivatively on Behalf of Conn’s, Inc. v. Wright et al., Cause No. 4:15-cv-00521. This action makes substantially similar allegations to the Original Derivative Action. On March 30, 2015, the plaintiffs in this action and the Original Derivative Action filed a joint motion to consolidate these two derivative actions, which is still pending.

None of the plaintiffs in any of the derivative actions made a demand on our Board of Directors prior to filing their respective lawsuits. The defendants in the derivative actions intend to vigorously defend against these claims.

Regulatory Matters. We are continuing to cooperate with the SEC's investigation which generally relates to our underwriting policies and bad debt provisions. The investigation is a non-public, fact-finding inquiry, and the SEC has stated that the investigation does not mean that any violations of law have occurred.

In addition, we are involved in other routine litigation and claims incidental to our business from time to time which, individually or in the aggregate are not expected to have a material adverse effect on our financial position, results of operations or cash flows. As required, we accrue estimates 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. However, the results of these proceedings cannot be predicted with certainty, and changes in facts and circumstances could impact our estimate of reserves for litigation.

8. Segment Reporting

Financial information by segment is presented in the following tables:

	Three Months Ended July 31, 2015			Three Months Ended July 31, 2014		
(in thousands)	**Retail**	**Credit**	**Total**	**Retail**	**Credit**	**Total**
Revenues:						
Furniture and mattress	$ 98,882	$ —	$ 98,882	$ 81,373	$ —	$ 81,373
Home appliance	97,260	—	97,260	84,355	—	84,355
Consumer electronic	69,682	—	69,682	68,945	—	68,945
Home office	22,940	—	22,940	24,061	—	24,061
Other	4,975	—	4,975	5,432	—	5,432
Product sales	293,739	—	293,739	264,166	—	264,166
Repair service agreement commissions	27,756	—	27,756	20,732	—	20,732
Service revenues	3,451	—	3,451	3,383	—	3,383
Total net sales	324,946	—	324,946	288,281	—	288,281
Finance charges and other revenues	659	70,445	71,104	343	64,340	64,683
Total revenues	**325,605**	**70,445**	**396,050**	**288,624**	**64,340**	**352,964**
Costs and expenses:						
Cost of goods sold, including warehousing and occupancy costs	187,124	—	187,124	168,717	—	168,717
Cost of service parts sold, including warehousing and occupancy costs	1,550	—	1,550	1,871	—	1,871
Delivery, transportation and handling costs	13,787	—	13,787	13,164	—	13,164
Selling, general and administrative expenses (1)	76,683	28,149	104,832	69,172	24,967	94,139
Provision for bad debts	324	51,322	51,646	—	39,585	39,585
Charges and credits	1,013	—	1,013	1,492	—	1,492
Total costs and expense	**280,481**	**79,471**	**359,952**	**254,416**	**64,552**	**318,968**
Operating income (loss)	**45,124**	**(9,026)**	**36,098**	**34,208**	**(212)**	**33,996**
Interest expense	—	10,055	10,055	—	6,247	6,247
Income (loss) before income taxes	**$ 45,124**	**$ (19,081)**	**$ 26,043**	**$ 34,208**	**$ (6,459)**	**$ 27,749**

	Six Months Ended July 31, 2015			Six Months Ended July 31, 2014		
(in thousands)	**Retail**	**Credit**	**Total**	**Retail**	**Credit**	**Total**
Revenues:						
Furniture and mattress	$ 188,384	$ —	$ 188,384	$ 162,265	$ —	$ 162,265
Home appliance	181,362	—	181,362	161,470	—	161,470
Consumer electronic	141,112	—	141,112	135,388	—	135,388
Home office	44,925	—	44,925	47,997	—	47,997
Other	9,582	—	9,582	11,266	—	11,266
Product sales	565,365	—	565,365	518,386	—	518,386
Repair service agreement commissions	51,552	—	51,552	40,986	—	40,986
Service revenues	6,508	—	6,508	6,538	—	6,538
Total net sales	623,425	—	623,425	565,910	—	565,910
Finance charges and other revenues	808	136,893	137,701	809	121,693	122,502
Total revenues	**624,233**	**136,893**	**761,126**	**566,719**	**121,693**	**688,412**
Costs and expenses:						
Cost of goods sold, including warehousing and occupancy costs	360,596	—	360,596	329,499	—	329,499
Cost of service parts sold, including warehousing and occupancy costs	2,862	—	2,862	3,290	—	3,290
Delivery, transportation and handling costs	26,136	—	26,136	25,327	—	25,327
Selling, general and administrative expenses (1)	144,910	55,597	200,507	133,339	48,841	182,180
Provision for bad debts	393	98,796	99,189	44	61,799	61,843
Charges and credits	1,632	—	1,632	3,246	—	3,246
Total costs and expense	**536,529**	**154,393**	**690,922**	**494,745**	**110,640**	**605,385**
Operating income (loss)	**87,704**	**(17,500)**	**70,204**	**71,974**	**11,053**	**83,027**
Interest expense	—	19,483	19,483	—	10,971	10,971
Income (loss) before income taxes	**$ 87,704**	**$ (36,983)**	**$ 50,721**	**$ 71,974**	**$ 82**	**$ 72,056**

(1) 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 that 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 $3.4 million and $3.0 million for the three months ended July 31, 2015 and 2014, respectively, and $6.9 million and $5.9 million for the six months ended July 31, 2015 and 2014, respectively. The amount of reimbursement made to the retail segment by the credit segment was $8.9 million and $7.1 million for the three months ended July 31, 2015 and 2014, respectively, and $17.4 million and $13.8 million for the six months ended July 31, 2015 and 2014, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements include information concerning our future financial performance, business strategy, plans, goals and objectives. Statements containing the words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "project," "should," or the negative of such terms or other similar expressions are generally forward-looking in nature and not historical facts. Although we believe that the expectations, opinions, projections, and comments reflected in these forward-looking statements are reasonable, we can give no assurance that such statements will prove to be correct. A wide variety of potential risks, uncertainties, and other factors could materially affect our ability to achieve the results either expressed or implied by our forward-looking statements including, but not limited to: general economic conditions impacting our customers or potential customers; our ability to close the securitization of its loan portfolio or to sell the residual equity on favorable terms; our ability to execute periodic securitizations of future originated loans including the sale of any residual equity on favorable terms; our ability to continue existing customer financing programs or to offer new customer financing programs; changes in the delinquency status of our credit portfolio; unfavorable developments in ongoing litigation; increased regulatory oversight; higher than anticipated net charge-offs in the credit portfolio; the success of our planned opening of new stores; technological and market developments and sales trends for our major product offerings; our ability to protect against cyber-attacks or data security breaches and to protect the integrity and security of individually identifiable data of our customers and our employees; and our ability to fund our operations, capital expenditures, debt repayment and expansion from cash flows from operations, borrowings from our revolving credit facility, and proceeds from accessing debt or equity markets. Additional risks and uncertainties are detailed in our most recently filed Annual Report on Form 10-K and other filings that we make with the SEC. If one or more of these or other risks or uncertainties materialize (or the consequences of such a development changes), or should our underlying assumptions prove incorrect, actual outcomes may vary materially from those reflected in our forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We disclaim any intention or obligation to update publicly or revise such statements, whether as a result of new information, future events or otherwise. All forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements.

Overview

We encourage you to read this Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with the accompanying consolidated financial statements and related notes. Our fiscal year ends on January 31. References to a fiscal year refer to the calendar year in which the fiscal year ends.

Executive Summary

Total revenues increased to $396.1 million for the three months ended July 31, 2015, compared to $353.0 million for the three months ended July 31, 2014. The increase in total revenue was primarily driven by new store openings, an increase in same store sales of 3.1%, and an increase in credit revenue as a result of growth in the average balance of the customer receivable portfolio partially offset by a 210 basis point decrease in portfolio yield.

Retail gross margin for the three months ended July 31, 2015 was 41.8%, an increase of 100 basis points over the 40.8% reported in the comparable quarter last year. The increase in retail margin was driven by higher retrospective commissions on repair service agreements.

Delivery, transportation and handling costs as a percentage of product sales and repair service agreement commissions (the same basis used for calculating retail margins) was 4.3%, a decrease of 30 basis points over 4.6% in the previous year. The decrease was primarily driven by efficiencies in delivery operations partially offset by higher costs as a result of the shift in product sales mix.

Selling, general and administrative expenses ("SG&A") for the three months ended July 31, 2015 was $104.8 million, an increase of $10.7 million, or 11.4%, over the same prior year period. The SG&A increase in the retail segment was primarily due to the opening of new stores resulting in higher sales-driven compensation and facility-related costs. The SG&A increase in the credit segment is the result of the addition of collections personnel to service the 23.1% increase in the customer receivable portfolio balance and anticipated near-term portfolio growth.

Provision for bad debts for the three months ended July 31, 2015 was $51.6 million, an increase of $12.1 million from the same prior year period. The year-over-year increase was impacted by the following:

- A 24.5% increase in the average receivable portfolio balance resulting from new store openings and same store growth over the past 12 months;
- A 26.1% increase in the balances originated during the quarter compared to the prior year quarter;
- An increase of 50 basis points in the percentage of customer accounts receivable balances greater than 60 days delinquent to 9.2% at July 31, 2015 as compared to the prior year period. Delinquency increased year-over-year across product categories and years of origination and many of the credit quality levels and geographic regions;
- An increase in the proportion of new customers of the total customer portfolio balance compared to the prior year period; and
- The balance of customer receivables accounted for as troubled debt restructurings increased to $101.5 million, or 7.0% of the total portfolio balance, driving $3.4 million of the increase in provision for bad debts.

Net income for the three months ended July 31, 2015 was $16.5 million, or $0.45 per diluted share, which included net charges of $1.0 million, or $0.02 per diluted share on an after-tax basis, from legal and professional fees related to the exploration of strategic alternatives and securities-related litigation. This compares to net income for the three months ended July 31, 2014 of $17.7 million, or $0.48 per diluted share, which included net charges of $1.5 million, or $0.03 per diluted share on an after-tax basis, related to store closures and relocations.

Recent Developments and Operational Changes

We announced a number of strategic initiatives that collectively represent a major transformation in the business and position us to execute our growth strategies while reducing risk and enhancing shareholder value. These actions include the appointment of a new Chief Executive Officer, entering into an agreement to securitize $1.4 billion of retail installment contract receivables, Board of Director authorization to repurchase up to $75.0 million of securities, and termination of the stockholders' rights plan. The actions represent the culmination of an exploration of strategic alternatives that was initiated by the Board of Directors in October 2014.

Further details are as follows:

Management and Governance Changes

- The Board of Directors, implementing a long-planned leadership succession, has appointed Norman Miller to serve as Chief Executive Officer and President. Mr. Miller is a seasoned executive with considerable experience in retail and consumer finance, having previously served as President of both Sears Automotive and DFC Global. He succeeds Theodore Wright, who will remain on the Board of Directors as Executive Chairman, transitioning to Non-Executive Chairman at the end of the fiscal year.
- As previously reported, the Board of Directors established a Credit Risk and Compliance Committee to review credit risk, underwriting strategy, credit compliance activities, and the provision methodology. An independent evaluation of these areas at the direction of this committee did not result in changes to any of the Company's practices or procedures.
- In the past year, we have added a Chief Credit Officer to provide additional capability in analyzing and assessing credit risk, named a new Chief Financial Officer, and created and filled the role of Credit Compliance Officer.

Securitization Transaction

- We entered into an agreement to securitize $1.4 billion of retail installment contract receivables. We intend to execute periodic securitizations of future originated loans including the sale of any remaining residual equity. We intend to retain origination and servicing of contracts.
- We will maintain our existing asset-based revolving credit facility and at least a portion of our outstanding senior notes.
- This approach creates a diversified capital structure to improve access to multiple debt markets and results in an asset-light business model with less balance sheet risk.
- This transaction is an important step toward creating a simplified capital structure that is also intended to provide a model that is more easily understood by investors.

Repurchase of Securities

- The Board of Directors authorized the repurchase of up to a total of $75.0 million of outstanding shares of its common stock or its 7.250% Senior Notes Due 2022. This authorization is the maximum amount permitted under our credit facility and senior note indenture.
- The repurchase program underscores our confidence in our long-term growth prospects, consistent with our overall commitment to generate continued profitable growth and enhanced long-term shareholder value.

Termination of Stockholders' Rights Plan

- The Board of Directors approved the termination of the stockholders' rights plan, effective at the close of the securitization transaction, currently anticipated to be on or about September 10, 2015.
- We had adopted the stockholders' rights plan in October 2014 to enable us to explore strategic alternatives while reducing the likelihood that any person or group would gain control of the Company through open market accumulation or otherwise without appropriately compensating all of our stockholders.

Taken together, these actions represent the completion of a carefully considered strategic plan, developed under the leadership of the Board of Directors, to position us for continued future growth and enhanced long-term shareholder value.

Company Initiatives

We have continued to focus on initiatives that we believe should positively impact future results, including:

- During the six months ended July 31, 2015, we opened seven new stores in Colorado (1), Georgia (1), North Carolina (2), South Carolina (1), Tennessee (1) and Texas (1). We plan to open between 15 and 18 stores during fiscal year 2016;
- During fiscal year 2016, we have discontinued offering video game products, digital cameras, and certain tablets, which have lower gross margins and higher delinquency rates when compared to our other product offerings. During fiscal year 2015, net sales and product margin from the sale of these products were approximately $50.0 million and $5.0 million, respectively;
- Expanding and enhancing our product offering of higher-margin furniture and mattresses;
- Focusing on quality, branded products to improve operating performance;
- Growing our appliance business by focused advertising, promotions and delivery options;
- Offering 18-month and 24-month equal-payment, no-interest finance programs to certain higher credit quality borrowers, which we discount to present value, resulting in a reduction in sales and customer receivables, and the discount amount is amortized into finance charges and other revenues over the term of the contract;
- Continuing to review and modify our underwriting standards to improve the overall quality of our credit portfolio; and
- Revising our re-aging policies, as appropriate, and focusing on further improvement of execution within our collection operations to reduce delinquency rates and future charge-offs.

Outlook

We believe the broad appeal of the Conn's store to our geographically diverse core demographic, the historical unit economics and current retail real estate market conditions provide us ample room for continued expansion. We plan to open 15 to 18 new stores during fiscal year 2016 and 22 to 25 stores during fiscal 2017. There are many markets in the United States with similar demographic characteristics as our current successful store base, which provides substantial opportunities for future growth. We plan to continue to improve our operating results by leveraging our existing infrastructure and seeking to continually optimize the efficiency of our marketing, merchandising, sourcing, distribution and credit operations. As we penetrate new markets, we expect to increase our purchase volumes, achieve distribution efficiencies and strengthen our relationships with our key vendors. We also expect our increased store base and higher net sales to further leverage our existing corporate and regional infrastructure.

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Results of Operations

The following tables present certain financial and other information, on a consolidated and segment basis:

Consolidated:	Three Months Ended July 31,			Six Months Ended July 31,		
(in thousands)	**2015**	**2014**	**Change**	**2015**	**2014**	**Change**
Revenues:						
Total net sales	$ 324,946	$ 288,281	$ 36,665	$ 623,425	$ 565,910	$ 57,515
Finance charges and other revenues	71,104	64,683	6,421	137,701	122,502	15,199
Total revenues	**396,050**	**352,964**	**43,086**	**761,126**	**688,412**	**72,714**
Costs and expenses: [1]						
Cost of goods sold, including warehousing and occupancy costs	187,124	168,717	18,407	360,596	329,499	31,097
Cost of service parts sold, including warehousing and occupancy costs	1,550	1,871	(321)	2,862	3,290	(428)
Delivery, transportation and handling costs [2]	13,787	13,164	623	26,136	25,327	809
Selling, general and administrative expenses	104,832	94,139	10,693	200,507	182,180	18,327
Provision for bad debts	51,646	39,585	12,061	99,189	61,843	37,346
Charges and credits	1,013	1,492	(479)	1,632	3,246	(1,614)
Total costs and expenses	**359,952**	**318,968**	**40,984**	**690,922**	**605,385**	**85,537**
Operating income	**36,098**	**33,996**	**2,102**	**70,204**	**83,027**	**(12,823)**
Interest expense	10,055	6,247	3,808	19,483	10,971	8,512
Income before income taxes	**26,043**	**27,749**	**(1,706)**	**50,721**	**72,056**	**(21,335)**
Provision for income taxes	9,505	10,099	(594)	18,506	25,937	(7,431)
Net income	**$ 16,538**	**$ 17,650**	**$ (1,112)**	**$ 32,215**	**$ 46,119**	**$ (13,904)**

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Retail Segment: *(in thousands)*	Three Months Ended July 31, 2015	2014	Change	Six Months Ended July 31, 2015	2014	Change
Revenues:						
Product sales	$ 293,739	$ 264,166	$ 29,573	$ 565,365	$ 518,386	$ 46,979
Repair service agreement commissions	27,756	20,732	7,024	51,552	40,986	10,566
Service revenues	3,451	3,383	68	6,508	6,538	(30)
Total net sales	324,946	288,281	36,665	623,425	565,910	57,515
Other revenues	659	343	316	808	809	(1)
Total revenues	**325,605**	**288,624**	**36,981**	**624,233**	**566,719**	**57,514**
Costs and expenses: (1)						
Cost of goods sold, including warehousing and occupancy costs	187,124	168,717	18,407	360,596	329,499	31,097
Cost of service parts sold, including warehousing and occupancy costs	1,550	1,871	(321)	2,862	3,290	(428)
Delivery, transportation and handling costs (2)	13,787	13,164	623	26,136	25,327	809
Selling, general and administrative expenses (3)	76,683	69,172	7,511	144,910	133,339	11,571
Provision for bad debts	324	—	324	393	44	349
Charges and credits	1,013	1,492	(479)	1,632	3,246	(1,614)
Total costs and expenses	**280,481**	**254,416**	**26,065**	**536,529**	**494,745**	**41,784**
Operating income	**$ 45,124**	**$ 34,208**	**$ 10,916**	**$ 87,704**	**$ 71,974**	**$ 15,730**
Number of stores:						
Beginning of period	91	79		90	79	
Open	4	8		7	10	
Closed	—	(1)		(2)	(3)	
End of period	95	86		95	86	

Credit Segment: *(in thousands)*	Three Months Ended July 31, 2015	2014	Change	Six Months Ended July 31, 2015	2014	Change
Revenues -						
Finance charges and other revenues	**$ 70,445**	**$ 64,340**	**$ 6,105**	**$ 136,893**	**$ 121,693**	**$ 15,200**
Costs and expenses:						
Selling, general and administrative expenses (3)	28,149	24,967	3,182	55,597	48,841	6,756
Provision for bad debts	51,322	39,585	11,737	98,796	61,799	36,997
Total cost and expenses	**79,471**	**64,552**	**14,919**	**154,393**	**110,640**	**43,753**
Operating income (loss)	**(9,026)**	**(212)**	**(8,814)**	**(17,500)**	**11,053**	**(28,553)**
Interest expense	10,055	6,247	3,808	19,483	10,971	8,512
Income (loss) before income taxes	**$ (19,081)**	**$ (6,459)**	**$ (12,622)**	**$ (36,983)**	**$ 82**	**$ (37,065)**

(1) The presentation of our costs and expenses may not be comparable to other retailers since we do not include the cost of delivery, transportation and handling costs as part of cost of goods. Similarly, we include the cost of merchandising our products, including amounts related to purchasing the product, in selling, general and administrative expense. Other retailers may include such costs as part of cost of goods.

(2) Delivery, transportation and handling costs, previously included in selling, general and administrative expenses, are shown separately.

(3) SG&A includes 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 that 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 $3.4 million and $3.0 million for the three months ended July 31, 2015 and 2014, respectively, $6.9 million and $5.9 million for the six months ended July 31, 2015 and 2014, respectively. The amount of reimbursement made to the retail segment by the credit segment was $8.9 million and $7.1 million for the three months ended July 31, 2015 and 2014, respectively, $17.4 million and $13.8 million for the six months ended July 31, 2015 and 2014, respectively.

Three months ended July 31, 2015 compared to three months ended July 31, 2014

Revenues. The following table provides an analysis of retail 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:

	Three Months Ended July 31,					%	Same store
(dollars in thousands)	2015	% of Total	2014	% of Total	Change	Change	% change
Furniture and mattress	$ 98,882	30.4%	$ 81,373	28.2%	$ 17,509	21.5 %	6.9 %
Home appliance	97,260	29.9	84,355	29.3	12,905	15.3	9.2
Consumer electronic	69,682	21.5	68,945	23.9	737	1.1	(5.9)
Home office	22,940	7.1	24,061	8.3	(1,121)	(4.7)	(9.6)
Other	4,975	1.5	5,432	1.9	(457)	(8.4)	(12.9)
Product sales	293,739	90.4	264,166	91.6	29,573	11.2	2.2
Repair service agreement commissions	27,756	8.5	20,732	7.2	7,024	33.9	9.7
Service revenues	3,451	1.1	3,383	1.2	68	2.0	
Total net sales	$ 324,946	100.0%	$ 288,281	100.0%	$ 36,665	12.7 %	3.1 %

The following provides a summary of items impacting our product categories during the quarter compared to the prior year period:

- Furniture unit volume increased 28.3%, offset by a 3.1% decrease in average selling price;
- Mattress unit volume increased 26.7%, offset by a 8.3% decrease in average selling price;
- Home appliance unit volume increased 21.2%, offset by a 4.6% decrease in average selling price. Refrigeration sales increased 14.9%, laundry sales increased 9.6%, and cooking sales increased by 23.7%;
- Consumer electronic average selling price increased by 18.1%, offset by a 13.7% decrease in unit volume. Television sales increased 11.4% as average unit selling price increased 17.5%, offset by a 5.2% decrease in unit volume. Excluding the impact from exiting video game products and digital cameras, consumer electronics same store sales increased 2.1% with an increase in television same store sales of 3.4%;
- Home office average selling price increased 12.9%, offset by a 15.2% decrease in unit volume. Excluding the impact from exiting certain tablets, home office same store sales increased 3.0%; and
- The increase in repair service agreement commissions was driven by improved program performance resulting in higher retrospective commissions and increased retail sales.

The following table provides the change of the components of finance charges and other revenues:

	Three Months Ended July 31,		
(in thousands)	2015	2014	Change
Interest income and fees	$ 57,383	$ 52,226	$ 5,157
Insurance commissions	13,062	12,113	949
Other revenues	659	344	315
Finance charges and other revenues	$ 71,104	$ 64,683	$ 6,421

Interest income and fees of the credit segment increased over the prior year level primarily driven by a 24.5% increase in the average balance of the portfolio. Portfolio interest income and fee yield on an annualized basis declined 210 basis points year-over-year primarily as a result of the introduction of 18- and 24-month equal-payment, no-interest finance programs beginning in October 2014 to certain higher credit quality borrowers, which we discount to present value upon origination, resulting in a reduction in sales and customer receivables, and the discount amount is amortized into finance charges and other revenues over the term of the contract at a lower rate than the average yield on the rest of the portfolio. Portfolio interest income and fee yield was also negatively impacted by higher provision for uncollectible interest and our discontinuation of charging customers certain payment fees.

The following table provides key portfolio performance information:

	Three Months Ended July 31,	
(dollars in thousands)	**2015**	**2014**
Interest income and fees	$ 57,383	$ 52,226
Net charge-offs	(41,564)	(28,556)
Interest expense	(10,055)	(6,247)
Net portfolio yield	$ 5,764	$ 17,423
Average portfolio balance	$ 1,417,100	$ 1,137,890
Interest income and fee yield % (annualized)	16.1%	18.2%
Net charge-off % (annualized)	11.7%	10.0%

Cost of Goods and Service Parts Sold and Gross Margin

	Three Months Ended July 31,		
(dollars in thousands)	**2015**	**2014**	**Change**
Cost of goods sold, including warehousing and occupancy costs	$ 187,124	$ 168,717	$ 18,407
Product gross margin percentage	36.3%	36.1%	
Cost of service parts sold, including warehousing and occupancy costs	$ 1,550	$ 1,871	$ (321)
Service gross margin percentage	55.1%	44.7%	

Product gross margin increased 20 basis points for the three months ended July 31, 2015 from the same prior year period primarily due to improved leverage of warehousing costs.

Delivery, Transportation and Handling Costs

	Three Months Ended July 31,		
(dollars in thousands)	**2015**	**2014**	**Change**
Delivery, transportation and handling costs	$ 13,787	$ 13,164	$ 623
As a percent of retail product sales and repair service agreement commissions	4.3%	4.6%	

The decrease in delivery, transportation and handling costs as a percentage of product sales and repair service agreement commissions in the retail segment was primarily driven by efficiencies in delivery operations partially offset by higher costs as a result of the shift in product sales mix.

Selling, General and Administrative Expenses

	Three Months Ended July 31,		
(dollars in thousands)	**2015**	**2014**	**Change**
Selling, general and administrative expenses:			
Retail segment	$ 76,683	$ 69,172	$ 7,511
Credit segment	28,149	24,967	3,182
Selling, general and administrative expenses - Consolidated	$ 104,832	$ 94,139	$ 10,693
As a percent of total revenues	26.5%	26.7%	

The SG&A increase in the retail segment was primarily due to the opening of new stores resulting in higher sales-driven compensation and facility-related costs. As a percent of segment revenues, SG&A for the retail segment in the current period decreased 40 basis points as compared to the prior year period primarily due to leveraging advertising expense.

The increase in SG&A for the credit segment was driven by the addition of collections personnel to service the 23.1% year-over-year increase in the customer portfolio balance and anticipated near-term portfolio growth. As a percent of average total customer portfolio balance (annualized), SG&A for the credit segment in the current period decreased 90 basis points as compared to the prior year period due to leverage achieved on a higher portfolio balance.

Provision for Bad Debts

	Three Months Ended July 31,		
(dollars in thousands)	**2015**	**2014**	**Change**
Provision for bad debts:			
Retail segment	$ 324	$ —	$ 324
Credit segment	51,322	39,585	11,737
Provision for bad debts - Consolidated	$ 51,646	$ 39,585	$ 12,061
Provision for bad debts - Credit segment, as a percent of average portfolio balance (annualized)	14.5%	13.9%	

The year-over-year increase in provision for bad debts was impacted by the following:

- A 24.5% increase in the average receivable portfolio balance resulting from new store openings and same store growth over the past 12 months;
- A 26.1% increase in the balances originated during the quarter compared to the prior year quarter;
- An increase of 50 basis points in the percentage of customer accounts receivable balances greater than 60 days delinquent to 9.2% at July 31, 2015 as compared to the prior year period. Delinquency increased year-over-year across product categories, years of origination, lower-credit quality levels and many geographic regions;
- An increase in the proportion of new customers of the total customer portfolio balance compared to the prior year period; and
- The balance of customer receivables accounted for as troubled debt restructurings increased to $101.5 million, or 7.0% of the total portfolio balance, driving $3.4 million of the increase in provision for bad debts.

Charges and Credits

	Three Months Ended July 31,		
(in thousands)	**2015**	**2014**	**Change**
Store and facility closure and relocation costs	$ —	$ 1,492	$ (1,492)
Legal and professional fees related to the exploration of strategic alternatives and securities-related litigation	1,013	—	1,013
	$ 1,013	$ 1,492	$ (479)

During the three months ended July 31, 2015, we had costs associated with legal and professional fees related to the Company's exploration of strategic alternatives and our securities-related litigation. During the three months ended July 31, 2014, we have closed and relocated under-performing retail locations and have recorded the related charges. In connection with prior closures, we adjust the related lease obligations as more information becomes available.

Interest Expense

Net interest expense for the three months ended July 31, 2015 increased $3.8 million from the prior year comparative period primarily due to an increase in the average debt balance outstanding and an increase in the effective interest rate. The increase in the effective interest rate was primarily due to our issuance of the Senior Notes on July 1, 2014.

Provision for Income Taxes

(dollars in thousands)	Three Months Ended July 31, 2015	Three Months Ended July 31, 2014	Change
Provision for income taxes	$ 9,505	$ 10,099	$ (594)
As a percent of income before income taxes	36.5%	36.4%	

Six months ended July 31, 2015 compared to six months ended July 31, 2014

Revenues. The following table provides an analysis of retail 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:

	Six Months Ended July 31,					%	Same store
(dollars in thousands)	2015	% of Total	2014	% of Total	Change	Change	% change
Furniture and mattress	$ 188,384	30.2%	$ 162,265	28.7%	$ 26,119	16.1 %	1.4 %
Home appliance	181,362	29.1	161,470	28.5	19,892	12.3	5.5
Consumer electronic	141,112	22.6	135,388	23.9	5,724	4.2	(3.7)
Home office	44,925	7.2	47,997	8.5	(3,072)	(6.4)	(12.3)
Other	9,582	1.5	11,266	2.0	(1,684)	(14.9)	(20.3)
Product sales	565,365	90.6	518,386	91.6	46,979	9.1	(0.8)
Repair service agreement commissions	51,552	8.3	40,986	7.2	10,566	25.8	6.1
Service revenues	6,508	1.1	6,538	1.2	(30)	(0.5)	
Total net sales	$ 623,425	100.0%	$ 565,910	100.0%	$ 57,515	10.2 %	— %

The following provides a summary of items impacting our product categories during the year compared to the prior year period:

- Furniture unit volume increased 20.1%, offset by a 3.1% decrease in average selling price;
- Mattress unit volume increased 22.1%, offset by a 4.4% decrease in average selling price;
- Home appliance unit volume increased 17.3%, offset by a 4.1% decrease in average selling price. Refrigeration sales increased 12.6%, laundry sales increased 9.1%, and cooking sales increased by 15.8%;
- Consumer electronic average selling price increased by 15.7%, offset by a 9.5% decrease in unit volume. Television sales increased 10.0% as average unit selling price increased 14.7%, offset by a 4.1% decrease in unit volume. Excluding the impact from exiting video game products and digital cameras, consumer electronics same store sales was flat with an increase in television same store sales of 1.6%;
- Home office average selling price increased 11.6%, offset by a 15.9% decrease in unit volume. Excluding the impact from exiting certain tablets, home office same store sales decreased 1.3%; and
- The increase in repair service agreement commissions was driven by improved program performance resulting in higher retrospective commissions and increased retail sales.

The following table provides the change of the components of finance charges and other revenues:

(in thousands)	Six Months Ended July 31, 2015	Six Months Ended July 31, 2014	Change
Interest income and fees	$ 112,802	$ 98,716	$ 14,086
Insurance commissions	24,091	22,976	1,115
Other revenues	808	810	(2)
Finance charges and other revenues	$ 137,701	$ 122,502	$ 15,199

Interest income and fees of the credit segment increased over the prior year level primarily driven by a 25.5% increase in the average balance of the portfolio. Portfolio interest income and fee yield on an annualized basis declined 160 basis points year-over-year primarily as a result of the introduction of 18- and 24-month equal-payment, no-interest finance programs beginning in October 2014 to certain higher credit quality borrowers, which we discount to present value upon origination, resulting in a reduction in sales and customer receivables, and the discount amount is amortized into finance charges and other revenues over the term of the contract at a lower rate than the average yield on the rest of the portfolio. Portfolio interest income and fee yield was also negatively impacted by higher provision for uncollectible interest and our discontinuation of charging customers certain payment fees.

The following table provides key portfolio performance information:

	Six Months Ended July 31,	
(dollars in thousands)	**2015**	**2014**
Interest income and fees	$ 112,802	$ 98,716
Net charge-offs	(83,214)	(49,748)
Interest expense	(19,483)	(10,971)
Net portfolio yield	$ 10,105	$ 37,997
Average portfolio balance	$ 1,393,603	$ 1,110,501
Interest income and fee yield % (annualized)	16.3%	17.9%
Net charge-off % (annualized)	11.9%	9.0%

Cost of Goods and Service Parts Sold and Gross Margin

	Six Months Ended July 31,		
(dollars in thousands)	**2015**	**2014**	**Change**
Cost of goods sold, including warehousing and occupancy costs	$ 360,596	$ 329,499	$ 31,097
Product gross margin percentage	36.2%	36.4%	
Cost of service parts sold, including warehousing and occupancy costs	$ 2,862	$ 3,290	$ (428)
Service gross margin percentage	56.0%	49.7%	

Product gross margin decreased 20 basis points for the six months ended July 31, 2015 from the same prior year period primarily due to unleveraged year to date warehousing costs.

Delivery, Transportation and Handling Costs

	Six Months Ended July 31,		
(dollars in thousands)	**2015**	**2014**	**Change**
Delivery, transportation and handling costs	$ 26,136	$ 25,327	$ 809
As a percent of retail product sales and repair service agreement commissions	4.2%	4.5%	

The decrease in delivery, transportation and handling costs as a percentage of product sales and repair service agreement commissions in the retail segment was primarily driven by efficiencies in delivery operations partially offset by higher costs as a result of the shift in product sales mix.

Selling, General and Administrative Expenses

(dollars in thousands)	Six Months Ended July 31, 2015	Six Months Ended July 31, 2014	Change
Selling, general and administrative expenses:			
Retail segment	$ 144,910	$ 133,339	$ 11,571
Credit segment	55,597	48,841	6,756
Selling, general and administrative expenses - Consolidated	$ 200,507	$ 182,180	$ 18,327
As a percent of total revenues	26.3%	26.5%	

The SG&A increase in the retail segment was primarily due to the opening of new stores resulting in higher sales-driven compensation and facility-related costs. As a percent of segment revenues, SG&A for the retail segment in the current period decreased 30 basis points as compared to the prior year period primarily due to leveraging advertising expense.

The increase in SG&A for the credit segment was driven by the addition of collections personnel to service the 23.1% year-over-year increase in the customer portfolio balance and anticipated near-term portfolio growth. As a percent of average total customer portfolio balance (annualized), SG&A for the credit segment in the current period decreased 80 basis points as compared to the prior year period due to leverage achieved on a higher portfolio balance.

Provision for Bad Debts

(dollars in thousands)	Six Months Ended July 31, 2015	Six Months Ended July 31, 2014	Change
Provision for bad debts:			
Retail segment	$ 393	$ 44	$ 349
Credit segment	98,796	61,799	36,997
Provision for bad debts - Consolidated	$ 99,189	$ 61,843	$ 37,346
Provision for bad debts - Credit segment, as a percent of average portfolio balance (annualized)	14.2%	11.1%	

The year-over-year increase in provision for bad debts was impacted by the following:

- A 25.5% increase in the average receivable portfolio balance resulting from new store openings and same store growth over the past 12 months;
- A 25.0% increase in the balances originated during the year compared to the prior year comparative period;
- An increase of 50 basis points in the percentage of customer accounts receivable balances greater than 60 days delinquent to 9.2% at July 31, 2015 as compared to the prior year period. Delinquency increased year-over-year across product categories, years of origination, lower-credit quality levels and many geographic regions;
- An increase in the proportion of new customers of the total customer portfolio balance compared to the prior year period; and
- The balance of customer receivables accounted for as troubled debt restructurings increased to $101.5 million, or 7.0% of the total portfolio balance, driving $12.8 million of the increase in provision for bad debts.

Charges and Credits

(in thousands)	Six Months Ended July 31, 2015	Six Months Ended July 31, 2014	Change
Store and facility closure and relocation costs	$ 425	$ 3,246	$ (2,821)
Legal and professional fees related to the exploration of strategic alternatives and securities-related litigation	1,207	—	1,207
	$ 1,632	$ 3,246	$ (1,614)

During the six months ended July 31, 2015 and 2014, we have closed and relocated under-performing retail locations and have recorded the related charges. In connection with prior closures, we adjust the related lease obligations as more information becomes available. In addition, during the six months ended July 31, 2015, we had costs associated with legal and professional fees related to the Company's exploration of strategic alternatives and our securities-related litigation.

Interest Expense

Net interest expense for the six months ended July 31, 2015 increased $8.5 million from the prior year comparative period primarily due to an increase in the average debt balance outstanding and an increase in the effective interest rate. The increase in the effective interest rate was primarily due to our issuance of the Senior Notes on July 1, 2014.

Provision for Income Taxes

	Six Months Ended July 31,		
(dollars in thousands)	**2015**	**2014**	**Change**
Provision for income taxes	$ 18,506	$ 25,937	$ (7,431)
As a percent of income before income taxes	36.5%	36.0%	

Customer Receivable Portfolio

We provide in-house financing to individual consumers on a short-term basis (maximum initial contractual term is 32 months) for the purchase of durable products for the home. A significant portion of our customer credit portfolio is due from customers that are considered higher-risk, subprime borrowers. Our financing is executed using an installment contract, which requires a fixed monthly payment over a fixed term. We maintain a secured interest in the product financed. If a payment is delayed, missed or paid only in part, the account becomes delinquent. Our collection personnel attempt to contact a customer once their account becomes delinquent. Our loan contracts generally provide for interest at the maximum rate allowed by the respective regulations in the states in which we operate, which generally range between 18% and 21%. In states where regulations do not generally limit the interest rate charged, we currently charge between 26% and 28%.

We offer 12-month, no-interest finance programs. If the customer is delinquent in making a scheduled monthly payment or does not repay the principal in full by the end of the no-interest program period (grace periods are provided), the account does not qualify for the no-interest provision and the terms of the account revert back to those of the executed installment contract resulting in interest over the entire term. Interest income is recognized based on our historical experience related to customers that fail to satisfy the requirements of the programs.

In October 2014, we began offering 18- and 24-month equal-payment, no-interest finance programs to certain higher credit quality borrowers, which are discounted to their present value at origination, resulting in a reduction in sales and customer receivables, and the discount amount is amortized into finance charges and other revenues over the term of the contract. If a customer is delinquent in making a scheduled monthly payment (grace periods are provided), the account begins accruing interest based on the contract rate from the date of the last payment made, which is a higher rate than the discount rate.

We regularly extend or "re-age" a portion of our delinquent customer accounts as a part of our normal collection procedures to protect our investment. Generally, extensions are granted to customers who have experienced a financial difficulty (such as the temporary loss of employment), which was subsequently resolved and the customer indicates a willingness and ability to resume making monthly payments. Re-ages are not granted to debtors who demonstrate a lack of intent or ability to service the obligation. These re-ages involve modifying the payment terms to defer a portion of the cash payments currently required of the debtor to help the debtor improve his or her financial condition and eventually be able to pay us. Our re-aging of customer accounts does not change the interest rate and typically does not reduce the contractual payments due from the customer. We may also charge the customer an extension fee, which approximates the interest owed for the time period the contract was past due. To a much lesser extent, we may provide the customer the ability to re-age their obligation by refinancing the account or making two consecutive payments. Under these options, as with extensions, the customer must resolve the reason for delinquency and show a willingness and ability to resume making contractual monthly payments.

The following tables present, for comparison purposes, information about our credit portfolio:

(dollars in thousands, except average outstanding customer balance)	As of July 31, 2015	As of July 31, 2014
Total customer portfolio balance	$ 1,451,937	$ 1,179,314
Weighted average credit score of outstanding balances	596	592
Number of active accounts	738,508	666,099
Weighted average months since origination of outstanding balance	8.6	8.5
Average outstanding customer balance	$ 2,366	$ 2,272
Percent of balances 60+ days past due to total customer portfolio balance (1)	9.2%	8.7%
Percent of re-aged balances to total customer portfolio balance (1)	13.0%	12.1%
Account balances re-aged more than six months	$ 52,688	$ 28,224
Percent of total allowance for bad debts to total outstanding customer portfolio balance	11.3%	7.2%
Percent of total customer portfolio balance represented by no-interest option receivables	36.1%	36.6%

(dollars in thousands, except average income of credit customer)	Three Months Ended July 31, 2015	Three Months Ended July 31, 2014	Six Months Ended July 31, 2015	Six Months Ended July 31, 2014
Total applications processed	311,995	295,983	604,597	561,248
Weighted average origination credit score of sales financed	617	607	617	606
Percent of total applications approved and utilized	44.9%	45.3%	44.6%	46.6%
Average down payment	3.3%	3.6%	3.7%	3.9%
Average income of credit customer at origination	$ 40,600	$ 39,700	$ 40,500	$ 39,200
Average total customer portfolio balance	$ 1,417,100	$ 1,137,890	$ 1,393,603	$ 1,110,501
Interest income and fee yield (annualized)	16.1%	18.2%	16.3%	17.9%
Percent of bad debt charge-offs, net of recoveries, to average total customer portfolio balance (annualized)	11.7%	10.0%	11.9%	9.0%
Weighted average monthly payment rate (2)	4.9%	5.0%	5.2%	5.4%
Provision for bad debts as a percentage of average total customer portfolio balance (annualized)	14.5%	13.9%	14.2%	11.1%
Percent of retail sales paid for by:				
In-house financing, including down payment received	82.5%	77.0%	83.9%	77.2%
Third party financing	7.0%	13.0%	4.9%	12.1%
Third party rent-to-own options	4.1%	3.9%	4.6%	4.0%
	93.6%	93.9%	93.4%	93.3%

(1) Accounts that become delinquent after being re-aged are included in both the delinquency and re-aged amounts.

(2) Average monthly gross cash payments as a percentage of average gross principal balances outstanding at the beginning of each month in the period.

Our customer portfolio balance and related allowance for uncollectible accounts are segregated between customer accounts receivable and restructured accounts. Customer accounts receivable include all accounts for which payment term has not been cumulatively extended over 90 days or refinanced. Restructured accounts includes all accounts for which payment term has been re-aged in excess of three months or refinanced.

Customer accounts receivable consisted of the following:

	Total Outstanding Balance					
	Customer Accounts Receivable		60 Days Past Due (1)		Re-aged (1)	
(in thousands)	July 31, 2015	January 31, 2015	July 31, 2015	January 31, 2015	July 31, 2015	January 31, 2015
Customer accounts receivable	$ 1,350,447	$ 1,277,135	$ 105,737	$ 112,365	$ 87,640	$ 94,304
Restructured accounts	101,490	88,672	27,172	20,722	101,490	88,672
Total customer portfolio balance	1,451,937	1,365,807	$ 132,909	$ 133,087	$ 189,130	$ 182,976
Allowance for uncollectible accounts	(164,330)	(146,982)				
Allowance for short-term, no-interest programs	(18,592)	(17,474)				
Total customer accounts receivable, net	1,269,015	1,201,351				
Short-term portion of customer accounts receivable, net	(685,933)	(643,094)				
Long-term portion of customer accounts receivable, net	$ 583,082	$ 558,257				

(1) Due to the fact that an account can become past due after having been re-aged, accounts could be represented as both past due and re-aged. As of July 31, 2015 and January 31, 2015, the amounts included within both past due and re-aged was $47.7 million and $44.9 million, respectively. As of July 31, 2015 and January 31, 2015, the total customer portfolio balance past due one day or greater was $327.1 million and $316.0 million, respectively. These amounts include the 60 days past due balances shown.

The following presents the activity in our balance in the allowance for doubtful accounts and uncollectible interest for customer receivables:

	Six Months Ended July 31, 2015			Six Months Ended July 31, 2014		
(in thousands)	Customer Accounts Receivable	Restructured Accounts	Total	Customer Accounts Receivable	Restructured Accounts	Total
Allowance at beginning of period	$ 118,786	$ 28,196	$ 146,982	$ 54,448	$ 17,353	$ 71,801
Provision (1)	91,821	24,396	116,217	61,317	12,235	73,552
Principal charge-offs (2)	(71,280)	(14,190)	(85,470)	(49,367)	(8,338)	(57,705)
Interest charge-offs	(13,056)	(2,599)	(15,655)	(8,824)	(1,490)	(10,314)
Recoveries (2)	1,881	375	2,256	6,807	1,150	7,957
Allowance at end of period	$ 128,152	$ 36,178	$ 164,330	$ 64,381	$ 20,910	$ 85,291
Average total customer portfolio balance	$ 1,297,951	$ 95,652	$ 1,393,603	$ 1,057,875	$ 52,626	$ 1,110,501

(1) Includes provision for uncollectible interest, which is included in finance charges and other revenues.

(2) Charge-offs include the principal amount of losses (excluding accrued and unpaid interest), and recoveries include principal collections during the period shown of previously charged-off balances. Net charge-offs are calculated as the net of principal charge-offs and recoveries.

Our overall allowance for uncollectible accounts as a percentage of the total portfolio balance increased to 11.3% as of July 31, 2015 from 7.2% as of July 31, 2014. The year-over-year increase was impacted by the following:

- A 25.5% increase in the average receivable portfolio balance resulting from new store openings and same store growth over the past 12 months;
- A 25.0% increase in the balances originated during the year compared to the prior year comparative period;
- An increase of 50 basis points in the percentage of customer accounts receivable balances greater than 60 days delinquent to 9.2% at July 31, 2015 as compared to the prior year period. Delinquency increased year-over-year across product categories, years of origination, lower-credit quality levels and many geographic regions;

- An increase in the proportion of new customers of the total customer portfolio balance compared to the prior year period; and
- The balance of customer receivables accounted for as troubled debt restructurings increased to $101.5 million, or 7.0% of the total portfolio balance.

For customer accounts receivable (excluding restructured accounts), the allowance for uncollectible accounts as a percentage of the outstanding portfolio balance rose from 5.8% as of July 31, 2014 to 9.5% as of July 31, 2015. The percentage of non-restructured accounts greater than 60 days past due decreased 10 basis points over the prior year to 7.8% as of July 31, 2015. We expect delinquency levels and charge-offs to remain elevated over the short-term. The increase in delinquency and changes in expectations for customer performance and cash recoveries on charged-off accounts were reflected in our projection models, resulting in an increase in the level of losses we expected to realize over the next twelve months.

For restructured accounts, the allowance for uncollectible accounts as a percentage of the portfolio balance was 33.7% as of July 31, 2014 as compared to 35.6% as of July 31, 2015.

The percent of bad debt charge-offs (net of recoveries) to average portfolio balance was 10.0% for the three months ended July 31, 2014 compared to 11.7% for the three months ended July 31, 2015. The increase was primarily due to the higher level of delinquency experienced over the past twelve months.

As of July 31, 2015 and 2014, balances under no-interest programs were $524.1 million and $431.6 million, respectively. Amounts financed under these programs decreased to 36.1% of the total portfolio balance as of July 31, 2015 from 36.6% as of July 31, 2014 due to our discontinuation of the six-month program in August 2014 and reduced offering of the 12-month program offset by the addition of the 18- and 24-month programs in October 2014. If the proportion of accounts financed under no-interest programs increases, the overall yield recognized on the average customer receivable balance will decline. Conversely, a decline in the proportion of accounts financed under no-interest programs will generally result in an increase in the overall yield recognized. The allowance for no-interest programs represents the portion of the accrued interest reported within customer accounts receivable at the end of each period which is not expected to be realized due to customers satisfying the requirements of the interest-free programs and is based on historical experience. The allowance for no-interest credit programs increased from 3.3% of the balance outstanding as of July 31, 2014 to 3.5% as of July 31, 2015.

Historical Static Loss Table

The following static loss analysis presents the cumulative percentage of balances charged off, based on the year the credit account was originated and the period the balance was charged off. The percentage computed below is calculated by dividing the cumulative net amount charged off since origination by the total balance of accounts originated during the applicable fiscal year. The net charge-off was determined by estimating, on a pro-rata basis, the amount of the recoveries received during a period that was allocable to the applicable origination period. As a result of our decision to pursue collections of past and future charged-off accounts internally rather than selling charged off accounts to a third-party, the recoveries received will happen later and the static loss rates will be higher than historical experience for the years prior to reaching terminal. For example, if our recoveries in the fourth quarter of fiscal 2015 and first half of fiscal 2016 were similar to the first three quarters of fiscal 2015, our static loss rates for each vintage year would be lower by 20 to 70 basis points.

	July 31, 2015		**Cumulative Loss Rate as a % of Balance Originated [1]**				
			Years from Origination				
Fiscal Year of Origination	**Balance Outstanding** *(millions)*	**% of Balance Originated Outstanding**	**—**	**1**	**2**	**3**	**Terminal [2]**
2006			0.3%	1.9%	3.6%	4.8%	5.8%
2007			0.2%	1.7%	3.5%	4.8%	5.7%
2008			0.2%	1.8%	3.6%	5.1%	5.9%
2009			0.2%	2.1%	4.6%	6.1%	6.6%
2010			0.2%	2.4%	4.6%	6.0%	6.0%
2011	$0.3	—%	0.4%	2.6%	5.2%	5.8%	6.0%
2012	$1.4	0.2%	0.2%	3.1%	5.5%	6.6%	6.7%
2013	$10.0	1.4%	0.4%	5.2%	8.3%	9.0%	
2014	$146.8	13.7%	0.8%	8.2%	11.1%		
2015	$647.6	49.2%	1.1%	4.6%			

(1) The loss rates for balances originated in fiscal years after fiscal year 2012 may not be comparable to those for balances originated in earlier years as changes made to our collections policies during fiscal 2012 resulted in accounts charging off earlier than in prior periods. The most recent percentages in years from origination 1 through 3 include loss data through July 31, 2015, and are not comparable to prior fiscal year accumulated net charge-off percentages in the same column.

(2) The terminal loss percentage presented represents the point at which that pool of loans has reached its maximum loss rate.

Liquidity and Capital Resources

We require liquidity and capital resources to finance our operations and future 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 generally finance our operations primarily through a combination of cash flow generated from operations and the use of our revolving credit facility. On September 4, 2015, we entered into an agreement to securitize $1.4 billion of customer receivables, with closing expected on or about September 10, 2015. We will transfer the securitized customer receivables to a bankruptcy-remote variable-interest entity ("VIE"). The VIE will issue bonds at a face amount of $1.12 billion secured by the portfolio balance, which will result in net proceeds to us of approximately $1.08 billion, net of transaction costs, and will be used to pay down the entire balance on our revolving credit facility. We will initially hold the residual equity of the VIE, which we are in the process of selling. We may elect to retain all or a portion of the residual equity of the VIE if that is determined to be in our best economic interest. We also plan to execute periodic securitizations of future originated loans.

Under the terms of the securitization transaction, the customer loan principal and interest payment cash flows will go first to the servicer and the holders of the securitization bonds, and then to the residual equity holders. We will retain the servicing of the securitized loan portfolio and will receive a monthly fee of 4.75% (annualized) based on the outstanding balance of the securitized loans. For the month ended August 31, 2015, the resulting servicing revenue to us is expected to be approximately $5.7 million. This amount will decline over time as the account balances are repaid or charged off. In addition, we will retain all credit insurance income together with certain recoveries related to credit insurance and repair service agreements on charged-off accounts previously reflected as a reduction of net charge-offs.

On September 2, 2015, the Board of Directors also authorized us to repurchase up to $75.0 million (the maximum amount permitted under the revolving credit facility and senior note indenture) of (i) shares of the Company's outstanding common stock; (ii) the 7.250% Senior Notes Due 2022; or (iii) a combination thereof. Common stock and senior note repurchases may be made from time to time on the open market or through privately negotiated transactions, at management’s discretion, based on market and business conditions. We have no obligation to repurchase shares or senior notes under the authorization, and the timing and value of the shares and notes that are repurchased will be at the discretion of management and will depend on a number of factors, including the price of the Company's common stock and the senior notes. We may suspend or discontinue repurchases at any time without notice.

We believe, based on our current projections, that we have sufficient sources of liquidity to fund our operations, store expansion and updating activities, capital programs, and repurchases of any outstanding common stock and senior notes for at least the next twelve months.

Operating cash flow activities. During the six months ended July 31, 2015, net cash used in operating activities was $13.4 million as compared to $52.7 million during the prior-year period. The decrease in net cash used in operating activities was primarily driven by a higher net income when adjusted for non-cash activity, including the increase in the provision for bad debts and uncollectible interest, and collections of income tax receivables, partially offset by higher cash requirements from working capital.

Investing cash flow activities. Net cash used in investing activities was $29.6 million for the six months ended July 31, 2015 as compared to $18.8 million for the six months ended July 31, 2014. Purchases of property and equipment decreased year-over-year related to the timing of construction activities for new stores, as well as store remodels and relocations. The prior year period also included the sale of three owned properties for net proceeds of approximately $19.3 million.

Financing cash flow activities. For the six months ended July 31, 2015, net cash provided by financing activities was $37.7 million as compared to $69.8 million during the six months ended July 31, 2014. During the six months ended July 31, 2014, we issued $250.0 million in senior notes and received net proceeds of $243.4 million, which was used to pay down outstanding balances under our revolving credit facility.

Senior Notes. On July 1, 2014, we issued $250.0 million in senior unsecured notes due July 2022 (the "Senior Notes"), bearing interest at 7.25%, pursuant to an indenture dated July 1, 2014 (the "Indenture"), among Conn’s, Inc., its subsidiary guarantors (the

"Guarantors") and U.S. Bank National Association, as trustee. The Senior Notes were sold at par, and resulted in net proceeds of $243.4 million, after deducting the initial purchasers’ discounts and commissions and other offering expenses. The net proceeds were used to repay outstanding borrowings under our revolving credit facility. The effective interest rate of the Senior Notes after giving effect to offering fees and debt discount is 7.6%.

The Indenture restricts the Company's and certain of its subsidiaries' ability to: (i) incur indebtedness; (ii) pay dividends or make other distributions in respect of, or repurchase or redeem, our capital stock; (iii) prepay, redeem or repurchase debt that is junior in right of payment to the notes; (iv) make loans and certain investments; (v) sell assets; (vi) incur liens; (vii) enter into transactions with affiliates; and (viii) consolidate, merge or sell all or substantially all of our assets. These covenants are subject to a number of important exceptions and qualifications. During any time when the Senior Notes are rated investment grade by either of Moody's Investors Service, Inc. or Standard & Poor's Ratings Services and no Default (as defined in the Indenture) has occurred and is continuing, many of such covenants will be suspended, and we will cease to be subject to such covenants during such period.

Events of default under the Indenture include customary events, such as a cross-acceleration provision in the event that we default in the payment of other debt due at maturity or upon acceleration for default in an amount exceeding $25.0 million, as well as in the event a judgment is entered against us in excess of $25.0 million that is not discharged, bonded or insured.

The Senior Notes are fully and unconditionally guaranteed on a senior unsecured basis by the Guarantors. The only direct or indirect subsidiaries of Conn’s, Inc. that are not Guarantors are minor subsidiaries. There are no restrictions on the ability of any of the Guarantors to transfer funds to Conn’s, Inc. in the form of loans, advances or dividends, except as provided by applicable law.

Revolving Credit Facility. Conn's, Inc. and certain of its subsidiaries (the "Borrowers") amended its asset-based revolving credit facility in connection with the issuance of the Senior Notes. The amendment provides for, among other things, the issuance of the Senior Notes and Indenture as well as related guarantees, upstream distributions from subsidiaries to Conn’s, Inc. (a holding company) for the payment of interest and principal on the Senior Notes and under certain circumstances optional and mandatory prepayment of the Senior Notes. The amendment also allows holders of the Senior Notes to receive payments even though they may be stockholders of the Company.

Our revolving credit facility with a syndicate of banks had capacity of $880.0 million and matures in November 2017. The revolving credit facility provides funding based on a borrowing base calculation that includes customer accounts receivable and inventory. The amended and restated credit facility bears interest at LIBOR plus a spread ranging from 250 basis points to 325 basis points, based on a leverage ratio (defined as total liabilities to tangible net worth). As of July 31, 2015, the weighted average interest rate on borrowings outstanding under the revolving credit facility was 3.6%.

In addition to the leverage ratio, the revolving credit facility includes a fixed charge coverage requirement, a minimum customer receivables cash recovery percentage requirement and a net capital expenditures limit. The obligations under the revolving credit facility are secured by all assets of the Borrowers. The revolving credit facility restricts the amount of dividends we can pay.

As of July 31, 2015, we had immediately available borrowing capacity of $315.0 million under our revolving credit facility, net of standby letters of credit issued, for general corporate purposes. We pay fees in the amount of 25 basis points for the additional commitment amount. Our revolving credit facility provides us the ability to utilize letters of credit to secure deductibles under our property and casualty insurance programs, among other acceptable uses. At July 31, 2015, we had outstanding letters of credit of $1.1 million under this facility.

Debt covenants. We were in compliance with our debt covenants at July 31, 2015. A summary of the significant financial covenants that govern our revolving credit facility, as amended, compared to our actual compliance status at July 31, 2015 is presented below:

	Actual	**Required Minimum/ Maximum**
Fixed charge coverage ratio must exceed required minimum	1.49 to 1.00	1.10 to 1.00
Leverage ratio must be lower than required maximum	1.54 to 1.00	2.00 to 1.00
Cash recovery percentage must exceed stated amount	4.86%	4.49%
Capital expenditures, net, must be lower than required maximum	$27.4 million	$75.0 million

All terms in the above table are defined by the revolving credit facility, as amended, and may or may not agree directly to the financial statement captions in this document. The covenants are calculated quarterly on a trailing 12-month basis, except for the cash recovery percentage, which is calculated monthly on a trailing three-month basis. The revolving credit facility is a significant factor relative to our ongoing liquidity and our ability to meet the cash needs associated with the growth of our business. Our inability to use this program because of a failure to comply with its 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, write-offs, bankruptcies or other ineligible customer receivable amounts.

Capital expenditures. We lease all of our 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 cross-dock facilities), the cost of which is estimated to be between $1.0 million and $1.5 million per store (before tenant improvement allowances), and for our existing store remodels, estimated to range between $0.5 million and $1.0 million 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. During the six months ended July 31, 2015, we opened 7 new stores and we plan to open 15 to 18 new stores for all of fiscal year 2016. Our anticipated capital expenditures for fiscal year 2016 are between $15.0 million and $25.0 million, net of tenant improvement allowances.

Other Initiatives. During fiscal year 2016, we discontinued offering video game products, digital cameras, and certain tablets. During fiscal year 2015, net sales and product margin from the sale of these products were approximately $50.0 million and $5.0 million, respectively. We also experienced significantly higher charge-off rates and lower product margins associated with purchases of these products by our customers.

During fiscal year 2015, we reduced the use of short-term, no-interest financing programs by discontinuing the 6-month no-interest program, reducing the offering of the 12-month program to only certain higher credit quality borrowers, and began offering 18-month and 24-month equal-payment, no-interest finance programs to certain higher credit quality borrowers. A significant number of customers who purchase through our no-interest option programs meet the terms of the program, resulting in the payoff of those accounts and thus increasing the velocity of portfolio turnover. No-interest option programs, especially with higher credit quality borrowers, generally results in lower delinquency and charge-offs with an offset in lower interest income yield.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires us to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Certain accounting policies are considered "critical accounting policies" because they are particularly dependent on estimates made by us about matters that are inherently uncertain and could have a material impact to our consolidated financial statements. We base our estimates on historical experience and on other assumptions that we believe are reasonable. As a result, actual results could differ because of the use of estimates. The description of critical accounting policies is included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

Recent Accounting Pronouncements

The information related to recent accounting pronouncements as set forth in Note 1. Summary of Significant Accounting Policies, of the Consolidated Financial Statements in Part I, Item 1, of this quarterly report on Form 10-Q is incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rates under our asset-based revolving credit facility are variable and bear interest at LIBOR plus a spread ranging from 250 basis points to 325 basis points, based on a leverage ratio (defined as total liabilities to tangible net worth). Accordingly, changes in LIBOR will affect the interest rate on, and therefore our costs under, the credit facility. As of July 31, 2015, the balance outstanding under our asset-based revolving credit facility was $563.9 million. Accordingly, a 100 basis point increase in interest rates on the asset-based revolving credit facility would increase our borrowing costs by $5.6 million over a 12-month period, based on the balance outstanding at July 31, 2015.

For additional information regarding quantitative and qualitative market risks, as updated by the preceding paragraphs, see Item 7A. "Quantitative and Qualitative Disclosures about Market Risk," of our Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

ITEM 4. CONTROLS AND PROCEDURES

Based on management's evaluation (with the participation of our Executive Chairman and former Chief Executive Officer and our Chief Executive Officer ("Co-Principal Executive Officers") and our Chief Financial Officer ("CFO")), as of the end of the period covered by this report, our Co-Principal Executive Officers and CFO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

For the quarter ended July 31, 2015, there have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth in Note 7. Contingencies, of the Consolidated Financial Statements in Part I, Item 1, of this quarterly report on Form 10-Q is incorporated herein by reference.

ITEM 1A. RISK FACTORS

Set forth below is an addition to the risk factors previously disclosed in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended January 31, 2015.

Our stock repurchase program could affect the price of our common stock and increase volatility and may be suspended or terminated at any time, which may result in a decrease in the trading price of our common stock. On September 2, 2015, the Company's Board of Directors authorized a repurchase program that allows the Company to purchase up to an aggregate of $75.0 million of its common stock and its 7.25% Senior Notes due 2022 ("Senior Notes"), provided that the Company is only authorized to repurchase up to $25.0 million of its common stock. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, an assessment by management and our board of directors of cash availability and other market conditions. The program may be suspended or discontinued at any time without prior notice. Repurchases pursuant to our stock repurchase program could affect the price of our common stock and increase its volatility. The existence of our stock repurchase program could also cause the price of our common stock to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our common stock. There can be no assurance that any stock repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased such shares. Any failure to repurchase shares after we have announced our intention to do so may negatively impact our reputation and investor confidence in us and may negatively impact our stock price. Although our stock repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program's effectiveness.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits required to be furnished pursuant to Item 6 of Form 10-Q are listed in the Exhibit Index filed herewith, which Exhibit Index is incorporated herein by reference.

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 thereunto duly authorized.

CONN'S, INC.

By: /s/ Thomas R. Moran

Thomas R. Moran

Executive Vice President and Chief Financial Officer

(Principal Financial Officer and duly authorized to sign this report on behalf of the registrant)

Date: September 9, 2015

EXHIBIT INDEX

Exhibit Number	Description of Document
3.1	Certificate of Incorporation of Conn's, Inc. (incorporated herein by reference to Exhibit 3.1 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003)
3.1.1	Certificate of Amendment to the Certificate of Incorporation of Conn's, Inc. dated June 3, 2004 (incorporated herein by reference to Exhibit 3.1.1 to Conn's, Inc. Form 10-Q for the quarterly period ended April 30, 2004 (File No. 000-50421) as filed with the Securities and Exchange Commission on June 7, 2004)
3.1.2	Certificate of Amendment to the Certificate of Incorporation of Conn's, Inc. dated May 30, 2012 (incorporated herein by reference to Exhibit 3.1.2 to Conn's, Inc. Form 10-Q for the quarterly period ended April 30, 2012 (File No. 000-50421) as filed with the Securities and Exchange Commission on June 5, 2012)
3.1.3	Certificate of Correction to the Certificate of Amendment to Conn's, Inc. Certificate of Incorporation (as corrected December 31, 2013) (incorporated herein by reference to Exhibit 3.1.3 to Conn's, Inc. Form 10-K for the annual period ended January 31, 2014 (File No. 000-50421) as filed with the Securities and Exchange Commission on March 27, 2014)
3.1.4	Certificate of Amendment to the Certificate of Incorporation of Conn's, Inc. as filed on May 29, 2014 (incorporated herein by reference to Exhibit 3.1.4 to Conn's, Inc. Form 10-Q for the fiscal period ended April 30, 2014 (File No. 000-50421) as filed with the Securities and Exchange Commission on June 2, 2014)
3.1.5	Certificate of Designations of Series A Junior Participating Preferred Stock of Conn's, Inc. (incorporated herein by reference to Exhibit 3.1 to Conn's, Inc. Current Report on Form 8-K (File No. 000-50421) filed with the Securities and Exchange Commission on October 6, 2014)
3.2	Amended and Restated Bylaws of Conn's, Inc. effective as of December 3, 2013 (incorporated herein by reference to Exhibit 3.2 to Conn's, Inc. Form 10-Q for the quarter ended October 31, 2013 (File No. 000-50421) as filed with the Securities and Exchange Commission on December 6, 2013)
4.1	Rights Agreement, dated as of October 6, 2014, by and between Conn's, Inc. and Computershare Trust Company, N.A., as Rights Agent (incorporated herein by reference to Exhibit 4.1 to Conn's, Inc. Current Report on Form 8-K (File No. 000-50421) filed with the Securities and Exchange Commission on October 6, 2014)
4.2	Specimen of certificate for shares of Conn's, Inc.'s common stock (incorporated herein by reference to Exhibit 4.1 to Conn's, Inc. registration statement on Form S-1 (File No. 333-109046) as filed with the Securities and Exchange Commission on October 29, 2003)
10.1*	Second Amendment to Executive Severance Agreement dated July 10, 2015 by and between Theodore M. Wright and Conn's, Inc.
10.2*	Second Amendment to Executive Severance Agreement dated July 10, 2015 by and between David W. Trahan and Conn's, Inc.
10.3*	Second Amendment to Executive Severance Agreement dated July 10, 2015 by and between Michael J. Poppe and Conn's, Inc.
10.4	Executive Severance Agreement dated July 27, 2015 by and between Thomas R. Moran and Conn's, Inc. (incorporated by reference to Exhibit 10.1 to Conn's, Inc. Current Report on Form 8-K (File No. 000-50421) filed with the Securities and Exchange Commission on July 9, 2015)
31.1*	Rule 13a-14(a)/15d-14(a) Certification (Co-Principal Executive Officer)
31.2*	Rule 13a-14(a)/15d-14(a) Certification (Co-Principal Executive Officer)
31.3*	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)
32.1*	Section 1350 Certification (Chief Executive Officer and Chief Financial Officer)
101*	The following financial information from our Quarterly Report on Form 10-Q for the second quarter of fiscal year 2016, filed with the SEC on September 9, 2015, formatted in Extensible Business Reporting Language (XBRL): (i) the consolidated balance sheets at July 31, 2015 and January 31, 2015 and, (ii) the consolidated statements of operations for the three and six months ended July 31, 2015 and 2014, (iii) the consolidated statements of comprehensive income for the three and six months ended July 31, 2015 and 2014, (iv) the consolidated statements of cash flows for the six months ended July 31, 2015 and 2014 and (v) the notes to consolidated financial statements

* Filed herewith

Exhibit 10.1

SECOND AMENDMENT
TO
EXECUTIVE SEVERANCE AGREEMENT

THIS SECOND amendment to executive severance agreement (the "**Second Amendment**") is made as of July 10, 2015 by and between Theodore M. Wright ("**Executive**") and Conn's, Inc. (the "**Company**").

WHEREAS, the Company and Executive are parties to an Executive Severance Agreement, dated December 5, 2011, as amended by that Amendment to Severance Agreement, dated December 3, 2013 (collectively, the "**Agreement**");

WHEREAS, the Company and Executive now desire to further amend the Agreement in the manner set forth herein and pursuant to the terms of this Second Amendment.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Section 1 of the Agreement is hereby amended and restated in its entirety to read as follows:

"<u>Term of Agreement</u>. This Agreement will commence on the Effective Date and will continue in effect for one (1) year from such date, and shall automatically renew for successive one (1) year periods unless terminated by mutual written agreement of Executive and Company prior to the end of the then-existing term."

2. ***Continuing Effect***. The parties hereby acknowledge and agree that, except as expressly amended hereby, the Agreement remains in full force and effect in accordance with its terms and that this Second Amendment, together with the Agreement, reflects the entire agreement of the parties hereto. Capitalized terms not otherwise defined in this Second Amendment shall have the meanings set forth in the Agreement.

[***Signature Page Follows***]

IN WITNESS WHEREOF, the parties have executed this Second Amendment effective as of the date first written above.

CONN'S, INC.

By: /s/ Robert F. Bell

Name: Robert F. Bell

Title: Vice President and General Counsel

EXECUTIVE

By: /s/ Theodore M. Wright

Name: Theodore M. Wright

SECOND AMENDMENT
TO
EXECUTIVE SEVERANCE AGREEMENT

THIS SECOND amendment to executive severance agreement (the "**Second Amendment**") is made as of July 10, 2015 by and between David W. Trahan ("**Executive**") and Conn's, Inc. (the "**Company**").

WHEREAS, the Company and Executive are parties to an Executive Severance Agreement, dated September 1, 2011, as amended by that Amendment to Severance Agreement, dated December 3, 2013 (collectively, the "**Agreement**");

WHEREAS, the Company and Executive now desire to further amend the Agreement in the manner set forth herein and pursuant to the terms of this Second Amendment.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Section 1 of the Agreement is hereby amended and restated in its entirety to read as follows:

"Term of Agreement. This Agreement will commence on the Effective Date and will continue in effect for one (1) year from such date, and shall automatically renew for successive one (1) year periods unless terminated by mutual written agreement of Executive and Company prior to the end of the then-existing term."

2. ***Continuing Effect***. The parties hereby acknowledge and agree that, except as expressly amended hereby, the Agreement remains in full force and effect in accordance with its terms and that this Second Amendment, together with the Agreement, reflects the entire agreement of the parties hereto. Capitalized terms not otherwise defined in this Second Amendment shall have the meanings set forth in the Agreement.

[***Signature Page Follows***]

IN WITNESS WHEREOF, the parties have executed this Second Amendment effective as of the date first written above.

CONN'S, INC.

By: /s/ Robert F. Bell

Name: Robert F. Bell

Title: Vice President and General Counsel

EXECUTIVE

By: /s/ David W. Trahan

Name: David W. Trahan

EXHIBIT 10.3

SECOND AMENDMENT
TO
EXECUTIVE SEVERANCE AGREEMENT

THIS SECOND amendment to executive severance agreement (the "**Second Amendment**") is made as of July 10, 2015 by and between Michael J. Poppe ("**Executive**") and Conn's, Inc. (the "**Company**").

WHEREAS, the Company and Executive are parties to an Executive Severance Agreement, dated September 1, 2011, as amended by that Amendment to Severance Agreement, dated December 3, 2013 (collectively, the "**Agreement**");

WHEREAS, the Company and Executive now desire to further amend the Agreement in the manner set forth herein and pursuant to the terms of this Second Amendment.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Section 1 of the Agreement is hereby amended and restated in its entirety to read as follows:

"<u>Term of Agreement</u>. This Agreement will commence on the Effective Date and will continue in effect for one (1) year from such date, and shall automatically renew for successive one (1) year periods unless terminated by mutual written agreement of Executive and Company prior to the end of the then-existing term."

2. ***Continuing Effect***. The parties hereby acknowledge and agree that, except as expressly amended hereby, the Agreement remains in full force and effect in accordance with its terms and that this Second Amendment, together with the Agreement, reflects the entire agreement of the parties hereto. Capitalized terms not otherwise defined in this Second Amendment shall have the meanings set forth in the Agreement.

[***Signature Page Follows***]

IN WITNESS WHEREOF, the parties have executed this Second Amendment effective as of the date first written above.

CONN'S, INC.

By: /s/ Robert F. Bell

Name: Robert F. Bell

Title: Vice President and General Counsel

EXECUTIVE

By: /s/ Michael J. Poppe

Name: Michael J. Poppe

EXHIBIT 31.1

CERTIFICATION

I, Theodore M. Wright, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Conn's, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Theodore M. Wright

Theodore M. Wright
Executive Chairman of the Board of Directors
(Co-Principal Executive Officer)

Date: September 9, 2015

EXHIBIT 31.2

CERTIFICATION

I, Norman Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Conn's, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Norman Miller

Norman Miller
Chief Executive Officer and President
(Co-Principal Executive Officer)

Date: September 9, 2015

EXHIBIT 31.3

CERTIFICATION

I, Thomas R. Moran, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Conn's, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Thomas R. Moran

Thomas R. Moran
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: September 9, 2015

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Conn's, Inc. (the "*Company*") on Form 10-Q for the period ended July 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), we, Theodore M. Wright, Executive Chairman of the Board of Directors of the Company, Norman Miller, Chief Executive Officer and President of the Company, and Thomas R. Moran, Executive Vice President and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Theodore M. Wright
Theodore M .Wright
Executive Chairman of the Board of Directors
(Co-Principal Executive Officer)

/s/ Norman Miller
Norman Miller
Chief Executive Officer and President
(Co-Principal Executive Officer)

/s/ Thomas R. Moran
Thomas R. Moran
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Dated: September 9, 2015

A signed original of this written statement required by Section 906 has been provided to Conn's, Inc. and will be retained by Conn's, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.