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CONNS INC
Form 10-K
March 26, 2009

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

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

For the fiscal year ended January 31, 2009 Commission File Number 000-50421

CONN'S, INC.
(Exact Name of Registrant as Specified in its Charter)

A Delaware corporation
(State or other jurisdiction
of incorporation or
organization)

06-1672840
(I.R.S. Employer
Identification Number)

3295 College Street
Beaumont, Texas 77701
(Address of Principal Executive Offices)

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

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

| Title of Each Class ----- | Name of Exchange on Which Registered ----- |
|------------------------------|---|
|------------------------------|---|

| | |
|--|--------------------------------------|
| Common Stock, par value \$0.01 per share | The NASDAQ Global Select Market, Inc |
|--|--------------------------------------|

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No []

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer [] Accelerated filer [x] Non-accelerated filer []

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of July 31, 2008, was approximately \$209.7 million based on the closing price of the registrant's common stock as reported on the NASDAQ Global Select Market, Inc.

There were 22,444,240 shares of common stock, \$0.01 par value per share, outstanding on March 23, 2009.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Definitive Proxy Statement for the Annual Meeting of Stockholders to be held June 2, 2009 (incorporated herein by reference in Part III).

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PART I

ITEM 1. BUSINESS.

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

Overview

We are a specialty retailer of home appliances and consumer electronics. We sell home appliances including refrigerators, freezers, washers, dryers, dishwashers and ranges, and a variety of consumer electronics including LCD, plasma and DLP televisions, camcorders, digital cameras, computers and computer accessories, Blu-ray and DVD players, video game equipment, portable audio, MP3 players, GPS devices and home theater products. We also sell home office equipment, lawn and garden equipment, mattresses and furniture and we continue to introduce additional product categories for the home and for consumer entertainment to help increase same store sales and to respond to our customers' product needs. We offer over 3,500 product items, or SKUs, at good-better-best price points representing such brands as General Electric, Whirlpool, Electrolux, Frigidaire, Friedrich, Maytag, LG, Mitsubishi, Samsung, Sony, Toshiba, Bose, Canon, JVC, Serta, Simmons, Spring Air, Ashley, Lane, Broyhill, Franklin, Hewlett Packard, Compaq, Poulan, Husqvarna and Toro. Based on revenue

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in 2007, as reported in *Twice, This Week in Consumer Electronics*, we were the 9th largest retailer of home appliances and the 41st largest retailer of consumer electronics in the United States.

We began as a small plumbing and heating business in 1890. We began selling home appliances to the retail market in 1937 through one store located in Beaumont, Texas. We opened our second store in 1959 and have since grown to 75 stores. We have been known for providing excellent customer service for over 118 years. We believe that our customer-focused business strategies make us an attractive alternative to appliance and electronics superstores, department stores and other national, regional and local retailers. We strive to provide our customers with:

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

We believe that these strategies drive repeat purchases and enable us to generate substantial brand name recognition and customer loyalty. During fiscal 2009, approximately 67% of our credit customers, based on the number of invoices written, were repeat customers.

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

- o we have grown from 26 stores to 75 stores, an increase of over 188%, with plans to continue our store development in the future;
- o total revenues have grown 280%, at a compounded annual rate of 14.3%, from \$234.5 million in fiscal 1999, to \$890.8 million in fiscal 2009;

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- o our operating margin has averaged 8.0% since fiscal 1999, including the impacts of the non-cash fair value decreases recorded during fiscal years 2008 and 2009; it was 4.8% for fiscal 2009; and
- o our same store sales growth from fiscal 1999 through fiscal 2009 has averaged 7.5%; it was 2.0% for fiscal 2009. See additional discussion about same store sales under Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our principal executive offices are located at 3295 College Street,

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

Industry Overview

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

Based on data published in *Twice*, a weekly magazine dedicated to the home appliances and consumer electronics industry in the United States, the top 100 major appliance retailers reported sales of approximately \$23.8 billion in 2007, down approximately 0.5% from reported sales in 2006 of approximately \$23.9 billion. The retail appliance market is large and concentrated among a few major dealers. Sears has been the leader in the retail appliance market, with a market share of the top 100 retailers of approximately 35% in 2007 and 37% in 2006. Lowe's and Home Depot held the second and third place positions, respectively, in national market share in 2007. Based on revenue in 2007, we were the 9th largest retailer of home appliances in the United States.

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

As measured by *Twice*, the top 100 consumer electronics retailers in the United States reported equipment and software sales of \$124.9 billion in 2007, a 10.5% increase from the \$113.1 billion reported in 2006. According to the Consumer Electronics Association, or CEA, total industry manufacturer sales of consumer electronics products in the world, are projected to exceed \$700 billion by 2009, up 4.9% from \$658 billion in 2008. The consumer electronics market is highly fragmented. We estimate, based on data provided in *Twice*, that the two largest consumer electronics superstore chains together accounted for approximately 36% of the total electronics sales attributable to the 100 largest retailers in 2007. Based on revenue in 2007, we were the 41st largest retailer of consumer electronics in the United States. New entrants in both the home appliances and consumer electronics industries have been successful in gaining market share by offering similar product selections at lower prices.

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

- o Digital Television (DTV and High Definition TV). The Federal Communications Commission has set a date of June 12, 2009, for all commercial television stations to transition from broadcasting analog signals to digital signals. To view a digital transmission, consumers will need either a digital television or a set-top box converter capable of converting the digital broadcast for viewing on an analog set. According to the International CES, the world's largest consumer technology tradeshow, as the switch to digital television nears, sales of DTVs will approach 35 million in 2009, with DTV being the largest category within the Consumer Electronics market, representing 15 percent of total industry sales. We believe the high clarity digital flat-panel televisions in both LCD and plasma formats has increased the quality and sophistication of these entertainment products and will be a key driver of digital television growth as more digital and high definition content is made available either through traditional distribution methods or through emerging content delivery systems. As prices continue to drop on such products, they become increasingly attractive to larger and more diverse groups of consumers.
- o Digital Versatile Disc (DVD). According to the CDRinfo, an online publication dedicated to CD, DVD, and other related optical media technology, the DVD player has been the fastest growing consumer electronics product in history. First introduced in March 1997, DVD players are currently in 91% of U.S. homes. We believe newer technology, such as Blu-ray high definition DVD, and portable players will continue to drive consumer interest in this entertainment category. Twice projects in 2009, revenues of Blu-ray devices around \$1.2 billion.

Business Strategy

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

- o Offering a broad range of customer-driven, brand name products. We offer a comprehensive selection of high-quality, brand name merchandise to our customers at guaranteed low prices. Consistent with our good-better-best merchandising strategy, we offer a wide range of product selections from entry-level models through high-end models. We maintain strong relationships with the approximately 150 manufacturers and distributors that enable us to offer over 3,500 SKUs our customers. Our principal suppliers include General Electric, Whirlpool, Frigidaire, Maytag, LG, Mitsubishi, Samsung, Sony, Toshiba, Hitachi, Serta, Ashley, Bose, Friedrich, Lane, Hewlett Packard, Compaq, Poulan, Husqvarna and Toro.
- o Offering flexible financing alternatives through our proprietary credit programs. In the last three years, we financed, on average, approximately 61% of our retail sales through our internal credit programs. We believe our credit programs expand our potential customer base, increase our sales revenue and enhance customer loyalty by providing our customers immediate access to financing alternatives that our competitors typically do not offer. Our credit department makes all credit decisions internally, entirely independent of our sales personnel. We provide special consideration to customers with credit history with us. Before extending credit, we consider our loss

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experience by product category and the customer's credit worthiness in determining the down payment amount and other credit terms. This facilitates product sales while keeping our credit risk within an acceptable range. We provide a full range of credit products, including interest-free programs for the highest credit quality customers and our secondary portfolio for our credit-challenged customers. The secondary portfolio, which has generally lower average credit scores than our primary portfolio, undergoes more intense internal underwriting scrutiny to mitigate the inherently greater risk, including address and employment verification and reference checks. Approximately 58% of our customers who have active credit accounts with us take advantage of our in-store payment option and come to our stores each month to make their payments, which we believe results in additional sales to these customers. We contact customers with past due accounts daily and attempt to work with them to collect payments in times of financial difficulty or periods of economic downturn. Our experience in credit underwriting and the collections process has enabled us to achieve an average net loss ratio of 3.1% over the past three years on the credit portfolio that we manage, including receivables transferred to our Qualifying Special Purpose Entity or QSPE.

- o Maintaining next day distribution capabilities. We maintain four regional distribution centers and four other related facilities that cover all of the major markets in which we operate. These facilities are part of a sophisticated inventory management system that also includes a fleet of approximately 90 transfer and delivery vehicles that service all of our markets. Our distribution operations enable us to deliver products on the day after the sale for approximately 93% of our customers who scheduled delivery during that timeframe.

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- o Providing outstanding product repair service. We service every product that we sell, and we service only the products that we sell. In this way, we can assure our customers that they will receive our service technicians' exclusive attention to their product repair needs. All of our service centers are authorized factory service facilities that provide trained technicians to offer in-home diagnostic and repair service utilizing a fleet of approximately 130 service vehicles as well as on-site service and repairs for products that cannot be repaired in the customer's home.
- o Developing and retaining highly trained and knowledgeable sales personnel. We require all sales personnel to specialize in home appliances or consumer electronics. Some of our sales associates qualify in more than one specialty. This specialized approach allows the sales person to focus on specific product categories and become an expert in selling and using products in those categories. New sales personnel must complete an intensive classroom training program and additional time riding in a delivery truck and a service truck to observe how we serve our customers after the sale is made.
- o Providing a high level of customer service. We endeavor to maintain a very high level of customer service as a key component of our culture, which has resulted in average customer satisfaction levels of approximately 90% over the past three years. We measure customer satisfaction on the sales floor, in our delivery operation and in our service department by sending survey cards to all customers to whom we have delivered or installed a product or made a service call. Our customer service resolution department attempts to address all

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customer complaints within 48 hours of receipt.

Store Development and Growth Strategy

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

- o Increasing same store sales. We plan to continue to increase our same store sales by:
 - o continuing to offer quality products at competitive prices;
 - o re-merchandising our product offerings in response to changes in consumer interest and demand;
 - o adding new merchandise to our existing product lines;
 - o training our sales personnel to increase sales closing rates;
 - o updating our stores as needed;
 - o continuing to promote sales of computers and smaller electronics, such as video game equipment and GPS devices, including the expansion of high margin accessory items;
 - o continuing to provide a high level of customer service in sales, delivery and servicing of our products; and
 - o increasing sales of our merchandise, finance products, service maintenance agreements and credit insurance through direct mail and in-store credit promotion programs.

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- o Opening new stores. While we have no new stores currently under development for fiscal 2010, we intend to take advantage of our reliable infrastructure and proven store model to continue to open new stores in the future, dependent upon future capital availability. This infrastructure includes our proprietary management information systems, training processes, distribution network, merchandising capabilities, supplier relationships, product service capabilities and centralized credit approval and collection management processes. We intend to expand our store base in existing, adjacent and new markets, as follows:
 - o Existing and adjacent markets. We intend to increase our market presence by opening new stores in our existing markets and in adjacent markets as we identify the need and opportunity. New store openings in these locations will allow us to maximize opportunity in those markets and leverage our existing distribution network, advertising presence, brand name recognition and reputation. In fiscal 2009, we opened new stores in Dallas, Lufkin, Houston and South Texas.
 - o New markets. During fiscal 2008 we opened our first store in Oklahoma and opened two additional stores in the market during fiscal 2009. We intend to consider new markets over the next

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several fiscal years. We intend to first address markets in states in which we currently operate. We expect that new store growth will include major metropolitan markets in Texas and have also identified a number of smaller markets within Texas, Louisiana and Oklahoma in which we expect to explore new store opportunities. Our long-term growth plans include markets in other areas of significant population density in neighboring states.

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

The addition of new stores and new and expanded product categories have played, and we believe will continue to play, a significant role in our continued growth and success. We currently operate 75 retail stores located in Texas, Louisiana and Oklahoma. We opened six stores in fiscal 2006 and seven stores in each of fiscal 2008 and 2009. Additionally, we relocated three stores during fiscal 2009. While we have no new stores currently under development for fiscal 2010, we plan to continue our store development program in the future, with a long-range plan of increasing the store count by approximately 10% each year, and will continue to update a portion of our existing stores each year. We believe that continuing our strategies of updating existing stores, growing our store base and locating our stores in desirable geographic markets are essential for our future success.

Customers

We do not have a significant concentration of sales with any individual customer and, therefore, the loss of any one customer would not have a material impact on our business. No single customer accounts for more than 10% of our total revenues; in fact, no single customer accounted for more than \$500,000 (less than 0.1%) of our total revenue of \$890.8 million during the year ended January 31, 2009.

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Products and Merchandising

Product Categories. Each of our stores sells the major categories of products shown below. The following table, which has been adjusted from previous filings to ensure comparability, presents a summary of total revenues for the years ended January 31, 2007, 2008, and 2009:

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| | 2007 | |
|---|-----------|-----|
| | Amount | % |
| Consumer electronics..... | \$218,350 | 28 |
| Home appliances..... | 230,950 | 30 |
| Track..... | 90,329 | 11 |
| Furniture and mattresses..... | 51,078 | 6 |
| Lawn and garden..... | 16,741 | 2 |
| Delivery..... | 11,380 | 1 |
| Other..... | 5,131 | 0 |
| Total product sales..... | 623,959 | 82 |
| Service maintenance agreement commissions..... | 30,567 | 4 |
| Service revenues..... | 22,411 | 3 |
| Total net sales..... | 676,937 | 89 |
| Finance charges and other (1)..... | 83,720 | 11 |
| Total revenues..... | \$760,657 | 100 |

Note (1) - Includes non-cash fair value adjustments reducing interests in securitized assets by \$4.8 million and \$24.5 million, in the years ended January 31, 2008 and 2009, respectively.

Within these major product categories (excluding service maintenance agreements, service revenues and delivery and installation), we offer our customers over 3,500 SKUs in a wide range of price points. Most of these products are manufactured by brand name companies, including General Electric, Whirlpool, Electrolux, Frigidaire, Friedrich, Maytag, LG, Mitsubishi, Samsung, Sony, Toshiba, Bose, Canon, JVC, Serta, Simmons, Spring Air, Ashley, Lane, Broyhill, Franklin, Hewlett Packard, Compaq, Poulan, Husqvarna and Toro. As part of our good-better-best merchandising strategy, our customers are able to choose from products ranging from low-end to mid- to high-end models in each of our key product categories, as follows:

| Category | Products | Sele |
|----------------------|--|---|
| Home appliances | Refrigerators, freezers, washers, dryers, ranges, dishwashers, built-ins, air conditioners and vacuum cleaners | General Electric, Maytag, LG, KitchenAid, Roper, Hoover and |
| Consumer electronics | LCD, plasma, and DLP televisions, and home theater systems | Sony, Samsung, Mitsubishi, Yamaha and Bose |
| Track | Computers, computer peripherals, camcorders, digital cameras, DVD players, audio components, compact disc players, GPS devices, video game equipment, speakers and portable electronics (e.g. mp3 players) | Hewlett Packard, Compaq, Garmin, Nintendo, and |
| Other | Lawn and garden, furniture and mattresses | Poulan, Husqvarna, and |

Purchasing. We purchase products from over 150 manufacturers and distributors. Our agreements with these manufacturers and distributors typically cover a one or two year time period, are renewable at the option of the parties and are terminable upon 30 days written notice by either party. Similar to other specialty retailers, we purchase a significant portion of our total inventory from a limited number of vendors. During fiscal 2009, 56.9% of our total inventory purchases were from five vendors, including 19.3%, 11.5% and 9.9% of our total inventory purchases from Samsung, Whirlpool and Sony, respectively. The loss of any one or more of these key vendors or our failure to establish and maintain relationships with these and other vendors could have a material adverse effect on our results of operations and financial condition. We have no indication that any of our suppliers will discontinue selling us merchandise. We have not experienced significant difficulty in maintaining adequate sources of merchandise, and we generally expect that adequate sources of merchandise will continue to exist for the types of products we sell.

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

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

Customer Service

We focus on customer service as a key component of our strategy. We believe our next day delivery option is one of the keys to our success. Additionally, we attempt to answer and resolve all customer complaints within 48 hours of receipt. We track customer complaints by individual salesperson, delivery person and service technician. We send out over 38,000 customer satisfaction survey cards each month covering all deliveries and service calls. Based upon a response rate from our customers of approximately 16%, we consistently report an average customer satisfaction level of approximately 90%.

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Store Operations

Stores. We currently operate 75 retail and clearance stores located in Texas, Louisiana and Oklahoma. We recently closed our clearance center in San Antonio, Texas, to provide additional space for the expansion of our credit collection center, which was located in the same facility. The following table illustrates our markets, the number of freestanding and strip mall stores in each market and the calendar year in which we opened our first store in each market:

Market

| | |
|--|--|
| Houston..... | |
| San Antonio/Austin..... | |
| Golden Triangle (Beaumont, Port Arthur, Lufkin and Orange, Texas and Lake Charles, Louisiana)..... | |
| Baton Rouge/Lafayette..... | |
| Corpus Christi..... | |
| Dallas/Fort Worth..... | |
| South Texas..... | |
| Oklahoma..... | |
| Total..... | |

Our stores have an average selling space of approximately 22,000 square feet, plus a rear storage area averaging approximately 5,500 square feet for fast-moving or smaller products that customers prefer to carry out rather than wait for in-home delivery. Three of our stores are clearance centers for discontinued product models and damaged merchandise, returns and repossessed product located in our Houston and Dallas markets and contain 40,800 square feet of combined selling space. All stores are open from 10:00 a.m. to 9:30 p.m. Monday through Friday, from 9:00 a.m. to 9:30 p.m. on Saturday, and from 11:00 a.m. to 7:00 p.m. on Sunday. We also offer extended store hours during the holiday selling season.

Approximately 79% our stores are located in strip shopping centers and regional malls, with the balance being stand-alone buildings in "power centers" of big box consumer retail stores. All of our locations have parking available immediately adjacent to the store's front entrance. Our storefronts have a distinctive front that guides the customer to the entrance of the store. Inside the store, a large colorful tile track circles the interior floor of the store. One side of the track leads the customer to major appliances, while the other side of the track leads the customer to a large display of television and home theater products. The inside of the track contains various home office and consumer electronic products such as computers, laptops, printers, Blu-ray and DVD players, camcorders, digital cameras, MP3 players, video game equipment and GPS devices. Mattresses, furniture and lawn and garden equipment displays occupy the rear of the sales floor. To reach the cashier's desk at the center of the track area, our customers must walk past our products. We believe this increases sales to customers who have purchased products from us on credit in the past and who return to our stores to make their monthly credit payments.

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We have updated many of our stores in the last three years. We expect to continue to update our stores as needed to address each store's specific needs. All of our updated stores, as well as our new stores, include modern interior selling spaces featuring attractive signage and display areas specifically designed for each major product type. Our prototype store for future expansion has from 20,000 to 25,000 square feet of retail selling space, which approximates the average size of our existing stores and a rear storage area of between 5,000 and 7,000 square feet. Our investment to update our stores has averaged approximately \$96,800 per store over the past three years, and as a result of the updating, we expect to increase same store sales at those stores. Over the last three years, we have invested approximately \$5.4 million updating, refurbishing or relocating our existing stores. We have recently updated 13 stores and have 17 stores in the process of being updated, with the plan to spend an average of approximately \$250,000 per store.

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

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Store Economics. We lease 70 of our 75 current store locations, with an average monthly rent of \$20,900. Our average per store investment for the 19 new leased stores we have opened in the last three years was approximately \$1.4 million, including leasehold improvements, fixtures and equipment and inventory (net of accounts payable). Our total investment for the location that was built in the last two years totaled approximately \$4.6 million, including land, buildings, fixtures and equipment and inventory (net of accounts payable). For these new stores, excluding the clearance center, the net sales per store have averaged \$0.6 million per month.

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

Personnel and Compensation. We staff a typical store with a store manager, an assistant manager, an average of 20 sales personnel and other support staff including cashiers and/or porters based on store size and location. Managers have an average tenure with us exceeding five years and typically have prior sales floor experience. In addition to store managers, we

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have seven district managers that generally oversee from seven to ten stores in each market. Our senior retail management personnel generally have six to twenty years of sales experience.

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

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

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

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Marketing

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

Our website, www.conns.com, provides customers the ability to purchase our products on-line, offers information about our selection of products and provides useful information to the consumer on pricing, features and benefits for each product, in addition to required corporate governance information. Our website also allows the customers residing in the markets in which we operate retail locations to apply and be considered for credit. The website currently averages approximately 7,800 visits per day from potential and existing customers and during fiscal 2009 was a source of credit applications. The website is linked to a call center, allowing us to better assist customers with their credit and product needs.

Distribution and Inventory Management

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

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

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

Finance Operations

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

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

| | 2007 | |
|----------------------------------|-----------|-----|
| | Amount | % |
| Cash and other credit cards..... | \$274,533 | 42 |
| Primary credit portfolio: | | |
| Installment..... | 262,653 | 40 |
| Revolving..... | 43,225 | 6 |
| Secondary credit portfolio..... | 74,115 | 11 |
| | \$654,526 | 100 |
| | \$654,526 | 100 |

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Credit Approval. Our credit programs are managed by our centralized credit underwriting department staff, independent of sales personnel. As part of our centralized credit approval process, we have developed a proprietary standardized scoring model that provides preliminary credit decisions, including down payment amounts and credit terms, based on both customer and product risk. The weighted average origination credit score of the receivables included in the portfolio was 608 at January 31, 2009, excluding bankruptcy accounts and accounts that had no credit score. While we automatically approve some credit applications from customers, approximately 87% of all of our credit decisions are based on evaluation of the customer's creditworthiness by a qualified credit grader. As of January 31, 2009, we employed over 530 full-time and part-time employees who focus on credit approval, collections and credit customer service. Employees in these operational areas are trained to follow our strict methodology in approving credit, collecting our accounts, and charging off any uncollectible accounts based on pre-determined aging criteria, depending on their area of responsibility.

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

Installment accounts are paid over a specified period of time with set monthly payments. Revolving accounts provide customers with a specified amount which the customer may borrow, repay and re-borrow so long as the credit limit is not exceeded. Most of our installment accounts provide for payment over 12 to 36 months, with the average account in the primary credit portfolio remaining outstanding for approximately 13 to 15 months. Our revolving accounts remain outstanding approximately 12 to 14 months. During fiscal 2009, approximately 30% of the applications approved under the primary program were approved automatically through our computer system based on the customer's credit history. The remaining applications, of both new and repeat customers, are sent to an experienced in-house credit grader.

We created our secondary credit portfolio program to meet the needs of those customers who do not qualify for credit under our primary program, typically due to past credit problems or lack of credit history. If we cannot approve a customer's application for credit under our primary portfolio, we automatically send the application to the credit staff of our secondary portfolio for further consideration, using stricter underwriting criteria. The additional requirements include verification of employment and recent work history, reference checks and higher required down payment levels. We offer only the installment program to those customers that qualify under these stricter underwriting criteria, and these customers are not eligible for our no-interest programs. An experienced, in-house credit grader administers the credit approval process for all applications received under our secondary portfolio program. Most of the installment accounts approved under this program provide for repayment over 12 to 36 months, with the average account was remaining outstanding for approximately 19 to 21 months.

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regarding our two credit portfolios.

| | 2007 |
|---|------------------|
| Total outstanding balance (period end)..... | \$ 435, (total o |
| Average outstanding customer balance..... | \$ 1, |
| Number of active accounts (period end)..... | 348, |
| Total applications processed (2)..... | 778, |
| Percent of retail sales financed..... | 46 |
| Total applications approved..... | 45 |
| Average down payment..... | 10 |
| Average interest spread (3)..... | 11 |

| | 2007 |
|---|----------------------|
| Total outstanding balance (period end)..... | \$ 133,944 (total ou |
| Average outstanding customer balance..... | \$ 1,212 |
| Number of active accounts (period end)..... | 110,472 |
| Total applications processed (2)..... | 404,543 |
| Percent of retail sales financed..... | 11.3 |
| Total applications approved..... | 32.1 |
| Average down payment..... | 25.1 |
| Average interest spread (3)..... | 13.5 |

| | 200 |
|---|--------------|
| Total outstanding balance (period end)..... | \$ 56 (total |
| Average outstanding customer balance..... | \$ |
| Number of active accounts (period end)..... | 45 |
| Total applications processed (2)..... | 1,18 |
| Percent of retail sales financed..... | |
| Total applications approved..... | |
| Average down payment..... | |
| Average interest spread (3)..... | |

(1) The Portfolios consist of owned and sold receivables.

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- (2) Unapproved credit applications in the primary portfolio are automatically referred to the secondary portfolio.
- (3) Difference between the average interest rate yield on the portfolio and the average cost of funds under our financing programs plus the allocated interest related to funds required to finance the credit enhancement portion of the portfolio. Also reflects the loss of interest income resulting from interest free promotional programs.

Credit Quality. We closely monitor the credit portfolios to identify delinquent accounts early and dedicate resources to contacting customers concerning past due accounts. We believe that our unique underwriting model, secured interest in the products financed, required down payments, local presence, ability to work with customers and flexible financing alternatives contribute to the historically low net charge-off rates on these portfolios. In addition, our customers have the opportunity to make their monthly payments in our stores, and approximately 58% our active credit accounts did so at some time during the last 12 months. We believe that these factors help us maintain a relationship with the customer that keeps losses low while encouraging repeat purchases.

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Our collection activities involve a combination of efforts that take place in our corporate office and San Antonio collection centers, and outside collection efforts that involve a visit by one of our credit counselors to the customer's home. We maintain a predictive dialer system and letter campaign that helps us contact between 30,000 and 35,000 delinquent customers daily. We also maintain an experienced skip-trace department that utilizes current technology to locate customers who have moved and left no forwarding address. Our outside collectors provide on-site contact with the customer to assist in the collection process or, if needed, to voluntarily repossess the product in the event of non-payment. Repossessions are made when it is clear that the customer is unwilling to establish a reasonable payment program. Our legal department represents us in bankruptcy proceedings and filing of delinquency judgment claims and helps handle any legal issues associated with the collection process.

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

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

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

| Primary Portfolio (1) | | |
|-----------------------|------|----|
| ----- | | |
| Year Ended January 31 | | |
| ----- | | |
| 2007 | 2008 | 20 |

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| | ----- | | |
|--|------------------------|-----------|-------|
| | (dollars in thousands) | | |
| Total outstanding balance (period end)..... | \$435,607 | \$511,586 | \$589 |
| Average total outstanding balance..... | \$417,747 | \$465,429 | \$538 |
| Account balances over 60 days old (period end)..... | \$ 26,024 | \$ 31,558 | \$ 35 |
| Percent of balances over 60 days old to total outstanding (period end)..... | | 6.0% | 6.2% |
| Bad debt write-offs (net of recoveries)..... | \$ 13,507 | \$ 12,429 | \$ 15 |
| Percent of write-offs (net) to average outstanding (2)..... | | 3.2% | 2.7% |

| | | | |
|--|--|--|--|
| Total outstanding balance (period end)..... | | | |
| Average total outstanding balance..... | | | |
| Account balances over 60 days old (period end)..... | | | |
| Percent of balances over 60 days old to total outstanding (period end)..... | | | |
| Bad debt write-offs (net of recoveries)..... | | | |
| Percent of write-offs (net) to average outstanding (2)..... | | | |

-
- (1) The Portfolios consists of owned and sold receivables.
 - (2) The fiscal year ended January 31, 2007, was impacted by the disruption to our credit collection operations caused by Hurricane Rita.

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

| | |
|--|--|
| Beginning balance..... | |
| New receivables financed..... | |
| Revolving finance charges..... | |
| Returns on account..... | |
| Collections on account..... | |
| Accounts charged off..... | |
| Recoveries of charge-offs..... | |
| Ending balance..... | |
| Less unearned interest at end of period..... | |

Total portfolio, net.....

Product Support Services

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

We require proof of property insurance on all installment credit purchases, although we do not require that customers purchase this insurance from us. During fiscal 2009, approximately 68.3% of our credit customers purchased one or more of the credit insurance products we offer, and approximately 16.5% purchased all of the insurance products we offer. Commission revenues from the sale of credit insurance contracts represented approximately 2.4%, 2.6% and 2.3% of total revenues for fiscal years 2007, 2008 and 2009, respectively.

Warranty Service. We provide service for all of the products we sell and only for the products we sell. Customers purchased service maintenance agreements on products representing approximately 49.8% of our total retail sales for fiscal 2009. These agreements broaden and extend the period of covered manufacturer warranty service for up to five years from the date of purchase, depending on the product, and cover certain items during the manufacturer's warranty period. These agreements are sold at the time the product is purchased. Customers may finance the cost of the agreements along with the purchase price of the associated product. We contact the customer prior to the expiration of the service maintenance period to provide them the opportunity to renew the period of warranty coverage.

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

Of the 15,000 repairs, on average, that we perform each month, approximately 45.4% are covered under service maintenance agreements, approximately 42.2% are covered by manufacturer warranties and the remainder are cash and customer accommodation repairs. Revenues from the sale of service maintenance agreements represented approximately 4.5%, 5.0% and 5.0% of net sales during fiscal years 2007, 2008 and 2009, respectively.

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Management Information Systems

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

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

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

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

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

Competition

According to Twice, total industry manufacturer sales of home appliances and consumer electronics products in the United States, including imports, to the top 100 dealers were estimated to be \$23.8 billion and \$124.9 billion, respectively, in 2007. The retail home appliance market is large and concentrated among a few major suppliers. Sears has historically been the leader

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in the retail home appliance market, with a market share among the top 100 retailers of approximately 37% in 2006 and 35% in 2007. The consumer electronics market is highly fragmented. We estimate that the two largest consumer electronics superstore chains accounted for approximately 36% of the total electronics sales attributable to the 100 largest retailers in 2007. However, new entrants in both industries have been successful in gaining market share by offering similar product selections at lower prices.

As reported by Twice, based upon revenue in 2007, we were the 9th largest retailer of home appliances and the 41st largest retailer of consumer electronics. Our competitors include national mass merchants such as Sears and Wal-Mart, specialized national retailers such as Best Buy, home improvement stores such as Lowe's and Home Depot, and locally-owned regional or independent retail specialty stores. The availability and convenience of the Internet is increasing as a competitive factor in our industry.

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

Regulation

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

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

Employees

As of January 31, 2009, we had approximately 3,120 full-time employees and 115 part-time employees, of which approximately 1,350 were sales personnel. We offer a comprehensive benefits package including health, life, short and long term disability, and dental insurance coverage as well as a 401(k) plan, employee stock purchase plan, paid vacation and holiday pay, for eligible employees. None of our employees are covered by collective bargaining agreements and we believe our employee relations are good. Conn's has a formal dispute resolution plan that requires mandatory arbitration for employment related issues.

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Tradenames and Trademarks

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

Available Information

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

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

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ITEM 1A. RISK FACTORS.

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

Our success depends on our ability to open and operate profitably new stores in existing, adjacent and new geographic markets.

While we have no new store openings planned currently, we expect to continue our expansion in the future. Future new stores that we open may not be profitable or meet our goals. Any of these circumstances could have a material adverse effect on our financial results. There are a number of factors that could affect our ability to open and operate new stores consistent with our business plan, including:

- o competition in existing, adjacent and new markets;
- o competitive conditions, consumer tastes and discretionary spending patterns in adjacent and new markets that are different from those in our existing markets;

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- o a lack of consumer demand for our products or financing programs at levels that can support new store growth;
- o inability to make customer financing programs available that allow consumer to purchase products at levels that can support new store growth;
- o limitations created by covenants and conditions under our credit facilities and our asset-backed securitization program;
- o the availability of additional financial resources;
- o the substantial outlay of financial resources required to open new stores and the possibility that we may recognize little or no related benefit;
- o an inability or unwillingness of vendors to supply product on a timely basis at competitive prices;
- o the failure to open enough stores in new markets to achieve a sufficient market presence;
- o the inability to identify suitable sites and to negotiate acceptable leases for these sites;
- o unfamiliarity with local real estate markets and demographics in adjacent and new markets;
- o problems in adapting our distribution and other operational and management systems to an expanded network of stores;
- o difficulties associated with the hiring, training and retention of additional skilled personnel, including store managers; and
- o higher costs for print, radio and television advertising.

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

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If we are unable to manage our growing business, our revenues may not increase as anticipated, our cost of operations may rise and our profitability may decline.

We face many business risks associated with growing companies, including the risk that our management, financial controls and information systems will be inadequate to support our planned expansion. Our growth plans will require management to expend significant time and effort and additional resources to ensure the continuing adequacy of our financial controls, operating procedures, information systems, product purchasing, warehousing and distribution systems and employee training programs. We cannot predict whether we will be able to manage effectively these increased demands or respond on a timely basis to the changing demands that our planned expansion will impose on our management,

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financial controls and information systems. If we fail to manage successfully the challenges our growth poses, do not continue to improve these systems and controls or encounter unexpected difficulties during our expansion, our business, financial condition, operating results or cash flows could be materially adversely affected.

The inability to obtain funding for our credit operations through securitization facilities or other sources may adversely affect our business and expansion plans.

We finance our customer receivables through asset-backed securitization facilities and an asset based loan facility that together provide \$660 million in financing commitments, as of January 31, 2009. The securitization facilities provide two separate series of asset-backed notes that allowed us, as of January 31, 2009, to borrow up to \$450 million to finance customer receivables. Under each note series, we transfer customer receivables to a qualifying special purpose entity we formed for this purpose, in exchange for cash and subordinated securities. The qualifying special purpose entity, in turn, issues notes collateralized by these receivables that entitle the holders of the notes to participate in certain cash flows from these receivables. The 2002 Series A program is a \$300 million variable funding note, of which \$292.5 million was drawn as of January 31, 2009. The 2002 Series A program consists of a \$100 million 364-day tranche that is up for renewal in August 2009, and a \$200 million tranche that is annually renewable, at our option, until September 2012. Initial indications are that at least a portion of the \$100 million 364-day commitment will not be renewed in August 2009. If that is the case, any borrowings outstanding in excess of any portion of the commitment that is renewed, if any, would be required to be paid down using the proceeds from collections on the receivables portfolio. Our current plan is to reduce the balance outstanding under this commitment before the maturity date. As such, we will fund new receivables generated using our existing cash flows, borrowings on our asset based loan facility and may be required to obtain new sources of financing to fund growth in our credit operations. The 2006 Series A program consists of \$150 million in private bond placements that will require scheduled principal payments beginning in September 2010. These bonds were recently downgraded by the rating agency that originally rated the bonds, which may make it more difficult for us to issue medium-term bonds in the future if the ratings are not subsequently raised. The asset based loan facility is a syndicated revolving bank facility that provides a \$210 million of borrowing capacity, of which \$84.6 million was drawn, including outstanding letters of credit, as of January 31, 2009, and matures in August 2011.

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

These factors include:

- o conditions in the securities and finance markets generally;
- o economic conditions;
- o conditions in the markets for securitized instruments, or other debt or equity instruments;
- o the credit quality and performance of our customer receivables;
- o our overall sales performance and profitability;
- o our ability to obtain financial support for required credit enhancement;

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- o our ability to adequately service our financial instruments;

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- o the absence of any material downgrading or withdrawal of ratings given to our securities previously issued in securitizations;
- o our ability to meet debt covenant requirements; and
- o prevailing interest rates.

Our ability to finance customer receivables under our current financing facilities depends on our continued compliance with covenants relating to our business and our customer receivables. If these programs reach their capacity or if availability under the borrowing base calculations is reduced, or otherwise becomes unavailable, and we are unable to arrange substitute securitization facilities or other sources of financing, we may have to limit the amount of credit that we make available through our customer finance programs. This may adversely affect revenues and results of operations. Further, our inability to obtain funding through securitization facilities or other sources may adversely affect the profitability of outstanding accounts under our credit programs if existing customers fail to repay outstanding credit due to our refusal to grant additional credit.

Additionally, the inability of any of the financial institutions providing our financing facilities to fund their commitment could adversely affect our ability to fund our credit programs, capital expenditures and other general corporate needs.

An increase in interest rates may adversely affect our profitability.

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

We have significant future capital needs which we may be unable to fund, and we may need additional funding sooner than currently anticipated.

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

We estimate that capital expenditures during fiscal 2010 will be approximately \$10 million to \$15 million and that capital expenditures during future years may exceed this amount. Our capital expenditure plan for 2010 could increase, depending the availability of capital to fund new store openings and accounts receivable portfolio growth. We expect that cash provided by operating

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activities and available borrowings under our credit facilities will be sufficient to fund our operations, store expansion and updating activities and capital expenditure programs for at least 12 months. However, this may not be the case. We may be required to seek additional capital earlier than anticipated if future cash flows from operations fail to meet our expectations and costs or capital expenditures exceed anticipated amounts.

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A decrease in our credit sales or a decline in credit quality could lead to a decrease in our product sales and profitability.

In the last three fiscal years, we financed, on average, approximately 61% of our retail sales through our internal credit programs. Our ability to provide credit as a financing alternative for our customers depends on many factors, including the quality of our accounts receivable portfolio. Payments on some of our credit accounts become delinquent from time to time, and some accounts end up in default, due to several factors, such as general and local economic conditions, including the impact of rising interest rates and unemployment rates. As we expand into new markets, we will obtain new credit accounts that may present a higher risk than our existing credit accounts since new credit customers do not have an established credit history with us. A general decline in the quality of our accounts receivable portfolio could lead to a reduction of available credit provided through our finance operations, if the advance rates used or eligible receivable balances included in the borrowing base calculations are reduced, and thus our funding available to finance new receivables is reduced. As a result, if we are required to reduce the amount of credit we grant to our customers, we might sell fewer products, which could adversely affect our earnings. Further, because approximately 58% of our credit customers make their credit account payments in our stores, any decrease in credit sales could reduce traffic in our stores and lower our revenues. A decline in the credit quality of our credit accounts could also cause an increase in our credit losses, which could result in a decrease in our securitization income or increase the provision for bad debts on our statement of operations and result in an adverse effect on our earnings. A decline in credit quality could also lead to stricter underwriting criteria which might have a negative impact on sales.

A downturn in the economy may affect consumer purchases of discretionary items, which could reduce our net sales or profit margins.

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

While we have benefited recently from our operations being concentrated in the Texas, Louisiana and Oklahoma region, recent turmoil in the national economy, including instability in the financial markets, declining consumer confidence and falling oil prices will present significant challenges to our

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operations in the coming quarters. Specifically, future sales volumes, gross profit margins and credit portfolio performance could be negatively impacted, and thus negatively impact our overall profitability and liquidity.

We face significant competition from national, regional, local and Internet retailers of home appliances and consumer electronics.

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

We may not be able to compete successfully against existing and future competitors. Some of our competitors have financial resources that are substantially greater than ours and may be able to purchase inventory at lower costs and better sustain economic downturns. As a result, our sales may decline if we cannot offer competitive prices to our customers or we may be required to accept lower profit margins. Our competitors may respond more quickly to new or emerging technologies and may have greater resources to devote to promotion and sale of products and services. If two or more competitors consolidate their businesses or enter into strategic partnerships, they may be able to compete more effectively against us.

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

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

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

If new products are not introduced or consumers do not accept new products, our sales may decline.

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

If we fail to anticipate changes in consumer preferences, our sales may decline.

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

A disruption in our relationships with, or in the operations of, any of our key suppliers could cause our sales to decline.

The success of our business and growth strategies depends to a significant degree on our relationships with our suppliers, particularly our brand name suppliers such as General Electric, Whirlpool, Electrolux, Frigidaire, Friedrich, Maytag, LG, Mitsubishi, Samsung, Sony, Toshiba, Bose, Canon, JVC, Serta, Simmons, Spring Air, Ashley, Lane, Broyhill, Franklin, Hewlett Packard, Compaq, Poulan, Husqvarna and Toro. We do not have long term supply agreements or exclusive arrangements with the majority of our vendors. We typically order our inventory and repair parts through the issuance of individual purchase orders to vendors. We also rely on our suppliers for cooperative advertising support. We may be subject to rationing by suppliers with respect to a number of limited distribution items. In addition, we rely heavily on a relatively small number of suppliers. Our top five suppliers represented 56.9% of our purchases for fiscal 2009, and the top two suppliers represented approximately 30.8% of our total purchases. The loss of any one or more of these key vendors or failure to establish and maintain relationships with these and other vendors, and limitations on the availability of inventory or repair parts could have a material adverse effect on our results of operations and financial condition. If one of our vendors were to go out of business, it could have a material adverse effect on our results of operations and financial condition if it is unable to fund amounts due to us, including payments due for returns of product and warranty claims.

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

Furthermore, we rely on credit from vendors to purchase our products. As

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of January 31, 2009, we had \$57.8 million in accounts payable and \$96.0 million in merchandise inventories. A substantial change in credit terms from vendors or vendors' willingness to extend credit to us, including providing inventory under consignment arrangements, would reduce our ability to obtain the merchandise that we sell, which could have a material adverse effect on our sales and results of operations.

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

You should not rely on our comparable store sales as an indication of our future results of operations because they fluctuate significantly.

Our historical same store sales growth figures have fluctuated significantly from quarter to quarter. For example, same store sales growth for each of the quarters of fiscal 2009 were 1.0%, -1.4%, -5.8%, and 12.5%, respectively. A number of factors have historically affected, and will continue to affect, our comparable store sales results, including:

- o changes in competition;
- o general economic conditions;
- o new product introductions;
- o consumer trends;
- o changes in our merchandise mix;
- o changes in the relative sales price points of our major product categories;
- o ability to offer credit programs attractive to our customers;
- o the impact of our new stores on our existing stores, including potential decreases in existing stores' sales as a result of opening new stores;
- o weather conditions in our markets;
- o timing of promotional events;
- o timing, location and participants of major sporting events; and
- o our ability to execute our business strategy effectively.

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

Because we experience seasonal fluctuations in our sales, our quarterly results will fluctuate, which could adversely affect our common stock price.

We experience seasonal fluctuations in our net sales and operating results. In fiscal 2009, we generated 30.5% of our net sales and 49.1% of our net income in the fiscal quarter ended January 31 (which included the holiday selling season). We also incur significant additional expenses during this fiscal quarter due to higher purchase volumes and increased staffing. If we miscalculate the demand for our products generally or for our product mix during the fiscal quarter ending January 31, our net sales could decline, resulting in excess inventory or increased sales discounts to sell excess inventory, which could harm our financial performance. A shortfall in expected net sales,

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combined with our significant additional expenses during this fiscal quarter, could cause a significant decline in our operating results. This could adversely affect our common stock price.

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Our business could be adversely affected by changes in consumer protection laws and regulations.

Federal and state consumer protection laws and regulations, such as the Fair Credit Reporting Act, limit the manner in which we may offer and extend credit. Since we finance a substantial portion of our sales, any adverse change in the regulation of consumer credit could adversely affect our total revenues and gross margins. For example, new laws or regulations could limit the amount of interest or fees that may be charged on consumer credit accounts or restrict our ability to collect on account balances, which would have a material adverse effect on our earnings. Compliance with existing and future laws or regulations could require us to make material expenditures, in particular personnel training costs, or otherwise adversely affect our business or financial results. Failure to comply with these laws or regulations, even if inadvertent, could result in negative publicity, fines or additional licensing expenses, any of which could have an adverse effect on our results of operations and stock price.

Pending litigation relating to the sale of credit insurance and the sale of service maintenance agreements in the retail industry could adversely affect our business.

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

If we lose key management or are unable to attract and retain the qualified sales and credit granting and collection personnel required for our business, our operating results could suffer.

Our future success depends to a significant degree on the skills, experience and continued service of our key executives or the identification of suitable successors for them. If we lose the services of any of these individuals, or if one or more of them or other key personnel decide to join a competitor or otherwise compete directly or indirectly with us, and we are unable to identify a suitable successor, our business and operations could be harmed, and we could have difficulty in implementing our strategy. In addition, as our business grows, we will need to locate, hire and retain additional qualified sales personnel in a timely manner and develop, train and manage an increasing number of management level sales associates and other employees. Additionally, if we are unable to attract and retain qualified credit granting

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and collection personnel, our ability to perform quality underwriting of new credit transactions or maintain workloads for our collections personnel at a manageable level, our operations could be adversely impacted and result in higher delinquency and net charge-offs on our credit portfolio. Competition for qualified employees could require us to pay higher wages to attract a sufficient number of employees, and increases in the federal minimum wage or other employee benefits costs could increase our operating expenses. If we are unable to attract and retain personnel as needed in the future, our net sales growth and operating results could suffer.

Because our stores are located in Texas, Louisiana and Oklahoma, we are subject to regional risks.

Our 75 stores are located exclusively in Texas, Louisiana and Oklahoma. This subjects us to regional risks, such as the economy, weather conditions, hurricanes and other natural disasters. If the region suffered an economic downturn or other adverse regional event, there could be an adverse impact on our net sales and profitability and our ability to implement our planned expansion program. Several of our competitors operate stores across the United States and thus are not as vulnerable to the risks of operating in one region.

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Our information technology infrastructure is vulnerable to damage that could harm our business.

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

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

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

If we are unable to maintain our insurance licenses in the states we operate, our profitability could suffer.

We derive a significant portion of our revenues and operating income from the sale of various insurance products to our customers. These products include credit insurance, service maintenance agreements and product replacement

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policies. If for any reason we were unable to maintain our insurance licenses in the states we operate our operating results could suffer.

If we are unable to maintain our current insurance coverage for our service maintenance agreements, our customers could incur additional costs and our repair expenses could increase, which could adversely affect our financial condition and results of operations.

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

If we are unable to maintain group credit insurance policies from insurance carriers, which allow us to offer their credit insurance products to our customers purchasing on credit, our revenues could be reduced and bad debts might increase.

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

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Changes in premium and commission rates allowed by regulators on our credit insurance and service maintenance agreements as allowed by the laws and regulations in the states in which we operate could affect our revenues.

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

Changes in trade regulations, currency fluctuations and other factors beyond our control could affect our business.

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

We may be unable to protect our intellectual property rights, which could impair our name and reputation.

We believe that our success and ability to compete depends in part on

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

Failure to protect the security of our customer's information could expose us to litigation, judgments for damages and undermine the trust placed with us by our customers.

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

Any changes in the tax laws of the states in which we operate could affect our state tax liabilities. Additionally, beginning operations in new states could also affect our state tax liabilities.

As we experienced in fiscal year 2008 with the change in the Texas tax law, legislation could be introduced at any time that changes our state tax liabilities in a way that has an adverse impact on our results of operations. The Texas margin tax increased our effective rate from approximately 35.3%, before its introduction, to 38.1% in fiscal year 2009. Our recent commencement of operations in Oklahoma and the potential to enter new states in the future could adversely affect our results of operations, dependent upon the tax laws in place in those states.

Significant volatility in oil and gasoline prices could affect our customers' determination to drive to our stores, and cause us to raise our delivery charges.

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

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ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

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

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| Geographic Location | No. of Locations | Leas Facili |
|-------------------------------------|---------------------|----------------|
| Golden Triangle District (1)..... | 6 | |
| Louisiana District..... | 5 | |
| Houston District..... | 23 | |
| San Antonio/Austin District..... | 14 | |
| Corpus Christi..... | 2 | |
| South Texas..... | 3 | |
| Oklahoma District..... | 3 | |
| Dallas District..... | 19 | |
| Store Totals..... | 75 | |
| Warehouse/Distribution Centers..... | 7 | |
| Service Centers..... | 5 | |
| Corporate Offices..... | 2 | |
| Total..... | 89 | |

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

ITEM 3. LEGAL PROCEEDINGS.

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

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

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal 2009.

PART II

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

What is the principal market for our common stock?

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

| | High | Low |
|-----------------------------------|----------|----------|
| Quarter ended April 30, 2007..... | \$ 28.27 | \$ 22.66 |

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| | | |
|-------------------------------------|----------|----------|
| Quarter ended July 31, 2007..... | \$ 32.19 | \$ 24.35 |
| Quarter ended October 31, 2007..... | \$ 28.54 | \$ 19.60 |
| Quarter ended January 31, 2008..... | \$ 25.87 | \$ 14.05 |
| Quarter ended April 30, 2008..... | \$ 20.27 | \$ 11.50 |
| Quarter ended July 31, 2008..... | \$ 19.00 | \$ 13.64 |
| Quarter ended October 31, 2008..... | \$ 25.27 | \$ 10.49 |
| Quarter ended January 31, 2009..... | \$ 13.66 | \$ 4.64 |

How many common stockholders do we have?

As of March 16, 2009, we had approximately 51 common stockholders of record and an estimated 4,000 beneficial owners of our common stock.

Did we declare any cash dividends in fiscal 2008 or fiscal 2009?

No cash dividends were paid in fiscal 2008 or 2009. We do not anticipate paying dividends in the foreseeable future. Any future payment of dividends will be at the discretion of the Board of Directors and will depend upon our results of operations, financial condition, cash requirements and other factors deemed relevant by the Board of Directors, including the terms of our indebtedness. Provisions in agreements governing our long-term indebtedness restrict the amount of dividends that we may pay to our stockholders. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

Has the Company had any sales of unregistered securities during the last year?

The Company has had no sales of unregistered securities during fiscal 2009.

Has the Company purchased any of its securities during the past quarter?

On August 25, 2006, we announced that our Board of Directors had authorized a common stock repurchase program, permitting us to purchase, from time to time, in the open market and in privately negotiated transactions, up to an aggregate of \$50.0 million of our common stock, dependent on market conditions and the price of the stock. No repurchases were made during the year ended January 31, 2009, and our board of directors has terminated the repurchase program.

ITEM 6. SELECTED FINANCIAL DATA.

| | 2005 | 2006 |
|---|---------------------|-----------|
| | (dollars and cents) | |
| Statement of Operations: | | |
| Total revenues..... | \$565,821 | \$701,000 |
| Operating expense: | | |
| Cost of goods sold, including warehousing and | | |

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| | | |
|---|-----------|-------|
| occupancy cost..... | 339,887 | 427 |
| Selling, general and administrative expense..... | 173,349 | 208 |
| Provision for bad debts..... | 2,589 | 1 |
| | ----- | ----- |
| Total operating expense..... | 515,825 | 637 |
| | ----- | ----- |
| Operating income..... | 49,996 | 63 |
| Interest (income) expense, net and minority interest..... | 2,477 | |
| Other (income) expense..... | 126 | |
| | ----- | ----- |
| Earnings before income taxes..... | 47,393 | 63 |
| Provision for income taxes..... | 16,706 | 22 |
| | ----- | ----- |
| Net income..... | \$ 30,687 | \$ 41 |
| | ===== | ===== |
| Earnings per common share: | | |
| Basic..... | \$ 1.32 | \$ |
| Diluted..... | \$ 1.30 | \$ |
| Average common shares outstanding: | | |
| Basic..... | 23,192 | 23 |
| Diluted..... | 23,646 | 24 |
| Other Financial Data: | | |
| Stores open at end of period..... | 50 | |
| Same store sales growth (1)..... | 3.6% | |
| Inventory turns (2)..... | 5.9 | |
| Gross margin percentage (3)..... | 39.9% | |
| Operating margin (4)..... | 8.8% | |
| Ratio of earnings to fixed charges (5)..... | 6.0 | |
| Return on average equity (6)..... | 22.2% | |
| Capital expenditures..... | \$ 19,619 | \$ 18 |
| Balance Sheet Data: | | |
| Working capital..... | \$156,006 | \$190 |
| Total assets..... | 276,716 | 355 |
| Total debt..... | 10,532 | |
| Total stockholders' equity..... | 208,734 | 255 |

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- (1) Same store sales growth is calculated by comparing the reported sales by store for all stores that were open throughout a period to reported sales by store for all stores that were open throughout the prior period. Sales from closed stores have been removed from each period. Sales from relocated stores have been included in each period because each such store was relocated within the same general geographic market. Sales from expanded stores have been included in each period.
 - (2) Inventory turns are defined as the cost of goods sold, excluding warehousing and occupancy cost, divided by the average product inventory balance, excluding consigned goods.
 - (3) Gross margin percentage is defined as total revenues less cost of goods and parts sold, including warehousing and occupancy cost, divided by total revenues.
 - (4) Operating margin is defined as operating income divided by total revenues.
 - (5) Ratio of earning to fixed charges is calculated as income before income taxes plus fixed charges, divided by fixed charges. Fixed charges consist of the sum of interest expensed and capitalized, amortized premiums, discounts and capitalized expenses related to indebtedness and an estimate of the interest within rental expense.
 - (6) Return on average equity is calculated as current period net income divided by the average of the beginning and ending equity.

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- (A) Fiscal 2008 revenues, and operating, pretax and net income were impacted by a non-cash fair value adjustment of \$4.8 million which reduced the fair value of our interests in securitized assets.
- (B) Fiscal 2009 revenues, and operating, pretax and net income were impacted by a non-cash fair value adjustment of \$24.5 million which reduced the fair value of our interests in securitized assets.

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

Forward-Looking Statements

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

- o the success of our growth strategy and plans regarding opening new stores and entering adjacent and new markets, including our plans to continue expanding into existing markets;
- o our ability to open and profitably operate new stores in existing, adjacent and new geographic markets;
- o our intention to update or expand existing stores;
- o our ability to introduce additional product categories;
- o our ability to obtain capital for required capital expenditures and costs related to the opening of new stores or to update or expand existing stores;
- o our ability to fund our operations, capital expenditures, debt repayment and expansion from cash flows from operations, borrowings from our revolving line of credit and proceeds from securitizations, and proceeds for accessing debt or equity markets;
- o our ability and our QSPE's ability to obtain additional funding for the purpose of funding the receivables generated by us, including limitations on the ability of the QSPE to obtain financing through its commercial paper-based funding sources and its ability to maintain the current credit rating issued by a recognized statistical rating organization;

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- o our ability and our QSPE's ability to meet debt covenant requirements;
- o the cost or terms of any renewed or replacement credit facilities;
- o the effect of rising interest rates that could increase our cost of borrowing or reduce securitization income;
- o the effect of rising interest rates on sub-prime mortgage borrowers that could impair our customers' ability to make payments on outstanding credit accounts;
- o our inability to make customer financing programs available that allow consumers to purchase products at levels that can support our growth;
- o the potential for deterioration in the delinquency status of the sold or owned credit portfolios or higher than historical net charge-offs in the portfolios could adversely impact earnings;
- o technological and market developments, growth trends and projected sales in the home appliance and consumer electronics industry, including, with respect to digital products like Blu-ray players, HDTV, GPS devices, home networking devices and other new products, and our ability to capitalize on such growth;
- o the potential for price erosion or lower unit sales points that could result in declines in revenues;

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- o the effect of changes in oil and gas prices that could adversely affect our customers' shopping decisions and patterns, as well as the cost of our delivery and service operations and our cost of products, if vendors pass on their additional fuel costs through increased pricing for products;
- o the ability to attract and retain qualified personnel;
- o both the short-term and long-term impact of adverse weather conditions (e.g. hurricanes) that could result in volatility in our revenues and increased expenses and casualty losses;
- o changes in laws and regulations and/or interest, premium and commission rates allowed by regulators on our credit, credit insurance and service maintenance agreements as allowed by those laws and regulations;
- o our relationships with key suppliers and their ability to provide products at competitive prices and support sales of their products through their rebate and discount programs;
- o the adequacy of our distribution and information systems and management experience to support our expansion plans;
- o changes in the assumptions used in the valuation of our interests in securitized assets at fair value;
- o the potential to record an impairment of our goodwill after

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completing our required annual assessment, or at any other time that an impairment indicator exists;

- o the accuracy of our expectations regarding competition and our competitive advantages;
- o changes in our stock price or the number of shares we have outstanding;
- o the potential for market share erosion that could result in reduced revenues;
- o the accuracy of our expectations regarding the similarity or dissimilarity of our existing markets as compared to new markets we enter;
- o general economic conditions in the regions in which we operate; and
- o the outcome of litigation or government investigations affecting our business.

Additional important factors that could cause our actual results to differ materially from our expectations are discussed under "Risk Factors" in this Form 10-K. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report might not happen.

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

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

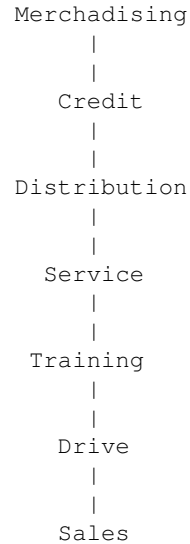
General

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

Through our 75 retail stores, we provide products and services to our customers in seven primary market areas, including Houston, San Antonio/Austin, Dallas/Fort Worth, southern Louisiana, Southeast and South Texas and Oklahoma. Products and services offered through retail sales outlets include home appliances, consumer electronics, home office equipment, lawn and garden products, mattresses, furniture, service maintenance agreements, customer credit programs, including installment and revolving credit account programs, and various credit insurance products. These activities are supported through our extensive service, warehouse and distribution system. Our stores bear the "Conn's" name, after our founder's family, and deliver the same products and services to our customers. All of our stores follow the same procedures and methods in managing their operations. The Company's management evaluates performance and allocates resources based on the operating results of the retail stores and considers the credit programs, service contracts and distribution system to be an integral part of the Company's retail operations.

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



We, of course, derive the majority of our revenues from our product and service maintenance agreement sales. However, unlike many of our competitors, we provide in-house credit options for our customers' product purchases. In the last three years, we have financed, on average, approximately 61% of our retail sales through these programs. In turn, we finance substantially all of our customer receivables from these credit options through a revolving credit facility and an asset-backed securitization facility. See "Business - Finance Operations" for a detailed discussion of our in-house credit programs and our sources of funding. As part of our asset-backed securitization facility, we have created a qualifying special purpose entity, which we refer to as the QSPE or the issuer, to purchase customer receivables from us and to issue medium-term and variable funding notes secured by the receivables to finance its acquisition of the receivables. We transfer eligible receivables, consisting of retail installment and revolving account receivables extended to our customers, to the issuer in exchange for cash and subordinated securities. Customer receivables funded by our revolving credit facility are retained on our consolidated balance sheet.

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

Executive Overview

This overview is intended to provide an executive level overview of our operations for our fiscal year ended January 31, 2009. A detailed explanation of the changes in our operations for the fiscal year ended January 31, 2009, as compared to the prior year is included beginning under Results of Operations. Our performance during fiscal 2009 was impacted by Hurricanes Gustav and Ike, which made landfall along the Gulf Coast during September 2008, and negatively effected our sales and credit portfolio performance. Following are significant financial items in management's view:

- o Our revenues for the fiscal year ended January 31, 2009, increased by 8.1%, or \$66.7 million, from fiscal year 2008, to \$890.8 million due primarily to product sales growth which drove higher service maintenance agreement commissions. The growth in our total revenues was partially offset by a higher non-cash decrease in the fair value of our interests in securitized assets, which totaled \$24.5 million in fiscal 2009, as compared to \$4.8 million in fiscal 2008. The fair value adjustments in both periods were driven primarily by the volatile financial market conditions and were not a reflection of the performance of the sold receivables portfolio. Our same store sales growth rate for the fiscal year ended January 31, 2009, was 2.0%, versus 3.2% for fiscal 2008. Additionally, total and same store sales were negatively effected in fiscal 2009 as a result of 144 store-days lost due to Hurricanes Gustav and Ike.
- o The addition of stores in our existing Dallas/Fort Worth, Houston, Southeast and South Texas markets and the opening of three stores in Oklahoma had a positive impact on our revenues. We achieved approximately \$60.6 million of increases in product sales and service maintenance agreement (SMA) commissions for the year ended January 31, 2009, from the opening of fourteen new stores in these markets since February 2007. We have additional sites under consideration for future development and continue to evaluate our store opening plans for future periods, in light of capital availability.
- o Deferred interest and "same as cash" plans continue to be an important part of our sales promotion plans and are utilized to provide a wide variety of financing to enable us to appeal to a broader customer base. For the fiscal year ended January 31, 2009, \$155.8 million, or 21.0%, of our product sales were financed by deferred interest and "same as cash" plans. We have been able to reduce the volume of promotional credit as a percent of product sales, as compared to the prior year. For the comparable period in the prior year, product sales financed by deferred interest and "same as cash" sales were \$183.1 million, or 27.3%. Our promotional credit programs (same as cash and deferred interest programs), which require monthly payments, are reserved for our highest credit quality customers, thereby reducing the overall risk in the portfolio, and are used primarily to finance sales of our highest margin products. We expect to continue to offer extended term promotional credit in the future.

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- o Our gross margin was 33.8% for fiscal 2009, a decrease from 37.2% in fiscal 2008, primarily as a result of the \$24.5 million reduction in the fair value of our interest in securitized assets in fiscal 2009, as compared to the \$4.8 million reduction in the prior year, and reduced gross margin realized on product sales from 24.2% in the year ended January 31, 2008, to 22.0% in fiscal year 2009. The fair value adjustments to our interest in securitized assets accounted for 140 basis points of the decline in total gross margin. The product gross margins were negatively impacted by a highly price competitive retail market.
- o Our operating margin decreased to 4.8% in fiscal 2009, from 7.2% in fiscal 2008, primarily as a result of the \$24.5 million reduction in the fair value of our interests in securitized assets in fiscal 2009, as compared to the \$4.8 million reduction in the prior year. The fair value adjustments to our interest in securitized assets accounted for 190 basis points of the decline in operating margin.
- o In fiscal 2009, SG&A expense as a percent of revenues decreased to 28.5% from 29.8% when compared to the prior year, primarily from decreases in payroll and payroll related expenses as a percent of revenues, as well as reduced advertising expenditures as a percent of revenues. The decrease in our SG&A expense as a percent of revenues was negatively affected by the negative impact of the fair value adjustment on total revenues, with the decrease shown above being reduced by 60 basis points due to the negative impact of the fair value adjustments on total revenues. Additionally, reductions in certain store operating expenses, including repairs and maintenance and janitorial services contributed to the improvement. Partially offsetting these improvements were increases in utilities, credit data processing and hurricane-related expenses of \$1.4 million.

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- o The provision for bad debts increased to \$4.3 million in fiscal 2009, from \$1.9 million in the prior year. This increase is due to an increase in the balance of customer receivables retained on our consolidated balance sheet, as expected, after the completion of our asset-based revolving credit facility in August 2008, and is not the result of higher actual or expected net credit charge-offs on the retained receivables. As opposed to our interests in the customer receivables transferred to the QSPE, which we account for at fair value, we are required to record a reserve for estimated future net credit losses for receivables retained on our consolidated balance sheet, which we estimated to be \$3.1 million, based on our historical loss trends.
- o Net interest (income) expense has changed from reflecting net interest income in fiscal 2008 to net interest expense in fiscal 2009, due primarily to the increase in customer receivables retained on our consolidated balance sheet. As a result, we have used previously invested cash balances and borrowings under our revolving credit facility to fund the growth in customer receivables retained.

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- o Other income (expense) declined \$1.1 million from fiscal 2009 to fiscal 2008, due to gains recognized on the sales of two properties in fiscal 2008.
- o The provision for income taxes was impacted primarily by the effect of the non-cash fair value adjustments on taxes for the state of Texas, which are based on gross margin, instead of income before taxes.
- o Our pretax income for fiscal 2009 decreased by 32.1%, or approximately \$19.7 million, from fiscal 2008. The decrease was driven primarily by the \$24.5 million non-cash reduction in the fair value of our interest in securitized assets recorded in fiscal 2009, which was \$19.7 million greater than the \$4.8 million non-cash fair value adjustment recorded in the prior year.
- o Cash flows used in operations was \$42.7 million during fiscal 2009 due primarily to the increased retention of customer receivables on the our consolidated balance sheet. Prior to the completion of the revolving asset-based revolving credit facility in August 2008, virtually all customer receivables were transferred to and funded by our QSPE, resulting in the net cash flow activity from these transactions being reported in cash flows from operating activities. However, for customer receivables retained on our consolidated balance sheet and funded by our revolving credit facility, the increase in accounts receivable is reflected as a use of cash in cash flows from operating activities, and borrowings on our revolving credit facility are reflected in cash flows from financing activities.

Operational Changes and Outlook

We have implemented, continued increased focus on, or modified several initiatives in fiscal 2009 that we believe will positively impact our future operating results, including:

- o Increased promotion of flat panel technology in our stores as the price point becomes more affordable for our customers; and
- o Increased emphasis on the sale of small electronics, including video game equipment and GPS devices; and
- o Increased emphasis on the sales of furniture, and additional product lines added to this category; and
- o A thorough review of our staffing and cost structure to ensure we are effectively leveraging the infrastructure in place and that it is sufficient to support our growth plans.

During the year, we opened one new store in the Houston market, two in the Dallas/Fort Worth market, one in McAllen, Texas, one in Lufkin, Texas and two in Oklahoma City, Oklahoma. The Dallas/Fort Worth market continues to perform at the mid-point of our range of expectations and we believe we have significant upside potential in that market through growth in the existing stores and our intention to continue to expand the number of stores in that market. We have additional sites under consideration for future development and continue to evaluate our store opening plans for future periods, in light of capital availability.

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We believe we have benefited and will continue to benefit from the recent closure of one of our major consumer electronics competitors, Circuit City. Because of the success of their liquidation sale during February and early March 2009, the growth of our total product and service maintenance agreement sales has slowed from the pace experienced during the fourth quarter of fiscal 2009. We believe that their closure will bring new customers into our stores, which could change the mix of our product sales and amount of credit we grant in relation to total product sales. Combined with changes we made to tighten our underwriting criteria and increase required down payments, we have seen a reduction in the amount of credit granted as a percentage of sales in recent months. Additionally, as a result of these changes, we have seen the mix between the primary and secondary receivables portfolios shift to a greater proportion of the receivables being in the higher quality primary portfolio over the past two quarters.

While we have benefited recently from our operations being concentrated in the Texas, Louisiana and Oklahoma region, recent turmoil in the national economy, including instability in the financial markets, declining consumer confidence and falling oil prices will present significant challenges to our operations in the coming quarters. Specifically, future sales volumes, gross profit margins and credit portfolio performance could be negatively impacted, and thus impact our overall profitability and liquidity. As a result, while we will strive to grow our market share, maintain consistent credit portfolio performance and reduce expenses, we will also work to maintain our access to the liquidity necessary to maintain our operations through these challenging times.

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

Application of Critical Accounting Policies

In applying the accounting policies that we use to prepare our consolidated financial statements, we necessarily make accounting estimates that affect our reported amounts of assets, liabilities, revenues and expenses. Some of these accounting estimates require us to make assumptions about matters that are highly uncertain at the time we make the accounting estimates. We base these assumptions and the resulting estimates on authoritative pronouncements, historical information and other factors that we believe to be reasonable under the circumstances, and we evaluate these assumptions and estimates on an ongoing basis. We could reasonably use different accounting estimates, and changes in our accounting estimates could occur from period to period, with the result in each case being a material change in the financial statement presentation of our financial condition or results of operations. We refer to accounting estimates of this type as critical accounting estimates. We believe that the critical accounting estimates discussed below are among those most important to an understanding of our consolidated financial statements as of January 31, 2009.

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Transfers of Financial Assets. We transfer eligible customer receivables to a QSPE that issues asset-backed securities to third-party lenders using these accounts as collateral, and we continue to service these accounts after the transfer. We recognize the sale of these accounts when we relinquish control of the transferred financial asset in accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, as amended by SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. As we transfer the accounts we record an asset representing the fair value of our interest in the cash flows of the QSPE, which is the difference between the interest earned on customer accounts and the cost associated with financing and servicing the transferred accounts, including an estimate of future net credit losses associated with the transferred accounts, plus our retained interest in the transferred receivables, discounted using a return that we estimate would be expected by a third-party investor. We recognize the income from our interest in these transferred accounts as gains on the transfer of the asset, interest income and servicing fees. This income is recorded as Finance charges and other in our consolidated statements of operations. Additionally, changes in the fair value of our interest are recorded in Finance charges and other. We value our interest in the cash flows of the QSPE at fair value under the provisions of SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, and SFAS No. 157, Fair Value Measurements.

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We estimate the fair value of our Interests in securitized assets using a discounted cash flow model with most of the inputs used being unobservable inputs. The primary unobservable inputs, which are derived principally from our historical experience, with input from our investment bankers and financial advisors, include the estimated portfolio yield, net credit loss rate, discount rate, payment rate and delinquency rate and reflect our judgments about the assumptions market participants would use in determining fair value. In determining the cost of borrowings, we use current actual borrowing rates, and adjust them, as appropriate, using interest rate futures data from market sources to project interest rates over time. Changes in the assumptions over time, including varying credit portfolio performance, market interest rate changes, market participant risk premiums required, or a shift in the mix of funding sources, could result in significant volatility in the fair value of the Interest in securitized assets, and thus our earnings.

During the twelve months ended January 31, 2009, risk premiums required by market participants on many investments increased as a result of continued volatility in the financial markets. Though we do not anticipate any significant variation in the underlying economics or expected cash flow performance of our securitized credit portfolio, we increased the risk premium included in the discount rate assumption used in the determination of the fair value of our interests in securitized assets to reflect the higher expected risk premiums included in investment returns we believe a market participant would require if purchasing our interests. Based on a review of the changes in market risk premiums during the three months ended April 30, 2008, and discussions with our investment bankers and financial advisors, we estimated that a market participant would require an approximately 300 basis point increase in the required risk premium. After our review for the three months ended October 31, 2008, we estimated that a market participant would require an additional 700 basis point increase in the required risk premium. At the completion of our review for the three months ended January 31, 2009, we estimated that a market participant would require an increase in the required risk premium of approximately 500 basis points, resulting in a weighted average discount rate of 30% at January 31, 2009, as compared to the 16.5% weighted average discount rate assumption used at January 31, 2008. The increase in the discount rate has the effect of deferring income to future periods, but not permanently reducing

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securitization income or our earnings, assuming no significant variation in the future cash flow performance of the securitized credit portfolio. Additionally, during the three months ended October 31, 2008, as a result of the impact of general economic conditions on other consumer credit portfolios and the impact of Hurricanes Gustav and Ike on our expected net charge-off rate, we increased the weighted average net charge-off rate input that we expect a market participant would use from 3.25% to 4.00%. If a market participant were to require a discount rate that is 10% higher than we estimated in the fair value calculation, the fair value of our Interests in securitized assets would be decreased by an additional \$4.4 million as of January 31, 2009. If we had assumed a 10.0% reduction in net interest spread (which might be caused by rising interest rates or reductions in rates charged on the accounts transferred), our Interests in securitized assets and Finance charges and other would have been reduced by \$6.6 million as of January 31, 2009. If the assumption used for estimating credit losses was increased by 10%, the impact to Finance charges and other would have been a reduction in revenues and pretax income of \$1.8 million as of January 31, 2009.

Revenue Recognition. Revenues from the sale of retail products are recognized at the time the customer takes possession of the product. Such revenues are recognized net of any adjustments for sales incentive offers such as discounts, coupons, rebates, or other free products or services and discounts of promotional credit sales that will extend beyond one year. We sell service maintenance agreements and credit insurance contracts on behalf of unrelated third parties. For contracts where the third parties are the obligors on the contract, commissions are recognized in revenues at the time of sale, and in the case of retrospective commissions, at the time that they are earned. Where we sell service maintenance renewal agreements in which we are deemed to be the obligor on the contract at the time of sale, revenue is recognized ratably, on a straight-line basis, over the term of the service maintenance agreement. These service maintenance agreements are renewal contracts that provide our customers protection against product repair costs arising after the expiration of the manufacturer's warranty and the third party obligor contracts. These agreements typically range from 12 months to 36 months. These agreements are separate units of accounting under Emerging Issues Task Force No. 00-21, Revenue Arrangements with Multiple Deliverables. The amounts of service maintenance renewal agreement revenues deferred at January 31, 2008 and 2009 were \$4.4 million and \$4.5 million, respectively, and are included in Deferred revenue in the accompanying consolidated balance sheets. The amounts of service maintenance agreement revenue recognized for the fiscal years ended January 31, 2007, 2008 and 2009 were \$4.7 million, \$5.3 million and \$5.7 million, respectively.

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Vendor Allowances. We receive funds from vendors for price protection, product rebates (earned upon purchase or sale of product), marketing, training and promotion programs which are recorded on the accrual basis as a reduction to the related product cost or advertising expense, according to the nature of the program. We accrue rebates based on the satisfaction of terms of the program and sales of qualifying products even though funds may not be received until the end of a quarter or year. If the programs are related to product purchases, the allowances, credits or payments are recorded as a reduction of product cost; if the programs are related to product sales, the allowances, credits or payments are recorded as a reduction of cost of goods sold; if the programs are directly related to promotion or marketing of the product, the allowances, credits, or payments are recorded as a reduction of advertising expense in the period in which the expense is incurred. We received \$27.2 million, \$36.1 million and \$46.2 million in vendor allowances during the fiscal year ended January 31, 2007, 2008 and 2009, respectively, of which \$7.2 million, \$6.6 million and \$6.4 million, respectively, represented advertising assistance allowances. Over the past three years we have received funds from approximately 50 vendors, with the

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terms of the programs ranging between one month and one year.

Goodwill. We perform an assessment annually testing for the impairment of goodwill, or at any other time when impairment indicators exist. While the current market conditions have caused our market capitalization to fall below our book value, based on our annual assessment completed during the fourth quarter of fiscal 2009, we do not believe our goodwill balance is impaired, supported by our recent and expected growth and profitability. Our conclusion was based on the fact that the decline in the market capitalization below book value has been recent and relatively short-term, and the market price of our stock has risen since the low point reached in early December 2008. To support our conclusion we completed a discounted cash flow analysis to estimate the fair value of the Company and compared those results with value indicated by other data available. We used a 14.1% discount rate in the analysis, and that rate could be increased 200 basis points before it would result in a value that indicates that goodwill may be impaired.

Accounting for Leases. The accounting for leases is governed primarily by SFAS No. 13, Accounting for Leases. As required by the standard, we analyze each lease, at its inception and any subsequent renewal, to determine whether it should be accounted for as an operating lease or a capital lease. Additionally, monthly lease expense for each operating lease is calculated as the average of all payments required under the minimum lease term, including rent escalations. Generally, the minimum lease term begins with the date we take possession of the property and ends on the last day of the minimum lease term, and includes all rent holidays, but excludes renewal terms that are at our option. Any tenant improvement allowances received are deferred and amortized into income as a reduction of lease expense on a straight line basis over the minimum lease term. The amortization of leasehold improvements is computed on a straight line basis over the shorter of the remaining lease term or the estimated useful life of the improvements. For transactions that qualify for treatment as a sale-leaseback, any gain or loss is deferred and amortized as rent expense on a straight-line basis over the minimum lease term. Any deferred gain would be included in Deferred gain on sale of property and any deferred loss would be included in Other assets on the consolidated balance sheets.

Receivables Not Sold. Accounts receivable not eligible for inclusion in the securitization program are carried on the Company's consolidated balance sheet in Customer accounts receivable. The Company records the amount of principal on those receivables that is expected to be collected within the next twelve months in current assets on its consolidated balance sheet. Those amounts expected to be collected after 12 months are included in non-current assets. Typically, a receivable is considered delinquent if a payment has not been received on the scheduled due date. Generally, an account that is delinquent more than 120 days and for which no payment has been received in the past seven months will be charged-off against the allowance and interest accrued subsequent to the last payment will be reversed. Interest income is accrued using the Rule of 78's method for installment contracts and the simple interest method for revolving charge accounts, and is reflected in Finance charges and other. Typically, interest income is accrued until the contract or account is paid off or charged-off and we provide an allowance for uncollectible interest. Interest income is recognized on our "same as cash" promotion accounts based on our historical experience related to customers that fail to satisfy the requirements of the interest-free programs. The Company has a secured interest in the merchandise financed by these receivables and therefore has the opportunity to recover a portion of the charged-off value.

Allowance for Doubtful Accounts. We record an allowance for doubtful accounts for our Customer accounts receivable, based on our historical loss

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experience. The balance in the allowance for doubtful accounts and uncollectible interest for customer receivables was \$0.8 million and \$3.9 million, at January 31, 2008 and 2009, respectively. If the historical loss rate used to calculate the allowance for doubtful accounts were increased by 10% at January 31, 2009, we would have increased our Provision for bad debts by \$0.4 million.

Results of Operations

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

Revenues:

Product sales.....
Service maintenance agreement commissions (net).....
Service revenues.....

Total net sales.....

Finance charges and other.....
Net decrease in fair value.....

Total finance charges and other.....

Total revenues.....

Cost and expenses:

Cost of goods sold, including warehousing and occupancy costs.....
Cost of parts sold, including warehousing and occupancy costs.....
Selling, general and administrative expense.....
Provision for bad debts.....

Total costs and expenses.....

Operating income.....

Interest (income) expense.....

Other (income) expense.....

Earnings before income taxes.....

Provision for income taxes.....

Net income.....

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

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

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

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

| | Year Ended January 31, | | |
|---|------------------------|-----------|-----------|
| | 2007 | 2008 | 2009 |
| Revenues | | | |
| Product sales..... | \$623,959 | \$671,571 | \$743,729 |
| Service maintenance agreement commissions (net)..... | 30,567 | 36,424 | 40,199 |
| Service revenues..... | 22,411 | 22,997 | 21,121 |
| Total net sales..... | 676,937 | 730,992 | 805,049 |
| Finance charges and other..... | 83,720 | 97,941 | 110,209 |
| Net decrease in fair value..... | - | (4,805) | (24,508) |
| Total finance charges and other..... | 83,720 | 93,136 | 85,701 |
| Total revenues..... | 760,657 | 824,128 | 890,750 |
| Cost and expenses..... | | | |
| Cost of goods and parts sold..... | 473,064 | 517,166 | 590,061 |
| Gross Profit..... | 287,593 | 306,962 | 300,689 |
| Gross Margin..... | 37.8% | 37.2% | 33.8% |
| Selling, general and administrative expense..... | 224,979 | 245,317 | 253,813 |
| Provision for bad debts..... | 1,476 | 1,908 | 4,273 |
| Operating income..... | 61,138 | 59,737 | 42,603 |
| Operating Margin..... | 8.0% | 7.2% | 4.8% |
| Interest (income) expense..... | (676) | (515) | 961 |
| Other (income) expense..... | (772) | (943) | 117 |
| Pretax Income..... | 62,586 | 61,195 | 41,525 |
| Provision for income taxes..... | 22,275 | 21,509 | 15,833 |
| Net Income..... | \$ 40,311 | \$ 39,686 | \$ 25,692 |

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

Year Ended January 31, 2008 Compared to the Year Ended January 31, 2009

Change

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| (Dollars in Millions) | 2009 | 2008 | \$ | % |
|----------------------------|---------|---------|--------|-------|
| Net sales | \$805.1 | \$731.0 | 74.1 | 10.1 |
| Finance charges and other | 110.2 | 97.9 | 12.3 | 12.6 |
| Net decrease in fair value | (24.5) | (4.8) | (19.7) | 410.4 |
| Revenues | \$890.8 | \$824.1 | 66.7 | 8.1 |

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

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

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

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

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

| Category | Year Ended January 31, | | | | Percent Increase |
|----------|------------------------|---------|--------|---------|------------------|
| | 2008 | | 2009 | | |
| | Amount | Percent | Amount | Percent | |
| | | | | | |

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| | | | | | |
|---|-----------|--------|-----------|--------|-------|
| Consumer electronics..... | \$244,872 | 33.5% | \$305,056 | 37.9% | 24.6% |
| Home appliances..... | 223,877 | 30.6 | 221,474 | 27.5 | (1.1) |
| Track..... | 101,289 | 13.9 | 109,799 | 13.6 | 8.4 |
| Furniture and mattresses..... | 62,797 | 8.6 | 68,869 | 8.6 | 9.7 |
| Lawn and garden..... | 20,914 | 2.9 | 21,132 | 2.6 | 1.0 |
| Delivery..... | 12,524 | 1.7 | 12,423 | 1.6 | (0.8) |
| Other..... | 5,298 | 0.7 | 4,976 | 0.6 | (6.1) |
| <hr/> | | | | | |
| Total product sales..... | 671,571 | 91.9 | 743,729 | 92.4 | 10.7 |
| Service maintenance agreement commissions..... | 36,424 | 5.0 | 40,199 | 5.0 | 10.4 |
| Service revenues..... | 22,997 | 3.1 | 21,121 | 2.6 | (8.2) |
| <hr/> | | | | | |
| Total net sales..... | \$730,992 | 100.0% | \$805,049 | 100.0% | 10.1% |
| <hr/> | | | | | |

- (1) This increase is due to continued consumer interest in LCD televisions, which offset declines in projection and plasma televisions.
- (2) The home appliance category declined as increased laundry and air conditioning sales were offset by lower refrigeration and cooking sales, as the appliance market in general showed continued weakness.
- (3) The increase in track sales (consisting largely of computers, computer peripherals, video game equipment, portable electronics and small appliances) is driven primarily by increased video game equipment, Blu-ray player, laptop computer and GPS device sales, partially offset by declines in camcorder, camera, MP3 player and desktop computer sales.
- (4) This increase is due to store expansion and a change in our furniture and mattresses merchandising driven by the multi-vendor strategy implemented during the prior year.
- (5) This category benefited from an increase in sales of generators in the areas affected by the hurricanes that impacted certain of our markets and was partially offset by lower sales of lawn care equipment.
- (6) This decrease was due to a reduction in the total number of deliveries, primarily as customers take advantage of the ability to carry out smaller flat-panel televisions.
- (7) This increase is due to the increase in product sales.
- (8) This decrease is driven by a decrease in the number of warranty service calls performed by our technicians.

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| (Dollars in Thousands) | 2009 | 2008 | Change | |
|---|----------|----------|----------|--------|
| | | | \$ | % |
| Securitization income (including fair value adjustment) | \$54,273 | \$69,860 | (15,587) | (22.3) |
| Insurance commissions | 20,191 | 21,397 | (1,206) | (5.6) |
| Interest income and other | 11,237 | 1,879 | 9,358 | 498.0 |

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Finance charges and other \$85,701 \$93,136 (7,435) (8.0

The decline in Securitization income resulted primarily from a \$19.7 million increase in the non-cash fair value adjustment to reduce our Interests in securitized assets. Additionally, as a result of the completion of our new revolving credit facility, we are retaining certain new customer receivables generated on our consolidated balance sheet and not transferring them to the QSPE. As a result of the reduced transfer of receivables to the QSPE and the higher discount rate being in the determination of the fair value of the receivables, Gains on sales of receivables included in Securitization income has declined to \$19.2 million for the year ended January 31, 2009, from \$27.0 million for the year ended January 31, 2008. Because of the higher average balance of our retained interest in the receivables held by the QSPE, as compared to the same period in the prior year, and increases in the discount rate assumption used in our fair value calculation, Interest earned on our retained interest included in Securitization income has increased to \$33.9 million for the year ended January 31, 2009, from \$23.3 million in the prior year. Insurance commissions have declined due to lower retrospective commissions, which were negatively impacted by higher claims filings due to Hurricanes Gustav and Ike, and lower interest earnings on funds held by the insurance company for the payment of claims. Interest income and other increased \$9.4 million due primarily to an increase in new customer receivables generated that are being held on-balance sheet to a balance of \$107.8 million at January 31, 2009, from \$9.0 million in the prior year. The following table provides key portfolio performance information for the year ended January 31, 2009 and 2008:

| | 2009 | | | T |
|---|------------|-----------|------------|----|
| | ABS (a) | Owned (b) | Total | |
| Interest income and fees (1)..... | \$ 123,348 | \$ 9,076 | \$ 132,424 | \$ |
| Net charge-offs..... | (21,573) | - | (21,573) | |
| Borrowing costs..... | (22,995) | - | (22,995) | |
| Amounts included in Finance charges and other. | 78,780 | 9,076 | 87,856 | |
| Net charge-offs in Provision for bad debts..... | - | (789) | (789) | |
| Borrowing costs..... | - | (1,327) | (1,327) | |
| Net portfolio yield (c)..... | \$ 78,780 | \$ 6,960 | \$ 85,740 | \$ |
| Average portfolio balance (2)..... | \$ 651,420 | \$ 44,782 | \$ 696,202 | \$ |
| Portfolio yield % annualized (1) / (2)..... | 18.9% | 20.3% | 19.0% | |
| Net charge-off % (annualized)..... | 3.3% | 1.8% | 3.2% | |

- (a) Off-balance sheet portfolio owned by the QSPE and serviced by the Company
- (b) On-balance sheet portfolio. Charge-off levels will lag the balance growth.
- (c) Consistent with securitization income, exclusive of the fair value adjustments, for the ABS facility.

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| (Dollars in Millions) | 2009 | 2008 | Change | |
|---------------------------------|---------|---------|--------|-------|
| | | | \$ | % |
| Cost of goods sold | \$580.4 | \$508.8 | 71.6 | 14.1 |
| Product gross margin percentage | 22.0% | 24.2% | | -2.2% |

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

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| (Dollars in Millions) | 2009 | 2008 | Change | |
|----------------------------------|--------|--------|--------|------|
| | | | \$ | % |
| Cost of service parts sold | \$ 9.6 | \$ 8.4 | 1.2 | 14.3 |
| As a percent of service revenues | 45.5% | 36.5% | | 9.0% |

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

| (Dollars in Millions) | 2009 | 2008 | Change | |
|---|---------|---------|--------|-------|
| | | | \$ | % |
| Selling, general and administrative expense | \$253.8 | \$245.3 | 8.5 | 3.5 |
| As a percent of total revenues | 28.5% | 29.8% | | -1.3% |

The increase in SG&A expense was largely attributable to the addition of new stores and expenses of approximately \$1.4 million, net of estimated insurance proceeds, that we incurred related to the two hurricanes that occurred during the year. The decrease in our SG&A expense as a percent of revenues was negatively affected by the negative impact of the fair value adjustment on total revenues, with the decrease shown above being reduced by 60 basis points due to the negative impact of the fair value adjustments on Total revenues. The improvement in our SG&A expense as a percent of revenues was largely driven by lower compensation costs in absolute dollars and as a percent of revenues as compared to the prior year, as well as reduced advertising expense as a percent of revenues. Additionally, reductions in certain store operating expenses, including repairs and maintenance and janitorial services contributed to the improvement. Partially offsetting these improvements were increases in utility, credit data processing and stock-based compensation expenses.

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| (Dollars in Millions) | 2009 | 2008 | Change | |
|--------------------------------|--------|--------|--------|-------|
| | | | \$ | % |
| Provision for bad debts | \$ 4.3 | \$ 1.9 | 2.4 | 126.3 |
| As a percent of total revenues | 0.48% | 0.23% | | 0.25% |

The provision for bad debts on non-credit portfolio receivables and credit portfolio receivables retained by us and not eligible to be transferred to the QSPE increased primarily as a result of increased balances of receivables retained by us. The increase in customer receivables retained on our consolidated balance sheet accounted for \$3.1 million of the increase, as we were required to increase the allowance for bad debts, otherwise the provision for bad debts would have declined. See the notes to the financial statements for information regarding the performance of the credit portfolio.

| (Dollars in Thousands) | 2009 | 2008 | Change | |
|------------------------|--------|----------|--------|---------|
| | | | \$ | % |
| Interest income, net | \$ 961 | \$ (515) | 1,476 | (286.6) |

The increase in net interest expense was a result of interest incurred on our new revolving credit facility, which is funding the customer receivables being retained on our consolidated balance sheet. In addition, there was a decrease in interest income from invested funds due to lower balances of invested cash and lower interest rates earned on amounts invested.

| (Dollars in Thousands) | 2009 | 2008 | Change | |
|------------------------|--------|----------|--------|---------|
| | | | \$ | % |
| Other income | \$ 117 | \$ (943) | 1,060 | (112.4) |

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

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| (Dollars in Millions) | 2009 | 2008 | \$ | % |
|--|----------|----------|---------|--------|
| Provision for income taxes | \$15,833 | \$21,509 | (5,676) | (26.4) |
| As a percent of income before income taxes | 38.1% | 35.1% | | 3.0% |

Due to the large non-cash fair value adjustment reducing our Interests in securitized assets this period, and the fact that taxes for the state of Texas are recorded based on gross margin, instead of Income before taxes, the effective rate was higher during the 2009 period as we did not receive a benefit for taxes for the state of Texas on the non-cash fair value adjustment. The fiscal 2008 effective tax rate was reduced by the reversal of previously accrued Texas margin tax as a result of a legal entity reorganization completed during that year.

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

| (Dollars in Millions) | 2008 | 2007 | Change | |
|----------------------------|---------|---------|--------|------|
| | | | \$ | % |
| Net sales | \$731.0 | \$676.9 | 54.1 | 8.0 |
| Finance charges and other | 97.9 | 83.7 | 14.2 | 17.0 |
| Net decrease in fair value | (4.8) | - | (4.8) | N/A |
| Revenues | \$824.1 | \$760.6 | 63.5 | 8.3 |

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

- o a \$20.4 million increase resulted from a same store sales increase of 3.2%.
- o a \$35.0 million increase generated by thirteen retail locations that were not open for twelve consecutive months in each period,
- o a \$1.9 million decrease resulted from an increase in discounts on promotional credit sales, and
- o a \$0.6 million increase resulted from an increase in service revenues.

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

- o approximately \$4.6 million was attributable to increases in unit sales, due primarily to increased consumer electronics (especially flat-panel televisions) and furniture sales, partially offset by a decline in appliance and track sales, and
- o approximately \$43.0 million was attributable to an overall increase in the average unit price. The increase was driven primarily by a change in the mix of product sales, as consumer electronics, which has the

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highest average price, became a larger share of our total product sales and was partially offset by the \$1.9 million increase in discounts on extended-term promotional credit sales.

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

| Category | Year Ended January 31, | | | | Percent Increase |
|--|------------------------|---------|-----------|---------|------------------|
| | 2007 | | 2008 | | |
| | Amount | Percent | Amount | Percent | |
| Consumer electronics..... | \$218,350 | 32.3% | \$244,872 | 33.5% | 12.1% |
| Home appliances..... | 230,950 | 34.1 | 223,877 | 30.6 | (3.1) |
| Track..... | 90,329 | 13.3 | 101,289 | 13.9 | 12.1 |
| Furniture and mattresses..... | 51,078 | 7.5 | 62,797 | 8.6 | 22.9 |
| Lawn and garden..... | 16,741 | 2.5 | 20,914 | 2.9 | 24.9 |
| Delivery..... | 11,380 | 1.7 | 12,524 | 1.7 | 10.1 |
| Other..... | 5,131 | 0.8 | 5,298 | 0.7 | 3.3 |
| | | | | | |
| Total product sales..... | 623,959 | 92.2 | 671,571 | 91.9 | 7.6 |
| Service maintenance agreement commissions..... | 30,567 | 4.5 | 36,424 | 5.0 | 19.2 |
| Service revenues..... | 22,411 | 3.3 | 22,997 | 3.1 | 2.6 |
| | | | | | |
| Total net sales..... | \$676,937 | 100.0% | \$730,992 | 100.0% | 8.0% |
| | | | | | |

- (1) This increase is due to increased unit volume in the area of flat-panel televisions, partially offset by a decline in the sale of tube and projection televisions.
- (2) While the industry is down nationally, we expect to outperform the national trend and are taking steps to improve our performance relative to merchandising, advertising and promotion of this category. Additionally, we experienced higher than normal demand for these products in the prior year due to consumers replacing appliances after Hurricanes Katrina and Rita, especially during the first three months of the period.
- (3) The increase in track sales (consisting largely of computers, computer peripherals, video game equipment, portable electronics and small appliances) is driven primarily by increased laptop computer and video game equipment sales and was partially offset by reduced sales of portable electronics, including camcorders, digital cameras and portable CRT televisions.
- (4) This increase is due to the increased emphasis on the sales of mattresses and furniture, primarily sofas, recliners and entertainment centers, and new product lines added to the furniture category.
- (5) This category benefited from a high level of rainfall in the current year and an increase in sales of higher priced lawn and garden

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- equipment, such as zero turn radius mowers and tractors.
- (6) This increase was due to an increase in the delivery fee charged to our customers, as the total number of deliveries declined slightly as compared to the prior year.
- (7) This increase is due to the increase in product sales, increased sales penetration and decreased SMA cancellations as credit charge-offs declined as compared to the prior year period.
- (8) This increase is driven by increased units in operation as we continue to grow product sales and an increase in the cost of parts used to repair higher-priced technology (flat-panel televisions, etc.).

| (Dollars in Thousands) | 2008 | 2007 | Change | |
|---|----------|----------|--------|--------|
| | | | \$ | % |
| Securitization income (including fair value adjustment) | \$69,860 | \$62,431 | 7,429 | 11.9 |
| Insurance commissions | 21,397 | 18,667 | 2,730 | 14.6 |
| Interest income and other | 1,879 | 2,622 | (743) | (28.3) |
| Finance charges and other | \$93,136 | \$83,720 | 9,416 | 11.2 |

The increase in Securitization income resulted primarily from an increase in the balance of receivables transferred to our QSPE and reduced net charge-offs of receivables in the QSPE receivables portfolio, partially offset by a \$4.8 million non-cash fair value adjustment to reduce our Interests in securitized assets. Insurance commissions increased, driven by the growth in sales and the growth in the credit portfolio. The following table provides key portfolio performance information for the year ended January 31, 2008 and 2007:

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| | 2008 | | | 2007 |
|---|------------|-----------|------------|------------|
| | ABS (a) | Owned (b) | Total | |
| Interest income and fees (1)..... | \$ 116,954 | \$ 929 | \$ 117,883 | \$ 117,883 |
| Net charge-offs..... | (16,492) | - | (16,492) | (16,492) |
| Borrowing costs..... | (25,798) | - | (25,798) | (25,798) |
| Amounts included in Finance charges and other. | 74,664 | 929 | 75,593 | 75,593 |
| Net charge-offs in Provision for bad debts..... | - | (926) | (926) | (926) |
| Borrowing costs..... | - | - | - | - |
| Net portfolio yield (c)..... | \$ 74,664 | \$ 3 | \$ 74,667 | \$ 74,667 |
| Average portfolio balance (2)..... | \$ 597,286 | \$9,345 | \$ 606,631 | \$ 606,631 |
| Portfolio yield % annualized (1) / (2)..... | 19.6% | 9.9% | 19.4% | 19.4% |

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Net charge-off % (annualized)..... 2.8% 9.9% 2.9%

- (a) Off-balance sheet portfolio owned by the QSPE and serviced by the Company.
- (b) On-balance sheet portfolio. Charge-off levels will lag the balance growth.
- (c) Consistent with securitization income, exclusive of the fair value adjustments, for the ABS facility.

| (Dollars in Millions) | 2008 | 2007 | Change | |
|---------------------------------|---------|---------|--------|-------|
| | | | \$ | % |
| Cost of goods sold | \$508.8 | \$466.3 | 42.5 | 9.1 |
| Product gross margin percentage | 24.2% | 25.3% | | -1.1% |

The product gross margin percentage decreased from the 2007 period to the 2008 period due to pricing pressures in retailing in general, and especially on flat-panel TV's.

| (Dollars in Millions) | 2008 | 2007 | Change | |
|----------------------------------|--------|--------|--------|------|
| | | | \$ | % |
| Cost of service parts sold | \$ 8.4 | \$ 6.8 | 1.6 | 23.5 |
| As a percent of service revenues | 36.4% | 30.4% | | 6.0% |

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

| (Dollars in Millions) | 2008 | 2007 | Change | |
|---|---------|---------|--------|------|
| | | | \$ | % |
| Selling, general and administrative expense | \$245.3 | \$225.0 | 20.3 | 9.0 |
| As a percent of total revenues | 29.8% | 29.6% | | 0.2% |

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

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| (Dollars in Millions) | 2008 | 2007 | Change | |
|--------------------------------|--------|--------|--------|-------|
| | | | \$ | % |
| Provision for bad debts | \$ 1.9 | \$ 1.5 | 0.4 | 26.7 |
| As a percent of total revenues | 0.23% | 0.19% | | 0.04% |

The provision for bad debts on non-credit portfolio receivables and credit portfolio receivables retained by us and not eligible to be transferred to the QSPE increased primarily as a result of provision adjustments due to increased net credit losses. Additionally, the provision for bad debts in the year ended January 31, 2007, benefited from a \$0.1 million reserve adjustment related to the special reserves recorded as a result of the hurricanes in 2005. See the notes to the financial statements for information regarding the performance of the credit portfolio.

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| (Dollars in Thousands) | 2008 | 2007 | Change | |
|------------------------|----------|----------|--------|--------|
| | | | \$ | % |
| Interest income, net | \$ (515) | \$ (676) | 161 | (23.8) |

The net decrease in interest income was a result of a decrease in interest income from invested funds due to lower balances of invested cash and lower interest rates earned on amounts invested.

| (Dollars in Thousands) | 2008 | 2007 | Change | |
|------------------------|----------|----------|--------|------|
| | | | \$ | % |
| Other income | \$ (943) | \$ (772) | (171) | 22.2 |

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

| (Dollars in Millions) | 2008 | 2007 | Change | |
|----------------------------|---------|---------|--------|-------|
| | | | \$ | % |
| Provision for income taxes | \$ 21.5 | \$ 22.3 | (0.8) | (3.6) |

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| | | | |
|--|-------|-------|-------|
| As a percent of income before income taxes | 35.1% | 35.6% | -0.4% |
|--|-------|-------|-------|

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

Impact of Inflation

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

Seasonality and Quarterly Results of Operations

Our business is somewhat seasonal, with a higher portion of sales and operating profit realized during the quarter that ends January 31, due primarily to the holiday selling season. Over the four quarters of fiscal 2009, gross margins were 35.3%, 36.4%, 29.5% and 33.3%. We recorded reductions in the fair value of our Interests in securitized assets totaling \$24.5 million during fiscal 2009, which caused both the gross margin and operating margin each quarter to be reduced. During the same period, operating margins were 7.6%, 7.4%, -5.9% and 7.7%. A portion of the fluctuation in gross margins and operating margins is due to planned infrastructure cost additions, such as increased warehouse space and larger stores, additional personnel and systems required to absorb the significant increase in revenues that we have experienced over the last several years.

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

- o timing of new product introductions, new store openings and store relocations;
- o sales contributed by new stores;
- o increases or decreases in comparable store sales;
- o adverse weather conditions;
- o shifts in the timing of certain holidays or promotions; and
- o changes in our merchandise mix.

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

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The following tables sets forth certain unaudited quarterly statement of operations information for the eight quarters ended January 31, 2009. The unaudited quarterly information has been prepared on a consistent basis and includes all normal recurring adjustments that management considers necessary for a fair presentation of the information shown.

| | Fiscal | |
|---|-----------------------------|-----------|
| | Quar | |
| | Apr. 30 | Jul. 31 |
| | (dollars and shares in thou | |
| Revenues | | |
| Product sales..... | \$179,911 | \$175,240 |
| Service maintenance agreement commissions (net)..... | 9,970 | 9,911 |
| Service revenues..... | 5,192 | 5,488 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Total net sales..... | 195,073 | 190,639 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Finance charges and other..... | 26,552 | 29,105 |
| Net increase (decrease) in fair value..... | (3,067) | (1,212) |
| <hr style="border-top: 1px dashed black;"/> | | |
| Total finance charges and other..... | 23,485 | 27,893 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Total revenues..... | 218,558 | 218,532 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Percent of annual revenues..... | 24.5% | 24.5% |
| <hr style="border-top: 1px dashed black;"/> | | |
| Cost and expenses | | |
| Cost of goods sold, including warehousing and occupancy costs..... | 139,058 | 136,787 |
| Cost of service parts sold, including warehousing and occupancy costs | 2,330 | 2,264 |
| Selling, general and administrative expense..... | 60,368 | 62,900 |
| Provision for bad debts..... | 259 | 333 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Total cost and expenses..... | 202,015 | 202,284 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Operating Income..... | 16,543 | 16,248 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Operating Profit as a % total revenues..... | 7.6% | 7.4% |
| <hr style="border-top: 1px dashed black;"/> | | |
| Interest (income) expense..... | (15) | (85) |
| Other (income) expense..... | (22) | 128 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Income before income taxes..... | 16,580 | 16,205 |
| Provision for income taxes..... | 5,984 | 5,993 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Net income..... | \$ 10,596 | \$ 10,212 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Net income as a % of revenue..... | 4.8% | 4.7% |
| <hr style="border-top: 1px dashed black;"/> | | |
| Outstanding shares: | | |
| Basic..... | 22,382 | 22,407 |
| Diluted..... | 22,560 | 22,620 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Earnings per share: | | |
| Basic..... | \$ 0.47 | \$ 0.46 |
| Diluted..... | \$ 0.47 | \$ 0.45 |

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| | Fiscal | |
|---|-----------------------------|--------------|
| | Quar | |
| | Apr. 30 | Jul. 31 |
| | (dollars and shares in thou | |
| Revenues | | |
| Product sales..... | \$166,639 | \$163,793 |
| Service maintenance agreement commissions (net)..... | 9,281 | 9,071 |
| Service revenues..... | 5,445 | 6,137 |
| Total net sales..... | 181,365 | 179,001 |
| Finance charges and other..... | 23,880 | 24,997 |
| Net increase (decrease) in fair value..... | 65 | (471) |
| Total finance charges and other..... | 23,945 | 24,526 |
| Total revenues..... | 205,310 | 203,527 |
| Percent of annual revenues..... | 24.9% | 24.7% |
| Cost and expenses | | |
| Cost of goods sold, including warehousing and occupancy costs..... | 124,393 | 125,297 |
| Cost of service parts sold, including warehousing and occupancy costs | 1,866 | 2,123 |
| Selling, general and administrative expense..... | 59,214 | 62,113 |
| Provision for bad debts..... | 560 | 348 |
| Total cost and expenses..... | 186,033 | 189,881 |
| Operating Income..... | 19,277 | 13,646 |
| Operating Profit as a % total revenues..... | 9.4% | 6.7% |
| Interest (income) expense..... | (240) | (251) |
| Other (income) expense..... | (831) | (55) |
| Income before income taxes..... | 20,348 | 13,952 |
| Provision for income taxes..... | 7,402 | 4,295 |
| Net income..... | \$ 12,946 | \$ 9,657 |
| Net income as a % of revenue..... | 6.3% | 4.7% |
| Outstanding shares: | | |
| Basic..... | 23,567 | 23,489 |
| Diluted..... | 24,121 | 24,058 |
| Earnings per share: | | |
| Basic..... | \$ 0.55 | \$ 0.41 |
| Diluted..... | \$ 0.54 | \$ 0.40 |

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Liquidity and Capital Resources

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

At January 31, 2009, we had revolving lines of credit in the amount of \$220 million, under which we had \$62.9 million in borrowings outstanding, and had utilized \$21.7 million of availability to issue letters of credit. As of January 31, 2009, we had \$31.3 million under our revolving credit facility and \$10 million under an unsecured bank line of credit immediately available to us for general corporate purposes. In addition to the \$31.3 million currently available under the revolving credit facility, an additional \$94.1 million will become available under the borrowing base calculation as we grow the balance of eligible receivables retained by us and when there is growth in total eligible inventory balances. We expect that our cash requirements for the foreseeable future, including those for our capital expenditure requirements, will be met with our available lines of credit, together with cash generated from operations. While we have no new stores currently under development for fiscal 2010, our long-term plans are to grow our store base by approximately 10% a year, dependent upon future capital availability. We expect we will invest in inventory, real estate and customer receivables to support the additional stores and same store sales growth. Depending on market conditions we may, at times, slow or suspend our new store growth plans, enter into sale-leaseback transactions to finance our real estate or seek alternative financing sources for new store expansions and customer receivables growth, including expansion of existing lines of credit, and accessing new debt or equity markets.

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On August 14, 2008, we executed a \$210 million revolving credit facility that provides funding based on a borrowing base calculation that includes accounts receivable and inventory. The borrowing base calculation includes various reserves against availability, including the ability of the lender to require additional reserves from time to time. The new facility, which replaced our \$100 million revolving credit facility, matures in August 2011 and bears interest at LIBOR plus a spread ranging from 225 basis points to 275 basis points, based on a fixed charge coverage ratio. The spread will be 225 basis points for the first six months under the new loan agreement, and then will be subject to adjustment as discussed above. Additionally, the new loan agreement includes an accordion feature allowing for future expansion of the committed amount up to \$350 million. In conjunction with completing this financing arrangement, our QSPE amended certain of its borrowing agreements to provide for the existence of the new revolving credit facility and adjust certain terms of its borrowing arrangements to current market requirements, including reducing the advance rate on its variable funding note facility from a maximum of 85% to a maximum of 76%. As a result of completing the new revolving credit facility, a larger portion of the accounts receivable we generate will be retained by us and not sold to the QSPE, and as such will be included in our consolidated balance sheet.

A summary of the significant financial covenants that govern our revolving credit facility compared to our actual compliance status at January 31, 2009, is presented below:

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| | Actual | Required Minimum/ Maximum |
|---|----------------|---------------------------------|
| | ----- | ----- |
| Fixed charge coverage ratio must exceed required minimum | 1.81 to 1.00 | 1.30 to 1.00 |
| Leverage ratio must be lower than required maximum | 2.29 to 1.00 | 3.50 to 1.00 |
| Cash recovery percentage must exceed required minimum | 5.17% | 4.75% |
| Capital expenditures, net must be lower than required maximum | \$17.4 million | \$22.0 million |

We expect, based on current facts and circumstances, that we will be in compliance with the above covenants through fiscal 2010. Events of default under the credit facility include, but are not limited to, subject to grace periods and notice provisions in certain circumstances, non-payment of principal, interest or fees; violation of covenants; material inaccuracy of any representation or warranty; default under or acceleration of certain other indebtedness; bankruptcy and insolvency events; certain judgments and other liabilities; certain environmental claims; and a change of control. If an event of default occurs, the lenders under the credit facility are entitled to take various actions, including accelerating amounts due under the credit facility and requiring that all such amounts be immediately paid in full. Our obligations under the credit facility are secured by all of our and our subsidiaries' assets, excluding customer receivables owned by the QSPE and certain inventory subject to vendor floor plan arrangements.

The following is a comparison of our statement of cash flows for our fiscal years 2008 and 2009:

During the year ended January 31, 2009, net cash used in operating activities increased to \$42.7 million, from \$5.6 million used in operating activities in the twelve months ended January 31, 2008. Operating cash flows for the current period were impacted primarily by the increased retention of customer accounts receivable on our consolidated balance sheet and increased inventories to support newly opened stores, partially offset by an increase in accounts payable balances, due to the timing of inventory purchases and taking advantage of payment terms available from our vendors. Prior to the quarter ended October 31, 2008, virtually all customer accounts receivable were transferred to and funded by our QSPE, resulting in the net cash flow activity from these transactions being reported in cash flows from operating activities. However, the cash flow presentation is different for customer accounts receivable retained by us and financed through our revolving credit facility, with the increase in the Accounts receivable balance being reflected as a use of cash in cash flows from operating activities, and borrowings on our revolving credit facility being reflected in cash flows from financing activities. As a result, we expect, as we continue to grow the balance of customer accounts receivable retained by us, that we will typically report cash flows "used" in operating activities, with the funding for this activity provided by our revolving credit facility resulting in us reporting cash "provided" by financing activities.

As noted above, we offer promotional credit programs to certain customers that provide for "same as cash" or deferred interest interest-free periods of varying terms, generally three, six, 12, 18, 24 and 36 months, and require

monthly payments beginning in the month after the sale. The various "same as cash" promotional accounts and deferred interest program accounts are eligible

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for securitization up to the limits provided for in our securitization agreements. This limit is currently 30% of eligible securitized receivables. If we exceed this 30% limit, we would be required to use some of our other capital resources to carry the unfunded balances of the receivables for the promotional period. The percentage of eligible securitized receivables represented by promotional receivables was 21.4% and 17.3%, as of January 31, 2008, and 2009, respectively. There is no limitation on the amount of deferred interest program accounts that can be carried as collateral under the revolving credit facility. The percentage of all managed receivables represented by promotional receivables was 16.4% as of January 31, 2009, as compared to 19.8% at January 31, 2008. The weighted average promotional period was 15.1 months and 16.5 months for the "same as cash" promotional receivables outstanding as of January 31, 2008, and 2009, respectively. The weighted average remaining term on those same promotional receivables was 10.7 months and 11.2 months as of January 31, 2008, and 2009, respectively. While overall these promotional receivables have a shorter weighted average term than non-promotional receivables, we receive less income on these receivables, resulting in a reduction of the net interest margin on those receivables.

Net cash used in investing activities increased by \$7.4 million, from \$10.0 million used in the fiscal 2008 period to \$17.4 million used in the fiscal 2009 period. The net increase in cash used in investing activities resulted primarily from a decline in proceeds from sales of property and equipment as compared to the same period in the prior fiscal year. The cash expended for property and equipment was used primarily for construction of new stores and the reformatting of existing stores to better support our current product mix.

Net cash from financing activities increased by \$81.8 million from \$29.9 million used during the year ended January 31, 2008, to \$60.9 million provided during the year ended January 31, 2009, as we terminated our stock repurchase program in the current fiscal period and increased borrowings under our revolving credit facility to fund the new customer receivables generated and retained on our consolidated balance sheet.

In its regularly scheduled meeting on August 24, 2006, our Board of Directors authorized the repurchase of up to \$50 million of our common stock, dependent on market conditions and the price of the stock. Through January 31, 2008, we had spent \$37.1 million under this authorization to acquire 1,723,205 shares of our common stock, though there were no shares repurchased during the year ended January 31, 2009, and our Board of Directors has terminated the repurchase program.

We lease 70 of our 75 stores, and our plans for future store locations include primarily leases, but do not exclude store ownership. Our capital expenditures for future new store projects should primarily be for our tenant improvements to the property leased (including any new distribution centers and warehouses), the cost of which is approximately \$1.6 million per store, and for our existing store remodels, in the range of \$250,000 per store remodel, depending on store size. In the event we purchase existing properties, our capital expenditures will depend on the particular property and whether it is improved when purchased. We are continuously reviewing new relationship and funding sources and alternatives for new stores, which may include "sale-leaseback" or direct "purchase-lease" programs, as well as other funding sources for our purchase and construction of those projects. If we are successful in these relationship developments, our direct cash needs should include only our capital expenditures for tenant improvements to leased properties and our remodel programs for existing stores, but could include full ownership if it meets our cash investment strategy.

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The following table reflects outstanding commitments for borrowings and letters of credit, and the amounts utilized under those commitments, as of January 31, 2009:

| | Commitment Expires in Fiscal Year Ending January 31, | | | | | | | Balanc Janua 20 |
|------------------------------|--|-----------|------|------|------|----------------|-----------|-----------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | There after | Total | |
| | (in thousands) | | | | | | | |
| Revolving Bank Facility (1). | | \$210,000 | | | | | \$210,000 | \$ |
| Unsecured Line of Credit.... | 10,000 | | | | | | 10,000 | |
| Inventory Financing (2).... | 48,000 | | | | | | 48,000 | |
| Total | \$58,000 | \$210,000 | \$ - | \$ - | \$ - | \$- | \$268,000 | \$ 1 |

(1) Includes letter of credit sublimit. There was \$21.8 million of letters of credit issued at January 31, 2009.

(2) Included in accounts payable on the consolidated balance sheet as of January 31, 2009.

Since we extend credit in connection with a large portion of our retail, service maintenance and credit insurance sales, in August 2008 we entered into the \$210 million revolving credit facility and in 2002 we created a QSPE to provide financing for the customer receivables we originate. Both the bank credit facility and the asset-backed securitization program are significant factors relative to our ongoing liquidity and our ability to meet the cash needs associated with the growth of our business. Our inability to use either of these programs because of a failure to comply with their covenants would adversely affect our continued growth. Funding of current and future receivables under the asset-backed securitization program can be adversely affected if we exceed certain predetermined levels of re-aged receivables, write-offs, bankruptcies or other ineligible receivable amounts. Given the ongoing turmoil in securitization market, we have been unable to issue new medium term notes and, as a result, entered in the bank revolving credit facility discussed above. We are financing customer receivable portfolio growth through the use of the bank revolving facility and expect this to be a primary source of funding our customer receivables portfolio during fiscal 2010. We have received initial indications that at least a portion of the \$100 million revolving securitization facility that matures in August 2009, will likely not be renewed. If that is the case, any borrowings outstanding in excess of any portion of the commitment that is renewed, if any, would be required to be paid down using the proceeds from collections on the receivables portfolio. Our current plan is to reduce the balance outstanding under this commitment before the maturity date. As such, we will fund new receivables generated using our existing cash flows, borrowings on our asset based loan facility and may be required to obtain new sources of financing to continue funding the growth in our credit operations.

We will continue to finance our operations and future growth through a

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combination of cash flow generated from operations and external borrowings, including primarily bank debt, extended vendor terms for purchases of inventory, acquisition of inventory under consignment arrangements, debt or equity offerings and the QSPE's asset-backed securitization facilities. Based on our current operating plans, including assuming that all or a portion of the \$100 million revolving securitization facility is not renewed in August 2009, we believe that cash generated from operations, available borrowings under our revolving credit facility and unsecured credit line, extended vendor terms for purchases of inventory, acquisition of inventory under consignment arrangements and cash flows from the QSPE's asset-backed securitization program will be sufficient to fund our operations, store expansion and updating activities and capital programs for at least 12 months. However, there are several factors that could decrease cash provided by operating activities, including:

- o reduced demand or margins for our products;
 - o more stringent vendor terms on our inventory purchases;
 - o loss of ability to acquire inventory on consignment;
 - o increases in product cost that we may not be able to pass on to our customers;
 - o reductions in product pricing due to competitor promotional activities;
 - o changes in inventory requirements based on longer delivery times of the manufacturers or other requirements which would negatively impact our delivery and distribution capabilities;
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- o an acceleration of the growth of the credit portfolio;
 - o increases in the retained portion of our receivables portfolio under our current QSPE's asset-backed securitization program as a result of changes in performance or types of receivables transferred (promotional versus non-promotional and primary versus secondary portfolio), or as a result of a change in the mix of funding sources available to the QSPE, requiring higher collateral levels, or limitations on the ability of the QSPE to obtain financing through its commercial paper-based funding sources;
 - o reduced availability under our revolving credit facility as a result of borrowing base requirements and the impact on the borrowing base calculation of changes in the performance of the receivables financed by that facility;
 - o reductions in the capacity or inability to expand the capacity available for financing our receivables portfolio under existing or replacement QSPE asset-backed securitization programs or a requirement that we retain a higher percentage of the credit portfolio under such programs;
 - o increases in program costs (interest and administrative fees relative to our receivables portfolio associated with the funding of our receivables);
 - o increases in personnel costs or other costs for us to stay competitive in our markets; and
 - o the inability of our QSPE to get its current variable funding note facility renewed at its annual maturity date.

If necessary, in addition to available cash balances, cash flow from operations and borrowing capacity under our revolving facilities, additional

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cash to fund our growth and increases in receivables balances could be obtained by:

- o reducing capital expenditures for updates of existing stores or new store openings;
- o taking advantage of longer payment terms and financing available for inventory purchases;
- o utilizing third-party sources to provide financing to our customers;
- o reducing operating costs;
- o negotiating to expand the capacity available under existing credit facilities; and
- o accessing new debt or equity markets.

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

Off-Balance Sheet Financing Arrangements

Since we extend credit in connection with a large portion of our retail, service maintenance and credit insurance sales, we have created a qualified special purpose entity, which we refer to as the QSPE or the issuer, to purchase customer receivables from us and to issue medium-term and variable funding notes secured by the receivables to third parties to obtain cash for these purchases. We transfer receivables, consisting of retail installment contracts and revolving accounts extended to our customers, to the issuer in exchange for cash and subordinated, unsecured promissory notes. To finance its acquisition of these receivables, the issuer has issued the notes and bonds described below to third parties. The unsecured promissory notes issued to us are subordinate to these third party notes and bonds.

At January 31, 2009, the issuer had issued two series of notes and bonds: the 2002 Series A variable funding note with a total availability of \$300 million and three classes of 2006 Series A bonds with an aggregate amount outstanding of \$150 million, of which \$6.0 million was required to be placed in a restricted cash account for the benefit of the bondholders. The 2002 Series A variable funding note is composed of a \$100 million 364-day tranche, and a \$200 million tranche that is annually renewable, at our option, until September 2012. In August 2008, the issuer completed an extension of the maturity date on the 364-day commitment to August 13, 2009. We have received initial indications that at least a portion of the \$100 million revolving securitization facility that matures in August 2009, will likely not be renewed. If that is the case, any borrowings outstanding in excess of any portion of the commitment that is

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renewed, if any, would be required to be paid down using the proceeds from collections on the receivables portfolio. Our current plan is to reduce the balance outstanding under this commitment before the maturity date. In conjunction with the renewal, the cost of borrowings under this \$300 million facility increased and now bear interest at the commercial paper rate plus 250 basis points, in most instances. If the net portfolio yield, as defined by agreements, falls below 5.0%, then the issuer may be required to fund additions to the cash reserves in the restricted cash accounts. The net portfolio yield was 7.9% at January 31, 2009. Private institutional investors, primarily insurance companies, purchased the 2006 Series A bonds at a weighted fixed rate of 5.75%. The weighted average interest on the variable funding note during the

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month of January 2009 was 3.4%.

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

Currently the 2002 Series A variable funding note permits the issuer to borrow funds up to \$300 million to purchase receivables from us or make principal payments on other bonds, thereby functioning as a "basket" to accumulate receivables. As issuer borrowings under the 2002 Series A variable funding note approach the total commitment, the issuer is required to request an increase in the 2002 Series A amount or issue a new series of bonds and use the proceeds to pay down the then outstanding balance of the 2002 Series A variable funding note, so that the basket will once again become available to accumulate new receivables or meet other obligations required under the transaction documents. Given the current state of the financial markets, especially with respect to asset-backed securitization financing, we have been unable to issue medium-term notes or increase the availability under the existing variable funding note program. As of January 31, 2009, borrowings under the 2002 Series A variable funding note were \$292.5 million.

We are not directly liable to the lenders under the asset-backed securitization facility. If the issuer is unable to repay the 2002 Series A note and 2006 Series A bonds due to its inability to collect the transferred customer accounts, the issuer could not pay the subordinated notes it has issued to us in partial payment for transferred customer accounts, and the 2006 Series A bond holders could claim the balance in its \$6.0 million restricted cash account. We are also contingently liable under a \$20.0 million letter of credit that secures the performance of our obligations or services under the servicing agreement as it relates to the transferred assets that are part of the asset-backed securitization facility.

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

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A summary of the significant financial covenants that govern the 2002 Series A variable funding note compared to actual compliance status at January 31, 2009, is presented below:

| | Requi |
|-------------|-------|
| | Minim |
| | Maxi |
| As reported | |

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| | | |
|--|-----------------|-----------------|
| Issuer interest must exceed required minimum | \$89.9 million | \$83.4 million |
| Gross loss rate must be lower than required maximum (a) | 4.7% | 10.0% |
| Serviced portfolio gross loss rate must be lower than required maximum (b) | 4.2% | 10.0% |
| Net portfolio yield must exceed required minimum (a) | 7.9% | 2.0% |
| Serviced portfolio net portfolio yield must exceed required minimum (b) | 9.0% | 2.0% |
| Payment rate must exceed required minimum (a) | 6.7% | 3.0% |
| Serviced portfolio payment rate must exceed required minimum (a) | 5.17% | 4.7% |
| Consolidated net worth must exceed required minimum | \$346.8 million | \$238.1 million |

- (a) Calculated for those receivables transferred to the QSPE.
- (b) Calculated for the total of receivables transferred to the QSPE and those retained by the Company.

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

We expect, based on current facts and circumstances, that we will be in compliance with the above covenants through fiscal 2010. Events of default under the 2002 Series A variable funding note and the 2006 Series A bonds, subject to grace periods and notice provisions in some circumstances, include, among others: failure of the issuer to pay principal, interest or fees; violation by the issuer of any of its covenants or agreements; inaccuracy of any representation or warranty made by the issuer; certain servicer defaults; failure of the trustee to have a valid and perfected first priority security interest in the collateral; default under or acceleration of certain other indebtedness; bankruptcy and insolvency events; failure to maintain certain loss ratios and portfolio yield; change of control provisions and certain other events pertaining to us. The issuer's obligations under the program are secured by the receivables and proceeds.

Securitization Facilities

We finance most of our customer receivables through asset-backed securitization facilities

| | | |
|----------------------|-----------------|-------------------|
| Customer Receivables | | 2002 Series A N |
| | | \$300 million Com |
| | | Credit Rating: |
| | | Bank Commercial |
| | | Conduits |
| Retail | Qualifying | |
| Sales | Special Purpose | |