CONNS INC
Form 10-K
April 12, 2012
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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, 2012

Commission File Number 000-50421

CONN S, INC.

(Exact Name of Registrant as Specified in its Charter)

A Delaware corporation	**06-1672840**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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 whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§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 ¨

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, 2011, was approximately $115.2 million based on the closing price of the registrant s common stock as reported on the NASDAQ Global Select Market, Inc.

There were 32,281,495 shares of common stock, $0.01 par value per share, outstanding on March 30, 2012.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 30, 2012 (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.

Company overview

We are a leading specialty retailer of durable consumer products, and we also provide consumer credit to support our customers purchases of the products that we offer. Currently, we derive our revenue primarily from two sources: (i) retail sales and delivery of consumer electronics, home appliances, furniture and mattresses, lawn and garden equipment and repair service agreements; and (ii) our in-house consumer credit program, including sales of related credit insurance products. We operate a highly integrated and scalable business through our 65 retail stores and our website, providing our customers with a broad range of brand name products, monthly payment options, next day delivery capabilities, and product repair service through well-trained and knowledgeable sales, consumer credit and service personnel. Through our in-house proprietary consumer credit programs, we provided financing, including down payments received, for approximately 60% of our retail sales during the twelve months ended January 31, 2012. Additionally, we offer third-party payment options through GE Capital, for customers with high credit scores, and RAC Acceptance, a rent-to-own payment plan for customers that do not qualify for the other options we offer.

During the past year we have closed or allowed the lease to expire on 11 stores, with one additional announced store closing to be completed during fiscal year 2013. Additionally, we have announced plans to open five to seven new stores during fiscal year 2013 in new markets.

We offer over 2,100 product items, or SKUs, at good-better-best price points in our core retail product categories of:

- Consumer Electronics, which includes LED, LCD, plasma, DLP and 3-D televisions, camcorders, digital cameras, Blu-ray and DVD players, video game equipment and software, portable audio, MP3 players and home theater products. We represent such brands as Samsung, Sony, LG, Toshiba, Panasonic, Mitsubishi, Nintendo, and Bose;

- Home Appliances, which includes refrigerators, freezers, washers, dryers, dishwashers, ranges and room air conditioners. We represent such brands as Whirlpool, Maytag, Frigidaire, Kitchen Aid, Samsung, LG, General Electric, Haier, Dyson, Eureka, and Friedrich;

- Furniture and Mattresses, which includes living room, bedroom and dining room furniture and related accessories. We represent such brands as Serta, Therapedic, Leggett & Platt, Franklin, Albany, Home Stretch, Vaughn Bassett, Harden, Steve Silver and Jackson Furniture; and

- Home office, which includes desktop, notebook, netbook and tablet computers, printers and computer accessories. We represent such brands as Hewlett Packard, Toshiba, Sony, Samsung, Dell and Asus.

We currently offer our products through 65 retail stores located in three states: Texas (57), Louisiana (6) and Oklahoma (2), as well as through our website. We sell our products for cash or for payment through major credit cards, in addition to offering our customers several financing alternatives through our proprietary credit programs and third-party financing. Under our proprietary in-house credit program, we offer our customers an installment payment plan. Additionally, at times, we offer customers no-interest financing plans through our in-house credit program and a third-party financing program.

We began as a small plumbing and heating business in 1890. We started selling home appliances to the retail market in 1937 through one store located in Beaumont, Texas. In 1959, we opened our second store and have since grown to 65 stores. We believe that our customer-focused business strategies make us an attractive alternative to appliance and electronics superstores, department stores and other national, regional and local retailers. We strive to provide our customers with:

a broad selection of products at various competitive price points;

next day delivery and installation capabilities;

- a high level of customer service;
- flexible payment alternatives through our proprietary in-house credit programs and third-party financing;
- commissioned and trained sales force; and
- product repair or replacement service.

For over 45 years we have offered flexible consumer credit through our proprietary in-house credit program to our credit-worthy customers for purchases of only the products we offer. We believe our consumer credit program differentiates us from our competitors who do not offer similar in-store consumer credit programs, and generates strong customer loyalty and repeat business for us. We believe that our credit customers represent an underserved market that seeks to purchase the latest in consumer goods through access to flexible consumer credit alternatives that are not widely available to them.

We believe that these strategies drive repeat purchases and enable us to generate substantial brand name recognition and customer loyalty. During the twelve months ended January 31, 2012, approximately 72% of our credit customers, based on the number of credit invoices written, were repeat customers, and, as of January 31, 2012, approximately 79% of balances due under our in-house credit program were from customers that have had previous credit accounts with us.

Our decisions to extend consumer credit to our retail customers are made by our internal credit underwriting department located at our corporate office separate and distinct from our retail sales department. Our underwriting process considers one or more of the following elements: credit bureau reporting; income verification; current income and debt levels; a review of the customer s previous credit history with us; the credit risk of the particular products being purchased; and the level of the down payment made at the time of purchase.

In addition to underwriting, we employ our own collections department to service our consumer credit portfolio. Our in-house credit financed sales are secured by the products purchased, which we believe gives us a distinct advantage over other creditors when pursuing collections, especially given that, generally, the products we sell and finance are often times necessities for the home. We employ an intensive credit collection strategy that includes dialer-based calls, virtual calling and messaging systems, field collectors that contact borrowers at their home, collection letters, a legal staff that files lawsuits and attends bankruptcy hearings and voluntary repossession.

By combining our front-end underwriting discipline with the back-end rigor in monitoring and collections, we have achieved an average net loss ratio of 6.5% over the past three fiscal years. As of January 31, 2012, our total portfolio balance was $643.3 million and the percentage of borrowers who were more than 60 days delinquent was 8.6%. Additionally, we work with our borrowers after they experience financial hardships in order to help them re-establish their regular payment habits through our re-aging program. See Business Finance Operations Credit Monitoring and Collections. As of January 31, 2012, 13.8% of the total portfolio balance had been re-aged during the term of the financing, thereby extending the contractual term of those customers financing agreements.

Industry overview

The products we sell are often times considered home necessities, used by our customers in their everyday lives.

We believe, over time, we have and will benefit from several key industry trends and characteristics, including:

- introduction of new technologies driving consumers to upgrade existing appliances and electronics (i.e. 3-D and smart televisions, energy-efficient, front-load laundry);
- increasing demand for large-screen (42 inches and greater) televisions, which are large items that cannot be easily carried out of the retail store, and therefore typically require delivery and installation;

rationalization of several national and regional players leading to market share opportunities; and

reductions in consumer lending, especially for lower tier credit score customers.

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According to the U.S. Department of Commerce Bureau of Economic Analysis, consumer electronics spending reached $117.3 billion in 2011, a 3.5% increase from 2010. Televisions accounted for $38.6 billion of the overall personal consumption expenditures, compared to $37.4 billion the prior year. Personal computers and peripheral equipment accounted for $50.5 billion of the overall expenditures, compared to $47.4 billion in the prior year. As measured by *Twice*, the top 100 consumer electronics retailers in the United States reported consumer electronic sales of $127.8 billion in 2010, a 5.8% increase from the $120.8 billion reported in 2009. The consumer electronics market is highly fragmented with sales coming from large appliance and electronics superstores, national chains, small regional chains, single-store operators, and consumer electronics departments of selected department and discount stores. We estimate, based on data provided in *Twice*, that Best Buy and Wal-Mart, the two largest consumer electronics retailers, together accounted for approximately 41% of the total electronics sales attributable to the 100 largest retailers in 2010. Based on revenue in 2010, we were the 34th largest retailer of consumer electronics in the United States. For the twelve months ended January 31, 2012, we generated $229.4 million, or 38.5%, of total product sales from the sale of consumer electronics.

Technological advancements and the introduction of new products have largely driven growth in the consumer electronics market. Historically, industry growth has been fueled primarily by the introduction of products that incorporate digital technology, such as high definition flat-panel (including 3-D, LCD, LED and internet-ready technology) and projection televisions, Blu-ray and traditional DVD players, digital cameras and camcorders, digital stereo receivers, satellite technology and MP3 products. Digital products offer significant advantages, including better clarity and quality of video and audio, durability of recording and compatibility with computers. More recently, however, television sales have slowed due to the slower pace of innovation in the industry.

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

According to the Bureau of Economic Analysis, personal consumption expenditures for home appliances were $40.9 billion in 2011, an increase of less than 1% from $40.5 billion in 2010**.** Major household appliances, such as refrigerators and washer/dryers, account for over 80% of this total at $34.5 billion in 2011. Based on data published in *Twice,* the top 100 major appliance retailers reported sales of approximately $23.3 billion in 2010, an increase of approximately 5.7% from reported sales in 2009 of approximately $22.0 billion. The retail appliance market is large and concentrated among a few major dealers, with sales coming primarily from large appliance and electronics superstores, national chains, small regional chains and home improvement centers. Sears has been the leader in the retail appliance market, with a market share of the top 100 retailers of approximately 32% in 2010 and in 2009. Lowe s and Home Depot held the second and third place positions, respectively, in national market share in 2010. We were the 11th largest appliance retailer in the United States in 2010. For the twelve months ended January 31, 2012, we generated $188.5 million, or 31.6%, of total product sales from the sale of home appliances.

According to the U.S. Department of Commerce Bureau of Economic Analysis, personal consumption expenditures for household furniture were estimated to be approximately $83.9 billion in 2011, up from $81.6 billion in the prior year. The household furniture and mattress market is highly fragmented with sales coming from manufacturer-owned stores, independent dealers, furniture centers, specialty sleep product stores, national and local chains, mass market retailers, department stores and, to a lesser extent, home improvement centers, decorator showrooms, wholesale clubs, catalog retailers, and the Internet. For the twelve months ended January 31, 2012, retail sales of furniture and mattresses comprised approximately 16.8% of our total product sales, and, other than accessories, which account for less than 2% of our total product sales, generated our highest individual product category gross margin of 34.7% versus our overall retail product margin of 23.0% for the twelve months ended January 31, 2012. Given our ability to provide customer financing and next-day delivery, we believe that we have significant growth opportunities in this market, and expect to continue to expand this product line and the floor space in our stores dedicated to this category.

Based on data from the Federal Reserve System, estimated total consumer credit outstanding, which excludes primarily loans secured by real estate, was $2.50 trillion as of December 31, 2011, up 3.6% from $2.41 trillion at December 31, 2010. Consumers obtain credit from banks, credit unions, finance companies and non-financial businesses that offer credit, including retailers. The credit obtained takes many forms, including revolving (e.g., credit cards) or fixed-term (e.g., automobile loans) credit, and at times is secured by the products being purchased.

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Our competitive strengths

Proprietary in-house credit program.

Our in-house consumer credit program is an integral part of our business, and we believe it is a major driver of customer loyalty. We have offered flexible financing alternatives to our customers through our proprietary in-house credit programs for over 45 years. Our credit program allows us to differentiate ourselves from our competitors who do not offer similar programs and provide credit to an underserved customer base.

As of January 31, 2012, the aggregate outstanding account balances in our customer credit portfolio were $643.3 million. We believe that our underwriting standards, based on over 45 years of experience, and robust in-house monitoring and collections practices, when combined with the secured nature of our portfolio, drive the strong long-term performance of our credit portfolio.

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

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

Our credit department makes all credit decisions internally, entirely independent of our sales personnel. We provide special consideration to customers with good credit history with us. Before extending credit, we consider our loss experience by product category and the customer s credit worthiness and income-to-debt level in determining the down payment amount and other credit terms. This facilitates product sales while keeping our credit risk within an acceptable range. Through our in-house credit program and third-party programs, we provide a full range of credit products, including interest-free and interest-bearing programs and a rent-to-own payment option. Customers with lower average credit scores undergo more intense internal underwriting scrutiny to mitigate the inherently greater risk, including address and employment verification and reference checks. Approximately 60% of our customers who have active credit accounts with us take advantage of our in-store payment option and come to our stores each month to make their payments, which we believe results in additional sales to these customers. We employ a rigorous series of measures to ensure collection of our customer credit receivables including contacting customers with past due accounts daily and attempt to work with them to collect payments in times of financial difficulty or periods of economic downturn.

Distinct shopping experience.

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

*Providing a high level of customer serv*ice. We endeavor to maintain a high level of customer service as a key component of our culture. Our sales associates serve as ongoing resources for our customers, including assisting with the credit application process, scheduling delivery and installation and acting as a point of contact for service issues. We believe this commitment to our customers drives customer loyalty and generates a high level of repeat purchases.

Offering a broad range of brand name products. We offer a comprehensive selection of high-quality, brand name merchandise to our customers at guaranteed low prices. Consistent with our good-better-best merchandising strategy, we offer a wide range of product selections from entry-level models through high-end models. We maintain strong relationships with the approximately 200 manufacturers and distributors that enable us to offer over 2,100 SKUs to our customers. We carry the latest in consumer brand names in our core product categories, including: Samsung, Sony, LG, Toshiba, Hewlett Packard, Panasonic, Mitsubishi, Bose, Dell, Asus, Microsoft, Nintendo, Whirlpool, Maytag, Frigidaire, Kitchen Aid, General Electric, Friedrich, Serta, Therapedic, Leggett & Platt, Franklin, Albany and Jackson Furniture.

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Employing a commissioned and trained sales force. Through a targeted sales compensation incentive structure, regular product and sales training, our good-better-best merchandising strategy and proprietary in-house credit offering, our sales effort is focused on driving sales of products that both provide better value to the customer and typically generate higher margins for our business. We require all sales personnel to complete an intensive classroom and on-line training program. After the initial new hire training, all sales personnel participate in regular training programs to learn about new products and refresh their knowledge of the general sales process and maintaining a high level of customer service. Additionally, we also require all credit personnel to complete a three-week training program. Classroom instruction includes negotiation techniques and credit policy training to ensure customer retention and compliance with debt collection regulations. Post graduation, the collection trainees undergo additional skill set assessment training, coaching and call monitoring within their respective department assignments. All credit personnel are required to complete monthly and quarterly refresher training and testing.

Maintaining next-day delivery and installation capabilities. We maintain four regional distribution centers and three other related facilities that, in combination with outsourced third-party distribution arrangements, cover all of the markets in which we operate. These facilities are part of a sophisticated inventory management system that also includes a fleet of approximately 100 transfer and delivery vehicles that service all of our customers not serviced by our third-party providers.

Offering product repair or replacement services. For all products that are either covered by warranties or for customers who purchase repair service agreements, we provide repair or replacement services. We service every product that we sell through our own service organization or through the use of third-party service providers, and we service only the products that we sell. In this way, we can assure our customers that they will receive exclusive attention to their product repair needs. We will repair the product, making house calls if necessary, or facilitate replacement products. All of our service centers are authorized factory service facilities that provide trained technicians to offer in-home diagnostic and repair service utilizing a fleet of approximately 140 service vehicles as well as on-site service and repairs for products that cannot be repaired in the customer s home. At times, we also use third-party service providers to allow us to cover some of the markets outside our traditional service areas and maintain the appropriate level of customer service.

Endeavoring to maintain a high level of customer satisfaction. We measure customer satisfaction at the individual employee level for our sales, delivery and service associates. In addition to using this information to train and coach our associates to continually improve the service we provide to our customers, we use the information gathered to improve our processes and product and service offerings to address common customer concerns.

Strong presence in desirable geographic region.

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

With 57 of our 65 stores in Texas, we believe we benefit from strong demographic trends. According to the Bureau of Economic Analysis, Texas was the second largest state by nominal GDP in 2010. In addition, from 2000 to 2010, Texas experienced population growth of 20.6% compared to the U.S. population growth of 9.7% over the same period. Moreover, Texas average unemployment rate of 7.3% continues to trend below the national rate of 8.3% as of January 2012. The Texas unemployment rate has been at or below the national average for more than 60 months.

Flexible and scalable operating platform.

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

- adjusted our credit standards, thereby improving the credit quality of the additions to our credit portfolio; as a result, we decreased the size of our credit portfolio and debt balances and reduced the use of cash for working capital;

- reduced expenses, in addition to those expenses that are directly variable with changes in net sales, which we believe will improve our operating leverage in the future;

- emphasized pricing discipline on the sales floor, while maintaining our competitive pricing position in the marketplace, to drive an increase in our retail gross margin; and

- closed underperforming stores and retained many of the customers in adjacent stores, thereby improving profitability.

We have the ability to open up new stores with minimal initial capital requirements (between $1.0 million and $1.5 million of net capital expenditure and inventory investment per leased store) and can integrate them into our existing infrastructure. Our credit operations are in a central location and our vendor relationships provide us access to stock the necessary inventory.

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Experienced management team.

Our executive management team has spent an average of approximately 14 years with the Company. The senior management team of our retail operations has experience in all aspects of that business and has an average of approximately 26 years with the Company. The senior credit management team that oversees the credit portfolio has over 12 years tenure. This level of experience ensures that both our retail and credit operations are closely monitored.

Our growth strategies

Our strategies to maximize and grow returns for our stakeholders include:

Expanding sales of furniture and mattresses.

Over the past year we have expanded the floor space dedicated to our furniture and mattress product offering and have enhanced the product selection we provide to our customers. Additionally, we have focused on improving the quality of product we offer and have added higher priced product to the mix to give our customers more options. As a result, our same store furniture and mattress sales during fiscal year 2012 increased 35.2%. Through our store remodeling plan, we intend to update the majority of our stores over the next two years to provide a larger and more prominent presentation for furniture and mattresses. Additionally, we are working to increase the volume of product purchased by directly sourcing the purchases from non-U.S. based manufacturers, which we expect will improve the gross margins we achieve on sales of this product.

Improving sales floor execution.

We have undertaken initiatives to improve the in-store sales experience for our customers, including:

- Expanding and enhancing sales associate training to improve customer service levels and product knowledge;
- Reducing sales associate turnover to improve the tenure and experience of our sales associates and reduce recruiting and training expenses; and
- Simplifying the in-store process, including our emphasis on encouraging customers to apply for credit through our website, thereby reducing the time spent on the credit application process in the store.

Enhancing our store portfolio.

We have a well-defined core customer base that is a working class individual with a $25,000 to $60,000 average annual income. Stores located in areas with a sufficient concentration of our core customer, typically, generate solid sales and cash flow from operations. Over the past year we have closed, or allowed the lease to expire, on 11 stores, with one additional store in Dallas to be closed during fiscal year 2013. The closed stores, typically, were located in high income areas and generated sales volumes that were approximately half of the remaining store base.

Given our knowledge of our core customer, we are now focused on remodeling stores in market areas to fit the demographic needs for successful store operations, to update and refresh our stores and to more prominently display our three major categories: furniture and mattresses, appliances and consumer electronics.

In addition to remodeling existing stores, we have re-initiated our store opening program with plans to open five to seven new stores during fiscal year 2013. All of these stores will be in new markets, and will include our entrance into at least one new state.

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Improving credit operation contribution.

Our goal is to provide every customer that enters our stores or applies for credit on our website a monthly payment option. Currently, we make the following payment options available to our customers, based on a review of their credit worthiness:

- For customers with credit scores that are typically above 650, we offer special low or no-interest financing programs on select products, primarily through a Conn s branded revolving credit card from GE Capital;
- For customers with credit scores that are generally between 550 and 650, we offer our proprietary in-house financing program, which is a fixed term, fixed payment installment contract; and
- For customers that do not qualify for our credit program, we offer a rent-to-own payment option through RAC Acceptance.

During the last six months of fiscal year 2012, approximately 85% of our sales were paid for using one of these payment options. Additionally, we continue to review alternative financing programs that would give us the ability to provide more customers the ability to purchase the products and services we offer.

To improve the profit contribution of our credit operation, we have modified our collection practices over the past year to focus our portfolio servicing operations on collections of higher value accounts. The primary changes made were to:

- Change our charge-off policy, such that accounts will be charged off more quickly than in the past, requiring accounts over 209 days past due at month end to be charged off; and
- Limit re-aging of customer accounts so that no account can be re-aged more than a total of 12 months over the life of the account, among other requirements.

The impact of these changes has allowed us to reduce collection costs, as older, more highly re-aged accounts continue to age to the point of charge-off, if the customer is unable or unwilling to make adequate payments on their credit account. We believe the above changes will allow us to realize a higher and more consistent level of profitability from our credit operations.

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. Except for sales through the RAC Acceptance relationship, which were approximately $22.3 million, no single customer accounted for more than $450,000 during the year ended January 31, 2012.

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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, 2012, 2011 and 2010:

	Year ended January 31,					
	2012		2011		2010	
(Dollars in thousands)	Amount	%	Amount	%	Amount	%
Consumer electronics	$ 229,428	29.0%	$ 258,173	31.9%	$ 297,974	33.6%
Home appliances	188,499	23.8	188,270	23.3	213,745	24.1
Furniture and mattresses	100,033	12.6	76,617	9.5	68,639	7.7
Home office	52,553	6.6	54,719	6.8	55,219	6.2
Other	25,847	3.3	30,664	3.7	30,804	3.5
Total product sales	596,360	75.3	608,443	75.2	666,381	75.1
Repair service agreement commissions	42,078	5.3	37,795	4.7	40,673	4.6
Service revenues	15,246	1.9	16,487	2.0	22,115	2.5
Total net sales	653,684	82.5	662,725	81.9	729,169	82.2
Finance charges and other	138,618	17.5	146,050	18.1	157,920	17.8
Total revenues	$ 792,302	100.0%	$ 808,775	100.0%	$ 887,089	100.0%

Within these major product categories (excluding repair service agreements, service revenues and delivery and installation), we offer our customers over 2,100 SKUs in a wide range of price points. Most of these products are manufactured by brand name companies, including General Electric, Whirlpool, Frigidaire, Friedrich, Maytag, LG, Mitsubishi, Samsung, Sony, Toshiba, Dell, Asus, Bose, Serta, Therapedic, Franklin, Jackson, Albany, Bassett, Hewlett Packard, Poulan, Husqvarna and Toro. As part of our good-better-best merchandising strategy, our customers are able to choose from products ranging from low-end to mid- to high-end models in each of our key product categories, as follows:

Category	Products	Selected Brands
Consumer electronics	Cameras, camcorders, video game hardware and software, portable audio, 3D, LED, LCD, plasma, and DLP televisions, and home theater systems	Samsung, Sony, LG, Toshiba, Panasonic, Mitsubishi, Microsoft, Nintendo and Bose
Home appliances	Refrigerators, freezers, washers, dryers, ranges, dishwashers, built-ins, cook tops, air conditioners and vacuum cleaners	Whirlpool, Maytag, Frigidaire, Kitchen Aid, Samsung, LG, General Electric, Friedrich, Haier, Dyson and Eureka
Furniture and mattresses	Upholstery, recliners, dining, bedroom, mattresses, and bedding accessories	Serta, Therapedic, Leggett & Platt, Franklin, Jackson, Albany, Vaughn Bassett, Harden and Steve Silver Furniture
Home office	Computers peripherals, computer monitors, printers, computers, home office furniture, laptops, internet devices, tablets and computer accessories	Hewlett Packard, Toshiba, Sony, Samsung, Dell and Asus

Purchasing.

We purchase products from over 200 manufacturers and distributors. Our agreements with these manufacturers and distributors typically cover a one-year time period, are renewable at the option of the parties and are terminable upon 30 days written notice by either party. Similar to other specialty retailers, we purchase a significant portion of our total inventory from a limited number of vendors. During fiscal 2012, 73.0% of our total inventory purchases were from six vendors, including 26.4%, 22.2% and 9.4% of our total inventory purchases from Samsung, LG, 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. Other than industry-wide shortages that occur from time to time, 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 home appliance, consumer electronic and furniture vendors and our affiliation with NATM, a major buying group with $5 billion in purchases annually, give us purchasing power that allows us to offer custom-featured appliances and electronics at prices that compare favorably with national retailers and provides us a competitive selling advantage over other independent retailers. Additionally, we are able to purchase furniture inventory in volumes that allow us to provide next-day delivery and at discounted prices, giving us a competitive advantage over smaller furniture retailers in the marketplace today. As part of our merchandising strategy, we operate two clearance centers with one in Houston and one in Dallas to help sell damaged, used or discontinued merchandise.

Pricing.

We emphasize competitive pricing on all of our products and maintain a low price guarantee on advertised items that is valid in all markets for 10 to 30 days after the sale, depending on the product. We offer promotionally priced products through specially discounted purchases from our vendors, allowing us to offer our customers unique bargains while maintaining acceptable profitability.

Finance operations

General.

We sell our products for cash or for payment through major credit cards and third-party financing, in addition to offering our customers financing through our proprietary credit programs. In the last three fiscal years, we financed, on average, approximately 61% of our retail sales through our credit program. We offer our customers financing through our installment payment plan. Additionally, some customers are eligible for no-interest financing plans. We use a third-party finance company to provide a portion of our no-interest financing offerings. We also use a third-party provider to offer a rent-to-own financing option to our customers. As of January 31, 2012, we employed over 390 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 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.

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

	Year ended January 31,					
	2012		2011		2010	
(Dollars in thousands)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Cash and other credit cards	$ 150,627	23.6%	$ 197,700	30.6%	$ 253,977	35.9%
Credit portfolio:						
In-house financing, incl. down payment	385,661	60.4	395,547	61.2	441,764	62.5
Third-party promotional financing	79,805	12.5	44,590	6.9	11,313	1.6
Third-party rent-to-own option	22,345	3.5	8,401	1.3		0.0
Total from monthly payment options	487,811	76.4	448,538	69.4	453,077	64.1
Total all payment options	$ 638,438	100.0%	$ 646,238	100.0%	$ 707,054	100.0%

Our decisions to extend credit to our retail customers are made by our internal credit underwriting department located at our corporate office separate and distinct from our retail sales department. In addition to an auto approval algorithm, we have two senior credit underwriter managers who direct 14 senior graders with an average of 12 years of credit experience with us and eight credit clerks. The team makes credit granting decisions using our proprietary underwriting process and oversees our credit underwriting process. Our underwriting process considers one or more of the following elements: credit bureau reporting; income verification; current income and debt levels; a review of the customer s previous credit history with us; the credit risk of the particular products being purchased and the level of the down payment made at the time of purchase.

We have developed a proprietary standardized underwriting model that provides credit decisions, including down payment amounts and credit terms, based on customer risk, income level and product risk. We automatically approved approximately 40.8% of all credit applications that were used in purchases of products from us during fiscal 2012, and the remaining credit decisions are based on evaluation of the customer s creditworthiness by a qualified in-house credit underwriter. In order to improve the speed and consistency of underwriting decisions, we continually review our auto approval algorithm and, during the quarter ended January 31, 2012, we were able to improve the percentage of credit applications used in purchases of products from us that were automatically approved to 52.2%. For certain credit applicants that may have past credit problems or lack or credit history, we use using stricter underwriting criteria. The additional requirements include verification of employment and recent work history, reference checks and higher required down payment levels.

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

Approximately 98% of the balances in the credit portfolio are installment accounts, which are paid over a specified period of time with set monthly payments. Effective February 29, 2012, we stopped offering our customers the ability to make purchases using in-house revolving charge accounts, which account for the remaining 2% of the balances in the credit portfolio. We are no longer providing revolving charge accounts under our in-house credit program because we believe that the structure of installment credit accounts results in better credit performance with our core customer, and because of the limited amount currently outstanding under our revolving charge program. We do offer a Conn s-branded revolving charge program through a third-party consumer lender. Most of our installment accounts provide for payment over 12 to 36 months, with the average account remaining outstanding for approximately 14 to 16 months.

Credit monitoring and collections.

In addition to our underwriting personnel, as of January 31, 2012, we employed approximately 360 people in our collections department who service 100% of our active customer credit portfolio. Our in-house, credit-financed sales are secured by the products purchased, which we believe gives us a distinct advantage over other creditors when pursuing collections, especially given that many of the products we finance are necessities for the home. We employ an intensive credit collection strategy that includes dialer-based calls, virtual calling and messaging systems, inside collectors that contact borrowers at phone numbers they provide, field collectors that contact borrowers at their home, collection letters, a legal staff that files lawsuits and attends bankruptcy hearings and voluntary repossession.

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We closely monitor the credit portfolios to identify delinquent accounts early and dedicate resources to contacting customers concerning past due accounts. We believe that our unique underwriting model, secured interest in the products financed, required down payments, local presence, ability to work with customers relative to their product, service and credit insurance needs, and the flexible financing alternatives we offer help mitigate the loss experience on our portfolio. In addition, our customers have the opportunity to make their monthly payments in our stores, and approximately 60% of our active credit accounts did so at some time during the twelve months ended January 31, 2012. We believe that these factors help us maintain a relationship with the customer that keeps losses lower while encouraging repeat purchases.

Our collection activities involve a combination of efforts that take place in our Beaumont and San Antonio, Texas collection centers, and field collection efforts that involve a visit by an in-house collector or third-party to the customer s home. We maintain a predictive dialer system, including virtual collection systems, and letter campaigns that help us contact and speak to customers daily. We also maintain an experienced skip-trace department that utilizes current technology to locate customers who have moved and left no forwarding address. Our field collectors provide on-site contact with the customer to assist in the collection process or, if needed, to voluntarily repossess the product in the event of non-payment. As part of our effort to work with our customers to achieve and maintain a habit of making consistent monthly payments on their credit accounts with us, we will, at times, extend their contractual payment terms, also known as re-aging, which usually results in updating the past due status of the account to reflect it as current. Typically, we will agree to re-age an account when a customer has experienced a financial hardship, such as temporary loss of employment, if, after discussing the situation with the customer, we validate that they will be able to resume making their regularly scheduled payments. Generally, for the re-age process to be completed, the customer is required to pay the greater of interest on the account for the number of months re-aged or a full monthly payment. An account can be re-aged multiple times over its life, but the use of the re-age program is limited and must comply with Company guidelines. We believe our re-aging programs reduce our ultimate net charge-offs and enhance our ability to collect the full amounts due to us from sales under our credit programs and results in building long-term relationships with those customers that help drive future sales. During fiscal year 2012, based on analysis of the performance of re-aged receivables and considering the cost of collections, we revised our re-aging program to limit the maximum number of months an account can be re-aged, over the life of the contract, to 12 months. This change has resulted in delinquent, highly-re-aged accounts moving through delinquency to charge-off status more quickly, reducing the number of accounts in the active portfolio. While it has resulted in higher charge-off expense than we otherwise would have incurred, we believe the effect is temporary and it has allowed us to reduce servicing costs. Repossessions are made when it is clear that the customer is unwilling to establish a reasonable payment program and voluntarily relinquishes control of the purchased merchandise to our field collectors. Our legal department processes our legal collection efforts and helps handle any legal issues associated with the collection process.

Effective July 31, 2011, we changed our charge-off policy, such that we deem an account to be uncollectible and charge it off if the account is more than 209 days past due at the end of a month. Prior to July 31, 2011, our charge-off policy required an account to be charged-off if it was 120 days or more past due and we had not received a payment in the last seven months. As with our re-age policy change, this has resulted in delinquent accounts charging off more quickly, allowing us to reduce servicing cost and focus our collection resources on accounts that we believe have a higher likelihood of paying. Over the last 36 months, we have recovered approximately 5.5% of charged-off amounts through our collection activities. The income that we realize from the customer receivables portfolio depends on a number of factors, including credit losses. Therefore, it is to our advantage to manage the portfolio to minimize the combined servicing cost and net losses on the credit portfolio to maximize profitability, including the contribution from the retail sale.

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

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

	Year ended January 31,		
	2012	2011	2010
Total outstanding balance (period end)	$ 643,301	$ 675,766	$ 736,041
Percent of total outstanding balances represented by balances over 36 months old (period end) (1)	2.6%	3.0%	2.9%
Percent of total outstanding balances represented by balances over 48 months old (period end) (1)	0.5%	0.8%	0.9%
Average outstanding customer balance	$ 1,329	$ 1,285	$ 1,335
Number of active accounts (period end)	484,169	525,950	551,312
Account balances 60+ days past due (period end) (2)	$ 55,190	$ 58,042	$ 73,391
Percent of balances 60+ days past due to total outstanding balance (period end)	8.6%	8.6%	10.0%
Percent of balances 60-209 days past due to total outstanding balance (period end)	8.6%	7.0%	8.3%
Total account balances re-aged (period end) (2)	$ 88,863	$ 133,560	$ 148,445
Percent of reaged balances to total outstanding balance (period end)	13.8%	19.8%	20.2%
Account balances re-aged more than six months (period end)	$ 38,182	$ 58,001	$ 60,947
Weighted average credit score of outstanding balances	602	591	586
Total applications processed	734,748	778,161	825,425
Percent of retail sales financed, including downpayment received	60.4%	61.2%	62.5%
Weighted average origination credit score of sales financed	621	624	620
Total applications approved	58.1%	58.0%	58.3%
Average down payment	5.3%	5.3%	6.9%
Average total outstanding balance	$ 626,438	$ 699,284	$ 743,746
Bad debt charge-offs (net of recoveries) (3)	$ 46,939	$ 51,116	$ 37,416
Percent of bad debt charge-offs (net of recoveries) to average outstanding balance, annualized (3)	7.5%	7.3%	5.0%
Estimated percent of re-age balances collected (4)	69.3%	75.6%	83.1%
Percent of total outstanding balance represented by promotional receivables	14.8%	12.4%	15.3%
Weighted average monthly payment rate (5)	5.60%	5.37%	5.23%
Percent of retail sales paid for by third-party financing	12.5%	6.9%	1.6%
Percent of retail sales paid for by third-party rent-to-own option	3.5%	1.3%	0.0%

(1) Includes installment accounts only. Balances included in over 48 month totals are also included in balances over 36 months old totals.
(2) Accounts that become delinquent after being re-aged are included in both the delinquency and re-aged amounts. Re-aged portfolio data was adjusted to include certain refinanced account balances not previously included.
(3) On July 31, 2011, we revised our charge-off policy to require an account that is delinquent more than 209 days at month end to be charged-off. The change in policy had the impact of accelerating approximately $5.9 million in net charge-offs which were charged against previously provided bad debt reserves. This negatively impacted the net charge-off rate in the current year period by approximately 90 basis points.
(4) Is calculated as 1 minus the percent of actual bad-debt charge-offs (net of recoveries) of re-age balances as a percentage of average re-age balances. The re-age bad debt charge-offs are included as a component of Percent of bad debt charge-offs (net of recoveries) to average outstanding balance.
(5) 12-month average of gross cash payments as a percentage of gross principal balances outstanding at the beginning of each month in the period.

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Historical Static Loss Table

The following static loss analysis calculates the percentage of balances charged off, based on the year the credit account was originated and the period the balance was charged off. The percentage computed below is calculated by dividing the cumulative net amount charged off since origination by the total balance of accounts originated during the applicable fiscal year. The net charge-off was determined by estimating, on a pro rata basis, the amount of the recoveries received during a period that were allocable to the applicable origination period.

Fiscal Year of Origination	Cumulative loss rate as a% of balance originated Years from origination							
	0	1	2	3	4	5	6	7
2005	0.3%	1.7%	3.4%	4.3%	4.7%	4.9%	5.0%	5.0%
2006	0.3%	1.9%	3.6%	4.8%	5.4%	5.7%	5.7%	
2007	0.2%	1.7%	3.5%	4.6%	5.4%	5.6%		
2008	0.2%	1.8%	3.6%	5.0%	5.7%			
2009	0.2%	2.0%	4.6%	6.0%				
2010	0.2%	2.4%	4.5%					
2011	0.4%	2.6%						
2012	0.2%							

Store operations

Stores.

We currently operate 65 retail and clearance stores in Texas, Louisiana and Oklahoma and have plans to open five to seven stores and to close one store during fiscal year 2013. The following table summarizes the number of stores we currently operate in each of our markets, the number of freestanding and strip mall stores in each market and the calendar year in which we opened our first store in each market:

Market	Number of Stores Stand Alone	Number of Stores Strip Mall	First Store Opened
Houston	5	17	1983
San Antonio/Austin	4	6	1994
Golden Triangle (Beaumont, Port Arthur, Lufkin and Orange, Texas and Lake Charles, Louisiana)	1	5	1937
Baton Rouge/Lafayette	1	4	1975
Corpus Christi	1	1	2002
Dallas/Fort Worth	1	14	2003
South Texas		3	2004
Oklahoma		2	2008
Total	13	52	

Our stores have an average selling space of approximately 22,000 square feet, plus a rear storage area averaging approximately 5,500 square feet for fast-moving or smaller products that customers prefer to carry out rather than wait for in-home delivery. Two of our stores are clearance centers for discontinued product models, damaged merchandise, returns and repossessed products and are located in our Houston and Dallas markets, providing 38,250 square feet of combined selling space.

We have not updated many of our stores in the last three fiscal years. However, we have begun to update our stores to a new prototype store model and implement it at new locations and in existing locations in which the market demands support the required design changes. We believe the new store model better presents our core product categories of furniture and mattresses, home appliances and consumer electronics to our customers. Additionally, the new design allocates additional floor space to furniture and mattresses to allow us to continue to expand the product selection. As we continue to add new stores or update or replace existing stores, we intend to modify our floor plan to include elements of this new model. All of our updated stores, as well as our new stores, include modern interior selling spaces featuring attractive signage and display areas specifically designed for each major product type. Our prototype store for future expansion has from 25,000 to 35,000 square feet of retail selling space and a rear storage area of between 3,000 and 5,000 square feet. Our investment to update our existing stores to the new store model is expected to be approximately $500,000 per store, and we expect these improvements to benefit sales at those stores over time. We continuously evaluate our existing and potential sites to position our stores in desirable locations and relocate stores that are not properly positioned. We typically lease rather than purchase our stores to retain the flexibility of managing our financial commitment to a location if we later decide that the store is performing below our standards or the market would be better served by relocation. After updating, expanding or relocating a store, we expect to increase same store sales at the store.

Store economics.

We lease 62 of our 65 current store locations, with an average monthly rent of approximately $20,700. Our average per store investment for new leased stores is expected to be between $1.0 million and $1.5 million, including leasehold improvements (net of tenant improvement allowances), fixtures and equipment and inventory (net of accounts payable), but excluding the capital required to support the credit portfolio balances generated by the sales of the store.

During fiscal year 2012, our non-clearance center stores, excluding those that are part of our closing plans, generated average total retail revenues of approximately $10.1 million each and an average operating margin of approximately 12%, before credit and insurance revenues and before allocation of advertising, delivery and other overhead expenses.

Personnel and compensation.

We staff a typical store with a store manager, an assistant manager, an average of 17 sales personnel and other support staff, including cashiers and/or porters based on store size and location. Managers have an average tenure with us of approximately six years and typically have prior sales floor experience. In addition to store managers, we have eight district management personnel, including district managers and district operations managers, which generally oversee from 10 to 20 stores in each market. The senior management team of retail operations has an average of approximately 12 years of experience with us.

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

Training.

New sales personnel must complete an intensive two-week classroom training program in the markets where they will be assigned, under the direction of sales management personnel in those markets. 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 attend our in-house training program, which provides guidance and direction for the development of managerial and supervisory skills. After completion of the training program, 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 sales training meetings where participants receive and discuss new product information.

Marketing

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

Our website provides customers the ability to apply for credit and purchase our products on-line. The website averaged approximately 10,000 credit applications per month during fiscal 2012. The website is linked to a call center, allowing us to better assist customers with their credit and product needs.

Distribution and inventory management

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

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

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

Product support services

Credit insurance.

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

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 2012, approximately 84.1% of our credit customers purchased one or more of the credit insurance products we offer, and approximately 20.8% purchased all of the insurance products we offer. Commission revenues from the sale of credit insurance contracts represented approximately 2.5%, 2.5% and 2.2% of total revenues for fiscal years 2012, 2011 and 2010, respectively.

Repair service agreements.

We provide service for all of the products we sell and only for the products we sell. Customers purchased repair service agreements that we sell for third-party insurers on products representing approximately 48% of our total product sales for fiscal 2012. These agreements broaden and extend the period of covered manufacturer warranty service for up to four years from the date of purchase, depending on the product. These agreements are sold at the time the product is purchased. Customers may finance the cost of the agreements along with the purchase price of the associated product. Through a third-party, customers are contacted prior to the expiration of the repair service agreement period to provide them the opportunity to purchase an extended period of coverage, and we receive a commission on each sale.

We have contracts with unaffiliated third-party insurers that issue the initial repair service agreements to cover the costs of repairs performed under these agreements. The initial service agreement is between the customer and the independent third-party insurance company, and, through our agreements with the third-party insurance company, we are obligated to provide service when it is needed under each agreement sold. We receive a commission on the sale of the contract, which is recognized in revenues at the time of the sale, and we receive retrospective commissions, which are additional commissions paid by the insurance carrier over time if the cost of repair claims are less than earned premiums. Additionally, we bill the insurance company for the cost of the service work that we perform. We are the obligor under renewal contracts sold prior to March 1, 2012. Under these company-obligor 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. After March 1, 2012, we began offering a renewal program through an unaffiliated third-party insurer and receive a commission on the sale of the contract, which will be recognized in revenues during the period the contract is sold.

Of the 14,000 repairs, on average, that we perform each month, approximately 48.3% are covered under repair service agreements, approximately 35.6% are covered by manufacturer warranties and the remainders are cash and customer accommodation repairs. Revenues from the sale of repair service agreements and the other product protection products that we sell represented approximately 6.4%, 5.7% and 5.6% of net sales during fiscal years 2012, 2011 and 2010, respectively.

Management information systems

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

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

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

We employ Nortel telephone switches and a Noble Systems hosted predictive dialer, 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.

We are currently assessing our information system needs and capabilities and are exploring updating or replacing several of the systems used in our day-to-day operations.

Competition

According to the U.S. Department of Commerce Bureau of Economic Analysis, consumer electronics spending reached $117.3 billion in 2011, a 3.5% increase from 2010. Televisions accounted for $38.6 billion of the overall personal consumption expenditures, compared to $37.4 billion the prior year. Personal computers and peripheral equipment accounted for $50.5 billion of the overall expenditures, compared to $47.4 billion in the prior year. As measured by *Twice*, the top 100 consumer electronics retailers in the United States reported consumer electronic sales of $127.8 billion in 2010, a 5.8% increase from the $120.8 billion reported in 2009. The consumer electronics market is highly fragmented with sales coming from large appliance and electronics superstores, national chains, small regional chains, single-store operators, and consumer electronics departments of selected department and discount stores. We estimate, based on data provided in *Twice*, that Best Buy and Wal-Mart, the two largest consumer electronics retailers, together accounted for approximately 41% of the total electronics sales attributable to the 100 largest retailers in 2010. Based on revenue in 2010, we were the 34th largest retailer of consumer electronics in the United States. For the twelve months ended January 31, 2012, we generated $229.4 million, or 38.5%, of total product sales from the sale of consumer electronics.

According to the Bureau of Economic Analysis, personal consumption expenditures for home appliances were $40.9 billion in 2011, an increase of less than 1% from $40.5 billion in 2010**.** Major household appliances, such as refrigerators and washer/dryers, account for over 80% of this total at $34.5 billion in 2011. Based on data published in *Twice,* the top 100 major appliance retailers reported sales of approximately $23.3 billion in 2010, an increase of approximately 5.7% from reported sales in 2009 of approximately $22.0 billion. The retail appliance market is large and concentrated among a few major dealers, with sales coming primarily from large appliance and electronics superstores, national chains, small regional chains and home improvement centers. Sears has been the leader in the retail appliance market, with a market share of the top 100 retailers of approximately 32% in 2010 and in 2009. Lowe s and Home Depot held the second and third place positions, respectively, in national market share in 2010. We were the 11th largest appliance retailer in the United States in 2010. For the twelve months ended January 31, 2012, we generated $188.5 million, or 31.6%, of total product sales from the sale of home appliances.

According to the U.S. Department of Commerce Bureau of Economic Analysis, personal consumption expenditures for household furniture were estimated to be approximately $83.9 billion in 2011, up from $81.6 billion in the prior year. The household furniture and mattress market is highly fragmented with sales coming from manufacturer-owned stores, independent dealers, furniture centers, specialty sleep product stores, national and local chains, mass market retailers, department stores and, to a lesser extent, home improvement centers, decorator showrooms, wholesale clubs, catalog retailers, and the Internet.

Based on data from the Federal Reserve System, estimated total consumer credit outstanding, which excludes primarily loans secured by real estate, was $2.50 trillion as of December 31, 2011, up 3.6% from $2.41 trillion at December 31, 2010. Consumers obtain credit from banks, credit unions, finance companies and non-financial businesses that offer credit, including retailers. The credit obtained takes many forms, including revolving (e.g., credit cards) or fixed-term (e.g., automobile loans) credit, and at times is secured by the products being purchased.

We compete primarily based on enhanced customer service and customer shopping experience through our unique sales force training and product knowledge, next day delivery capabilities, offering of financing options for most customers, including our 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.

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Employees

As of January 31, 2012, we had approximately 2,460 full-time employees and 90 part-time employees, of which approximately 1,140 were sales personnel. We offer a comprehensive benefits package including health, life, short and long-term disability, and dental insurance coverage as well as a 401(k) plan, employee stock purchase plan, paid vacation and holiday pay, for eligible employees. None of our employees are subject to collective bargaining agreements governing their employment with us, and we believe that our employee relations are good. We have a formal dispute resolution plan that requires mandatory arbitration for employment-related issues.

Tradenames and trademarks

We have registered the trademarks Conn s , Conn s Home Plus , YES Money , YE$ Money , SI Money and our logos.

Available information.

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

Our board has adopted a code of business conduct and ethics for our employees, code of ethics for our chief executive officer and senior financial professionals and a code of business conduct and ethics for our board of directors. A copy of these codes are published on our website at www.conns.com under Investor Relations Corporate Governance. We intend to make all required disclosures concerning any amendments to, or waivers from, these codes on our website. In addition, we make available, free of charge on our Internet website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on 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 Investor Relations SEC Filings, by accessing our website at www.conns.com.

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.

We may not be able to open and profitably operate new stores in existing, adjacent and new geographic markets.

We are reinstating our new store opening program during fiscal year 2013, with plans to open five to seven new stores. New stores are not likely to be profitable on an operating basis during the first three to nine months after they open and even after that time period 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:

- The availability of additional financial resources;
- The availability of favorable sites in existing, adjacent and new markets at price levels consistent with our business plan;
- Competition in existing, adjacent and new markets;

- Competitive conditions, consumer tastes and discretionary spending patterns in adjacent and new markets that are different from those in our existing markets;
- A lack of consumer demand for our products or financing programs at levels that can support new store growth;
- Inability to make customer financing programs available that allow consumers to purchase products at levels that can support new store growth;
- Limitations created by covenants and conditions under our revolving credit facility;
- The substantial outlay of financial resources required to open new stores and the possibility that we may recognize little or no related benefit;
- The inability to identify suitable sites and to negotiate acceptable leases for these sites;
- An inability or unwillingness of vendors to supply product on a timely basis at competitive prices;
- The failure to open enough stores in new markets to achieve a sufficient market presence and realize the benefits of leveraging our advertising and our distribution system;
- Unfamiliarity with local real estate markets and demographics in adjacent and new markets;
- Problems in adapting our distribution and other operational and management systems to an expanded network of stores;
- Difficulties associated with the hiring, training and retention of additional skilled personnel, including store managers; and
- 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. As a result, we may determine that we need to close additional stores or continue to reduce the hours of operation in some stores, which could materially adversely impact our business, financial condition, operating results or cash flows, as we may incur additional expenses and non-cash write-offs related to closing a store and settling our remaining lease obligations and our initial investment in fixed assets and related store costs.

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

At the time we re-initiate our store opening plan and begin growing our store base, we will 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 expansion in the future. Our growth 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 effectively manage these increased demands or respond on a timely basis to the changing demands that our expansion will impose on our management, financial controls and information systems. If we fail to manage successfully the challenges of growth, do not continue to improve these systems and controls or encounter unexpected difficulties during expansion, our business, financial condition, operating results or cash flows could be materially adversely affected.

We may expand our retail offerings which may have different operating or legal requirements than our current operations.

In addition to the retail and consumer finance products we currently offer, we may offer other products and services in the future, including new financing products. These products and services may require additional or different operating systems or have additional or different legal or regulatory requirements than the products and services we currently offer. In the event we undertake such an expansion and do not have the proper infrastructure or personnel, or do not successfully execute such an expansion, our business, financial condition, operating results or cash flows could be materially adversely affected.

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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, including down payments, approximately 61% of our retail sales through our in-house propriety credit programs to customers with a broad range of credit worthiness. A large portion of our credit portfolio is to customers considered by many to be subprime borrowers. Our ability to provide credit as a financing alternative for our customers depends on many factors, including the quality of our customer receivables 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 customer receivable portfolio could lead to a reduction in the advance rates used or eligible customer receivable balances included in the borrowing base calculations under our revolving credit facility and thus a reduction of available credit to fund our finance operations. As a result, if we are required to reduce the amount of credit we grant to our customers, we most likely would sell fewer products, which would adversely affect our financial condition, operating results and cash flows. Further, because approximately 60% of our credit customers have historically made 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 would result in an adverse effect on our earnings. A decline in credit quality could also lead to stricter underwriting criteria which would likely have a negative impact on net sales.

We have significant future capital needs and the inability to obtain funding for our credit operations may adversely affect our business and expansion plans.

We currently finance our customer receivables through an asset-based loan facility that provides $450.0 million in financing commitments. As of January 31, 2012, we had $314.5 million outstanding under our asset-based revolving credit facility, including standby letters of credit issued. Our ability to raise additional capital through expansion of our asset-based loan facility, future securitization transactions or other debt or equity transactions, and do so on economically favorable terms, depends in large part on factors that are beyond our control.

These factors include:

- Conditions in the securities and finance markets generally;
- Our credit rating or the credit rating of any securities we may issue;
- Economic conditions;
- Conditions in the markets for securitized instruments, or other debt or equity instruments;
- The credit quality and performance of our customer receivables;
- Our overall sales performance and profitability;
- Our ability to provide or obtain financial support for required credit enhancement;
- Our ability to adequately service our financial instruments;

- Our ability to meet debt covenant requirements; and

- Prevailing interest rates.

If adequate capital and funds are not available at the time we need capital, we will have to curtail future growth, which could materially adversely affect our business, financial condition, operating results or cash flow. As we grow our business, capital expenditures during future years are likely to exceed our historical capital expenditures. The ultimate amount of capital expenditures needed will be dependent on, among other factors, the availability of capital to fund new store openings and customer receivables portfolio growth.

In addition, we historically used our customer receivables as collateral to raise funds through securitization programs. In fiscal 2011, we completed amendments to our existing credit facilities and our terminated securitization facilities to obtain relief from potential covenant violations and revise certain covenant requirements. If we require amendments in the future and are unable to obtain such amendments or we are unable to arrange substitute financing facilities or other sources of capital, we may have to limit or cease offering credit through our finance programs due to our inability to draw under our revolving credit facility upon the occurrence of a default. If availability under the borrowing base calculations of our revolving credit facility is reduced, or otherwise becomes unavailable, or we are unable to arrange substitute financing facilities or other sources of capital, we may have to limit the amount of credit that we make available through our customer finance programs. A reduction in our ability to offer customer credit will adversely affect revenues and results of operations and could have a material adverse effect on our results of operations. Further, our inability or limitations on our ability to obtain funding through securitization facilities or other sources may adversely affect our profitability 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 would adversely affect our ability to fund our credit programs, capital expenditures and other general corporate needs.

If we are unable to renew or replace our existing credit facilities in the future, we would be required to reduce, or possibly cease, offering customers credit, which could adversely affect our revenues and results of operations in the same manner as discussed above.

Failure to comply with our covenants in our credit facilities could materially and adversely affect us.

Under our existing asset-based lending (ABL) facility we have certain obligations, including maintaining certain financial covenants. If we fail to maintain the financial covenants in our credit facility and are not able to obtain relief from any covenant violation, then an event of default could occur and the lenders could cease lending to us and accelerate the payments of our debt. Any such action by the lenders could materially and adversely affect us and could even result in bankruptcy. While we are in compliance with the covenants in our existing facilities, if our retail and credit operation performance deteriorates, we could be in breach of one or more covenants.

Future financings could adversely affect common stock ownership interest and rights in comparison with those of other security holders.

Our board of directors has the power to issue additional shares of common or preferred stock without stockholder approval. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage of ownership of our existing stockholders will be reduced, and these newly issued securities may have rights, preferences or privileges senior to those of existing stockholders. If we issue additional common stock or securities convertible into common stock, such issuance will reduce the proportionate ownership and voting power of each other stockholder. In addition, such stock issuances might result in a reduction of the book value of our common stock.

Increased borrowing costs will negatively impact our results of operations.

Because most of our customer receivables have interest rates equal to the highest rate allocated under applicable law, we would not be able to pass higher borrowing costs along to our customers and our results of operations would be negatively impacted. The interest rates on our revolving credit facility fluctuate up or down based upon the LIBOR rate, the prime rate of our administrative agent or the federal funds rate. The level of interest rates in the market in general will impact the interest rate on any debt instruments issued, if any. Additionally, we may issue debt securities or enter into credit facilities under which we pay interest at a higher rate than we have historically paid which would further reduce our margins and negatively impact our results of operations.

Deterioration in the performance of our customer receivables portfolio could significantly affect our liquidity position and profitability.

Our liquidity position and profitability are heavily dependent on our ability to collect our customer receivables. If our customer receivables portfolio were to substantially deteriorate, the liquidity available to us would most likely be reduced due to the challenges of complying with the covenants and borrowing base calculations under our revolving credit facility and our earnings may decline due to higher provisions for bad debt expense, higher servicing costs, higher net charge-off rates and lower interest and fee income.

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Our ability to collect from credit customers may be materially impaired by store closings and our need to rely on a replacement servicer in the event of our liquidation.

We may be unable to collect a large portion of periodic credit payments should our stores close as many of our customers remit payments in-store. During the course of fiscal 2012, approximately 60% of our active credit customers made a payment in one of our stores. In the event of store closings, credit customers may not pay balances in a timely fashion, or may not pay at all, since a large number of our customers have not traditionally made payments to a central location.

In addition, we service all of our active credit customers through our in-house servicing operation. At this time, there is not a formalized back-up servicer plan in place for our customer receivables. In the event of our liquidation, a servicing arrangement would have to be implemented, which could materially impact the collection of our customer receivables.

In deciding whether to extend credit to customers, we rely on the accuracy and completeness of information furnished to us by or on behalf of our credit customers. If we and our systems are unable to detect any misrepresentations in this information, this could have a material adverse effect on our results of operations and financial condition.

In deciding whether to extend credit to customers, we rely heavily on information furnished to us by or on behalf of our credit customers and our ability to validate such information through third-party services, including employment and personal financial information. If a significant percentage of our credit customers intentionally or negligently misrepresent any of this information, and we or our systems did not detect such misrepresentations, it could have a material adverse effect on our ability to effectively manage our credit risk, which could have a material adverse effect on our results of operations and financial condition.

Our policy of re-aging certain delinquent borrowers affects our delinquency statistics and the timing and amount of our write-offs.

As of January 31, 2012, 13.8% of our credit portfolio consisted of re-aged customer receivables. Re-aging is offered to certain eligible past-due customers if they meet the conditions of our re-age policy. Our decision to offer a delinquent customer a re-age program is based on that borrower s specific condition, our history with the borrower, the amount of the loan and various other factors. When we re-age a customer s account, we move the account from a delinquent status to a current status. Management exercises a considerable amount of discretion over the re-aging process and has the ability to re-age an account multiple times during its life. During fiscal year 2012, we put a policy in place to limit the number of months an account can be re-aged over the life of the account to 12 months. Treating an otherwise uncollectible account as current affects our delinquency statistics, as well as impacting the timing and amount of charge-offs. If these accounts had been charged off sooner, our net loss rates might have been higher.

If we fail to timely contact delinquent borrowers, then the number of delinquent customer receivables eventually being charged off could increase.

We contact customers with delinquent credit account balances soon after the account becomes delinquent. During periods of increased delinquencies it is important that we are proactive in dealing with borrowers rather than simply allowing customer receivables to go to charge-off. Historically, when our servicing becomes involved at an earlier stage of delinquency with credit counseling and workout programs, there is a greater likelihood that the customer receivable will not be charged off.

During periods of increased delinquencies, it becomes extremely important that we are properly staffed and trained to assist borrowers in bringing the delinquent balance current and ultimately avoiding charge-off. If we do not properly staff and train our collections personnel, then the number of accounts in a delinquent status or charged-off could increase. In addition, managing a substantially higher volume of delinquent customer receivables typically increases our operational costs. A rise in delinquencies or charge-offs could have a material adverse effect on our business, financial condition, liquidity and results of operations.

We rely on internal models to manage risk and to provide accounting estimates. Our results could be adversely affected if those models do not provide reliable accounting estimates or predictions of future activity.

We make significant use of business and financial models in connection with our efforts to measure and monitor our risk exposures and to manage our credit portfolio. For example, we use models as a basis for credit underwriting decisions, portfolio delinquency, charge-off and collection expectations and other market risks, based on economic factors and our experience. The information provided by these models is used in making business decisions relating to strategies, initiatives, transactions and pricing, as well as our the size of our allowance for doubtful accounts, among other accounting estimates.

Models are inherently imperfect predictors of actual results because they are based on historical data available to us and our assumptions about factors such as credit demand, payment rates, default rates, delinquency rates and other factors that may overstate or understate future experience. Our models could produce unreliable results for a number of reasons, including the limitations of historical data to predict results due to unprecedented events or circumstances, invalid or incorrect assumptions underlying the models, the need for manual adjustments in response to rapid changes in economic conditions, incorrect coding of the models, incorrect data being used by the models or inappropriate application of a model to products or events outside of the model s intended use. In particular, models are less dependable when the economic environment is outside of historical experience, as has been the case recently.

In addition, we continually receive new economic data. Our critical accounting estimates, such as the size of our allowance for doubtful accounts, are subject to change, often significantly, due to the nature and magnitude of changes in economic conditions. However, there is generally a lag between the availability of this economic information and the preparation of our consolidated financial statements. When economic conditions change quickly and in unforeseen ways, there is a risk that the assumptions and inputs reflected in our models are not representative of current economic conditions.

Due to the factors described above and in Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report, we may be required or may deem it necessary to increase our allowance for doubtful accounts in the future. Increasing our allowance for doubtful accounts would adversely affect our results of operations and our financial position.

The dramatic changes in the economy, credit and capital markets have required frequent adjustments to our models and the application of greater management judgment in the interpretation and adjustment of the results produced by our models. This application of greater management judgment reflects the need to take into account updated information while continuing to maintain controlled processes for model updates, including model development, testing, independent validation and implementation. As a result of the time and resources, including technical and staffing resources, that are required to perform these processes effectively, it may not be possible to replace existing models quickly enough to ensure that they will always properly account for the impacts of recent information and actions.

The recent economic downturn has affected consumer purchases from us as well as their ability to repay their credit obligations to us, which could have a continued or prolonged negative effect on our net sales, gross margins and credit portfolio performance.

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 our products decline during periods when disposable income is lower or periods of actual or perceived unfavorable economic conditions. Recent turmoil in the national economy, including instability in the financial markets, consumer confidence and oil prices have negatively impacted our markets and may present significant challenges to our operations in the future. If this occurs, our net sales and results of operations would decline.

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

The retail market for consumer electronics and furniture 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 and Rooms To Go, home improvement stores such as Lowe s and Home Depot, and locally-owned regional or independent retail specialty stores that sell home appliances, consumer electronics and furniture similar, and often identical, to those items 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.

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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 endure 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.

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

- Expansion by our existing competitors or entry by new competitors into markets where we currently operate;
- Entering the television market as the decreased size of flat-panel televisions allows new entrants to display and sell these products more easily;
- Lower pricing;
- Aggressive advertising and marketing;
- Extension of credit to customers on terms more favorable than we offer;
- Larger store size, which may result in greater operational efficiencies, or innovative store formats; and
- Adoption of improved retail sales methods.

Competition from any of these sources could cause us to lose market share, sales 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.

Our ability to maintain and increase sales depends to a large extent on the periodic introduction and availability of new products and technologies. It is possible that new products will never achieve widespread consumer acceptance or will be supplanted by alternative products and technologies that do not offer us a similar sales opportunity or are sold at lower price points or margins.

If we fail to anticipate changes in consumer preferences, our sales will 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, consumer electronics and furniture. If we fail to identify and respond to these changes, our sales of these products will decline. In addition, we often make commitments to purchase products from our vendors up to nine 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.

We may experience significant price pressures over the life cycle of our products from competing technologies and our competitors and we may not be able to maintain our historical gross margin levels.

Prices for many of our products decrease over their life cycle. Such decreases often result in decreased gross profit margins for us. There is also substantial and continuing pressure from customers to reduce their total costs for products. Suppliers may also seek to reduce our margins on the sales of their products in order to increase their own profitability. The consumer electronics industry depends on new products to drive same store sales increases. Typically, these new products, such as high-definition LED and 3-D televisions, Blu-ray and DVD players and digital cameras are introduced at relatively high price points that are then gradually reduced as the product becomes mainstream. To sustain positive same store sales growth, unit sales must increase at a rate greater than the decline in product prices. The affordability of the product helps drive the unit sales growth. However, as a result of relatively short product life cycles in the consumer electronics industry, which limit the amount of time available for sales volume to increase, combined with rapid price erosion in the industry, retailers are challenged to maintain overall gross margin levels and positive same store sales. This has historically been our experience, and we continue to adjust our marketing strategies to address this challenge through the introduction of new product categories and new products within our existing categories. If we fail to

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accurately anticipate the introduction of new technologies, we may possess significant amounts of obsolete inventory that can only be sold at substantially lower prices and profit margins than we anticipated. In addition, we may not be able to maintain our historical margin levels in the future due to increased sales of lower margin products such as personal electronics products and declines in average selling prices of key products. If sales of lower margin items continue to increase and replace sales of higher margin items or our consumer electronics products average selling prices decreases due to the maturity of their life cycle, our gross margin and overall gross profit levels will be adversely affected.

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, Frigidaire, Friedrich, Maytag, LG, Mitsubishi, Samsung, Sony, Toshiba, Dell, Asus, Bose, Serta, Therapedic, Franklin, Jackson, Albany, Bassett, Hewlett Packard, 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 six suppliers represented 72.0% of our purchases for fiscal 2012, and the top two suppliers represented approximately 48.6% 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 such vendor is unable to fund amounts due to us, including payments due for returns of product and warranty claims. Catastrophic events, such as the one which impacted Japan last year, could adversely impact the supply of products or components used by some of our vendors to make the products they supply to us and could adversely impact our results of operations.

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 of January 31, 2012, we had $44.7 million in accounts payable and $62.5 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 would 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. A number of factors have historically affected, and will continue to affect, our comparable store sales results, including:

- Changes in competition, such as pricing pressure, and the opening of new stores by competitors in our markets;
- General economic conditions;
- New product introductions;
- Consumer trends;

Changes in our merchandise mix;

Changes in the relative sales price points of our major product categories;

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- Ability to offer credit programs attractive to our customers;
- The impact of any new stores on our existing stores, including potential decreases in existing stores sales as a result of opening new stores;
- Weather conditions in our markets;
- Timing of promotional events;
- Timing, location and participants of major sporting events;
- Reduction in new store openings;
- The percentage of our stores that are mature stores;
- The locations of our stores and the traffic drawn to those areas;
- How often we update our stores; and
- 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.

We experience seasonal fluctuations in our sales and quarterly results.

We typically experience seasonal fluctuations in our net sales and operating results, with the quarter ending January 31, which includes the holiday selling season, generally accounting for a larger share of our net sales and net income. We also incur significant additional expenses during such 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, or if we experience adverse events, such as bad weather in our markets during our fourth fiscal quarter, our net sales could decline, resulting in excess inventory or increased sales discounts to sell excess inventory, which would harm our financial performance. A shortfall in expected net sales, combined with our significant additional expenses during this fiscal quarter, could cause a significant decline in our operating results and such sales may not be deferred to future periods.

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. Because our customers finance through our credit segment a substantial portion of our sales, any adverse change in the regulation of consumer credit could adversely affect our total sales 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, including by reducing the maximum interest rate that can be charged in the states in which we operate, or restrict our ability to collect on account balances, which would have a material adverse effect on our cash flow and results of operations. Compliance with existing and future laws or regulations, including regulations that may be applicable to us under the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was enacted into law in July 2010, 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 cash flow and results of operations.

Pending litigation relating to the sale of credit insurance and the sale of repair service 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 our stores on sales financed under our credit programs and require the customer to purchase property insurance from us or provide evidence from a third-party insurance 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 repair service agreements, we could be required to pay substantial damages or incur substantial costs as part of an out-of-court settlement or require us to modify or suspend certain operations any of which could have a material adverse effect on our results of operations. An adverse judgment or any negative publicity associated with our repair service agreements or any potential credit insurance litigation could also affect our reputation, which could have a negative impact on our cash flow and results of operations.

Pending and potential litigation regarding alleged patent infringements could result in significant costs to us to defend what we consider to be spurious claims.

Recently the manufacturing, retail and software industries have been the targets of patent litigation claimants filing claims or demands based upon alleged patent ownership infringement through the manufacturing and selling, either in merchandise or through software and internet websites, of product or merely providing access through website portals. We, in conjunction with multiple other parties, have been the targets of such claims. While we believe that we have not violated or infringed on any alleged patent ownership rights, and intend to defend vigorously any such claims, the cost to defend, settle or pay any such claims could be substantial, and could have an adverse effect on our cash flow and results of operations.

Our corporate actions may be substantially controlled by our principal shareholders and affiliated entities.

As of January 31, 2012, Stephens Inc. and The Stephens Group, LLC, two of our stockholders and their affiliated entities beneficially owned approximately 24.7% and 26.7%, respectively, of our common stock and their interests may conflict with the will or interests of our other equity holders. While Stephens Inc. and its affiliates hold their 24.7% of our common stock through a voting trust that will vote the shares in the same proportion as votes cast by all other stockholders, this voting trust agreement will expire in 2013, unless extended, and upon expiration Stephens Inc. and its affiliates will not be restricted on how it votes its shares. These stockholders, acting individually or as a group, could exert substantial influence over matters such as electing directors and approving mergers or other business combination transactions.

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 and collection personnel, our ability to perform quality underwriting of new credit transactions and maintain workloads for our collections personnel at a manageable level, our operation 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 and operating results could suffer.

Our costs of doing business could increase as a result of changes in federal, state or local regulations.

Changes in the federal, state or local minimum wage requirements or changes in other wage or workplace regulations could increase our cost of doing business. In addition, changes in federal, state or local regulations governing the sale of some of our products or tax regulations could increase our cost of doing business. Also, passage of the Employer Free Choice Act or similar laws in Congress could lead to higher labor costs by encouraging unionization efforts among our associates and disruption of store operations.

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

Our 65 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 or man-made disasters. If the region suffers a continued or another economic downturn or any other adverse regional event, there could be an adverse impact on our net sales and results of operations 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. Additionally, these states in general, and the local economies where many of our stores are located in particular, are dependent, to a degree, on the oil and gas industries, which can be very volatile. Additionally, because of fears of climate change and adverse effects of drilling explosions and oil spills in the Gulf of Mexico, legislation has been introduced or is being considered, and governmental emergency pronouncements, regulations and orders have been issued and are under consideration, including moratoriums on offshore drilling, which, combined with the local economic and employment conditions caused by both, could materially and adversely impact the oil and gas industries and the areas in which a majority of our stores are located in Texas and Louisiana. To the extent the oil and gas industries are negatively impacted by declining commodity prices, climate change or other legislation and other factors, we could be negatively impacted by reduced employment, or other negative economic factors that impact the local economies where we have our stores.

In addition, recent turmoil in the national economy, including instability in the financial markets, has impacted our local markets. A downturn in the general economy, or in the region where we have our stores, could have a negative impact on our net sales and results of operations.

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, including processing of credit applications and management of collections. These systems and our operations are subject to damage or interruption from:

- Power loss, computer systems failures and Internet, telecommunications or data network failures;
- Operator negligence or improper operation by, or supervision of, employees;
- Physical and electronic loss of data or security breaches, misappropriation and similar events;
- Computer viruses;
- Intentional acts of vandalism and similar events; and
- Hurricanes, fires, floods and other natural disasters.

In addition, 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 of our systems 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 results of operations. Though we have implemented contingency and disaster recovery processes in the event of one or several technology failures, any unforeseen failure, interruption or compromise of our systems or our security measures could affect our flow of business and, if prolonged, could harm our reputation. The risk of possible failures or interruptions may not be adequately addressed by us or the third parties on which we rely, and such failures or interruptions could occur. The occurrence of any failures or interruptions could have a material adverse effect on our business, financial condition, liquidity and results of operations.

If we are unable to maintain our insurance licenses in the states we operate, our results of operations would suffer.

We derive a significant portion of our revenues and operating income from the commissions we earn from the sale of various insurance products of third-party insurers to our customers. These products include credit insurance, repair service agreements and product replacement policies. We also are the direct obligor on certain extended repair service agreements we offer to our customers. If for any reason we were unable to maintain our insurance licenses in the states we operate or if there are material claims or future material litigation involving our repair service agreements or product replacement policies, our results of operations would suffer.

If we are unable to continue to offer third-party repair service agreements to our customers who purchase, or have purchased our products, we could incur additional costs or repair expenses, which would adversely affect our financial condition and results of operations.

There are a limited number of insurance carriers that provide repair service agreement programs. If insurance becomes unavailable from our current providers for any reason, we may be unable to provide repair service agreements

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to our customers on the same terms, if at all. Even if we are able to obtain a substitute provider, higher premiums may be required, which 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 maintain the repair service agreement program could cause fluctuations in our repair expenses and greater volatility of earnings and could require us to become the obligor under new contracts sold.

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 our merchandise on credit, our revenues would be reduced and the provision for 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 substitute coverage on the same terms, if at all. Even if we are able to obtain substitute 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.

Changes in premium and commission rates allowed by regulators on the credit insurance, repair service agreements or product replacement agreements we sell 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 third-party insurance products to our customers. These products include credit insurance, repair service agreements and product replacement agreements. If the commission we retain from sales of those products declines, our operating results would 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 and/or assembled 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 our credit insurance, repair service agreement or product replacement 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 consumer identification of the name Conn s. We have registered the trademarks Conn s , Conn s Home Plus , YES Money , YE$ Money , SI Money and our logos. 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 customer data and information by persons outside us 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 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, which is based on gross profit rather than earnings, can create significant volatility in our effective tax rate. 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.

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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 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.

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 as of January 31, 2012:

Geographic Location	No. of Locations	Leased Facilities	Total Square Feet	Storage Square Feet
Golden Triangle (1)	6	6	189,531	40,655
Louisiana	5	5	148,628	38,394
Houston	22	21	572,116	97,923
San Antonio/Austin	10	10	318,789	64,451
Corpus Christi	2	1	92,149	23,619
South Texas	3	3	91,697	15,484
Oklahoma	2	2	57,558	9,751
Dallas/Fort Worth	15	14	469,667	80,535
Store Totals	65	62	1,940,135	370,812
Warehouse/Distribution Centers	7	5	737,381	737,381
Service Centers	4	4	176,606	176,190
Corporate Offices	2	2	146,783	30,000
Total	78	73	3,000,905	1,314,383

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

ITEM 3. LEGAL PROCEEDINGS.

The Company has recently been included in various patent infringement claims and litigation, the outcomes of which are difficult to predict at this time. Due to the timing of these matters, the Company has determined that no reasonable estimates of probable costs for resolution can be ascertained at this time, and it is possible, however, that future results of operations for any particular period could be materially affected by changes in the Company s assumptions or the effectiveness of its strategies related to these proceedings. The Company also is involved in ordinary routine litigation and claims incidental to its business from time to time, and, as required, has accrued its estimate of the probable costs for the resolution of these matters, which are not expected to be material. These estimates have been developed in consultation with counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. However, the results of these proceedings cannot be predicted with certainty, and changes in facts and circumstances could impact the Company s estimate of reserves for litigation.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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, 2010	$ 10.33	$ 4.42
Quarter ended July 31, 2010	$ 9.94	$ 4.94
Quarter ended October 31, 2010	$ 6.35	$ 3.33
Quarter ended January 31, 2011	$ 4.98	$ 3.12
Quarter ended April 30, 2011	$ 6.91	$ 4.10
Quarter ended July 31, 2011	$ 9.98	$ 5.08
Quarter ended October 31, 2011	$ 9.49	$ 4.97
Quarter ended January 31, 2012	$ 12.97	$ 8.24

How many common stockholders do we have?

As of March 16, 2012, we had approximately 50 common stockholders of record and an estimated 3,300 beneficial owners of our common stock.

Did we declare any cash dividends in fiscal 2012 or fiscal 2011?

No cash dividends were paid in fiscal 2012 or 2011. We do not anticipate paying dividends in the foreseeable future. Any future payment of dividends will be at the discretion of our 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.

Have we had any sales of unregistered securities during the last year?

We have had no sales of unregistered securities during the past three fiscal years.

Have we purchased any of our securities during the past quarter?

We have not, and no one on our behalf and no affiliated purchasers has, purchased any of our securities during the past fiscal quarter.

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ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected historical financial information as of and for the periods indicated. We have provided the following selected historical financial information for your reference. We have derived the selected statement of operations and balance sheet data as of January 31, 2012 and 2011 and for each of the years ended January 31, 2012, 2011, and 2010 from our audited consolidated financial statements. Balance sheet data as of January 31, 2010, 2009 and 2008 and statement of operations data for the years ended January 31, 2009 and 2008 has been derived from our unaudited consolidated financial statements which do not appear in this Form 10-K.

	Year Ended January 31, (dollars and shares in thousands, except per share amounts)				
	2012	**2011**	**2010**	**2009**	**2008**
Statement Operations:					
Revenues:					
Product sales	$ 596,360	$ 608,443	$ 666,381	$ 743,729	$ 671,571
Repair service agreement commissions (1)	42,078	37,795	40,673	47,888	42,386
Service revenues (2)	15,246	16,487	22,115	21,121	22,997
Total net sales	653,684	662,725	729,169	812,738	736,954
Finance charges and other (3)	138,618	146,050	157,920	154,665	139,211
Total revenues	792,302	808,775	887,089	967,403	876,165
Costs and expenses:					
Cost of goods sold, including warehousing and occupancy costs	455,493	474,696	529,227	573,984	502,196
Cost of parts sold, including warehousing and occupancy costs	6,527	7,779	10,401	9,638	8,379
Selling, general and administrative expense	237,911	239,806	258,579	259,588	251,854
Cost related to store closings (4)	7,096				
Impairment of long-lived assets (4)	2,019	2,321			
Goodwill impairment (5)			9,617		
Provision for bad debts	53,555	51,404	48,779	38,628	27,296
Total costs and expenses	762,601	776,006	856,603	881,838	789,725
Operating income	29,701	32,769	30,486	85,565	86,440
Interest expense, net	22,457	28,081	21,986	24,620	25,337
Loss from early extinguishment of debt	11,056				
Cost related to financing facilities terminated and transactions not completed		4,283			
Other (income) expense (7)	70	339	(123)	117	(943)
Income (loss) before income taxes	(3,882)	66	8,623	60,828	62,046
Provision (benefit) for income taxes	(159)	1,138	4,319	22,633	21,802
Net income (loss)	$ (3,723)	$ (1,072)	$ 4,304	$ 38,195	$ 40,244
Earnings (loss) per common share:					
Basic	$ (0.12)	$ (0.04)	$ 0.17	$ 1.54	$ 1.56
Diluted	$ (0.12)	$ (0.04)	$ 0.17	$ 1.53	$ 1.53
Average common shares outstanding:					
Basic	31,860	26,091	24,910	24,863	25,728
Diluted	31,860	26,091	25,081	25,044	26,260
Other Financial Data:					
Stores open at end of period	65	76	76	76	69

Same stores sales growth (8)	2.8%	(9.6%)	(13.8%)	2.0%	3.2%
Inventory turns (9)	5.2	5.5	6.0	6.0	5.6
Retail gross margin (10)	28.7%	26.5%	25.2%	27.5%	29.7%
Gross margin percentage (11)	41.7%	40.3%	39.2%	39.7%	41.7%
Operating margin (12)	3.7%	4.1%	3.4%	8.8%	9.9%
Ratio of earnings to fixed charges (13)		1.0	1.2	2.6	2.7
Return on average equity (14)	(1.1%)	(0.3%)	1.3%	12.7%	14.6%
Capital expenditures	$ 4,470	$ 3,028	$ 10,255	$ 17,597	$ 18,955
Rent expense (15)	$ 22,132	$ 23,334	$ 23,703	$ 22,242	$ 18,905
Percent of retail sales financed, including down payment	60.4%	61.2%	62.5%	67.2%	69.3%
Net charge-offs as a percent of average outstanding balance (16)	7.5%	7.3%	5.0%	4.4%	3.8%
Weighted average monthly payment rate (17)	5.6%	5.4%	5.2%	5.5%	5.7%
Balance Sheet Data:					
Working capital	$ 357,884	$ 389,022	$ 329,325	$ 266,118	$ 378,376
Cash and cash equivalents	$ 6,265	$ 10,977	$ 12,247	$ 11,909	$ 11,024
Inventory	$ 62,540	$ 82,354	$ 63,499	$ 95,971	$ 81,495
Total customer accounts receivable	$ 643,301	$ 675,766	$ 736,041	$ 753,513	$ 654,867
Other accounts receivable, net	$ 38,715	$ 30,476	$ 23,254	$ 32,505	$ 27,722
Total assets	$ 783,298	$ 842,060	$ 889,509	$ 955,481	$ 833,970
Total debt, including current maturities	$ 321,704	$ 373,736	$ 452,304	$ 505,417	$ 468,119
Total stockholders equity	$ 353,371	$ 352,897	$ 328,366	$ 321,606	$ 279,372

(1) Includes commissions from sales of third-party repair service agreements and replacement product programs, and income from company-obligor repair service agreements.
(2) Includes revenues derived from parts sales and labor sales on products serviced for customers, both covered under manufacturer s warranty and outside manufacturer s warranty coverage.
(3) Includes primarily interest income and fees earned on credit accounts and commissions earned from the sale of third-party credit insurance products. The Company has revised its prior period consolidated financial statements to correct its accounting for interest income on installment contracts included in Customer receivables. See Note 2 to the Company s consolidated financial statements for further information. The impact of the revision was not material to any of the individual periods presented.
(4) Includes the costs related to future lease charges and other costs and the write-off of impaired assets associated with store closings.
(5) Includes the write-off of the carrying amount of goodwill after interim testing in the third quarter of fiscal 2010 determined that the goodwill was fully impaired.
(6) Includes the write-off of unamortized financing fees associated with the terminated securitization program and costs incurred related to financing alternatives considered, but not completed.
(7) Includes primarily gains or losses resulting from sales of fixed assets during the period.
(8) Same store sales is calculated by comparing the reported sales for all stores that were open during the entirety of a period and the entirety of the same period during the prior fiscal year. Sales from closed stores, if any, are removed from each period. Sales from one store that we plan to close in the upcoming year have also been removed from each period for the fiscal year ended January 31, 2012. 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.
(9) Inventory turns are defined as the cost of goods sold, excluding warehousing and occupancy cost, divided by the monthly average product inventory balance, excluding consigned goods.
(10) Retail gross margin percentage is defined as the sum of Product sales and Repair service agreement commissions less Cost of goods sold, divided by the sum of Product sales and Repair service agreement commissions.
(11) Gross margin percentage is defined as Total revenues less Cost of goods and parts sold, including warehousing and occupancy cost, divided by Total revenues.
(12) Operating margin is defined as Operating income divided by Total revenues.
(13) Ratio of earnings to fixed charges is calculated as income before provision for income taxes plus fixed charges (excluding capitalized interest), divided by fixed charges. Fixed charges consist of the sum of interest expensed and capitalized, amortized premiums, discounts and capitalized expenses related to indebtedness and an estimate of the interest within rental expense. Due to our loss in the fiscal year ended January 31, 2012, the ratio coverage was less than 1:1. Additional earnings of $3.9 million would have been required to achieve a ratio of 1:1.
(14) Return on average equity is calculated as current period net income divided by the average of the beginning and ending equity.
(15) Rent expense includes rent expense incurred on our properties, equipment and vehicles, and is net of any rental income received.
(16) Net charge-offs for the fiscal year divided by the average balance of the credit portfolio for the fiscal year.
(17) Represents the weighted average of monthly gross cash collections received on the credit portfolio as a percentage of the average monthly beginning portfolio balance for each period.

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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, int 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:

The success of our growth strategy and plans regarding opening new stores and entering adjacent and new markets, including our plans to continue expanding into existing markets;

Our intention to update, relocate or expand existing stores;

The effect of closing or reducing the hours of operating of existing stores;

Our ability to obtain capital for required capital expenditures and costs related to the opening of new stores or to update, relocate or expand existing stores;

Our ability to open and profitably operate new stores in existing, adjacent and new geographic markets;

Our ability to introduce additional product categories;

Technological and market developments, growth trends and projected sales in the home appliance and consumer electronics industry, including, with respect to digital products like Blu-ray players, HDTV, LED and 3-D televisions, tablets, home networking devices and other new products, and our ability to capitalize on such growth;

The potential for price erosion or lower unit sales points that could result in declines in revenues;

Our relationships with key suppliers and their ability to provide products at competitive prices and support sales of their products through their rebate and discount programs;

The potential for deterioration in the delinquency status of our credit portfolio or higher than historical net charge-offs in the portfolio that could adversely impact earnings;

Our inability to continue to offer existing customer financing programs or make new programs available that allow consumers to purchase products at levels that can support our growth;

Our ability to renew or replace our existing borrowing facilities on or before the maturity dates of the facilities;

Our ability to fund our operations, capital expenditures, debt repayment and expansion from cash flows from operations, borrowings from our asset-based revolving credit facility, and proceeds from securitizations or accessing other debt or equity markets;

Our ability to obtain additional funding for the purpose of funding the customer receivables we generate;

Our ability to profitably expand our credit operations;

Our ability to maintain compliance with debt covenant requirements, including taking the actions necessary to maintain compliance with the covenants, such as obtaining amendments to the borrowing facilities that modify the covenant requirements, which could result in higher borrowing costs;

Our ability to obtain capital to fund expansion of our credit portfolio;

Reduced availability under our asset-based revolving credit facility as a result of borrowing base requirements and the impact on the borrowing base calculation of changes in the performance or eligibility of the customer receivables financed by that facility;

The ability of the financial institutions providing lending facilities to us to fund their commitments;

The effect of any downgrades by rating agencies of our lenders on borrowing costs;

The effect on our borrowing cost of changes in laws and regulations affecting the providers of debt financing;

The cost or terms of any amended, renewed or replacement credit facilities;

The effect of rising interest rates or borrowing spreads that could increase our cost of borrowing;

The effect of changes in our credit underwriting and collection practices and policies;

General economic conditions in the regions in which we operate;

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;

The outcome of litigation or government investigations affecting our business;

The potential to incur expenses and non-cash write-offs related to decisions to close store locations and settling our remaining lease obligations and our initial investment in fixed assets and related store costs;

The effect of rising interest rates or other economic conditions that could impair our customers ability to make payments on outstanding credit accounts;

The effect of changes in oil and gas prices that could adversely affect our customers shopping decisions and patterns, as well as the cost of our delivery and service operations and our cost of products, if vendors pass on their additional fuel costs through increased pricing for products;

The ability to attract and retain qualified personnel;

Changes in laws and regulations and/or interest, premium and commission rates allowed by regulators on our credit, credit insurance and repair service agreements as allowed by those laws and regulations;

The laws and regulations and interest, premium and commission rates allowed by regulators on our credit, credit insurance and repair service agreements in the states into which we may expand;

The adequacy of our distribution and information systems and management experience to support our expansion plans;

- The accuracy of our expectations regarding competition and our competitive advantages;
- The potential for market share erosion that could result in reduced revenues;
- The accuracy of our expectations regarding the similarity or dissimilarity of our existing markets as compared to new markets we enter;
- The use of third-parties to complete certain of our distribution, delivery and home repair services; and
- Changes in our stock price or the number of shares we have outstanding;

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 the financial condition and performance of our retail and credit segments for the indicated periods, including an analysis of those key factors that contributed to our financial condition and performance and that are, or are expected to be, the key drivers of our business.

Through our 65 retail stores, we provide products and services to our customers in seven primary market areas, including Houston, San Antonio/Austin, Dallas/Fort Worth, southern Louisiana, Southeast and South Texas and Oklahoma. Products and services offered through retail sales outlets include home appliances, consumer electronics, home office equipment, lawn and garden products, mattresses, furniture, repair service agreements, consumer installment credit programs, and various credit insurance products. These activities are supported through our extensive service, warehouse and distribution system. Our stores bear the Conn s name, after our founder s family, and deliver the same products and services to our customers. All of our stores follow the same procedures and methods in managing their operations. Our management evaluates performance and allocates resources based on the operating results of its retail and credit segments.

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

In the last three years, we have financed, including down payments received, on average, approximately 61% of our retail sales through our credit programs. We offer our customers an interest-bearing installment financing program and, at times, we offer promotional credit programs to certain of our customers that provide for same as cash or deferred interest interest-free periods of varying terms, generally three, six, 12, 18, 24 and 36 months, and require monthly payments beginning in the month after the sale. In turn, we finance substantially all of our customer receivables from these credit options through our revolving credit facility. In addition to our own credit programs, we use third-party financing programs to provide a portion of the non-interest bearing financing for purchases made by our customers, as well as a Conn s-branded revolving charge card. We also use a third party provider to offer a rent-to-own payment option to our customers.

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 or loss of the products they have purchased.

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.

Restructured Customer Accounts Receivable.

Effective April 5, 2011, the FASB issued ASU No. 2011-02, A Creditor s Determination of Whether Restructuring is a Troubled Debt Restructuring (TDR), which clarifies when a loan modification or restructuring is considered a TDR. This guidance clarifies what constitutes a concession and whether the debtor is experiencing financial difficulties, even if not currently in default. The amendments in ASU 2011-02 are effective for the first interim or annual period beginning on or after June 15, 2011, or for the third quarter of fiscal 2012 for us, and should be applied retrospectively to restructurings occurring on or after the beginning of the annual period of adoption with early adoption permitted. Loan modifications in which an economic concession has been granted to a borrower experiencing financial difficulty are accounted for and reported as TDRs. In the quarter ended October 31, 2011, we adopted new accounting guidance that provides clarification on whether a debtor is experiencing financial difficulties and whether a concession has been granted to the debtor for purposes of determining if a loan modification constitutes a TDR. The adoption applies retrospectively to our loan restructurings after January 31, 2011. The Company defines TDR accounts that originated in the current fiscal year as accounts that have been re-aged in excess of three months or refinanced. For accounts originating in prior fiscal years, the accounts must receive additional re-aging during this fiscal year and is considered a TDR if the cumulative re-aging exceeds three months. We recorded a pre-tax charge of $14.1 million, net of previously provided reserves, related to the required adoption of the accounting guidance related to TDR accounts.

Customer accounts receivable.

Customer accounts receivable are originated at the time of sale and delivery of the various products and services we offer. We include the amount of principal and accrued interest on those receivables that are expected to be collected within the next twelve months, based on contractual terms, in current assets on our consolidated balance sheet. Those amounts expected to be collected after twelve months, based on contractual terms, are included in long-term assets. Typically, customer receivables are considered delinquent if a payment has not been received on the scheduled due date. Additionally, we offer re-age programs to customers with past due balances that have experienced a financial hardship, if they meet the conditions of our re-age policy. Re-aging a customer s account can result in updating it from a delinquent status to a current status. During the quarter ended July 31, 2011, we implemented a new policy which limits the number of months that an account can be re-aged to a maximum of 18 months. During the quarter ended October 31, 2011, we further modified the policy to reduce the number of months that an account can be re-aged to a maximum of 12 months. As of July 31, 2011, we changed our charge-off policy so that an account that is delinquent more than 209 days at each month end is charged-off against the allowance for doubtful accounts and interest accrued subsequent to the last payment is reversed and charged to the allowance for uncollectible interest. Prior to July 31, 2011, we charged off all accounts that were delinquent more than 120 days and for which no payment had been received in the past seven months. We have a secured interest in the merchandise financed by these receivables and therefore have the opportunity to recover a portion of any charged-off amount. As part of our customer retention and expansion efforts, we may modify loans for certain borrowers.

Interest income on customer accounts receivable.

Interest income is accrued using the interest method for installment contracts, and the simple interest method for revolving charge accounts, and is reflected in Finance charges and other. Typically, interest income is accrued until the contract or account is paid off or charged-off and we provide an allowance for estimated uncollectible interest. We typically only place accounts in non-accrual status when legally required to do so. Interest accrual is resumed on those accounts once a legally-mandated settlement arrangement is reached or other payment arrangements are made with the customer. Interest income is recognized on our interest-free promotional accounts based on our historical experience related to customers who fail to satisfy the requirements of the interest-free programs. Additionally, for sales on deferred interest and same as cash programs, under our in-house finance program, that exceed one year in duration, we discount the sales to their present value, resulting in a reduction in sales and customer receivables, and amortize the discount amount into Finance charges and other over the term of the program. We recognize interest income on TDR accounts using the interest income method, which requires reporting interest income equal to the increase in the net carrying amount of the loan attributable to the passage of time. Cash proceeds and other adjustments are applied to the net carrying amount such that it always equals the present value of expected future cash flows.

Allowance for doubtful accounts.

We record an allowance for doubtful accounts, including estimated uncollectible interest, for our Customer and Other accounts receivable, based on our historical cash collection and net loss experience and expectations for future cash collections and losses. In addition to pre-charge-off cash collections and charge-off information, estimates of post-charge-off recoveries, including cash payments, amounts realized from the repossession of the products financed and, at times, payments received under credit insurance policies are also considered.

We determine reserves for those accounts that are TDRs based on the discounted present value of cash flows expected to be collected over the life of those accounts. The excess of the carrying amount over the discounted cash flow amount is recorded as a reserve for loss on those accounts. We estimate our allowance for bad debts by evaluating the credit portfolio based on number of months re-aged, if any. We monitor the aging of our past due accounts closely and focus our collection efforts on preventing accounts from becoming 60 days past due or greater, which is a leading indicator of potential charge-off. As a result of our practice of re-aging customer accounts, if the account is not ultimately collected, the timing and amount of the charge-off could be impacted. If these accounts had been charged-off sooner the historical net loss rates might have been higher. During the quarter ended July 31, 2011, we implemented a new policy which limits the number of months that an account can be re-aged to a maximum of 18 months which was further limited to a maximum of 12 months during the quarter ended October 31, 2011. As of July 31, 2011, we changed our charge-off policy such that an account that is delinquent more than 209 days as of the end of each month is charged-off against the allowance for doubtful accounts and interest accrued subsequent to the last payment is reversed and charged against the allowance for uncollectible interest. Prior to July 31, 2011, we charged off all accounts that were delinquent more than 120 days and for which no payment had been received in the past seven months. The balance in the allowance for doubtful accounts and uncollectible interest for customer receivables was $49.9 million and $44.0 million, at January 31, 2012, and 2011, respectively. The adoption of the TDR guidance in the quarter ended October 31, 2011 resulted in a balance as of January 31, 2012 considered to be TDRs of $48.9 million. The amount included in the allowance for doubtful accounts associated with principal and interest on these loans was $25.4 million as of January 31, 2012. TDR accounts are segregated from the credit score stratification for reporting and measurement purposes. If the loss rate used to calculate the allowance for doubtful accounts on non-TDR loan principal and interest reserves was increased by 10% at January 31, 2012, we would have increased our Provision for bad debts by approximately $2.5 million for fiscal 2012. The impact of a 10% unfavorable change in the net present value calculation on TDR accounts would increase our Provision for bad debts by approximately $2.5 million as of January 31, 2012.

Inventories.

Inventories consist of finished goods or parts and are valued at the lower of cost (moving weighted average cost method) or fair market value through the establishment of inventory reserves. Our inventory reserve represents the excess of the carrying amount, typically weighted average cost, over the amount we expect to realize from the ultimate sale or other disposition of the inventory. The inventory reserve contains uncertainties because the calculation requires management to make assumptions and to apply judgment regarding inventory aging, projected consumer demand and market availability and obsolescence of products on hand. If estimates regarding consumer demand or the net realizable value that can be obtained for certain products is affected in an unforeseen manner, we may be exposed to losses or gains that could be material. A 10% difference in our actual inventory reserve at January 31, 2012, would have affected our Cost of goods sold by approximately $0.4 million.

Property and Equipment Impairment.

Property and equipment are evaluated for impairment at the retail store level. The Company performs a periodic assessment of assets for impairment. Additionally, an impairment evaluation is performed whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. The most likely condition that would necessitate an assessment would be an adverse change in historical and estimated future results of a retail store s performance. For property and equipment to be held and used, the Company recognizes an impairment loss if its carrying amount is not recoverable through its undiscounted cash flows and measures the impairment loss based on the difference between the carrying amount and fair value. Fair value is determined by discounting the anticipated cash flows over the remaining term of the lease utilizing certain unobservable inputs (Level 3) and a impairment charges of $2.0 million and $2.3 million were recorded for the years ended January 31, 2012 and 2011, related to stores being closed.

Revenue recognition.

Revenues from the sale of retail products are recognized at the time the customer takes possession of the product. Such revenues are recognized net of any adjustments for sales incentive offers such as discounts, coupons, rebates, or other free products or services and discounts of promotional credit sales that will extend beyond one year. We sell repair service agreements and credit insurance contracts on behalf of unrelated third parties. For contracts where the third-parties are the obligors on the contract, commissions are recognized in revenues at the time of sale, and in the case of retrospective commissions, at the time that they are earned. Where we sell repair service renewal agreements in which we are deemed to be the obligor on the contract at the time of sale, revenue is deferred and recognized ratably, on a straight-line basis, over the term of the repair service agreement. All of these agreements typically have terms ranging from 12 to 48 months. These agreements are separate units of accounting and are valued based on the agreed upon retail selling price. The amounts of repair service agreement revenues deferred at January 31, 2012 and 2011 were $2.8 million and $6.5 million, respectively, and are included in deferred revenues and allowances in the accompanying consolidated balance sheets.

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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. 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 and if the programs are related to product sales, the allowances, credits or payments are recorded as a reduction of cost of goods sold. We received $62.7 million, $63.7 million and $51.3 million in vendor allowances during the fiscal years ended January 31, 2012, 2011 and 2010, respectively. Over the past three years we have received funds from approximately 50 vendors, with the terms of the programs ranging between one month and one year.

Accounting for leases.

We analyze each lease, at its inception and any subsequent renewal, to determine whether it should be accounted for as an operating lease or a capital lease. Additionally, monthly lease expense for each operating lease is calculated as the average of all payments required under the minimum lease term, including rent escalations. Generally, the minimum lease term begins with the date we take possession of the property and ends on the last day of the minimum lease term, and includes all rent holidays, but excludes renewal terms that are at our option. Any tenant improvement allowances received are deferred and amortized into income as a reduction of lease expense on a straight-line basis over the minimum lease term. The amortization of leasehold improvements is computed on a straight-line basis over the shorter of the remaining lease term or the estimated useful life of the improvements. For transactions that qualify for treatment as a sale-leaseback, any gain or loss is deferred and amortized as rent expense on a straight-line basis over the minimum lease term. Any deferred gain would be included in deferred gain on sale of property and any deferred loss would be included in other assets on the consolidated balance sheets. For locations that have ceased operation with remaining lease obligations, we record an accrual for the present value of the remaining lease obligations and anticipated ancillary occupancy costs, net of estimated sublease income. The estimate is based on our best projection of the sublease rates we believe can be obtained for those properties and our best estimate of the marketing time it will take to find tenants to sublet those stores. Revisions to these projections of the estimated buyout terms or sublease rates are made to the obligation as further information related to the actual terms and costs becomes available.

Year ended January 31, 2012 compared to the year ended January 31, 2011

Executive overview

This narrative is intended to provide an executive level overview of our operations for our fiscal year ended January 31, 2012. A detailed explanation of the changes in our operations for the period as compared to the prior year periods is included under Results of Operations. The following is a summary of some of the specific items impacting our retail and credit segments:

Retail Segment Review

- For the year ended January 31, 2012, total revenues decreased 1.3%, primarily due to the closing of five stores during the second quarter of the year. Same store sales increased 2.8% for the year, excluding the nine stores that have been closed, one store in the process of being closed and two stores with leases that expired in the current fiscal year. The increase in same store sales was driven by increases in furniture and mattresses and home appliances. Repair service agreement commissions increased on a higher sales penetration of repair service agreements during the current year;

- The retail gross margin (includes gross profit from both product and repair service agreement sales) for the year increased to 28.7% as compared to 26.5% in the prior year. The increase in the retail gross margin was driven by an increase in higher-margin furniture and mattress sales as a percent of total product sales, improved product gross margins and increased sales penetration of repair service agreements. The impact of an adjustment to the inventory reserve, which increased cost of goods sold by $4.7 million, decreased retail gross margin by 80 basis points in fiscal year 2012. An adjustment to the inventory reserve in fiscal 2011, which increased cost of goods sold by $1.7 million, decreased retail gross margin by 30 basis points during that period; and

Selling, general and administrative (SG&A) expense increased by $4.9 million, and increased 110 basis points as a percent of segment revenues to 27.6% for the year ended January 31, 2012, compared to fiscal 2011. The total expense increase was driven by increased compensation and related expenses and contract delivery costs which were partially offset by decreased depreciation and bank fees. We increased our investments in advertising and sales staffing, in support of our growth initiatives, to drive sales expansion during the third and fourth quarter of the current fiscal year and on an ongoing basis.

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Credit Segment Review

We changed our presentation of net charge-offs and the provision for bad debts to be more consistent with finance industry practice. The impact of the change was to reflect the charges for repair service and credit insurance agreements related to credit account charge-offs in net charge-offs and the provision for bad debts, rather than as a reduction of revenues for the credit segment. There was no effect on operating income or net income (loss) as a result of the presentation change.

Total revenues for the year ended January 31, 2012 declined by $7.9 million, as compared to the prior year, as the declining customer accounts receivable balance resulted in lower interest income and fee revenues. As a result of the improved payment rate by our credit customers on their accounts and lower percent of sales financed under our credit programs, the average customer accounts receivable balance has fallen 10.4%, from $699.3 million during the year ended January 31, 2011, to $626.4 million during the year ended January 31, 2012;

SG&A expense for the credit segment fell 10.6%, or $6.8 million, primarily due to reduced compensation and related expense. Continued improvement in the performance of the portfolio has allowed us to reduce the cost of servicing the portfolio. Additionally, we have reduced servicing costs, as highly re-aged and delinquent accounts are being charged off more quickly as a result of changes in charge-off and re-age policies made during fiscal 2012. Credit segment SG&A expense as a percent of revenues was 41.7% for the year ended January 31, 2012 as compared to 44.1% in the prior year;

While we experienced continued improvement in our credit portfolio performance (specifically, the trends in the payment rate and percent of the portfolio re-aged), the Provision for bad debts increased by $2.4 million during the year ended January 31, 2012, from $50.6 million in the prior year. The increase is due primarily to the impact of the adoption of new accounting guidance for TDR within the fiscal quarter ended October 31, 2011, which increased the fiscal 2012 Provision for bad debts by $14.1 million;

Net interest expense decreased in the year ended January 31, 2012 by $5.6 million over the prior year primarily due to the effect of a lower overall debt balance outstanding and the prior period payoff of the higher cost securitization borrowings.

Operational changes and outlook

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

Reviewing our existing store locations to ensure the customer demographics and retail sales opportunity are sufficient to achieve our store performance expectations, and selectively closing or relocating stores to achieve those goals;

Evaluating store opening plans for future years. We have begun the planning and preparation to open five to seven new locations during fiscal year 2013, all of which are expected to be in new markets;

Augmenting our credit offerings through the use of third-party consumer credit providers to provide flexible financing options to meet the varying needs of our customers, while focusing the use of our credit program to offer credit to customers where third-party programs are not available;

Limiting the number of months an account can be re-aged and reducing the period of time a delinquent account can remain outstanding before it is charged off. Additionally, we are utilizing shorter contract terms for higher-risk products and smaller-balances originated to continue to increase the payment rate and improve credit quality. We have increased credit lines to higher credit scored customers to allow them to purchase additional products given our furniture and mattress offerings expansion. In total, these changes are expected to continue to improve the performance of our portfolio and increase the cost-effectiveness of our collections operation; and

We have closed 11 of the 12 underperforming retail locations that did not perform at the level we expect for mature store locations. After the remaining store is closed, we will have a total of 64 retail stores. One of the 12 stores was located in Oklahoma, with 11 of the stores located in Texas, with two located in the Austin market, five in the Dallas market, two in the Houston market and two in the San Antonio market. Five of the stores closed were closed during the fourth quarter of the 2012 fiscal year.

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While we have benefited from our operations being concentrated in the Texas, Louisiana and Oklahoma region in the past, recent weakness in the national and state economies, including instability in the financial markets and the volatility of oil and natural gas prices, have and will present significant challenges to our operations in the coming quarters. Our customers continue to be pressured by higher gas and food prices and high levels of unemployment and, as a result, we have seen national average selling prices for televisions decline.

Results of operations

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

	Year ended January 31,		
	2012	**2011**	**2010**
Revenues:			
Product sales	75.3%	75.2%	75.1%
Service maintenance agreement commissions	5.3	4.7	4.6
Service revenues	1.9	2.0	2.5
Total net sales	82.5	81.9	82.2
Finance charges and other	17.5	18.1	17.8
Total revenues	100.0	100.0	100.0
Cost and expenses:			
Cost of goods sold, including warehousing and occupancy costs	57.4	58.7	59.7
Cost of parts sold, including warehousing and occupancy costs	0.8	1.0	1.2
Selling, general and administrative expense	30.0	29.7	29.1
Costs related to store closings	0.9	0.0	0.0
Impairment of long-lived assets	0.3	0.3	0.0
Goodwill impairment	0.0	0.0	1.1
Provision for bad debts	6.8	6.3	5.5
Total costs and expenses	96.2	96.0	96.6
Operating income	3.8	4.0	3.4
Interest expense	2.9	3.5	2.4
Loss from early extinguishment of debt	1.4	0.0	0.0
Cost related to financing transaction not completed	0.0	0.5	0.0
Other (income) expense	0.0	0.0	0.0
Income (loss) before income taxes	(0.5)	0.0	1.0
Provision for income taxes	0.0	0.1	0.5
Net income (loss)	(0.5)%	(0.1)%	0.5%

Analysis of consolidated statements of operations

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

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

Total Consolidated:

	Year Ended January 31,			2012 vs. 2011 Incr/(Decr)		2011 vs. 2010 Incr/(Decr)	
(Dollars in thousands)	**2012**	**2011**	**2010**	**Amount**	**Pct**	**Amount**	**Pct**
Revenues							
Product sales	$ 596,360	$ 608,443	$ 666,381	($ 12,083)	(2.0)%	($ 57,938)	(8.7)%
Repair service agreement commissions	42,078	37,795	40,673	4,283	11.3	(2,878)	(7.1)
Service revenues	15,246	16,487	22,115	(1,241)	(7.5)	(5,628)	(25.4)
Total net sales	653,684	662,725	729,169	(9,041)	(1.4)	(66,444)	(9.1)
Finance charges and other	138,618	146,050	157,920	(7,432)	(5.1)	(11,870)	(7.5)
Total revenues	792,302	808,775	887,089	(16,473)	(2.0)	(78,314)	(8.8)
Cost and expenses							
Cost of goods and parts sold	462,020	482,475	539,628	(20,455)	(4.2)	(57,153)	(10.6)
Gross Profit	330,282	326,300	347,461	3,982	1.2	(21,161)	(6.1)
Gross Margin	*41.7%*	*40.3%*	*39.2%*				
Selling, general and administrative expense	227,286	227,037	245,982	249	0.1	(18,945)	(7.7)
Depreciation	10,625	12,769	12,597	(2,144)	(16.8)	172	1.4
Costs related to store closings	7,096			7,096	N/A		N/A
Impairment of long-lived assets	2,019	2,321		(302)	N/A	2,321	N/A
Goodwill impairment			9,617		N/A	(9,617)	N/A
Provision for bad debts	53,555	51,404	48,779	2,151	4.2	2,625	5.4
Operating income	29,701	32,769	30,486	(3,068)	(9.4)	2,283	7.5
Operating Margin	*3.7%*	*4.1%*	*3.4%*				
Interest expense	22,457	28,081	21,986	(5,624)	(20.0)	6,095	27.7
Loss on early extinguishment of debt	11,056			11,056	N/A		N/A
Costs related to financing facilities terminated and transactions not completed		4,283		(4,283)	N/A	4,283	N/A
Other (income) expense	70	339	(123)	(269)	(79.4)	462	(376.4)
Income (loss) before income taxes	(3,882)	66	8,623	(3,948)	(5,981.8)	(8,557)	(99.2)
Provision (benefit) for income taxes	(159)	1,138	4,319	(1,297)	(114.0)	(3,181)	130.0
Net income (loss)	$ (3,723)	$ (1,072)	$ 4,304	$ (2,651)	247.3%	$ (5,376)	161.6%

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Retail Segment:

(Dollars in thousands)	Year Ended January 31, 2012	2011	2010	2012 vs. 2011 Incr/(Decr) Amount	Pct	2011 vs. 2010 Incr/(Decr) Amount	Pct
Revenues							
Product sales	$ 596,360	$ 608,443	$ 666,381	$ (12,083)	(2.0)%	$ (57,938)	(8.7)%
Repair service agreement commissions	42,078	37,795	40,673	4,283	11.3	(2,878)	(7.1)
Service revenues	15,246	16,487	22,115	(1,241)	(7.5)	(5,628)	(25.4)
Total net sales	653,684	662,725	729,169	(9,041)	(1.4)	(66,444)	(9.1)
Finance charges and other	1,335	857	532	478	55.8	325	61.1
Total revenues	655,019	663,582	729,701	(8,563)	(1.3)	(66,119)	(9.1)
Costs and Expenses							
Cost of goods and parts sold	462,020	482,475	539,628	(20,455)	(4.2)	(57,153)	(10.6)
Gross Profit	192,999	181,107	190,073	11,892	6.6	(8,966)	(4.7)
Gross Margin	29.5%	27.3%	26.0%				
Selling, general and administrative expense (a)	170,561	163,462	184,608	7,099	4.3	(21,146)	(11.5)
Depreciation	10,080	12,316	12,288	(2,236)	(18.2)	28	0.2
Impairment of long-lived assets	2,019	2,321		(302)	N/A	2,321	N/A
Costs related to store closings	7,096			7,096	N/A		N/A
Goodwill impairment			9,617		N/A	(9,617)	N/A
Provision for bad debts	590	817	366	(227)	(27.8)	451	123.2
Operating income (loss)	2,653	2,191	(16,806)	462	21.1	18,997	(113.0)
Operating Margin	*0.4%*	*0.3%*	*-2.3%*				
Other (income) expense	70	339	(123)	269	(79.4)	462	(375.6)
Segment income (loss) before income taxes	$ 2,583	$ 1,852	$ (16,683)	$ 731	39.5%	$ 18,535	(111.1)%

Credit Segment:

(Dollars in thousands)	Year Ended January 31, 2012	2011	2010	2012 vs. 2011 Incr/(Decr) Amount	Pct	2011 vs. 2010 Incr/(Decr) Amount	Pct
Revenues							
Finance charges and other	$ 137,283	$ 145,193	$ 157,388	$ (7,910)	(5.4)%	$ (12,195)	(7.7)%
Selling, general and administrative expense	56,725	63,575	61,374	(6,850)	(10.8)	2,201	3.6
Depreciation	545	453	309	92	20.3	144	46.6
Provision for bad debts	52,965	50,587	48,413	2,378	4.7	2,174	4.5
Operating income	27,048	30,578	47,292	(3,530)	(11.5)	(16,714)	(35.3)
Operating Margin	*19.7%*	*21.1%*	*30.0%*				
Interest expense	22,457	28,081	21,986	(5,624)	(20.0)	6,095	27.7
Loss on early extinguishment of debt	11,056			11,056	N/A		N/A
		4,283		(4,283)	N/A	4,283	N/A

Costs related to financing facilities terminated and transactions not completed						
Segment income (loss) before income taxes	$ (6,465)	$ (1,786)	$ 25,306	$ (4,679)	262.0%	$ (27,092)	(107.1)%

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(a) Selling, general and administrative expenses include the direct expenses of the retail and credit operations, allocated overhead expenses and a charge to the credit segment to reimburse the retail segment for expenses it incurs related to occupancy, personnel, advertising and other direct costs of the retail segment which benefit the credit operations by sourcing credit customers and collecting payments. The reimbursement received by the retail segment from the credit segment is estimated using an annual rate of 2.5% times the average portfolio balance for each applicable period. The amount of overhead allocated to each segment was approximately $8.3 million, $7.5 million and $7.2 million for the fiscal years ended January 31, 2012, 2011 and 2010, respectively. The amount of reimbursement made to the retail segment by the credit segment was approximately $15.6 million, $17.5 million and $18.6 million for the fiscal years ended January 31, 2012, 2011 and 2010, respectively.

Year ended January 31, 2012 compared to the year ended January 31, 2011.

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

(Dollars in millions)	Year ending January 31, 2012	2011	Change $	%
Net sales	$ 653.7	$ 662.7	$ (9.0)	(1.4)
Finance charges and other	138.6	146.1	(7.5)	(5.1)
Revenues	$ 792.3	$ 808.8	$ (16.5)	(2.0)

The $9.0 million decrease in net sales was made up of the following:

a $13.2 million increase resulted from a same store sales increase of 2.8% over the prior year;

a $16.6 million decrease in sales related to the stores that have been or will be closed;

a $4.4 million decrease resulted from an increase in discounts on promotional credit sales; and

a $1.2 million decrease resulted from an decrease in service revenues.

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

	Year Ended January 31, 2012		2011			Same store sales
(Dollars in millions)	Amount	Percent	Amount	Percent	% Change	% change
Category						
Consumer electronics	$ 229.4	35.1%	$ 258.2	39.0%	(11.2) (1)	(7.5)
Home appliances	188.5	28.8	188.3	28.4	0.1 (2)	2.9
Furniture and mattresses	100.0	15.3	76.6	11.6	30.4 (3)	35.2
Home office	52.6	8.0	54.7	8.3	(3.8) (4)	(1.8)
Other	25.9	4.0	30.6	4.6	(15.4)	(13.8)
Total product sales	596.4	91.2	608.4	91.9	(2.0)	1.0
RSA commissions	42.1	6.5	37.8	5.6	11.4 (5)	14.5
Service revenues	15.2	2.3	16.5	2.5	(7.3)	

Total net sales	$ 653.7	100.0%	$ 662.7	100.0%	(1.4)	2.8

(1) The sales decrease is due to a decline in total television units sold of 15.6%, partially offset by an average selling price increase of 6.3%. The unit sales decrease was driven largely by our decision not to compete for low-priced, low-margin sales during the fourth quarter of fiscal 2012, in general, and specifically on Black Friday. Television unit sales were also down in the second and third quarters of the fiscal year. Also contributing to the decrease was a reduction in gaming hardware and software sales, partially offset by an increase in home theater sales;

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(2) Our increases in average selling price of 7.3% have been partially offset by a 6.1% decline in units sold. Laundry and refrigeration sales were up 2.9% and 2.1%, respectively, while cooking sales decreased 5.7%;
(3) Furniture and mattress sales were up as total units sold increased by 31.5% and the average selling price increased 6.9%. The increase was driven by enhanced displays and product selection, increased promotional activity, and dedicated furniture sales specialists;
(4) Home office declined due to a 20.7% decrease in the unit sales of computers and internet devices, partially offset by an increase in average selling prices of 21.2% and an increase in tablet sales, which represented 11.1% of home office sales during fiscal 2012; and
(5) The increase in repair service agreement commissions was driven largely by the higher penetration as a percentage of product sales.

	Year ended January 31,		Change	
(Dollars in millions)	**2012**	**2011**	**$**	**%**
Interest income and fees	$ 117.1	$ 125.3	$ (8.2)	(6.5)
Insurance commissions	20.2	19.9	0.3	1.5
Other income	1.3	0.9	0.4	44.4
Finance charges and other	$ 138.6	$ 146.1	$ (7.5)	(5.1)

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

The decrease in Interest income and fees of the credit segment resulted primarily from a 10.4% decrease in the average balance of customer accounts receivable outstanding during the fiscal year ending January 31, 2012, compared to the prior year period. Additionally, the required adoption of TDR accounting guidance, which resulted in an increase in reserves for uncollectible interest, negatively impacted interest income and fees by $1.0 million and the interest income and fee yield by 16 basis points. Partially offsetting these decreases was an increase in the average interest income and fee yield from 17.9% for the fiscal year ended January 31, 2011 to 18.7% for the fiscal year ended January 31, 2012. The interest income and fee yield increased as a result of a reduction in the use of long-term cash option financing under our in-house financing program and lower charge-offs incurred in the current fiscal year.

	Year ended January 31,	
(Dollars in millons)	**2012**	**2011**
Interest income and fees (a)	$ 117.1	$ 125.3
Net charge-offs (b)	(46.9)	(51.1)
Borrowing costs (c)	(22.5)	(28.1)
Net Portfolio yield	$ 47.7	$ 46.1
Average portfolio balance	$ 626.4	$ 699.3
Interest income and fee yield %	18.7%	17.9%
Net charge-off %	7.5%	7.3%

(a) Included in Finance charges and other.
(b) Included in Provision for bad debts.
(c) Total Interest expense.

	Year ended January 31,		Change	
(Dollars in millons)	**2012**	**2011**	**$**	**%**
Cost of goods sold	$ 455.5	$ 474.7	$ (19.2)	(4.0)
Product gross margin percentage	23.6%	22.0%		1.6%

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Product gross margin increased as a percent of product sales from the 2011 to 2012 driven by our focus on improving pricing discipline on the sales floor while maintaining competitive pricing in the marketplace. The shift in our product mix to higher margin furniture and mattresses and improved margins generated in home appliances and home office categories also contributed to the increased product margins. A $4.7 million inventory reserve adjustment recorded during fiscal 2012 reduced product margins by approximately 80 basis points, compared to a $1.7 million adjustment recorded in the prior year, which reduced the product gross margin by approximately 30 basis points in that period.

(Dollars in millons)	Year ended January 31, 2012	2011	Change $	%
Cost of service parts sold	$ 6.5	$ 7.8	$ (1.3)	(16.1)
As a percent of service revenues	42.8%	47.2%		-4.4%

This decrease was due primarily to a 7.5% decrease in parts revenues.

(Dollars in millions)	Year ended January 31, 2012	2011	Change $	%
Selling, general and administrative expense Retail	$ 180.6	$ 175.8	4.8	2.7%
Selling, general and administrative expense Credit	57.3	64.0	(6.7)	(10.5)
Selling, general and administrative expense Total	$ 237.9	$ 239.8	(1.9)	(0.8)
As a percent of total revenues	30.0%	29.6%		(0.4%)

During the fiscal year ended January 31, 2012, Selling, general and administrative (SG&A) expense increased as a percent of revenues to 30.0% from 29.6% in the prior year period, primarily due to the deleveraging effect of the 1.3% decline in total revenues. The reduction in SG&A expense was driven by the decrease in credit segment expenses, as we improved the efficiency of our collection operations and as the credit quality of the receivables in the portfolio improved. This decrease was partially offset by our investment in sales staffing, in support of our growth initiatives, to drive sales growth in the third and fourth quarter of the current fiscal year and on an ongoing basis. Additionally, reduced credit card fees, depreciation expense, benefit expenses, general insurance expense and postage costs were partially offset by higher professional fees, management bonuses and severance accruals.

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

Retail Segment

The following are the significant factors affecting the retail segment:

- Total compensation costs and related expenses increased approximately $3.0 million from the prior period, primarily as we increased sales staffing in the third and fourth quarters of our current fiscal year in support of our growth initiatives. Additionally, the shift of our product mix to furniture and mattresses contributed to the increase as those items have higher commissions rates; and

- Contract delivery, transportation and installation costs increased approximately $2.9 million from the prior period as we increased our use of third-parties to provide these services.

Credit Segment

The following are the significant factors affecting the credit segment:

Total compensation costs and related expenses decreased approximately $3.9 million from the prior-year period due to a decrease in staffing as the performance of the portfolio improved and our credit portfolio balance dropped; and

Form printing and purchases and related postage decreased approximately $1.1 million as collection efforts did not utilize letter mailings to the same extent as the prior-year period.

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(Dollars in millons)	Year ended January 31, 2012	2011	Change $	%
Costs related to store closings	$ 7.1	$	7.1	N/A

During the fiscal year ended January 31, 2012, we closed 11 of the 12 underperforming retail locations that we had plans to close. As a result of the closure of the nine stores with unexpired leases, we recorded an accrual for the present value of remaining lease obligations and anticipated ancillary occupancy costs, net of estimated sublease income. We recognized $7.1 million of those and other costs related to the store closings in fiscal 2012.

(Dollars in millons)	Year ended January 31, 2012	2011	Change $	%
Impairment of long-lived assets	$ 2.0	$ 2.3	(0.3)	-13.1%

During fiscal year 2012 and 2011, we decided to close 5 and 7 store locations, respectively. In conjunction with our review of long-lived assets for potential impairment, we determined that it was appropriate to record an impairment charge related to the long-lived assets, primarily leasehold improvements, at the stores that are closed.

(Dollars in millons)	Year ended January 31, 2012	2011	Change $	%
Provision for bad debts	$ 53.6	$ 51.4	$ 2.2	4.3
As a percent of total revenues	6.8%	6.4%		0.4%

The provision for bad debts is primarily related to the operations of our credit segment, with approximately $0.6 million and $0.9 million for the periods ended January 31, 2012 and 2011, respectively, included in the results of operations for the retail segment.

We have experienced an improvement in our credit portfolio performance (specifically, the trends in the payment rate and percent of the portfolio re-aged) since fiscal 2011 and our total net charge-offs of customer and non-customer accounts receivable decreased by $4.2 million compared to the prior period. However, the provision for bad debts increased as we were required to record a charge of $14.1 million during fiscal 2012 related to the required adoption of new TDR accounting guidance. Additionally, on July 31, 2011, we revised our charge-off policy that requires an account that is delinquent more than 209 days at month end to be charged-off. The change in policy had the impact of accelerating approximately $5.9 million in net charge-offs, which were charged against previously provided bad debt reserves.

(Dollars in millons)	Year ended January 31, 2012	2011	Change $	%
Interest expense net	$ 22.5	$ 28.1	$ (5.6)	(20.0)
As a percent of total revenues	2.8%	3.5%		(0.6)

The decrease in interest expense was due to lower overall debt balance outstanding during the current year period, partially offset by the higher borrowing rates on term loan paid off during the second quarter. The entirety of our interest expense is included in the results of operations of our credit segment.

(Dollars in millons)	Year ended January 31, 2012	2011	Change $	%
Loss from early extinguishment of debt	$ 11.1	$	11.1	N/A
Costs related to financing facilities terminated and transactions not completed	$	$ 4.3	(4.3)	N/A

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On July 28, 2011 we completed the repayment of our term loan with proceeds from a new real estate loan and borrowings under our expanded revolving credit facility. We recorded a charge of approximately $11.1 million during the fiscal 2012 period, including the prepayment premium of $4.8 million, write-off of the unamortized original issue discount of $5.4 million and term loan deferred financing costs of $0.9 million.

During the prior year we incurred $4.3 million in financing costs related to financing facilities terminated and transactions that were not completed.

	Year ended January 31,		Change	
(Dollars in millions)	**2012**	**2011**	**$**	**%**
Provision (benefit) for income taxes	$ (0.2)	$ 1.1	(1.3)	(118.2)
As a percent of income before taxes	5.2%	169.2%		-164.1%

The decline in provision for income taxes was primarily driven by the decline in income before income taxes. The effective tax rate in both periods are impacted because taxes for the State of Texas are based on gross margin and are not affected by changes in income before income taxes.

Year ended January 31, 2011 compared to the year ended January 31, 2010.

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

	Year ended January 31,		Change	
(Dollars in millions)	**2011**	**2010**	**$**	**%**
Net sales	$ 662.7	$ 729.2	(66.5)	(9.1)
Finance charges and other	146.1	157.9	(11.8)	(7.5)
Revenues	$ 808.8	$ 887.1	(78.3)	(8.8)

The $66.5 million decrease in net sales was made up of the following:

- a $65.4 million decrease resulted from a same store sales decrease of 9.6%,

- a $5.4 million increase generated by four retail locations that were not open for twelve consecutive months in each period. Two new locations were opened subsequent to February 1, 2009 and two of our clearance centers were closed subsequent to February 1, 2009;

- a $0.9 million decrease resulted from a decrease in discounts on promotional credit sales and

- a $5.6 million decrease resulted from a decrease in service revenues.

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

Year ended January 31,	Same store

(Dollars in millions)	2011 Amount	2011 %	2010 Amount	2010 %	% change	sales % change
Consumer electronics	$ 258.2	39.0%	$ 298.0	40.9%	(13.4)(1)	(14.1)
Home appliances	188.3	28.4	213.8	29.3	(11.9)(2)	(12.3)
Furniture and mattresses	76.6	11.6	68.6	9.4	11.7 (3)	10.7
Home office	54.7	8.2	55.2	7.6	(0.9)(4)	(1.5)
Other	30.6	4.6	30.8	4.2	(0.6)	(1.1)
Total product sales	608.4	91.8	666.4	91.4	(8.7)	(9.1)
RSA commissions	37.8	5.7	40.7	5.6	(7.1)(5)	(7.8)
Service revenues	16.5	2.5	22.1	3.0	(25.3)	
Total net sales	$ 662.7	100.0%	$ 729.2	100.0%	(9.1)	(9.6)

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(1) This decrease is due to a 13.6% decline in average selling prices on flat-panel televisions and a 1.6% decrease in total units sold.
(2) The home appliance category declined due to lower unit sales across the category as the appliance market in general showed continued weakness.
(3) The growth in furniture and mattress sales was driven by the addition of in-store specialists focused on this category, improved store displays and expanded product selection.
(4) Decline in home office is due to the lower number of computer units sold compared to prior year.
(5) The decline in repair service agreement commissions was driven largely by the decline in product sales.

(Dollars in millions)	Year ended January 31, 2011	2010	Change $	%
Interest income and fees	$ 125.3	$ 138.5	(13.2)	(9.5)
Insurance commissions	19.9	18.9	1.0	5.3
Other income	0.9	0.5	0.4	80.0
Finance charges and other	$ 146.1	$ 157.9	(11.8)	(7.5)

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

The decrease in Interest income and fees of the credit segment resulted primarily from a 6.0% decrease in the average balance of customer accounts receivable outstanding for fiscal year 2011 and a decline in the average interest income and fee yield from 18.6% for the fiscal year ended January 31, 2010 to 17.9% for the fiscal year ended January 31, 2011. The interest income and fee yield dropped as a result of the higher level of charge-offs experienced, resulting in an increase in the reversal of accrued interest and increased reserves for uncollectible interest.

(Dollars in millions)	Year ended January 31, 2011	2010
Interest income and fees (a)	$ 125.3	$ 138.5
Net charge-offs (b)	(51.1)	(37.4)
Borrowing costs (c)	(28.1)	(22.0)
Net portfolio yield	$ 46.1	$ 79.1
Average portfolio balance	$ 699.3	$ 743.8
Interest income and fee yield %	17.9%	18.6%
Net charge-off %	7.3%	5.0%

(a) Included in Finance charges and other.
(b) Included in Provision for bad debts.
(c) Total interest expense.

(Dollars in millions)	Year ended January 31, 2011	2010	Change $	%
Cost of goods sold	$ 474.7	$ 529.2	(54.5)	(10.3)
Product gross margin percentage	22.0%	20.6%		1.4%

Product gross margin increased as a percent of product sales from the 2010 to 2011 driven by our focus on improving pricing discipline on the sales floor while maintaining competitive pricing in the marketplace, partially offset by a $1.7 million inventory write-down related to a realignment of our small electronics and appliances product lines.

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(Dollars in millions)	Year ended January 31, 2011	2010	Change $	%
Cost of service parts sold	$ 7.8	$ 10.4	2.6	33.3
As a percent of service revenues	47.3%	47.0%		-0.3%

This decrease was due primarily to a 34.6% decrease in parts revenues. Parts sales decreased slightly as a percentage of service revenues from 37.9% in the 2010 period to 37.8% in the 2011 period.

(Dollars in millions)	Year ended January 31, 2011	2010	Change $	%
Selling, general and administrative expense Retail	$ 175.8	$ 196.9	(21.1)	(10.7)
Selling, general and administrative expense Credit	64.0	61.7	2.3	3.7
Selling, general and administrative expense Total	$ 239.8	$ 258.6	(18.8)	(7.3)
As a percent of total revenues	29.6%	29.2%		-0.5%

During the fiscal year ended January 31, 2011, Selling, general and administrative (SG&A) expense increased as a percent of revenues to 29.6% from 29.2% in the prior year period, primarily due to the deleveraging effect of the decline in total revenues. The litigation reserve accrual recorded in the prior year period accounted for $4.9 million of the change in SG&A expense. The remainder of the reduction in SG&A expense was driven primarily by lower compensation and related expense, reduced depreciation expense and reduced property and casualty insurance expense. These decreases were partially offset by increased expense from the increased use of contract delivery and installation services and increased advertising agency fees.

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

Retail Segment

The following are the significant factors affecting the retail segment:

Total compensation costs and related expenses decreased approximately $18.9 million from the prior year, primarily due to reduced sales volume and as we increased our use of third parties to provide certain delivery and transportation services;

Contract delivery and installation costs increased approximately $4.5 million from the prior year as we increased our use of third parties to provide these services; and

Vehicle expenses decreased by approximately $1.4 million as we reduced the age and size of our vehicle fleet related to the outsourcing of a portion of delivery and installation services.

Credit Segment

The following are the significant factors affecting the credit segment:

Total compensation costs and related expenses increased approximately $2.9 million from the prior year as staffing was increased to address increased levels of delinquencies in the challenging economic environment;

Bank and credit card fees increased approximately $0.4 million from the prior year as more customers made payments using credit cards; and

Form printing and purchases and related postage decreased approximately $0.6 million as collection efforts did not utilize letter mailings to the same extent as the prior period.

	Year ended January 31,		Change	
(Dollars in millions)	2011	2010	$	%
Goodwill impairment	$	9.6	(9.6)	100.0

During fiscal year 2010, we determined, as a result of the sustained decline in our market capitalization and the current challenging economic environment and its impact on our comparable store sales, credit portfolio performance and operating results, that an interim goodwill impairment test was necessary. We concluded from our analysis that our goodwill was impaired and recorded a $9.6 million charge to write-off the carrying amount of our goodwill. Since our goodwill was attributable to our acquisition of credit insurance operations and a portion of the credit portfolio, the impairment charge is reflected in our credit segment.

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(Dollars in millions)	Year ended January 31, 2011	2010	Change $	%
Impairment of long-lived assets	$ 2.3		2.3	100.0

During fiscal year 2011, based on our decision to close five store locations, in conjunction with our review of long-lived assets for potential impairment, we determined that it was appropriate to record an impairment charge related to the long-lived assets, primarily leasehold improvements, at the stores we decided to close.

(Dollars in millions)	Year ended January 31, 2011	2010	Change $	%
Costs related to financing facilities terminated and transactions not completed	$ 4.3		4.3	100.0

During the past year we explored multiple opportunities in the capital markets to allow us to refinance our borrowing facilities. As a result, we incurred expenses related to working with bankers, lawyers, accountants and other professional service providers to review and pursue the various alternatives presented. Given our decision to pursue the financing transactions that were completed in the fourth quarter, we wrote off the costs incurred related to financing alternatives considered, but not completed and the unamortized financing fees associated with the terminated securitization program.

(Dollars in millions)	Year ended January 31, 2011	2010	Change $	%
Provision for bad debts	$ 51.4	$ 48.8	2.6	5.3
As a percent of total revenues	6.4%	5.5%		0.9%

The provision for bad debts is primarily related to the operations of our credit segment, with approximately $0.8 million and $0.4 million for the year ended January 31, 2011 and 2010, respectively, included in the results of operations for the retail segment.

Although we experienced an improvement in our credit portfolio performance (specifically, the trends in the delinquency rate, payment rate and percent of the portfolio re-aged) since fiscal 2010, the Provision for bad debts increased by $2.6 million for the year ended January 31, 2011, from $48.8 million in the prior year, as our total net charge-offs of customer and non-customer accounts receivable increased by $13.7 million compared to the prior fiscal year.

(Dollars in millions)	Year ended January 31, 2011	2010	Change $	%
Interest expense net	$ 28.1	$ 22.0	6.1	27.7
As a percent of total revenues	3.5%	2.5%		1.1%

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

The increase in interest expense was due primarily to fees paid to the lenders providing the variable funding note under our former securitization facility and an increase deferred financing fee amortization expense. Interest expense was also impacted by the higher interest rate incurred on the term note that was entered into in November 2010.

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(Dollars in millions)	Year ended January 31, 2011	2010	Change $	%
Provision for income taxes	$ 1.1	$ 4.3	(3.2)	(74.4)
As a percent of income before taxes	169.2%	49.9%		119.4%

The decline in provision for income taxes was primarily driven by the decline in income before income taxes. The effective tax rate was impacted in both periods because taxes for the State of Texas are based on gross margin and are not affected by changes in income before income taxes.

Impact of inflation and changing prices

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

Seasonality and quarterly results of operations

Our business is somewhat seasonal, with a higher portion of sales and operating profit realized during the quarter that ends January 31, due primarily to the holiday selling season. In addition, historically our results of operations and portfolio performance for our first fiscal quarter are stronger than for our second fiscal quarter. Our quarterly results may fluctuate materially depending on factors such as the following:

- timing of new product introductions, new store openings and store relocations;
- sales contributed by new stores;
- increases or decreases in comparable store sales;
- adverse weather conditions;
- shifts in the timing of certain holidays or promotions;
- one-time charges incurred, such as financing cost write-offs incurred in the third quarter of fiscal 2011; and
- changes in our merchandise mix.

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

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The following tables set forth certain unaudited quarterly statement of operations information for the eight quarters ended January 31, 2012. The unaudited quarterly information has been prepared on a consistent basis, includes all normal recurring adjustments that management considers necessary for a fair presentation of the information shown.

	Fiscal Year 2012 Quarter Ended				Fiscal Year
(Dollars in thousands, except per share amounts)	**Apr. 30**	**Jul. 31**	**Oct. 31**	**Jan. 31**	**2012**
Revenues					
Product sales	$ 144,279	$ 138,231	$ 140,404	$ 173,446	$ 596,360
Repair service agreement commissions (net)	8,902	9,945	10,602	12,629	42,078
Service revenues	3,889	3,811	3,950	3,596	15,246
Total net sales	157,070	151,987	154,956	189,671	653,684
Finance charges and other	34,912	35,039	31,667	37,000	138,618
Total revenues	191,982	187,026	186,623	226,671	792,302
Percent of annual revenues	24.2%	23.6%	23.6%	28.6%	100.0%
Cost and expenses					
Cost of goods sold, including warehousing and occupancy costs	106,453	105,477	112,844	130,719	455,493
Cost of service parts sold, including warehousing and occupancy costs	1,730	1,596	1,647	1,554	6,527
Selling, general and administrative expense	59,445	56,174	59,801	62,491	237,911
Store closing costs		3,658	(313)	3,751	7,096
Impairment of long-lived assets			688	1,331	2,019
Provision for bad debts	9,564	7,151	26,400	10,440	53,555
Total cost and expenses	177,192	174,056	201,067	210,286	762,601
Operating income (loss)	14,790	12,970	(14,444)	16,385	29,701
Operating profit (loss) as a % total revenues	7.7%	6.9%	(7.7)%	7.2%	3.7%
Interest expense	7,556	7,004	3,919	3,978	22,457
Loss from early extinguishment of debt		11,056			11,056
Other (income) expense	52	34	(5)	(11)	70
Income (loss) before income taxes	7,182	(5,124)	(18,358)	12,418	(3,882)
Provision (benefit) for income taxes	2,781	(2,022)	(5,635)	4,717	(159)
Net income (loss)	$ 4,401	$ (3,102)	$ (12,723)	$ 7,701	$ (3,723)
Net income (loss) as a % of revenue	2.3%	(1.7)%	(6.8)%	3.4%	(0.5)%
Retail gross margin	30.5%	28.8%	25.3%	29.7%	28.7%
SG&A expense as a % of revenue	31.0%	30.0%	32.0%	27.6%	30.0%
Same store sales increase (decrease) %	(3.9)%	(12.8)%	18.9%	12.1%	2.8%
Earnings (loss) per share:					
Basic	$ 0.14	$ (0.10)	$ (0.40)	$ 0.24	$ (0.12)
Diluted	$ 0.14	$ (0.10)	$ (0.40)	$ 0.24	$ (0.12)
Outstanding shares:					
Basic	31,768	31,808	31,881	31,997	31,860

Diluted	31,772	31,808	31,881	32,572	31,860

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(Dollars in thousands, except per share amounts)	Fiscal Year 2011 Quarter Ended Apr. 30	Jul. 31	Oct. 31	Jan. 31	Fiscal Year 2011
Revenues					
Product sales	$ 149,015	$ 164,660	$ 125,817	$ 168,951	$ 608,443
Repair service agreement commissions	9,851	10,490	8,275	9,179	37,795
Service revenues	4,757	4,183	3,769	3,778	16,487
Total net sales	163,623	179,333	137,861	181,908	662,725
Finance charges and other	37,007	36,476	35,819	36,748	146,050
Total revenues	200,630	215,809	173,680	218,656	808,775
Percent of annual revenues	24.8%	26.7%	21.5%	27.0%	100.0%
Cost and expenses					