

CONNS INC
Form 10-Q
November 25, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 31, 2009

Commission File Number 000-50421

CONN'S, INC.

(Exact name of registrant as specified in its charter)

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

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

3295 College Street
Beaumont, Texas 77701
(409) 832-1696

(Address, including zip code, and telephone
number, including area code, of registrant's
principal executive offices)

NONE

(Former name, former address and former
fiscal year, if changed since last report)

Indicate by check mark whether the registrant (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 No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer smaller reporting company
(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes [] No [x]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 23, 2009:

Class	Outstanding
Common stock, \$.01 par value per share	22,462,565

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

Assets	January 31, 2009	October 31, 2009 (unaudited)
Current assets		
Cash and cash equivalents	\$ 11,798	\$ 10,582
Other accounts receivable, net of allowance of \$60 and \$63, respectively	32,878	19,611
Customer accounts receivable, net of allowance of \$2,338 and \$6,207 respectively	61,125	136,600
Interests in securitized assets	176,543	149,366
Inventories	95,971	71,698
Deferred income taxes	13,354	15,070
Prepaid expenses and other assets	5,933	17,475
Total current assets	397,602	420,402
Long-term portion of customer accounts receivable, net of allowance of \$1,575 and \$3,632, respectively	41,172	79,934
Property and equipment		
Land	7,682	7,682
Buildings	12,011	14,263
Equipment and fixtures	21,670	22,898
Transportation equipment	2,646	2,413
Leasehold improvements	83,361	88,719
Subtotal	127,370	135,975
Less accumulated depreciation	(64,819)	(74,364)
Total property and equipment, net	62,551	61,611
Goodwill, net	9,617	-
Non-current deferred income tax asset	2,035	3,830
Other assets, net	3,652	3,344
Total assets	\$ 516,629	\$ 569,121
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 5	\$ 156
Accounts payable	57,809	40,845
Accrued compensation and related expenses	11,473	5,935
Accrued expenses	23,703	35,225
Income taxes payable	4,334	2,294
Deferred revenues and allowances	15,505	15,530
Total current liabilities	112,829	99,985
Long-term debt	62,912	125,308
Other long-term liabilities	5,702	5,396
Fair value of interest rate swaps	-	328
Deferred gains on sales of property	1,036	937
Stockholders' equity		
Preferred stock (\$0.01 par value, 1,000,000 shares authorized; none issued or outstanding)	-	-
Common stock (\$0.01 par value, 40,000,000 shares authorized; 24,167,445 and 24,185,770 shares issued at January 31, 2009 and October 31, 2009, respectively)		
Additional paid-in capital	103,553	105,587

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Accumulated other comprehensive loss	-	(213)
Retained earnings	267,426	268,622
Treasury stock, at cost, 1,723,205 shares	(37,071)	(37,071)
Total stockholders' equity	334,150	337,167
Total liabilities and stockholders' equity	\$516,629	\$569,121

See notes to consolidated financial statements.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2008	2009	2008	2009
Revenues				
Product sales	\$ 160,253	\$ 148,463	\$ 515,404	\$ 508,669
Repair service agreement commissions, net	8,547	7,320	28,428	25,968
Service revenues	5,129	5,599	15,809	17,195
Total net sales	173,929	161,382	559,641	551,832
Finance charges and other	25,567	25,184	81,224	84,790
Net decrease in fair value	(15,750)	(3,731)	(20,029)	(2,250)
Total finance charges and other	9,817	21,453	61,195	82,540
Total revenues	183,746	182,835	620,836	634,372
Cost and expenses				
Cost of goods sold, including warehousing and occupancy costs	127,007	120,963	402,853	407,594
Cost of parts sold, including warehousing and occupancy costs	2,479	2,672	7,073	8,056
Selling, general and administrative expense	62,361	65,548	185,629	193,040
Goodwill impairment	-	9,617	-	9,617
Provision for bad debts	2,802	3,504	3,394	7,645
Total cost and expenses	194,649	202,304	598,949	625,952
Operating income (loss)	(10,903)	(19,469)	21,887	8,420
Interest expense, net	468	1,281	368	2,809
Other (income) expense, net	(4)	(33)	102	(54)
Income (loss) before income taxes	(11,367)	(20,717)	21,417	5,665
Provision (benefit) for income taxes	(3,625)	(5,443)	8,351	4,469
Net income (loss)	\$(7,742)	\$(15,274)	\$13,066	\$1,196
Earnings (loss) per share				
Basic	\$(0.35)	\$(0.68)	\$0.58	\$0.05
Diluted	\$(0.35)	\$(0.68)	\$0.58	\$0.05
Average common shares outstanding				

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Basic	22,422	22,459	22,404	22,453
Diluted	22,422	22,459	22,604	22,658

See notes to consolidated financial statements.

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Conn's, Inc.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Nine Months Ended October 31, 2009
(unaudited)
(in thousands, except descriptive shares)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Other Compre- hensive Loss	Retained Earnings	Treasury Stock	Total
Balance January 31, 2009	24,167	\$ 242	\$ 103,553	\$ -	\$ 267,426	\$ (37,071)	\$ 334,150
Issuance of shares of common stock under Employee Stock Purchase Plan	19		165	-			165
Stock-based compensation			1,869				1,869
Net income					1,196		1,196
Adjustment of fair value of interest rate swaps net of tax of \$81 Total comprehensive income (Total comprehensive loss of of \$15,337 for three months ended October 31, 2009)				(213)			(213)
Balance October 31, 2009	24,186	\$ 242	\$ 105,587	\$ (213)	\$ 268,622	\$ (37,071)	\$ 337,167

See notes to consolidated financial statements.

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

	Nine Months Ended October 31,	
	2008	2009
Cash flows from operating activities		
Net income	\$ 13,066	\$ 1,196
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	9,462	10,062
Amortization / (Accretion), net	(234)	833
Provision for bad debts	3,394	7,645
Stock-based compensation	2,465	1,869
Goodwill impairment	-	9,617
Discounts on promotional credit	4,254	3,220
(Gains) losses on interest in securitized assets	(17,090)	5,165)
(Increase) decrease in fair value of securitized assets	20,029	2,250
Provision for deferred income taxes	(9,276)	(2,520)
(Gains) losses on sales of property and equipment	77	(79)
Changes in operating assets and liabilities:		
Customer accounts receivable	(81,325)	(123,867)
Other accounts receivable	6,310	13,267
Interest in securitized assets	9,205	17,741
Inventory	(24,844)	24,273)
Prepaid expenses and other assets	(3,249)	(1,113)
Accounts payable	34,050	(16,964)
Accrued expenses	7,243	5,984
Income taxes payable	185	(13,345)
Deferred revenue and allowances	2,984	304)
Net cash used in operating activities	(23,294)	(54,462)
Cash flows from investing activities		
Purchases of property and equipment	(14,971)	(8,627)
Proceeds from sales of property	212	57
Net cash used in investing activities	(14,759)	(8,570)
Cash flows from financing activities		
Proceeds from stock issued under employee benefit plans	745	165
Excess tax benefits from stock-based compensation	39	-
Borrowings under lines of credit	95,334	220,447)
Payments on lines of credit	(61,934)	(158,347)
Increase in deferred financing costs	(2,772)	(423)
Payment of promissory notes	(91)	(26)
Net cash provided by financing activities	31,321	61,816
Net change in cash	(6,732)	(1,216)
Cash and cash equivalents		
Beginning of the year	11,015	11,798
End of period	\$ 4,283	\$ 10,582
Supplemental disclosure of non-cash activity		
Cash interest received from interests in securitized assets	\$ 23,146	\$ 32,712

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Cash proceeds from new securitizations	243,619	114,669
Cash flows from servicing fees	19,462	18,169
Purchases of property and equipment financed by notes payable	-	473

See notes to consolidated financial statements.

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Conn's, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
October 31, 2009

1. Summary of Significant Accounting Policies

Basis of Presentation. The accompanying unaudited, condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature, except as otherwise described herein. Operating results for the three and nine month period ended October 31, 2009, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2010. The financial statements should be read in conjunction with the Company's (as defined below) audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K filed on March 26, 2009.

The Company's balance sheet at January 31, 2009, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial presentation. Please see the Company's Form 10-K for the fiscal year ended January 31, 2009, for a complete presentation of the audited financial statements at that date, together with all required footnotes, and for a complete presentation and explanation of the components and presentations of the financial statements.

Principles of Consolidation. The consolidated financial statements include the accounts of Conn's, Inc. and all of its wholly-owned subsidiaries (the Company). All material intercompany transactions and balances have been eliminated in consolidation.

The Company enters into securitization transactions to sell eligible retail installment and revolving customer receivables and retains servicing responsibilities and subordinated interests. These securitization transactions are accounted for as sales because the Company has relinquished control of the receivables. Additionally, the Company has transferred the receivables to a qualifying special purpose entity (QSPE). Accordingly, neither the transferred receivables nor the accounts of the QSPE are included in the consolidated financial statements of the Company. The Company's retained interest in the transferred receivables is recorded at fair value. The Company elected the fair value option because it believes that the fair value option provides a more easily understood presentation for financial statement users. The fair value option simplifies the treatment of changes in the fair value of the asset, by reflecting all changes in the fair value of its Interests in securitized assets in current earnings, in Finance charges and other.

Fair Value of Financial Instruments. The fair value of cash and cash equivalents, receivables retained on our balance sheet, and accounts payable approximate their carrying amounts because of the short maturity of these instruments. The fair value of the Company's interests in securitized receivables is determined by estimating the present value of future expected cash flows using management's best estimates of the key assumptions, including credit losses, forward yield curves and discount rates commensurate with the risks involved. See Note 3. The fair value of the Company's long-term debt is determined by estimating the present value of future cash flows as if the debt were being carried at the interest rate the Company would currently incur if it were to complete a similar transaction. The fair value of the Company's long-term debt as of October 31, 2009 was approximately \$121.1 million, based on the assumption that the interest spread would be approximately 200 basis points higher than the current spread in the revolving facility. The carrying amount of the long-term debt as of October 31, 2009 was approximately \$125.3 million. The Company's

interest rate swaps are presented on the balance sheet at fair value.

Provision / (Benefit) for Income Taxes. The provision (benefit) for income taxes for the three months and nine months ended October 31, 2009, were impacted primarily by the change in pre-tax income. The effective tax rate was higher during the 2009 period because taxes for the state of Texas are based on gross margin, and, as a result, partially offset the benefit for income taxes due to our loss before income taxes in the current year periods. Additionally, the Company is uncertain as to what amount of its litigation reserves will be ultimately deductible for taxes and, as such, approximately \$1.6 million of tax benefit related to that expense has not yet been recognized.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. See the discussion under Note 3 regarding the changes in the inputs used in the Company's valuation of its Interests in securitized assets.

Earnings(Loss) Per Share. The Company calculates basic earnings per share by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted earnings per share include the dilutive effects of any stock options granted, as calculated under the treasury-stock method. The weighted average number of anti-dilutive stock options not included in calculating diluted EPS was 1.1 million for the three and nine months ended October 31, 2008 and 1.5 million for the three and nine months ended October 31, 2009. Due to the net loss incurred for the three months ended October 31, 2008 and the three months ended October 31, 2009, no stock options were included in the computation of diluted loss per share. 209,706 and 166,438 stock options for the 2008 and 2009 period, respectively, were excluded from the calculation of diluted EPS for the quarter. The following table sets forth the shares outstanding for the earnings (loss) per share calculations:

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

	Three Months Ended October 31,	
	2008	2009
Common stock outstanding, net of treasury stock, beginning of period	22,410,400	22,457,486
Weighted average common stock issued in stock option exercises	10,076	-
Weighted average common stock issued to employee stock purchase plan		