

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 April 30, 2014

Commission File Number 1-34956

**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)

**4055 Technology Forest Blvd, Suite 210  
The Woodlands, Texas 77381  
(936) 230-5899**

(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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 23, 2014:

Class  
Common stock, \$.01 par value per share

Outstanding  
36,152,705

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

Assets	April 30, 2014	January 31, 2014
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,193	\$ 5,727
Customer accounts receivable, net of allowance of \$39,293 and \$38,447, respectively	548,482	527,267
Other accounts receivable	52,679	51,480
Inventories	137,864	120,530
Deferred income taxes	22,482	20,284
Prepaid expenses and other assets	9,256	10,307
<b>Total current assets</b>	<b>774,956</b>	<b>735,595</b>
Long-term portion of customer accounts receivable, net of allowance of \$33,687 and \$33,354, respectively	470,233	457,413
<b>Property and equipment, net</b>	<b>96,335</b>	<b>86,842</b>
<b>Deferred income taxes</b>	<b>8,879</b>	<b>7,721</b>
<b>Other assets</b>	<b>9,980</b>	<b>10,415</b>
<b>Total assets</b>	<b>\$ 1,360,383</b>	<b>\$ 1,297,986</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt	\$ 347	\$ 420
Accounts payable	118,080	82,861
Accrued compensation and related expenses	8,960	11,390
Accrued expenses	29,968	27,944
Income taxes payable	17,371	2,924
Deferred revenues and credits	16,868	17,068
<b>Total current liabilities</b>	<b>191,594</b>	<b>142,607</b>
<b>Long-term debt</b>	<b>517,358</b>	<b>535,631</b>
<b>Other long-term liabilities</b>	<b>32,058</b>	<b>30,458</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity</b>		
Preferred stock (\$0.01 par value, 1,000,000 shares authorized; none issued or outstanding)	—	—
Common stock (\$0.01 par value, 50,000,000 shares authorized; 36,145,553 and 36,127,569 shares issued at April 30, 2014 and January 31, 2014, respectively)	361	361
Additional paid-in capital	227,207	225,631
Accumulated other comprehensive loss	(62)	(100)
Retained earnings	391,867	363,398
<b>Total stockholders' equity</b>	<b>619,373</b>	<b>589,290</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,360,383</b>	<b>\$ 1,297,986</b>

See notes to condensed consolidated financial statements.

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

	<b>Three Months Ended April 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Revenues</b>		
Product sales	\$ 254,220	\$ 190,860
Repair service agreement commissions	20,254	15,989
Service revenues	3,155	2,599
Total net sales	277,629	209,448
Finance charges and other	57,819	41,615
<b>Total revenues</b>	<b>335,448</b>	<b>251,063</b>
<b>Cost and expenses</b>		
Cost of goods sold, including warehousing and occupancy costs	160,782	123,457
Cost of service parts sold, including warehousing and occupancy costs	1,419	1,406
Selling, general and administrative expense	100,204	73,255
Provision for bad debts	22,258	13,937
Charges and credits	1,754	—
<b>Total cost and expenses</b>	<b>286,417</b>	<b>212,055</b>
<b>Operating income</b>	<b>49,031</b>	<b>39,008</b>
Interest expense	4,724	3,871
Other income, net	—	(6)
<b>Income before income taxes</b>	<b>44,307</b>	<b>35,143</b>
Provision for income taxes	15,838	12,967
<b>Net income</b>	<b>\$ 28,469</b>	<b>\$ 22,176</b>
<b>Earnings per share:</b>		
Basic	\$ 0.79	\$ 0.63
Diluted	\$ 0.77	\$ 0.61
<b>Average common shares outstanding:</b>		
Basic	36,134	35,313
Diluted	36,925	36,452

See notes to condensed consolidated financial statements.

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

	<b>Three Months Ended April 30,</b>	
	<b>2014</b>	<b>2013</b>
Net income	\$ 28,469	\$ 22,176
Change in fair value of hedges	58	29
Impact of provision for income taxes on comprehensive income	(20)	(10)
Comprehensive income	<u>\$ 28,507</u>	<u>\$ 22,195</u>

See notes to condensed consolidated financial statements.

**CONN'S, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**Three Months Ended April 30, 2014 and 2013**  
(unaudited)  
(in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount				
<b>Balance at January 31, 2014</b>	36,127	\$ 361	\$ 225,631	\$ (100)	\$ 363,398	\$ 589,290
Exercise of stock options, net of tax	7	—	196	—	—	196
Issuance of common stock under Employee Stock Purchase Plan	9	—	290	—	—	290
Vesting of restricted stock units	3	—	—	—	—	—
Stock-based compensation	—	—	1,090	—	—	1,090
Net income	—	—	—	—	28,469	28,469
Change in fair value of hedges, net of tax of \$20	—	—	—	38	—	38
<b>Balance at April 30, 2014</b>	<b>36,146</b>	<b>\$ 361</b>	<b>\$ 227,207</b>	<b>\$ (62)</b>	<b>\$ 391,867</b>	<b>\$ 619,373</b>

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount				
<b>Balance at January 31, 2013</b>	35,191	\$ 352	\$ 204,372	\$ (223)	\$ 269,949	\$ 474,450
Exercise of stock options, net of tax	506	5	10,761	—	—	10,766
Issuance of common stock under Employee Stock Purchase Plan	7	—	178	—	—	178
Vesting of restricted stock units	4	—	—	—	—	—
Stock-based compensation	—	—	841	—	—	841
Net income	—	—	—	—	22,176	22,176
Change in fair value of hedges, net of tax of \$10	—	—	—	19	—	19
<b>Balance at April 30, 2013</b>	<b>35,708</b>	<b>\$ 357</b>	<b>\$ 216,152</b>	<b>\$ (204)</b>	<b>\$ 292,125</b>	<b>\$ 508,430</b>

See notes to condensed consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>April 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 28,469	\$ 22,176
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	4,181	2,490
Amortization	856	1,474
Provision for bad debts and uncollectible interest	27,189	15,787
Stock-based compensation	1,090	841
Excess tax benefits from stock-based compensation	(106)	(2,592)
Store and facility closure and relocation costs	1,754	—
Provision (benefit) for deferred income taxes	(3,422)	617
Gain on sale of property and equipment	(4)	(6)
Change in operating assets and liabilities:		
Customer accounts receivable	(61,224)	(44,024)
Inventories	(17,333)	(15,177)
Other assets	(2,318)	(5,096)
Accounts payable	35,219	5,141
Accrued expenses	118	4,542
Income taxes payable	16,672	6,606
Deferred revenues and credits	(463)	708
<b>Net cash provided by (used in) operating activities</b>	<b>30,678</b>	<b>(6,513)</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(14,272)	(7,228)
Proceeds from sale of property and equipment	4	6
<b>Net cash used in investing activities</b>	<b>(14,268)</b>	<b>(7,222)</b>
<b>Cash flows from financing activities</b>		
Borrowings under lines of credit	53,146	87,335
Payments on lines of credit	(71,350)	(56,036)
Payments on asset-backed notes	—	(32,513)
Change in restricted cash	—	4,717
Proceeds from stock issued under employee benefit plans	486	10,944
Other	(226)	(251)
<b>Net cash (used in) provided by financing activities</b>	<b>(17,944)</b>	<b>14,196</b>
<b>Net change in cash and cash equivalents</b>	<b>(1,534)</b>	<b>461</b>
<b>Cash and cash equivalents</b>		
Beginning of period	5,727	3,849
End of period	\$ 4,193	\$ 4,310

See notes to condensed consolidated financial statements.

**CONN'S, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(unaudited)

**1. Summary of Significant Accounting Policies**

**Basis of Presentation.** The accompanying unaudited, consolidated financial statements of Conn's, Inc. and all of its wholly-owned subsidiaries (the "Company") 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 presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature, except as otherwise described herein. The Company's business is moderately 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. Operating results for the three-month period ended April 30, 2014 are not necessarily indicative of the results that may be expected for the full fiscal year ending January 31, 2015. The financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended January 31, 2014, filed with the Securities and Exchange Commission on March 27, 2014.

The Company's balance sheet at January 31, 2014, 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 a complete financial presentation. Please see the Company's Annual Report on Form 10-K for a complete presentation of the audited financial statements for the fiscal year ended January 31, 2014, 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 its wholly-owned subsidiaries. Conn's, Inc. is a holding company with no independent assets or operations other than its investments in its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

In April 2012, the Company transferred certain customer receivables to a bankruptcy-remote, variable-interest entity ("VIE") in connection with a securitization. The VIE, which was consolidated within the accompanying financial statements, issued debt secured by the customer receivables that were transferred to it, which were included in customer accounts receivable and long-term portion of customer accounts receivable. On April 15, 2013, the VIE redeemed the then outstanding asset-backed notes and the remaining customer receivables were transferred back to the Company.

**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.

**Earnings per Share.** Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share include the dilutive effects of any stock options and restricted stock units granted, to the extent not anti-dilutive, which is calculated using the treasury-stock method. The following table sets forth the shares outstanding for the earnings per share calculations:

<i>(in thousands)</i>	<b>Three Months Ended April 30,</b>	
	<b>2014</b>	<b>2013</b>
Weighted average common shares outstanding - Basic	36,134	35,313
Assumed exercise of stock options	621	937
Unvested restricted stock units	170	202
Weighted average common shares outstanding - Diluted	36,925	36,452

The weighted average number of stock options and restricted stock units not included in the calculation due to their anti-dilutive effect was 40,000 for the three months ended April 30, 2014. There were no anti-dilutive stock options or restricted stock units for the three months ended April 30, 2013.



**Fair Value of Financial Instruments.** The fair value of cash and cash equivalents and accounts payable approximate their carrying amounts because of the short maturity of these instruments. The fair value of customer accounts receivables, determined using a discounted cash flow analysis, approximates their carrying amount. The fair value of the Company’s debt approximates carrying value due to the recent date at which the facility has been renewed. The Company’s interest rate cap options are presented on the balance sheet at fair value. Fair value of these instruments was determined using Level 2 inputs of the GAAP hierarchy, which are defined as inputs not quoted in active markets, but are either directly or indirectly observable.

**2. Charges and Credits**

During the three months ended April 30, 2014, the Company closed two stores, revised its estimate of future obligations related to other closed stores and relocated certain other facilities. This resulted in a pretax charge of \$1.8 million (\$1.1 million after-tax). This amount is reported within the retail segment and classified in charges and credits in the consolidated statement of operations.

**3. Supplemental Disclosure of Customer Receivables**

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

As part of its efforts in mitigating losses on its accounts receivable, the Company may make loan modifications to a borrower experiencing financial difficulty. The loan modifications are intended to maximize net cash flow after expenses and avoid the need to repossess collateral or exercise legal remedies available to the Company. The Company may extend the loan term, refinance or otherwise re-age an account. Accounts that have been re-aged in excess of three months or refinanced are considered Troubled Debt Restructurings (“TDR”).

The Company uses risk-rating criteria to differentiate underwriting requirements, potentially requiring differing down payment and initial application and documentation criteria. The following tables present quantitative information about the receivables portfolio managed by the Company, segregated by segment:

	<b>Total Outstanding Balance</b>					
	<b>Customer Accounts Receivable</b>		<b>60 Days Past Due<sup>(1)</sup></b>		<b>Re-aged<sup>(1)</sup></b>	
	<b>April 30, 2014</b>	<b>January 31, 2014</b>	<b>April 30, 2014</b>	<b>January 31, 2014</b>	<b>April 30, 2014</b>	<b>January 31, 2014</b>
<i>(in thousands)</i>						
Customer accounts receivable	\$ 1,053,444	\$ 1,022,914	\$ 77,915	\$ 82,486	\$ 77,893	\$ 75,414
Restructured accounts (2)	50,436	45,356	9,948	11,917	50,436	45,356
<b>Total receivables managed</b>	<b>\$ 1,103,880</b>	<b>\$ 1,068,270</b>	<b>\$ 87,863</b>	<b>\$ 94,403</b>	<b>\$ 128,329</b>	<b>\$ 120,770</b>
Allowance for uncollectible accounts related to the credit portfolio	(72,980)	(71,801)				
Allowance for short-term, no-interest option credit programs	(12,185)	(11,789)				
Short-term portion of customer accounts receivable, net	<u>(548,482)</u>	<u>(527,267)</u>				
Long-term portion of customer accounts receivable, net	<u>\$ 470,233</u>	<u>\$ 457,413</u>				

(1) Amounts are based on end of period balances. As an account can become past due after having been re-aged, accounts may be presented in both the past due and re-aged columns shown above. The amounts included within both the past due and re-aged columns shown above as of April 30, 2014 and January 31, 2014 were \$25.3 million and \$27.4 million, respectively.

The total amount of customer receivables past due one day or greater was \$254.1 million and \$249.3 million as of April 30, 2014 and January 31, 2014, respectively. These amounts include the 60 days past due totals shown above.

- (2) In addition to the amounts included in restructured accounts, there was \$1.3 million as of April 30, 2014 and January 31, 2014, respectively, of accounts re-aged four or more months included in the re-aged balance above that did not qualify as TDRs because they were not re-aged subsequent to January 31, 2012.

<i>(in thousands)</i>	Average Balances		Net Credit Charge-offs <sup>(1)</sup>	
	Three Months Ended April 30,		Three Months Ended April 30,	
	2014	2013	2014	2013
Customer accounts receivable	\$ 1,033,443	\$ 713,700	\$ 17,738	\$ 8,843
Restructured accounts	48,013	39,521	3,454	2,712
Total receivables managed	\$ 1,081,456	\$ 753,221	\$ 21,192	\$ 11,555

- (1) Charge-offs include the principal amount of losses (excluding accrued and unpaid interest) net of recoveries which include principal collections during the period shown of previously charged-off balances.

Following is the activity in the Company's balance in the allowance for doubtful accounts and uncollectible interest for customer receivables for the three months ended April 30, 2014 and 2013:

<i>(in thousands)</i>	Three Months Ended April 30, 2014			Three Months Ended April 30, 2013		
	Customer Accounts Receivable	Restructured Accounts	Total	Customer Accounts Receivable	Restructured Accounts	Total
Allowance at beginning of period	\$ 54,448	\$ 17,353	\$ 71,801	\$ 27,702	\$ 16,209	\$ 43,911
Provision <sup>(1)</sup>	23,241	3,948	27,189	12,505	3,282	15,787
Principal charge-offs <sup>(2)</sup>	(22,801)	(4,440)	(27,241)	(9,634)	(2,955)	(12,589)
Interest charge-offs	(4,033)	(785)	(4,818)	(1,516)	(465)	(1,981)
Recoveries <sup>(2)</sup>	5,063	986	6,049	791	243	1,034
Allowance at end of period	\$ 55,918	\$ 17,062	\$ 72,980	\$ 29,848	\$ 16,314	\$ 46,162

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

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

The Company records an allowance for doubtful accounts, including estimated uncollectible interest, for its customer accounts receivable, based on its historical cash collections and net loss experience using a projection of monthly delinquency performance, cash collections and losses. In addition to pre-charge-off cash collections and charge-off information, estimates of post-charge-off recoveries, including cash payments, amounts realized from the repossession of the products financed and, at times, payments received under credit insurance policies are also considered.

The Company determines reserves for those accounts that are TDRs based on the 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.

The Company typically only places accounts in non-accrual status when legally required. Payment received on non-accrual loans are applied to principal and reduce the amount of the loan. Interest accrual is resumed on those accounts once a legally-mandated settlement arrangement is reached or other payment arrangements are made with the customer. Customer receivables in non-accrual status were \$14.0 million and \$12.2 million at April 30, 2014 and January 31, 2014, respectively. Customer receivables that were past due 90 days or more and still accruing interest totaled \$61.5 million and \$63.3 million at April 30, 2014 and January 31, 2014, respectively.

#### 4. Supplemental Disclosure of Finance Charges and Other Revenue

The following is a summary of the classification of the amounts included as finance charges and other for the three months ended April 30, 2014 and 2013:

<i>(in thousands)</i>	Three Months Ended April 30,	
	2014	2013
Interest income and fees on customer receivables	\$ 46,490	\$ 33,010
Insurance commissions	10,863	8,267
Other	466	338
Finance charges and other	<u>\$ 57,819</u>	<u>\$ 41,615</u>

Interest income and fees on customer receivables is reduced by provisions for uncollectible interest of \$5.4 million and \$2.1 million, respectively, for the three months ended April 30, 2014 and 2013. The amount included in interest income and fees on customer receivables related to TDR accounts was \$1.3 million and \$1.2 million for each of the three months ended April 30, 2014 and 2013, respectively. The Company recognizes 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 of TDR accounts such that it always equals the present value of expected future cash flows.

#### 5. Accrual for Store Closures

The Company has closed or relocated retail locations that did not perform at a level the Company expects for mature store locations. Certain of the closed or relocated stores had unexpired leases, resulting in the accrual of the present value of remaining lease obligations and anticipated ancillary occupancy costs, net of estimated sublease income. Revisions to these projections for changes in estimated marketing times and sublease rates are made to the obligation as further information related to the actual terms and costs become available. The estimates were calculated using Level 2 fair value inputs. The following table presents detail of the activity in the accrual for store closures during the three months ended April 30, 2014 and 2013:

<i>(in thousands)</i>	Three Months Ended April 30,	
	2014	2013
Balance at beginning of period	\$ 4,316	\$ 5,071
Accrual for closures	1,621	—
Change in estimate	133	—
Cash payments	(1,787)	(522)
Balance at end of period	<u>\$ 4,283</u>	<u>\$ 4,549</u>
	<b>April 30,</b>	<b>January 31,</b>
Balance sheet presentation:	<b>2014</b>	<b>2014</b>
Accrued expenses	\$ 2,079	\$ 1,957
Other long-term liabilities	2,204	2,359
	<u>\$ 4,283</u>	<u>\$ 4,316</u>

## 6. Debt and Letters of Credit

The Company's long-term debt consisted of the following at the period ended:

<i>(in thousands)</i>	<b>April 30, 2014</b>	<b>January 31, 2014</b>
Asset-based revolving credit facility	\$ 516,753	\$ 534,956
Other long-term debt	952	1,095
<b>Total debt</b>	<b>517,705</b>	<b>536,051</b>
Less current portion of debt	347	420
<b>Long-term debt</b>	<b>\$ 517,358</b>	<b>\$ 535,631</b>

The Company's asset-based revolving credit facility with a syndicate of banks had capacity of \$880.0 million as of April 30, 2014. The revolving credit facility provides funding based on a borrowing base calculation that includes customer accounts receivable and inventory. The amended and restated credit facility bears interest at LIBOR plus a spread ranging from 250 basis points to 325 basis points, based on a leverage ratio (defined as total liabilities to tangible net worth). In addition to the leverage ratio, the revolving credit facility includes a fixed charge coverage requirement, a minimum customer receivables cash recovery percentage requirement and a net capital expenditures limit. The asset-based revolving credit facility restricts the amount of dividends the Company can pay and is secured by the assets of the Company not otherwise encumbered.

As of April 30, 2014, the Company had immediately available borrowing capacity of \$183.8 million under its asset-based revolving credit facility, net of standby letters of credit issued, for general corporate purposes. The Company also had \$178.0 million that may become available under its asset-based revolving credit facility if it grows the balance of eligible customer receivables and its total eligible inventory balances. The Company pays additional fees in the amount of 25 basis points for the additional commitment amount.

The Company's asset-based revolving credit facility provides it the ability to utilize letters of credit to secure its deductibles under the Company's property and casualty insurance programs, among other acceptable uses. At April 30, 2014, the Company had outstanding letters of credit of \$1.4 million under this facility. The maximum potential amount of future payments under these letter of credit facilities is considered to be the aggregate face amount of each letter of credit commitment, which totals \$1.4 million as of April 30, 2014.

The Company was in compliance with its financial covenants at April 30, 2014.

## 7. Contingencies

**Litigation.** On March 5, 2014, the Company and three of its current executive officers were sued in a purported securities class action in the United States District Court for the Southern District of Texas captioned Milton S. Linder, Individually and on Behalf of All Other Similarly Situated v. Conn's, Inc., Theodore M. Wright, Brian E. Taylor, and Michael J. Poppe, Case No. 4:14-cv-00548. On March 7, 2014, a similar suit was filed in the United States District Court for the Southern District of Texas captioned Peter Holman, Individually and on Behalf of All Others Similarly Situated v. Conn's, Inc., Theodore M. Wright, Brian E. Taylor, and Michael J. Poppe, Case No. 4:14-cv-00570. A third and similar lawsuit was filed on May 5, 2014 in the United States District Court of the Southern District of Texas by Laborers Pension Trust Fund-Detroit and Vicinity, Connecticut Carpenters Benefit Funds, and St. Paul Teachers' Retirement Fund Association, Individually and on Behalf of All Others Similarly Situated against the same defendants named in the other cases, Case No. 4:14-cv-01229. Each of these complaints allege that the defendants made false and misleading statements and/or failed to disclose material adverse facts about the Company's business, operations, and prospects. The complaints allege violations of sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The complaints do not specify the amount of damages sought. The defendants intend to vigorously defend against these claims. All of these matters are currently in their early stages, with motions to appoint a lead plaintiff and motions to consolidate the cases pending. It is not possible at this time to predict the timing or outcome of the class action lawsuits that have or may be filed.

In addition, the Company is involved in other 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.

## 8. Segment Reporting

Financial information by segment is presented in the following tables:

<i>(in thousands)</i>	Three Months Ended April 30, 2014			Three Months Ended April 30, 2013		
	Retail	Credit	Total	Retail	Credit	Total
<b>Revenues</b>						
Product sales	\$ 254,220	\$ —	\$ 254,220	\$ 190,860	\$ —	\$ 190,860
Repair service agreement commissions	20,254	—	20,254	15,989	—	15,989
Service revenues	3,155	—	3,155	2,599	—	2,599
Total net sales	277,629	—	277,629	209,448	—	209,448
Finance charges and other	466	57,353	57,819	339	41,276	41,615
<b>Total revenues</b>	<b>278,095</b>	<b>57,353</b>	<b>335,448</b>	<b>209,787</b>	<b>41,276</b>	<b>251,063</b>
<b>Cost and expenses</b>						
Cost of goods sold, including warehousing and occupancy costs	160,782	—	160,782	123,457	—	123,457
Cost of service parts sold, including warehousing and occupancy cost	1,419	—	1,419	1,406	—	1,406
Selling, general and administrative expense <sup>(a)</sup>	76,330	23,874	100,204	57,510	15,745	73,255
Provision for bad debts	44	22,214	22,258	114	13,823	13,937
Charges and credits	1,754	—	1,754	—	—	—
<b>Total cost and expense</b>	<b>240,329</b>	<b>46,088</b>	<b>286,417</b>	<b>182,487</b>	<b>29,568</b>	<b>212,055</b>
<b>Operating income</b>	<b>37,766</b>	<b>11,265</b>	<b>49,031</b>	<b>27,300</b>	<b>11,708</b>	<b>39,008</b>
Interest expense	—	4,724	4,724	—	3,871	3,871
Other income, net	—	—	—	(6)	—	(6)
<b>Income before income taxes</b>	<b>\$ 37,766</b>	<b>\$ 6,541</b>	<b>\$ 44,307</b>	<b>\$ 27,306</b>	<b>\$ 7,837</b>	<b>\$ 35,143</b>

<i>(in thousands)</i>	As of April 30, 2014			As of January 31, 2014		
	Retail	Credit	Total	Retail	Credit	Total
Total assets	\$ 310,554	\$ 1,049,829	\$ 1,360,383	\$ 283,637	\$ 1,014,349	\$ 1,297,986

- (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 \$2.9 million and \$2.6 million for the three months ended April 30, 2014 and 2013, respectively. The amount of reimbursement made to the retail segment by the credit segment was \$6.7 million and \$4.7 million for the three months ended April 30, 2014 and 2013, respectively.

## 9. Subsequent Event

On May 29, 2014, following approval by its stockholders on May 28, 2014, the Company amended its Certificate of Incorporation to increase the number of shares of capital stock which the Company shall have authority to issue to be 101,000,000 shares of stock, of which 100,000,000 shares are Common Stock, par value of \$0.01 per share, and 1,000,000 shares are Preferred Stock.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

### Forward-Looking Statements

This report contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements include information concerning our future financial performance, business strategy, plans, goals and objectives. Statements containing the words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "project," "should," or the negative of such terms or other similar expressions are generally forward-looking in nature and not historical facts. Although we believe that the expectations, opinions, projections, and comments reflected in these forward-looking statements are reasonable, we can give no assurance that such statements will prove to be correct. A wide variety of potential risks, uncertainties, and other factors could materially affect our ability to achieve the results either expressed or implied by our forward-looking statements including, but not limited to: general economic conditions impacting our customers or potential customers; our ability to continue existing or to offer new customer financing programs; changes in the delinquency status of our credit portfolio; higher than anticipated net charge-offs in the credit portfolio; the success of our planned opening of new stores and the updating of existing stores; technological and market developments and sales trends for our major product offerings; our ability to protect against cyber-attacks or data security breaches and to protect the integrity and security of individually identifiable data of our customers and our employees; our ability to fund our operations, capital expenditures, debt repayment and expansion from cash flows from operations, borrowings from our revolving credit facility, and proceeds from accessing debt or equity markets; and the other risks detailed in our United States Securities and Exchange Commission ("SEC") reports, including but not limited to, our Annual Report on Form 10-K for our fiscal year ended January 31, 2014. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Except as required by law, we are not obligated to publicly release any revisions or update to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

### General

We are a leading specialty retailer that offers a broad selection of quality, branded durable consumer goods and related services in addition to a proprietary credit solution for its core credit constrained consumers. We operate an integrated and scalable business through our retail stores and website. Our complementary product offerings include home appliances, furniture and mattresses, consumer electronics and home office products from leading global brands across a wide range of price points. Our credit offering provides financing solutions to a large, underserved population of credit constrained consumers who typically are unbanked and have credit scores between 550 and 650. We provide customers the opportunity to comparison shop across brands with confidence in our competitive prices as well as affordable monthly payment options, next-day delivery and installation, and product repair services. We believe our large, attractively merchandised stores and credit solutions offer a distinctive shopping experience compared to other retailers that target our core customer demographic.

As of April 30, 2014, we operated 79 retail locations in Texas, Arizona, Louisiana, Oklahoma, New Mexico and Colorado. Our primary product categories include:

- Furniture and mattress, including furniture and related accessories for the living room, dining room and bedroom, as well as both traditional and specialty mattresses;
- Home appliance, including refrigerators, freezers, washers, dryers, dishwashers and ranges;
- Consumer electronic, including LCD, LED, 3-D, Ultra HD and plasma televisions, Blu-ray players, home theater and video game products, digital cameras, and portable audio equipment; and
- Home office, including computers, tablets, printers and accessories.

Additionally, we offer a variety of products on a seasonal basis.

Our stores typically range in size from 20,000 to 50,000 square feet and are predominately located in areas densely populated by our core customer and are typically anchor stores in strip malls. We utilize a merchandising strategy that offers approximately 2,300 quality, branded products from approximately 200 manufacturers and distributors at various price points. Our commissioned sales, consumer credit and service personnel are well-trained and knowledgeable to assist our customers with product selection and the credit application process. We also provide additional services including next-day delivery and installation capabilities, and product repair or replacement services for most items sold in our stores.

We provide multiple financing options to address various customer needs including a proprietary in-house credit program, a third-party financing program and a third-party rent-to-own payment program. The majority of our credit customers use our in-house credit program and typically have a credit score of between 550 and 650, with the average score of new applicants financed during the three months ended April 30, 2014 of 605. For customers who do not qualify for our in-house program, we offer rent-to-own payment plans primarily through AcceptanceNow. For customers with high credit scores, we have partnered with GE Capital to offer long-term, no-interest and revolving credit plans. AcceptanceNow and GE Capital manage their respective underwriting decisions, management and collection of their credit programs. For the three months ended April 30, 2014, we financed approximately 77.5% of our retail sales, including down payments, under our in-house financing program.

We believe our extensive brand and product selection, competitive pricing, financing alternatives and supporting services combined with our customer service focused store associates make us an attractive alternative to appliance and electronics superstores, department stores and other national, regional, local and internet retailers.

Due to the holiday selling season, our business is moderately seasonal, with a greater share of our revenues, operating and net income historically realized during the quarter ending January 31.

### **Operational Changes and Operating Environment**

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

- Opening expanded Conn's HomePlus stores in new markets. During the three months ended April 30, 2014, we opened two new stores in the Denver, Colorado market and we plan to open 15 to 18 additional new stores by January 31, 2015;
- 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. In this regard, we have closed a total of 18 retail locations since the beginning of fiscal 2012 that did not perform at the level we expect for mature store locations. We plan to close eight additional retail locations by January 31, 2015;
- Remodeling and relocating existing stores utilizing the Conn's HomePlus format to increase retail square footage and improve our customers' shopping experience;
- Expanding and enhancing our product offering of higher-margin furniture and mattresses;
- Focusing on quality, branded products to improve operating performance;
- Increased use of short-term, no interest credit programs, with terms of 12 months or less, over recent years with the intent to accelerate cash collections, while modestly reducing portfolio interest and fee yield;
- Adjusted our underwriting standards during the third and fourth quarters of fiscal 2014 to improve the overall quality of our credit portfolio. To improve ultimate cash collections, beginning in May 2014, customers may re-age their account once every four months which compares to once every six months previously. The maximum number of months an account can be extended remains unchanged at 12 months; and
- Focusing on improving the execution within our collection operations to reduce delinquency rates and future charge-offs.

### **Results of Operations**

The presentation of our results of operations may not be comparable to some other retailers since we include the cost of our in-home delivery and installation service as part of selling, general and administrative expense. Similarly, we include the cost related to operating our purchasing function in selling, general and administrative expense. It is our understanding that other retailers may include such costs as part of their cost of goods sold.

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

**Consolidated:**

<i>(in thousands)</i>	<b>Three Months Ended April 30,</b>		
	<b>2014</b>	<b>2013</b>	<b>Change</b>
<b>Revenues</b>			
Product sales	\$ 254,220	\$ 190,860	\$ 63,360
Repair service agreement commissions	20,254	15,989	4,265
Service revenues	3,155	2,599	556
Total net sales	277,629	209,448	68,181
Finance charges and other	57,819	41,615	16,204
<b>Total revenues</b>	<b>335,448</b>	<b>251,063</b>	<b>84,385</b>
<b>Cost and expenses</b>			
Cost of goods sold, including warehousing and occupancy costs	160,782	123,457	37,325
Cost of service parts sold, including warehousing and occupancy cost	1,419	1,406	13
Selling, general and administrative expense <sup>(a)</sup>	100,204	73,255	26,949
Provision for bad debts	22,258	13,937	8,321
Charges and credits	1,754	—	1,754
<b>Total cost and expenses</b>	<b>286,417</b>	<b>212,055</b>	<b>74,362</b>
<b>Operating income</b>	<b>49,031</b>	<b>39,008</b>	<b>10,023</b>
Interest expense	4,724	3,871	853
Other income, net	—	(6)	6
<b>Income before income taxes</b>	<b>44,307</b>	<b>35,143</b>	<b>9,164</b>
Provision for income taxes	15,838	12,967	2,871
<b>Net income</b>	<b>\$ 28,469</b>	<b>\$ 22,176</b>	<b>\$ 6,293</b>

**Retail Segment:**

<i>(in thousands)</i>	<b>Three Months Ended April 30,</b>		
	<b>2014</b>	<b>2013</b>	<b>Change</b>
<b>Revenues</b>			
Product sales	\$ 254,220	\$ 190,860	\$ 63,360
Repair service agreement commissions	20,254	15,989	4,265
Service revenues	3,155	2,599	556
Total net sales	277,629	209,448	68,181
Finance charges and other	466	339	127
<b>Total revenues</b>	<b>278,095</b>	<b>209,787</b>	<b>68,308</b>
<b>Cost and expenses</b>			
Cost of goods sold, including warehousing and occupancy costs	160,782	123,457	37,325
Cost of service parts sold, including warehousing and occupancy cost	1,419	1,406	13
Selling, general and administrative expense <sup>(a)</sup>	76,330	57,510	18,820
Provision for bad debts	44	114	(70)
Charges and credits	1,754	—	1,754
<b>Total cost and expenses</b>	<b>240,329</b>	<b>182,487</b>	<b>57,842</b>
<b>Operating income</b>	<b>37,766</b>	<b>27,300</b>	<b>10,466</b>
Other income, net	—	(6)	6
<b>Income before income taxes</b>	<b>\$ 37,766</b>	<b>\$ 27,306</b>	<b>\$ 10,460</b>



**Credit Segment:**

<i>(in thousands)</i>	<b>Three Months Ended April 30,</b>		
	<b>2014</b>	<b>2013</b>	<b>Change</b>
<b>Revenues</b>			
Finance charges and other	\$ 57,353	\$ 41,276	\$ 16,077
<b>Cost and expenses</b>			
Selling, general and administrative expense <sup>(a)</sup>	23,874	15,745	8,129
Provision for bad debts	22,214	13,823	8,391
<b>Total cost and expenses</b>	<b>46,088</b>	<b>29,568</b>	<b>16,520</b>
<b>Operating income</b>	<b>11,265</b>	<b>11,708</b>	<b>(443)</b>
Interest expense	4,724	3,871	853
<b>Income before income taxes</b>	<b>\$ 6,541</b>	<b>\$ 7,837</b>	<b>\$ (1,296)</b>

- (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 \$2.9 million and \$2.6 million for the three months ended April 30, 2014 and 2013, respectively. The amount of reimbursement made to the retail segment by the credit segment was \$6.7 million and \$4.7 million for the three months ended April 30, 2014 and 2013, respectively.

**Segment Overview**

The following provides an overview of our retail and credit segment operations for the three months ended April 30, 2014. A detailed explanation of the changes in our operations for the comparative periods is included below:

*Retail Segment*

- Revenues were \$278.1 million for the quarter ended April 30, 2014, an increase of \$68.3 million, or 32.6%, from the prior-year period. The increase in revenues during the quarter was primarily driven by new store openings and a 15.6% increase in same store sales.
- Retail gross margin was 41.4% for the quarter ended April 30, 2014, an increase of 110 basis points over the 40.3% reported in the comparable quarter last year. This increase was driven by continued shift in product mix towards the higher-margin furniture and mattress category.
- Selling, general and administrative (“SG&A”) expense was \$76.3 million for the quarter ended April 30, 2014, an increase of \$18.8 million, or 32.7%, over the quarter ended April 30, 2013. The SG&A expense increase was primarily due to higher sales-driven compensation, advertising costs, delivery expenses and facility-related costs. As a percent of segment revenues, SG&A expense was 27.4% in the current period, relatively flat when compared to the prior-year quarter as costs associated with planned new store openings were offset by the leveraging effect of higher revenues.

*Credit Segment*

- Revenues were \$57.4 million for the three months ended April 30, 2014, an increase of \$16.1 million, or 38.9%, from the prior-year quarter. The increase was primarily driven by year-over-year growth in the average balance of the customer receivable portfolio and increased origination volumes. The impact of portfolio growth was tempered by a 40 basis point year-over-year decline in interest and portfolio yield primarily as a result of higher provision for uncollectible interest and lower fee income. The portfolio yield was also influenced by an increase in short-term, non-interest customer receivables.
- SG&A expense for the credit segment was \$23.9 million for the quarter ended April 30, 2014, an increase of \$8.1 million, or 51.6%, from the same quarter last year. We have added collections personnel to service the 42.7% year-over-year increase in the customer receivable portfolio balance and anticipated near-term portfolio growth. SG&A

expense as a percent of revenues was 41.6% in the current year period, which compares to 38.1% in the prior-year period.

- Provision for bad debts was \$22.2 million for the three months ended April 30, 2014, an increase of \$8.4 million from the prior-year quarter. This additional provision was driven primarily by a \$328.2 million, or 43.6%, year-over-year growth in the average receivable portfolio outstanding, which included an increase of \$69.9 million during the current quarter. Additionally, the provision for bad debts increased due to year-over-year increase in portfolio delinquency rates. The percentage of the customer portfolio balance greater than 60 days past due was 8.0% as of April 30, 2014, which compares to 6.7% a year ago.
- Net interest expense for the quarter ended April 30, 2014 was \$4.7 million, an increase of \$0.9 million from the prior-year period due to the increase in the debt balance outstanding partially offset by a decline in our effective interest rate. The decline in our effective interest rate reflects the redemption of outstanding asset-backed notes over the twelve month period ended April 2013. Additionally, the Company recorded approximately \$0.4 million of accelerated amortization of deferred financing costs related to the early repayment of asset-backed notes during the first quarter of fiscal 2014.

### Three months ended April 30, 2014 compared to three months ended April 30, 2013

<i>(in thousands)</i>	Three Months Ended April 30,		Change
	2014	2013	
Total net sales	\$ 277,629	\$ 209,448	\$ 68,181
Finance charges and other	57,819	41,615	16,204
<b>Total Revenues</b>	<b>\$ 335,448</b>	<b>\$ 251,063</b>	<b>\$ 84,385</b>

The following table provides an analysis of net sales by product category in each period, including repair service agreement commissions and service revenues, expressed both in dollar amounts and as a percent of total net sales:

<i>(dollars in thousands)</i>	Three Months Ended April 30,				Change	% Change	Same store % change
	2014	% of Total	2013	% of Total			
Furniture and mattress	\$ 80,892	29.2%	\$ 49,123	23.5%	\$ 31,769	64.7 %	33.2%
Home appliance	77,115	27.8	57,679	27.5	19,436	33.7	20.5
Consumer electronic	66,443	23.9	56,810	27.1	9,633	17.0	3.0
Home office	23,936	8.6	17,506	8.4	6,430	36.7	22.9
Other	5,834	2.1	9,742	4.7	(3,908)	(40.1)	(44.3)
Product sales	254,220	91.6	190,860	91.2	63,360	33.2	15.4
Repair service agreement commissions	20,254	7.3	15,989	7.6	4,265	26.7	16.7
Service revenues	3,155	1.1	2,599	1.2	556	21.4	
<b>Total net sales</b>	<b>\$ 277,629</b>	<b>100.0%</b>	<b>\$ 209,448</b>	<b>100.0%</b>	<b>\$ 68,181</b>	<b>32.6 %</b>	<b>15.6%</b>

The following provides a summary of items influencing the Company's major product category performance during the quarter, compared to the prior-year period:

- Furniture and mattress sales growth was driven by a 45.2% increase in unit sales and a 13.2% increase in the average selling price. Furniture sales climbed 74.2% on a 51.5% increase in unit volume with a 15.0% increase in average selling price. Mattress unit sales grew by 19.3% with a 14.3% increase in average selling price reflecting a shift to higher price-point merchandise;
- Home appliance sales increased during the period due to a 21.0% increase in unit sales and an 8.6% increase in the average selling price. Laundry sales were up 34.8%, refrigeration sales were up 31.5%, dishwasher sales climbed 30.0% and cooking sales increased 23.4%;

- Consumer electronic sales were up 16.1% driven by a 19.3% increase in unit volume. Television sales were up 10.7%, home theater sales climbed 41.6% and gaming hardware sales increased 280.8%;
- Home office sales increased primarily due to a 60.2% increase in computer sales with a 9.0% rise in the average selling price of computers;
- Other sales included \$4.8 million of lawn equipment sales in the quarter ended April 30, 2013. The Company is not participating in this lower-margin category in the current fiscal year.
- The increase in repair service agreement commissions was driven primarily by increased retail sales; and
- Service revenue increased by 21.4% due to increased service technician staffing and in-house performance of certain warranty repair services.

<i>(in thousands)</i>	<b>Three Months Ended April 30,</b>		
	<b>2014</b>	<b>2013</b>	<b>Change</b>
Interest income and fees	\$ 46,490	\$ 33,010	\$ 13,480
Insurance commissions	10,863	8,267	2,596
Other income	466	338	128
<b>Finance charges and other</b>	<b>\$ 57,819</b>	<b>\$ 41,615</b>	<b>\$ 16,204</b>

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

Interest income and fees of the credit segment increased over the prior-year level primarily driven by a 43.6% increase in the average balance of the portfolio. Portfolio interest and fee yield declined 40 basis points year-over-year to 17.6%, primarily as a result of increased provision for uncollectible interest and lower fee income. The portfolio yield was also influenced by short-term, no-interest option receivables, which averaged 36.3% of the total portfolio balance during the quarter ended April 30, 2014, which compares to 29.0% in the prior-year quarter. Insurance commissions were favorably impacted by increased front-end commissions due to higher retail sales and increased retrospective commissions due to lower claims experience.

The following table provides key portfolio performance information for the three months ended April 30, 2014 and 2013:

<i>(in thousands, except percentages)</i>	<b>Three Months Ended April 30,</b>	
	<b>2014</b>	<b>2013</b>
Interest income and fees <sup>(a)</sup>	\$ 46,490	\$ 33,010
Net charge-offs	(21,192)	(11,555)
Borrowing costs <sup>(b)</sup>	(4,724)	(3,871)
Net portfolio yield	\$ 20,574	\$ 17,584
Average portfolio balance	\$ 1,081,456	\$ 753,221
Interest income and fee yield % (annualized)	17.6%	18.0%
Net charge-off % (annualized)	7.8%	6.1%

(a) Included in finance charges and other.

(b) Total interest expense.

<i>(in thousands, except percentages)</i>	<b>Three Months Ended April 30,</b>		
	<b>2014</b>	<b>2013</b>	<b>Change</b>
<b>Cost of goods sold</b>	<b>\$ 160,782</b>	<b>\$ 123,457</b>	<b>\$ 37,325</b>
Product gross margin percentage	36.8%	35.3%	

Product gross margin expanded 150 basis points as a percent of product sales from the quarter ended April 30, 2013 primarily due to a favorable shift in product mix.

	Three Months Ended April 30,		
	2014	2013	Change
<i>(in thousands, except percentages)</i>			
<b>Cost of service parts sold</b>	\$ 1,419	\$ 1,406	\$ 13
As a percent of service revenues	45.0%	54.1%	

The increase in cost of service parts sold was due primarily to 21.4% growth in service revenues.

	Three Months Ended April 30,		
	2014	2013	Change
<i>(in thousands, except percentages)</i>			
Selling, general and administrative expense - Retail	\$ 76,330	\$ 57,510	\$ 18,820
Selling, general and administrative expense - Credit	23,874	15,745	8,129
<b>Selling, general and administrative expense - Total</b>	<b>\$ 100,204</b>	<b>\$ 73,255</b>	<b>\$ 26,949</b>
As a percent of total revenues	29.9%	29.2%	

For the three months ended April 30, 2014, the increase in SG&A expense was primarily driven by higher compensation, delivery expenses and occupancy costs.

The SG&A expense increase in the retail segment was primarily due to higher sales-related compensation and delivery costs, facility-related costs and advertising expenses. As a percent of segment revenues, SG&A expense remained flat as compared to the prior-year quarter primarily due to costs associated with planned new store openings offset by the leveraging effect of increased revenues.

The increase in SG&A expense for the credit segment was driven by the hiring of additional collections personnel to service the 42.7% year-over-year increase in the customer receivable portfolio balance and anticipated near-term portfolio growth.

	Three Months Ended April 30,		
	2014	2013	Change
<i>(in thousands, except percentages)</i>			
Provision for bad debts - Retail	\$ 44	\$ 114	\$ (70)
Provision for bad debts - Credit	22,214	13,823	8,391
<b>Provision for bad debts - Total</b>	<b>\$ 22,258</b>	<b>\$ 13,937</b>	<b>\$ 8,321</b>
Provision for bad debts - Credit as a percent of average portfolio balance (annualized)	8.2%	7.3%	

The provision for bad debts of the credit segment increased by \$8.4 million from the prior-year period. This additional provision was driven primarily by the substantial year-over-year growth in the average receivable portfolio balance outstanding, which included an increase of \$69.9 million during the current quarter. Additionally, the provision for bad debts rose due to deterioration in portfolio delinquency rates. The percentage of the customer portfolio balance greater than 60 days past due was 8.0% as of April 30, 2014, which compares to 6.7% a year ago.

	Three Months Ended April 30,		
	2014	2013	Change
<i>(in thousands)</i>			
Store closure and relocation costs	\$ 1,754	\$ —	\$ 1,754
<b>Charges and credits</b>	<b>\$ 1,754</b>	<b>\$ —</b>	<b>\$ 1,754</b>

During the first quarter of fiscal 2015, we recorded a \$1.8 million charge related to the closure and relocation of certain retail locations.

<i>(in thousands)</i>	<b>Three Months Ended April 30,</b>		<b>Change</b>
	<b>2014</b>	<b>2013</b>	
<b>Interest expense</b>	\$ 4,724	\$ 3,871	\$ 853

Net interest expense for the three months ended April 30, 2014 increased \$0.9 million from the prior-year period primarily due to an increase in the average debt balance outstanding, partially offset by a decrease in the effective interest rate resulting from the repayment of asset-backed notes in April 2013. The entirety of our interest expense is included in the results of operations of the credit segment.

<i>(in thousands, except percentages)</i>	<b>Three Months Ended April 30,</b>		<b>Change</b>
	<b>2014</b>	<b>2013</b>	
<b>Provision for income taxes</b>	\$ 15,838	\$ 12,967	2,871
As a percent of income before income taxes	35.7%	36.9%	

The provision for income taxes increased due to the year-over-year improvement in profitability. The decline in the effective tax rate reflects the leveraging impact of the year-over-year increase in income before income taxes on non-deductible items and margin-based taxes.

### Customer Receivable Portfolio

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

We promote the sale of many of our products through advertised short-term, no-interest option programs. The majority of these accounts have a 12-month term, with the balance carrying a term of six months. Minimum monthly customer payments are required under our short-term, no-interest option program addendum to our standard retail installment loan contract. If the customer is delinquent in making a scheduled monthly payment or does not repay the principal in full by the end of the stated term (grace periods are provided), the account no longer qualifies for the no-interest provision and the terms of the account revert back to those of the executed retail installment loan contract. A significant number of customers who purchase through our short-term, no-interest option programs meet the terms of the program, resulting in the payoff of those accounts and thus increase the velocity of portfolio turnover.

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

As of April 30, 2014, we had 631,795 active customer accounts with an average balance of \$1,747 outstanding per account. This compares to 486,988 active customer accounts with an average balance of \$1,588 outstanding per account as of April 30, 2013. The 30% increase in the number of customer accounts outstanding reflects the impact of marketing driven, same store sales growth as well as new store openings. Year-over-year, the majority of the growth in the average balance is due to our increase in product sales and the entry into more recent installment contracts with our customers. As a result, we have experienced a decline in the average number of months since origination our customer accounts within the portfolio have been outstanding - down from 9.0 months last year to 8.3 months as of April 30, 2014.

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

	<b>As of April 30,</b>	
	<b>2014</b>	<b>2013</b>
Total outstanding balance	\$ 1,103,880	\$ 773,436
Weighted average credit score of outstanding balances	591	596
Number of active accounts	631,795	486,988
Weighted average months since origination of outstanding balance	8.3	9.0
Average outstanding customer balance	\$ 1,747	\$ 1,588
Account balances 60+ days past due <sup>(1)</sup>	\$ 87,863	\$ 51,543
Percent of balances 60+ days past due to total outstanding balance	8.0%	6.7%
Total account balances re-aged <sup>(1)</sup>	\$ 128,329	\$ 86,693
Percent of re-aged balances to total outstanding balance	11.6%	11.2%
Account balances re-aged more than six months	\$ 23,633	\$ 19,172
Percent of total allowance for bad debts to total outstanding customer receivable balance	6.6%	6.0%
Percent of total outstanding balance represented by short-term, no-interest option receivables <sup>(2)</sup>	37.0%	30.6%
	<b>Three Months Ended April 30,</b>	
	<b>2014</b>	<b>2013</b>
Total applications processed	265,265	199,045
Weighted average origination credit score of sales financed	605	602
Percent of total applications approved	48.0%	50.2%
Average down payment	4.2%	3.9%
Average income of credit customer at origination	\$ 38,400	\$ 38,900
Average total outstanding balance	\$ 1,081,456	\$ 753,221
Bad debt charge-offs (net of recoveries)	\$ 21,192	\$ 11,555
Percent of bad debt charge-offs (net of recoveries) to average outstanding balance	7.8%	6.1%
Weighted average monthly payment rate <sup>(3)</sup>	5.8%	6.2%
Provision for bad debts <sup>(4)</sup>	\$ 22,214	\$ 13,823
Provision for bad debts as a percentage of average outstanding balance	8.2%	7.3%
Percent of retail sales paid for by:		
In-house financing, including down payment received	77.5%	74.0%
Third party financing	11.1%	11.8%
Third party rent-to-own options	4.2%	3.8%
	<u>92.8%</u>	<u>89.6%</u>

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

(2) Short-term, no-interest option receivables are financed under a standard retail installment loan contract. Minimum monthly payments are required and the maximum term is 12 months. If the customer account becomes delinquent or the remaining

account principal balance is not paid in full prior to the end of the no-interest period, interest is earned over the term of the installment contract and the required minimum monthly payment remains unchanged.

- (3) Three-month average of gross cash payments as a percentage of gross principal balances outstanding at the beginning of each month in the period.
- (4) Amount does not include retail segment provision for bad debts.

Our customer accounts receivable and related allowance for uncollectible accounts are segregated between customer accounts receivable and restructured accounts. Customer accounts receivable include all accounts for which payment term has not been cumulatively extended over 90 days or refinanced. Restructured accounts includes all accounts for which payment term has been cumulatively extended over 90 days and accounts refinanced.

The following tables present quantitative information about our receivables portfolio, segregated by segment:

<i>(in thousands)</i>	<b>Total Outstanding Balance</b>					
	<b>Customer Accounts Receivable</b>		<b>60 Days Past Due<sup>(1)</sup></b>		<b>Re-aged<sup>(1)</sup></b>	
	<b>April 30, 2014</b>	<b>January 31, 2014</b>	<b>April 30, 2014</b>	<b>January 31, 2014</b>	<b>April 30, 2014</b>	<b>January 31, 2014</b>
Customer accounts receivable	\$ 1,053,444	\$ 1,022,914	\$ 77,915	\$ 82,486	\$ 77,893	\$ 75,414
Restructured accounts <sup>(2)</sup>	50,436	45,356	9,948	11,917	50,436	45,356
<b>Total receivables managed</b>	<b>\$ 1,103,880</b>	<b>\$ 1,068,270</b>	<b>\$ 87,863</b>	<b>\$ 94,403</b>	<b>\$ 128,329</b>	<b>\$ 120,770</b>
Allowance for uncollectible accounts related to the credit portfolio	(72,980)	(71,801)				
Allowance for short-term, no-interest option credit programs	(12,185)	(11,789)				
Short-term portion of customer accounts receivable, net	(548,482)	(527,267)				
Long-term portion of customer accounts receivable, net	<u>\$ 470,233</u>	<u>\$ 457,413</u>				

- (1) Amounts are based on end of period balances. As an account can become past due after having been re-aged, accounts may be presented in both the past due and re-aged columns shown above. The amounts included within both the past due and re-aged columns shown above as of April 30, 2014 and January 31, 2014 were \$25.3 million and \$27.4 million, respectively. The total amount of customer receivables past due one day or greater was \$254.1 million and \$249.3 million as of April 30, 2014 and January 31, 2014, respectively. These amounts include the 60 days past due totals shown above.
- (2) In addition to the amounts included in restructured accounts, there are \$1.3 million and \$1.3 million as of April 30, 2014 and January 31, 2014, respectively, of accounts re-aged four or more months included in the re-aged balance above that did not qualify as TDRs because they were not re-aged subsequent to January 31, 2012.

<i>(in thousands)</i>	<b>Average Balances</b>		<b>Net Credit Charge-offs<sup>(1)</sup></b>	
	<b>Three Months Ended April 30,</b>		<b>Three Months Ended April 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Customer accounts receivable	\$ 1,033,443	\$ 713,700	\$ 17,738	\$ 8,843
Restructured accounts	48,013	39,521	3,454	2,712
<b>Total receivables managed</b>	<b>\$ 1,081,456</b>	<b>\$ 753,221</b>	<b>\$ 21,192</b>	<b>\$ 11,555</b>

- (1) Charge-offs include the principal amount of losses (excluding accrued and unpaid interest) net of recoveries which include principal collections during the period shown of previously charged-off balances.

Following is the activity in the Company's balance in the allowance for doubtful accounts and uncollectible interest for customer receivables for the three months ended April 30, 2014 and 2013:

<i>(in thousands)</i>	Three Months Ended April 30, 2014			Three Months Ended April 30, 2013		
	Customer Accounts Receivable	Restructured Accounts	Total	Customer Accounts Receivable	Restructured Accounts	Total
Allowance at beginning of period	\$ 54,448	\$ 17,353	\$ 71,801	\$ 27,702	\$ 16,209	\$ 43,911
Provision <sup>(1)</sup>	23,241	3,948	27,189	12,505	3,282	15,787
Principal charge-offs <sup>(2)</sup>	(22,801)	(4,440)	(27,241)	(9,634)	(2,955)	(12,589)
Interest charge-offs	(4,033)	(785)	(4,818)	(1,516)	(465)	(1,981)
Recoveries <sup>(2)</sup>	5,063	986	6,049	791	243	1,034
Allowance at end of period	\$ 55,918	\$ 17,062	\$ 72,980	\$ 29,848	\$ 16,314	\$ 46,162

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

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

Our overall allowance for uncollectible accounts as a percentage of the total portfolio balance increased to 6.6% as of April 30, 2014 from 6.0% as of April 30, 2013. The year-over-year increase was primarily driven by a 190 basis point increase in 60+ day delinquency for non-restructured customer accounts receivables. The impact of this increase was partially offset by a 50 basis point decline in the relative proportion of the total restructured account balance to the total customer receivable portfolio balance from April 30, 2013.

For non-restructured accounts, the allowance for uncollectible accounts as a percentage of the outstanding balance rose from 4.1% as of April 30, 2013 to 5.3% as of April 30, 2014, due primarily to execution issues we encountered in our collection operations during December and January of fiscal 2014 and inclement weather conditions experienced during that same period. This resulted in an elevation in delinquency rates and higher than anticipated charge-offs during the period. Delinquency rates declined from January 31, 2014 to April 30, 2014 but we expect that the impact of the fourth quarter issues will result in elevated charge-offs over the next three to six months. The estimated effect of this matter and delinquency changes were reflected in our projection models as of January 31, 2014 and April 30, 2014, driving an increase in the losses we expected to realize over the next 12-month period. We adjusted our allowance for uncollectible accounts based on these analyses.

For restructured accounts, the allowance for uncollectible accounts as a percentage of the portfolio balance was 41.0% as of April 30, 2013 as compared to 33.8% as of April 30, 2014. This 720 basis point reduction reflects the impact of improved delinquency and continued improvement in the performance of restructured accounts under stricter restructuring policies.

The percent of bad debt charge-offs (net of recoveries) to average outstanding balance increased from 6.1% for the three months ended April 30, 2013 to 7.8% for the three months ended April 30, 2014. The increase was primarily due to execution issues in our collections operations and inclement weather experienced during the fourth quarter of fiscal 2014.

Included within customer accounts receivable as of April 30, 2014 and 2013 were balances totaling \$408.8 million and \$237.1 million, respectively, of balances originated under short-term, no-interest programs. Amounts financed under these programs increased to 37.0% of the total portfolio balance as of April 30, 2014 from 30.6% as of April 30, 2013 with more products eligible for purchase using this installment contract option. Use of these programs accelerates cash collections. As the proportion of accounts financed under short-term, no-interest programs increases, the overall yield recognized on the average customer receivable balance will decline. Conversely, a decline in the proportion of accounts financed under short-term, no-interest programs will generally result in an increase in the overall yield recognized. The allowance for short-term, no-interest programs represents the portion of the balance reported within customer accounts receivable at the end of each period which is not expected to be realized due to customers satisfying the requirements of the interest-free programs and is based on historical experience. The allowance for no-interest credit programs declined from 3.4% of the balance outstanding as of April 30, 2013 to 3.0% as of April 30, 2014 based on realized changes over the past 12 months in customer satisfaction of the interest-free program requirements.



## Historical Static Loss Table

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

Fiscal year of origination	As of April 30, 2014 <sup>(a)</sup>		Cumulative loss rate as a % of balance originated <sup>(b) (d)</sup>				
	Balance outstanding	% of balance originated outstanding	Years from origination				
			—	1	2	3	Terminal <sup>(c)</sup>
2006			0.3%	1.9%	3.6%	4.8%	5.8%
2007			0.2%	1.7%	3.5%	4.8%	5.7%
2008			0.2%	1.8%	3.6%	5.1%	5.9%
2009			0.2%	2.1%	4.6%	6.1%	6.6%
2010			0.2%	2.4%	4.6%	6.0%	6.0%
2011	\$1.9	0.3%	0.4%	2.6%	5.2%	5.8%	6.0%
2012	\$25.2	4.2%	0.2%	3.1%	5.5%	5.7%	
2013	\$135.7	18.5%	0.4%	5.2%	6.0%		
2014	\$673.0	62.6%	0.8%	1.9%			

(a) As of April 30, 2014, balances originated prior to fiscal 2011 and outstanding were insignificant.

(b) The loss rates for balances originated in fiscal years 2012 through 2015 may not be comparable to those for balances originated in earlier years as changes made to our collections policies during fiscal 2012 resulted in accounts charging off earlier than in prior periods.

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

(d) The most recent percentages in years from origination 1 through 3 include loss data through April 30, 2014, and are not comparable to prior fiscal year accumulated net charge-off percentages in the same column.

## Liquidity and Capital Resources

### Cash flow

**Operating activities.** During the three months ended April 30, 2014, net cash provided by operating activities was \$30.7 million. This compares to net cash used in operating activities of \$6.5 million during the prior-year period. The increase was primarily driven by the improvement in operating performance and the expansion of accounts payable during the current year period.

**Investing activities.** Net cash used in investing activities increased to \$14.3 million in the three months ended April 30, 2014. This compares to \$7.2 million in the three months ended April 30, 2013. The increase was primarily due to greater capital expenditures related to the construction of new stores, as well as store remodels and relocations. We expect during the next twelve months to invest between \$30 million and \$35 million, net of tenant improvement allowances, in capital expenditures for new stores, remodels and other projects. We expect to fund these estimated capital expenditures with cash from operations, borrowings under our asset-based revolving credit facility and tenant improvement allowances from landlords.

**Financing activities.** During the quarter ended April 30, 2014, available cash flows from operations after purchase of property and equipment were used to reduce outstanding debt. Net cash used in financing activities was \$17.9 million for the three months ended April 30, 2014. This compares to net cash provided by financing activities of \$14.2 million during the three months ended April 30, 2013.

**Liquidity.** We require capital to finance our growth as we add new stores and markets to our operations, which in turn requires additional working capital for increased customer receivables and inventory. We finance our operations through a combination of cash flow generated from earnings and external borrowings, including bank debt, issuance of debt securities or other capital market

transactions, extended terms provided by our vendors for inventory purchases and acquisition of inventory under consignment arrangements.

We have an asset-based revolving credit facility with capacity of \$880 million as of April 30, 2014. The facility matures in November 2017 and provides funding based on a borrowing base calculation that includes customer accounts receivable and inventory. The credit facility bears interest at LIBOR plus a spread ranging from 250 basis points to 325 basis points, based on a leverage ratio (defined as total liabilities to tangible net worth). In addition to the leverage ratio, the revolving credit facility includes a fixed charge coverage requirement, a minimum customer receivables cash recovery percentage requirement and a net capital expenditures limit. The leverage ratio covenant requirement is a required maximum of 2.00 to 1.00. The fixed charge coverage ratio requirement is a minimum of 1.10 to 1.00. We expect, based on current facts and circumstances, that we will be in compliance with the above covenants for the next 12 months. The weighted average interest rate on borrowings outstanding under the asset-based revolving credit facility was 3.2% at April 30, 2014.

During the quarter ended October 31, 2011 we entered into interest rate cap option transactions with a notional amount of \$100 million. These cap options are held for the purpose of hedging against variable interest rate risk related to the variability of cash flows in the interest payments on a portion of our variable-rate debt, based on the benchmark one-month LIBOR interest rate exceeding 1.0%. These cap options have monthly caplets extending through August 2014.

The weighted average effective interest rate on borrowings outstanding under all our credit facilities for the three months ended April 30, 2014 was 3.7%, including the interest expense associated with our interest rate caps and amortization of deferred financing costs.

A summary of the significant financial covenants that govern our asset-based revolving credit facility, as amended, compared to our actual compliance status at April 30, 2014 is presented below:

	Actual	Required Minimum/ Maximum
Fixed charge coverage ratio must exceed required minimum	1.63 to 1.00	1.10 to 1.00
Total liabilities to tangible net worth ratio must be lower than required maximum	1.20 to 1.00	2.00 to 1.00
Cash recovery percentage must exceed stated amount	5.79%	4.49%
Capital expenditures, net must be lower than required maximum	\$52.0 million	\$75.0 million

Note: All terms in the above table are defined by the asset-based revolving credit facility, as amended, and may or may not agree directly to the financial statement captions in this document. The covenants are calculated quarterly on a trailing 12-month basis, except for the cash recovery percentage, which is calculated monthly on a trailing three-month basis.

As of April 30, 2014, we had total available borrowing capacity of \$361.8 million under our asset-based revolving credit facility, net of standby letters of credit issued, available to us for general corporate purposes. Of this amount, \$183.8 million was immediately available under the revolving credit facility as of April 30, 2014 and an additional \$178.0 million may become available if we grow the balance of eligible customer receivables and total eligible inventory balances. Payments received on customer receivables averaged approximately \$74.6 million per month during the three months ended April 30, 2014, and are available each month to fund new customer receivables generated. During fiscal 2015, we expect to grow the balance of the credit portfolio.

We will continue to finance our operations and future growth through a combination of cash flow generated from operations, external borrowings from our revolving credit facility and proceeds from accessing debt or equity markets. Based on our current operating plans, we believe that cash generated from operations, available borrowings under our revolving credit facility, extended vendor terms for purchases of inventory, acquisition of inventory under consignment arrangements and proceeds from accessing debt or equity markets will be sufficient to fund our operations, store expansion and updating activities and capital programs for the next 12 months, subject to continued compliance with the covenants in our debt and other credit arrangements. If the repayment of amounts owed under our debt and other credit arrangements is accelerated for any reason, we may not have sufficient cash and liquid assets at such time to be able to immediately repay all the amounts owed under our facility.

The revolving credit facility is a significant factor relative to our ongoing liquidity and our ability to meet the cash needs associated with the growth of our business. Our inability to use this program because of a failure to comply with its covenants would adversely affect our business operations. Funding of current and future customer receivables under the borrowing facilities

can be adversely affected if we exceed certain predetermined levels of re-aged customer receivables, write-offs, bankruptcies or other ineligible customer receivable amounts.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

For quantitative and qualitative disclosures about market risk, see Item 7A. "Quantitative and Qualitative Disclosures about Market Risk," of our Annual Report on Form 10-K for the fiscal year ended January 31, 2014.

### **Item 4. Controls and Procedures**

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

For the three months ended April 30, 2014, there have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The information set forth under the heading "Contingencies" in Note 7 of the Consolidated Financial Statements in Item 1 Part I of this quarterly report is incorporated by reference in response to this item.

### **Item 1A. Risk Factors**

As of the date of the filing, there have been no material changes to the risk factors previously disclosed in Part 1, Item A, of our Annual Report on Form 10-K for the fiscal year ended January 31, 2014.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosure**

None.

### **Item 5. Other Information**

#### **Submission of Matters to a Vote of Security Holders**

At the Annual Meeting of Stockholders held on Wednesday, May 28, 2014, the matters voted upon and the number of votes cast for or against, as well as the number of abstentions and broker non-votes as to such matters, were as stated below.

1. The following nominees for directors were elected to serve one-year terms expiring in 2015:

	Number of Shares			
	For	Against	Abstentions	Broker Non-Votes
Jon E.M. Jacoby	29,751,221	51,226	7,341	4,303,125
Kelly M. Malson	29,774,070	28,678	7,040	4,303,125
Bob L. Martin	29,752,661	49,765	7,362	4,303,125
Douglas H. Martin	29,774,101	27,999	7,688	4,303,125
David Schofman	29,772,469	29,893	7,426	4,303,125
Scott L. Thompson	29,775,007	27,641	7,140	4,303,125
Theodore M. Wright	29,672,516	129,710	7,562	4,303,125

2. The amendment to our Certificate of Incorporation to increase the number of authorized shares of Common Stock from 50,000,000 shares to 100,000,000 shares was approved:

	Number of Shares
For	29,885,113
Against	4,164,764
Abstentions	63,036
Broker Non-Votes	—

3. The appointment of Ernst & Young LLP as the independent registered public accounting firm for the Company for fiscal year ending January 31, 2015 was ratified:

	Number of Shares
For	34,004,192
Against	96,391
Abstentions	12,330
Broker Non-Votes	—

4. The non-binding advisory vote on the compensation of the Company's named executive officers was approved:

	Number of Shares
For	29,561,197
Against	112,312
Abstentions	136,279
Broker Non-Votes	4,303,125

## Item 6. Exhibits

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

**SIGNATURE**

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

CONN'S, INC.

By: /s/ Brian E. Taylor

Brian E. Taylor

Vice President, Chief Financial Officer and Treasurer

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

Date: June 2, 2014

## EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Description</b>
3.1	Certificate of Incorporation of Conn's, Inc. (incorporated herein by reference to Exhibit 3.1 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003)
3.1.1	Certificate of Amendment to the Certificate of Incorporation of Conn's, Inc. dated June 3, 2004 (incorporated herein by reference to Exhibit 3.1.1 to Conn's, Inc. Form 10-Q for the quarterly period ended April 30, 2004 (File No. 000-50421) as filed with the Securities and Exchange Commission on June 7, 2004)
3.1.2	Certificate of Amendment to the Certificate of Incorporation of Conn's, Inc. dated May 30, 2012 (incorporated herein by reference to Exhibit 3.1.2 to Conn's, Inc. Form 10-Q for the quarterly period ended April 30, 2012 (File No. 000-50421) as filed with the Securities and Exchange Commission on June 5, 2012)
3.1.3	Certificate of Correction to the Certificate of Amendment to Conn's, Inc. Certificate of Incorporation (as corrected December 31, 2013) (incorporated herein by reference to Exhibit 3.1.3 to Conn's, Inc. Form 10-K for the annual period ended January 31, 2014 (File No. 000-50421) as filed with the Securities and Exchange Commission on March 27, 2014)
3.1.4	Certificate of Amendment to the Certificate of Incorporation of Conn's, Inc. as filed on May 29, 2014 (filed herewith)
3.2	Amended and Restated Bylaws of Conn's, Inc. effective as of December 3, 2013 (incorporated herein by reference to Exhibit 3.2 to Conn's, Inc. Form 10-Q for the quarter ended October 31, 2013 (File No. 000-50421) as filed with the Securities and Exchange Commission on December 6, 2013)
4.1	Specimen of certificate for shares of Conn's, Inc.'s common stock (incorporated herein by reference to Exhibit 4.1 to Conn's, Inc. registration statement on Form S-1 (file no. 333-109046) as filed with the Securities and Exchange Commission on October 29, 2003)
12.1	Statement of computation of Ratio of Earnings to Fixed Charges (filed herewith)
31.1	Rule 13a-14(a)/15d-14(a) Certification (Chief Executive Officer) (filed herewith)
31.2	Rule 13a-14(a)/15d-14(a) Certification (Chief Financial Officer) (filed herewith)
32.1	Section 1350 Certification (Chief Executive Officer and Chief Financial Officer) (furnished herewith)
101	The following financial information from our Quarterly Report on Form 10-Q for the first quarter of fiscal year 2015, filed with the SEC on June 2, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the consolidated balance sheets at April 30, 2014 and January 31, 2014 and, (ii) the consolidated statements of operations for the three months ended April 30, 2014 and 2013, (iii) the consolidated statements of comprehensive income for the three months ended April 30, 2014 and 2013, (iv) the consolidated statements of cash flows for three months ended April 30, 2014 and 2013, (v) the consolidated statements of stockholders' equity for the three months ended April 30, 2014 and 2013 and (vi) the notes to consolidated financial statements

**CERTIFICATE OF AMENDMENT  
TO  
CERTIFICATE OF INCORPORATION**

**OF CONN'S, INC.**

**("CORPORATION")**

Pursuant to the provisions of Section 242 of the Delaware General Corporation Law, the undersigned Corporation files the following Certificate of Amendment to its Certificate of Incorporation (*the "Certificate of Incorporation"*), which amends Article Four thereof so as to increase the number of shares of capital stock of the Corporation from 51,000,000 to 101,000,000 shares.

**I**

The name of the Corporation is Conn's, Inc.

**II**

The following amendment to the Certificate of Incorporation was adopted by the board of directors of the Corporation on March 25, 2014, and by the stockholders of the Corporation on May 28, 2014:

The first paragraph of Article Four of the Corporation's Certificate of Incorporation is deleted and is replaced in its entirety as follows:

"The aggregate number of shares of capital stock which the Corporation shall have authority to issue is one hundred one million (51,000,000) shares of stock, of which one hundred million (100,000,000) shares are Common Stock, par value of \$0.01 per share (*"Common Stock"*), and one million (1,000,000) shares are Preferred Stock, par value \$0.01 per share (*"Preferred Stock"*)."

**III**

The number of votes of holders of capital stock of the Corporation entitled to vote at the time of such adoption was 36,143,013, which represents one vote for each of the 36,143,013 shares of common stock, par value \$0.01 per share, outstanding and entitled to vote on the amendment.

**IV**

The number of votes which voted for the amendments was 29,885,113 while the number of votes which voted against the amendments was 4,164,764. 63,036 shares abstained from voting on the amendment.

**V**

This amendment to Article Four of the Corporation's Certificate of Incorporation has been duly adopted in accordance with the provisions of Section 242 of the Delaware General Corporation Law.



IN WITNESS WHEREOF, I have hereunto set my hand as of the 28th day of May, 2014.

CONN'S, INC.

By: /s/ Robert F. Bell

Name: Robert F. Bell

Office: Vice President, General Counsel and  
Corporate Secretary

**Statement of Computation of Ratio of Earnings to Fixed Charges**  
**(Dollars in thousands)**

	<b>Three Months Ended April 30,</b>	
	<b>2014</b>	<b>2013</b>
Income before income taxes	\$ 44,307	\$ 35,143
Fixed charges	9,872	7,545
Capitalized interest	(40)	(119)
Total earnings	<u>\$ 54,139</u>	<u>\$ 42,569</u>
Interest expense (including capitalized interest)	\$ 4,148	\$ 2,893
Amortized premiums and expenses	617	1,097
Estimated interest within rent expense	5,107	3,555
Total fixed charges	<u>\$ 9,872</u>	<u>\$ 7,545</u>
Ratio of earnings to fixed charges	5.48	5.64

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Theodore M. Wright, certify that:

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

/s/ Theodore M. Wright

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Theodore M. Wright

Chief Executive Officer and President

Date: June 2, 2014

## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Brian E. Taylor, certify that:

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

/s/ Brian E. Taylor

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Brian E. Taylor

Vice President, Chief Financial Officer and Treasurer

Date: June 2, 2014

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

In connection with the Quarterly Report of Conn's, Inc. (the "*Company*") on Form 10-Q for the period ended April 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), we, Theodore M. Wright, Chief Executive Officer and President of the Company and Brian E. Taylor, Vice President, Chief Financial Officer and Treasurer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Theodore M. Wright

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Theodore M. Wright

Chief Executive Officer and President

/s/ Brian E. Taylor

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Brian E. Taylor

Vice President, Chief Financial Officer and Treasurer

Dated: June 2, 2014

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