As filed with the Securities and Exchange Commission on October 29, 2003

Registration No. 333-109046

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CONN'S, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**5731**	**06-1672840**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

3295 College Street
Beaumont, Texas 77701
(409) 832-1696
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Thomas J. Frank, Sr.
Chairman of the Board and Chief Executive Officer
Conn's, Inc.
3295 College Street
Beaumont, Texas 77701
(409) 832-1696
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

COPIES TO:

Thomas W. Hughes **D. Forrest Brumbaugh** **Winstead Sechrest & Minick P.C.** **5400 Renaissance Tower** **1201 Elm Street** **Dallas, Texas 75270** **(214) 745-5400**	**M. Hill Jeffries** **Alston & Bird LLP** **One Atlantic Center** **1201 West Peachtree Street** **Atlanta, Georgia 30309** **(404) 881-7000**

Approximate date of commencement of proposed sale of securities to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, check the following box: ☐

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We and the selling stockholder may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not a solicitation of an offer to buy these securities in any jurisdiction where such an offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED OCTOBER 29, 2003

4,150,000 Shares

Common Stock

This is the initial public offering of common stock by Conn's, Inc. We are selling 4,000,000 shares of our common stock. The selling stockholder identified in this prospectus is selling an additional 150,000 shares. We will not receive any of the proceeds from the sale of shares by the selling stockholder. Prior to this offering, there has been no public market for our common stock. We currently expect the initial public offering price of our common stock to be between $12.00 and $14.00 per share. We have applied to list our common stock on the Nasdaq National Market under the symbol "CONN."

You should consider the risks we have described in " Risk Factors" beginning on page 7 before buying shares of our common stock.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds to us, before expenses	$	$
Proceeds to selling stockholder	$	$

The underwriters have an option to purchase up to an additional 622,500 shares from us at the initial public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover over-allotments of shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of our common stock to purchasers on or about , 2003.

Stephens Inc. **SunTrust Robinson Humphrey**

The date of this prospectus is , 2003

[Map of Texas and Louisiana indicating existing store locations and new store locations under development]

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any person to provide you with different information. You should not rely on any information provided by anyone that is different or inconsistent. Information on our website is not incorporated into this prospectus by reference and should not be considered part of this prospectus. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus or other date stated in this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. Because it is a summary, it may not contain all of the information that is important to you. You should read carefully this entire prospectus, especially "Risk Factors" and our consolidated financial statements and related notes, before making a decision to invest in our common stock.

Effective August 1, 2001, we changed our fiscal year end from July 31 to January 31. As a result, we have a six month transitional fiscal period ended January 31, 2002. We sometimes refer to our twelve month fiscal years ended July 31, 1999, 2000 and 2001 and January 31, 2003, 2004 and 2005 as "fiscal 1999," "fiscal 2000," "fiscal 2001," "fiscal 2003," "fiscal 2004" and "fiscal 2005," respectively.

Unless we indicate otherwise, the information set forth in this prospectus includes reference to our subsidiary prior to our reincorporation immediately prior to the closing of this offering and reflects a 70-for-1 stock split effected as a stock dividend in July 2002.

Conn's, Inc.

Our Business

We are a specialty retailer of home appliances and consumer electronics operating 44 stores in the southwestern United States. We sell major home appliances including refrigerators, freezers, washers, dryers and ranges, and a variety of consumer electronics including projection, plasma and LCD televisions, camcorders, VCRs, DVD players and home theater products. We also sell home office equipment, lawn and garden products and bedding, and we continue to introduce additional product categories for the home to help increase same store sales and to respond to our customers' product needs. We offer over 1,100 product items, or SKUs, at good-better-best price points representing such national brands as General Electric, Whirlpool, Frigidaire, Mitsubishi, Sony, Panasonic, Thomson Consumer Electronics, Simmons, Hewlett Packard and Compaq. Based on revenue in 2002, we were the 12th largest retailer of home appliances in the United States, and we are either the first or second leading retailer of home appliances in terms of market share in the majority of our existing markets.

We are known for providing excellent customer service, and we believe that our customer-focused business strategies make us an attractive alternative to appliance and electronics superstores, department stores and other national, regional and local retailers. We believe these strategies drive repeat purchases and enable us to generate substantial brand name recognition and customer loyalty. During fiscal 2003, approximately 54% of our credit customers, based upon the number of invoices written, were repeat customers.

In 1994, we realigned and added to our management team, enhanced our infrastructure and refined our operating strategy to position ourselves for future growth. From fiscal 1994 to fiscal 1999, we selectively grew our store base from 21 to 26 stores while improving operating margins from 5.2% to 8.7%. Since fiscal 1999, we have increased our number of stores by more than 69% from 26 to 44 currently. In addition, we have grown our revenues, pre-tax operating income, and net income from continuing operations at compounded annual growth rates of 20.1% and 25.4% and 27.7%, respectively, since fiscal 1999 to fiscal 2003. We have achieved average annual same store sales growth of 10.9% over the three fiscal year period ended July 31, 2001, and 8.4% over the two year period ended January 31, 2003. We plan to continue growing by expanding into the Dallas/Fort Worth market with at least three new stores in the second half of fiscal 2004.

Business Strategy

Our objective is to be the leading specialty retailer of home appliances and consumer electronics in each of our markets. We strive to achieve this objective through the execution of the following strategies:

- ***Providing a high level of customer service***. Emphasizing customer service as a key component of our culture has allowed us to achieve customer satisfaction levels at rates between 90% and 95%. We measure customer satisfaction in our customer service on the sales floor, in our delivery operation and in our service department by sending survey cards to all customers for whom we have delivered or installed a product or made a service call. Our customer service resolution department attempts to address all customer complaints within 48 hours of receipt.
- ***Developing and retaining highly trained and knowledgeable sales personnel***. We require all sales personnel to specialize in home appliances, consumer electronics or "track" products. Track products include small appliances, computers, camcorders, DVD players, cameras and telephones that are sold within the interior of a large colorful track that circles the interior floor of our stores. All new sales personnel must complete an intensive two-week classroom training program followed by an additional week of on-the-job training riding in a delivery and service truck to observe how we serve our customers after the sale is made.
- ***Offering a broad range of customer-driven, brand name products***. We offer a comprehensive selection of high-quality, brand name merchandise to our customers at guaranteed low prices. Consistent with our good-better-best merchandising strategy, we offer a wide range of product selections from entry-level models through high-end models. To facilitate our responsiveness to customer demand, we use our prototype store, located near our corporate offices in Beaumont, Texas, to test the sale of all new products and obtain customers' reactions to new display formats before introducing these products and display formats to our other stores.
- ***Offering flexible financing alternatives through our proprietary credit programs***. Historically, we have financed approximately 60% of our retail sales through our internal credit programs. We believe our credit programs expand our potential customer base, increase our sales revenue and enhance customer loyalty by providing our customers immediate access to financing alternatives that our competitors typically do not offer. Approximately 60% of customers who have active credit accounts with us take advantage of our monthly in-store payment option, which we believe results in additional sales to these customers.
- ***Maintaining same day and next day distribution capabilities***. We maintain four regional distribution centers and two related facilities that cover all of our major markets. Using our fleet of transfer and delivery vehicles, we are able to deliver products from these facilities on the day of, or the day after, the sale to approximately 95% of our customers.
- ***Providing outstanding product repair service***. We service every product that we sell, and we service only the products that we sell, ensuring that our customers will receive our service technicians' exclusive attention for their product repair needs.

Growth Strategy

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

- ***Increasing same store sales***. We plan to increase our same store sales by remerchandising our product offerings in response to changes in customer demands, training our sales personnel to increase sales closing rates, updating stores every three years on average and continuing to emphasize a high level of customer service. As an example, we have recently developed a new strategy for the merchandising of our track products, including separate merchandising plans and displays, separate sales and managerial personnel, convenient check-out procedures and diversified inventory.

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- ***Opening new stores***. We plan to continue the pace of our new store openings in our five existing major markets, in adjacent markets and in new markets by opening one to three additional new stores in fiscal 2004 and an additional four to six new stores in fiscal 2005. Our prototype store for future expansion, which has from 20,000 to 24,000 square feet of retail selling space, is approximately 15% larger than our average existing store.
  - *Existing and adjacent markets*. We intend to increase our market presence by opening new stores in our existing markets and in markets adjacent to our five existing major markets. New store openings in these locations will allow us to leverage our existing distribution network and advertising programs and capitalize on our brand name recognition and reputation.
  - *New markets*. We have executed leases to open three stores in the Dallas/Fort Worth metroplex during fiscal 2004. We also have identified several additional markets that meet our criteria for site selection, including the Rio Grande Valley in southwest Texas, New Orleans and central Louisiana around Shreveport, Monroe and Alexandria. We intend to enter these new markets, along with others in neighboring states, over the next several years.
- ***Updating, expanding or relocating stores***. Over the last three years, we have updated, expanded or relocated all of our stores. We have implemented our larger prototype store model at all locations where the physical space would accommodate the required design changes. After updating, expanding or relocating a store, we expect to increase sales significantly at those stores.

About Us

We began as a small plumbing and heating business in 1890. We began selling home appliances to the retail market in 1937 through one store located in Beaumont, Texas. We opened our second store in 1959 and have since grown to 44 stores, selling home appliances, consumer electronics, home office equipment, lawn and garden products and bedding.

We were formed as a Delaware corporation in January 2003 with an initial capitalization of $1,000 to become the holding company for Conn Appliances, Inc., a Texas corporation. We have had no operations to date. Immediately before the closing of the initial public offering of our common stock described in this prospectus, Conn Appliances, Inc., our current parent company, will become our operating subsidiary, and the common and preferred shareholders of Conn Appliances, Inc. will become common and preferred stockholders of Conn’s, Inc. on a share-for-share basis. As used in this prospectus, “Conn’s,” “we,” “us” and “our” refer to Conn’s, Inc. and its consolidated subsidiaries, including Conn Appliances, Inc. and its subsidiaries, and “Conn Texas” refers to Conn Appliances, Inc. and its subsidiaries.

Our principal executive offices are located at 3295 College Street, Beaumont, Texas 77701. Our telephone number at that address is (409) 832-1696. Our website address is www.conns.com. Information contained on our website is not part of this prospectus.

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The Offering

Common stock offered by us	4,000,000 shares
Common stock offered by the selling stockholder	150,000 shares
Common stock to be outstanding after the offering	22,542,198 shares
Use of proceeds	To reduce a portion of our existing debt, to redeem a portion of our outstanding preferred stock and for general corporate purposes, including continued growth and expansion of our business.
Proposed Nasdaq National Market symbol	"CONN"

The number of shares of common stock to be outstanding after this offering excludes:

- 2,859,767 shares available for future issuance under our director and employee stock option plans, of which 1,223,890 shares are issuable upon the exercise of outstanding stock options at July 31, 2003, at a weighted average exercise price of $8.31 per share; and
- 1,267,085 shares available for future issuance under our employee stock purchase plan.

Except as otherwise noted, all information in this prospectus assumes:

- the completion of the Delaware reorganization whereby Conn Texas will become our wholly-owned subsidiary immediately prior to the closing of this offering;
- that all of the preferred stockholders of Conn Texas who will become our preferred stockholders as a result of the Delaware reorganization will elect to redeem their Conn's preferred stock for cash in response to the call for redemption that we will make immediately after the closing of this offering, except for Thomas J. Frank, Sr., our Chairman of the Board and Chief Executive Officer, Stephens Group, Inc., Stephens Inc. and affiliates of Stephens Group, Inc. (the "SGI Affiliates") who own shares of our preferred stock, all of whom we expect will elect to redeem their preferred stock for shares of our common stock; and
- that the underwriters do not exercise their over-allotment option.

Summary Consolidated Financial Data

The following restated summary consolidated financial data for the fiscal years ended July 31, 1999, 2000, and 2001, the six month period ended January 31, 2002, and the fiscal year ended January 31, 2003, are derived from our consolidated financial statements which have been audited by Ernst & Young LLP, independent auditors. The data should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein. The summary consolidated financial data for the twelve month period ended January 31, 2002 and for the six month periods ended July 31, 2002 and 2003 are derived from unaudited financial statements. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which we consider necessary for a fair presentation of the financial position and the results of operations for these periods. Operating results for the six months ended July 31, 2003 are not necessarily indicative of the results that may be expected for the entire year ending January 31, 2004.

	Twelve Months Ended July 31,			Six Months Ended January 31,	Twelve Months Ended January 31,		Six Months Ended July 31,	
	1999	2000	2001	2002	2002	2003	2002	2003
	(dollars and shares in thousands, except per share amounts)							
Statement of Operations Data (1):								
Total revenues	$ 236,748	$ 279,665	$ 330,267	$ 208,748	$ 382,083	$ 450,082	$ 220,003	$ 239,586
Operating income	20,509	28,425	31,366	19,437	35,944	39,180	18,775	19,651
Interest expense, net	6,024	4,836	3,754	2,940	4,855	7,237	3,125	3,217
Net income from continuing operations	8,761	14,598	17,733	10,553	19,959	20,601	10,094	10,607
Discontinued operations, net of tax	224	30	(546)	—	—	—	—	—
Net income	8,985	14,628	17,187	10,553	19,959	20,601	10,094	10,607
Less preferred stock dividends (2)	(1,857)	(2,046)	(2,173)	(1,025)	(1,939)	(2,133)	(1,067)	(1,173)
Net income available for common stockholders	$ 7,128	$ 12,582	$ 15,014	$ 9,528	$ 18,020	$ 18,468	$ 9,027	$ 9,434
Earnings per common share:								
Basic	$ 0.41	$ 0.73	$ 0.87	$ 0.56	$ 1.06	$ 1.10	$ 0.54	$ 0.56
Diluted	$ 0.41	$ 0.72	$ 0.87	$ 0.55	$ 1.04	$ 1.10	$ 0.54	$ 0.56
Average common shares outstanding:								
Basic	17,489	17,350	17,169	17,025	17,060	16,724	16,728	16,720
Diluted	17,489	17,384	17,194	17,327	17,383	16,724	16,728	16,720
Other Financial Data:								
Stores open at end of period	26	28	32	36	36	42	39	42
Same store sales growth (3)	13.6%	8.9%	10.3%	16.7%	15.6%	1.3%	6.8%	(0.9)%
Inventory turns (4)	5.5	5.6	5.9	7.5	6.8	6.1	7.6	7.3
Gross margin percentage (5)	37.9%	38.4%	37.9%	38.0%	38.0%	37.6%	38.3%	35.9%
Operating margin (6)	8.7%	10.2%	9.5%	9.3%	9.4%	8.7%	8.5%	8.2%
Return on average equity (7)	40.2%	42.8%	36.7%	35.9%	34.9%	28.3%	29.9%	23.9%
Capital expenditures	$ 6,781	$ 6,920	$ 14,833	$ 10,551	$ 13,954	$ 15,070	$ 9,319	$ 2,064

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	As of July 31, 2003		
	Actual	Pro Forma(8)	Pro Forma As Adjusted(8)(9)
Balance Sheet Data:			
Working capital	$ 76,347	$ 76,671	$ 100,842
Total assets	190,005	188,274	201,234
Total debt	43,380	43,380	8,500
Preferred stock	15,226	—	—
Total stockholders' equity	94,667	92,936	140,776

(1) Information excludes the operations of the rent-to-own division that we sold in February 2001.

(2) Dividends were not actually declared or paid but are presented for purposes of earnings per share calculation.

(3) Same store sales growth is calculated by comparing the reported sales by store in the current period as compared to stores in the previous period that were open for the total time being measured for each period. Sales from closed stores have been removed from each period. Sales from relocated and expanded stores have been included in each period presented on the basis that the store is already established in the neighborhood and that the relocated store is in the same general geographic market place as the previous store.

(4) Inventory turns are defined as the cost of goods sold, excluding warehousing and occupancy cost, divided by the average of beginning and ending inventory; information for the six months ended January 31, 2002 and July 31, 2002 and 2003 has been annualized for comparison purposes.

(5) Gross margin percentage is defined as total revenues less cost of goods sold, including warehousing and occupancy cost, divided by total revenues.

(6) Operating margin is defined as operating income divided by total revenues.

(7) Return on average equity is calculated as current period net income from continuing operations divided by the average of beginning and ending equity; information for the six months ended January 31, 2002 and July 31, 2002 and 2003 has been annualized for comparison purposes.

(8) The pro forma and pro forma as adjusted balance sheet data assumes that all of our preferred stockholders, except Thomas J. Frank, Sr., Stephens Group, Inc., Stephens Inc. and the SGI Affiliates, elect to receive cash in response to the call for redemption of 11,895 shares of preferred stock that we will make immediately after the closing of this offering. Because we are unable to determine the intent of our other preferred stockholders, we have assumed the most unfavorable treatment, from a cash flow standpoint, of the 11,895 shares of preferred stock assumed to be redeemed for $133,178 in cash from these stockholders.

(9) The pro forma as adjusted balance sheet data give effect to our sale of 4,000,000 shares of common stock at an assumed initial public offering price of $13.00 per share (the midpoint of the estimated price range set forth in the cover page of this prospectus) and the application of the estimated net proceeds as described in "Use of Proceeds."

RISK FACTORS

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

Risks Related to our Business

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

We plan to open an additional one to three new stores in fiscal 2004 and to continue our expansion by opening an additional four to six new stores in fiscal 2005. These new stores include three stores in the Dallas/Fort Worth metroplex, where we have not previously operated. We have not yet selected sites for all of the stores that we plan to open within the next 18 months. We may not be able to open all of these stores, and any new stores that we open may not be profitable. Either of these circumstances could have a material adverse effect on our financial results.

There are a number of factors that could affect our ability to open and operate new stores consistent with our business plan, including:

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

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

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

We face many business risks associated with growing companies, including the risk that our management, financial controls and information systems will be inadequate to support our planned expansion. Our growth plans will require management to expend significant time and effort and additional resources to ensure the continuing adequacy of our financial controls, operating procedures, information systems, product purchasing, warehousing and distribution systems and employee training programs. We cannot predict whether we will be able to manage effectively these increased demands or respond on a timely basis to the changing demands that our planned expansion will impose on our management, financial controls and information systems. If we fail to manage successfully the challenges our growth poses, do not continue to improve these systems and controls or encounter unexpected difficulties during our expansion, our business, financial condition, operating results or cash flows could be materially adversely affected.

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

We finance most of our customer receivables through asset-backed securitization facilities. The master trust arrangement governing these facilities currently provides for two separate series of asset-backed notes that allow us to finance up to $450 million in customer receivables. Under each note series, we transfer customer receivables to a qualifying special purpose entity in exchange for cash, subordinated securities and the right to receive cash flows equal to the interest rate spread between the transferred receivables and the notes issued to third parties (“interest only strip”). This qualifying special purpose entity, in turn, issues notes that are collateralized by these receivables and entitle the holders of the notes to participate in certain cash flows from these receivables. The Series A program is a $250 million variable funding note held by Three Pillars Funding Corporation, of which $46 million was drawn as of July 31, 2003. The Series B program consists of $200 million in private bond placements that was fully drawn as of July 31, 2003.

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

- conditions in the securities and finance markets generally;
- conditions in the markets for securitized instruments;
- the credit quality and performance of our financial instruments;
- our ability to obtain financial support for required credit enhancement;
- our ability to service adequately our financial instruments;
- the absence of any material downgrading or withdrawal of ratings given to our securities previously issued in securitizations; and
- prevailing interest rates.

Our ability to finance customer receivables under our current asset-backed securitization facilities depends on our compliance with covenants relating to our business and our customer receivables. If these programs reach their capacity or otherwise become unavailable, and we are unable to arrange substitute securitization facilities or other sources of financing, we may have to limit the amount of credit that we make available through our customer finance programs. This may adversely affect revenues and results of operations. Further, our inability to obtain funding through securitization facilities or other sources may adversely affect the profitability of outstanding accounts under our credit programs if existing customers fail to repay outstanding credit due to our refusal to grant additional credit. Since our cost of funds under our bank credit facility is expected to be greater in future years than our cost of funds under our current securitization facility, increased reliance on our bank credit facility may adversely affect our net income. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Off-Balance Sheet Financing Arrangements.”

An increase in short-term interest rates may adversely affect our profitability.

The interest rates on our bank credit facility and the Series A program under our asset-backed securitization facility fluctuate up or down based upon the LIBOR rate, the prime rate of our administrative agent or the federal funds rate in the case of the bank credit facility and the commercial paper rate in the case of the Series A program. To the extent that such rates increase, the fair value of the interest only strip will decline and our interest expense could increase which may result in a decrease in our profitability.

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

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

We estimate that capital expenditures during fiscal 2004 will be approximately $10 million and that capital expenditures during future years will likely exceed this amount. We expect that cash provided by operating activities, available borrowings under our credit facility, access to the unfunded portion of our asset-backed securitization program and the net proceeds of this offering will be sufficient to fund our operations, store expansion and updating activities and capital expenditure programs through at least January 31, 2005. However, this may not be the case. We may be required to seek additional capital earlier than anticipated if future cash flows from operations fail to meet our expectations and costs or capital expenditures related to new store openings exceed anticipated amounts.

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

Historically, we have financed approximately 60% of our retail sales through our internal credit programs. Our ability to provide credit as a financing alternative for our customers depends on many factors, including the quality of our accounts receivable portfolio. Payments on some of our credit accounts become delinquent from time to time, and some accounts end up in default, due to several factors, including general and local economic conditions. As we expand into new markets, we will obtain new credit accounts that may present a higher risk than our existing credit accounts since new credit customers do not have an established credit history with us. A general decline in the quality of our accounts receivable portfolio could lead to a reduction of available credit provided through our finance operations. As a result, we might sell fewer products, which could adversely affect our earnings. Further, because approximately 60% of our credit customers make their credit account payments in our stores, any decrease in credit sales could reduce traffic in our stores and lower our revenues. A decline in the credit quality of our credit accounts could also cause an increase in our credit losses, which could require us to increase the provision for bad debts on our statement of operations and result in an adverse effect on our earnings. See “Business—Finance Operations.”

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

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

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

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

We may not be able to compete successfully against existing and future competitors. Some of our competitors have financial resources that are substantially greater than ours and may be able to purchase inventory at lower costs and better sustain economic downturns. Our competitors may respond more quickly to new or emerging technologies and may have greater resources to devote to promotion and sale of products and services. If two or more competitors consolidate their businesses or enter into strategic partnerships, they may be able to compete more effectively against us.

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

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

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

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

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

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

Our products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to change. Our success depends upon our ability to anticipate and respond in a timely manner to trends in consumer preferences relating to major household appliances and consumer electronics. If we fail to identify and respond to these changes, our sales of these products may decline. In addition, we often make

commitments to purchase products from our vendors up to six months in advance of proposed delivery dates. Significant deviation from the projected demand for products that we sell may have a material adverse effect on our results of operations and financial condition, either from lost sales or lower margins due to the need to reduce prices to sell excess inventory.

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

The success of our business and growth strategies depends to a significant degree on our relationships with our suppliers, particularly our brand name suppliers such as General Electric, Whirlpool, Frigidaire, Maytag, Mitsubishi, Sony, Hitachi, Panasonic, Thomson Consumer Electronics, Toshiba, Hewlett Packard and Compaq. We do not have long term supply agreements or exclusive arrangements with the majority of our vendors. We typically order our inventory through the issuance of individual purchase orders to vendors. We also rely on our suppliers for cooperative advertising support. We may be subject to rationing by suppliers with respect to a number of limited distribution items. In addition, we rely heavily on a relatively small number of suppliers. Our top six suppliers represented 65.3% of our purchases for fiscal 2003, and the top two suppliers represented more than 29.2% of our total purchases. See "Business—Products and Merchandising—Purchasing." The loss of any one or more of these key vendors or our failure to establish and maintain relationships with these and other vendors could have a material adverse effect on our results of operations and financial condition.

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

Furthermore, we rely on credit from vendors to purchase our products. As of July 31, 2003, we had $31.9 million in accounts payable and $50.4 million in merchandise inventories. A substantial change in credit terms from vendors or vendors' willingness to extend credit to us would reduce our ability to obtain the merchandise that we sell, which could have a material adverse effect on our sales and results of operations.

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

Our historical same store sales growth figures have fluctuated significantly from quarter to quarter. For example, same store sales growth for each of the quarters of fiscal 2003 and the two quarters included in the six month period ended July 31, 2003 were 14.7%, 0.1%, (3.3%), (3.7%), 1.1% and (2.5%), respectively. Even though we achieved double-digit same store sales growth in the past, we may not be able to increase same store sales in the future. This is reflected in the declining rate of increases or, in some cases, actual decreases, in same store sales that have occurred over the last several quarters. A number of factors have historically affected, and will continue to affect, our comparable store sales results, including:

- changes in competition;
- general economic conditions;
- new product introductions;
- consumer trends;
- changes in our merchandise mix;
- changes in the relative sales price points of our major product categories;
- the impact of our new stores on our existing stores, including potential decreases in existing stores' sales as a result of opening new stores;

- weather conditions in our markets;
- timing of promotional events; and
- our ability to execute our business strategy effectively.

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

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

We experience seasonal fluctuations in our net sales and operating results. In fiscal 2003, we generated 27.1% and 25.1% of our net sales and 29.7% and 25.8% of our net income in the fiscal quarters ended January 31 (which include the holiday selling season) and July 31 (which include the effects of summer air conditioner sales), respectively. We also incur significant additional expenses during these fiscal quarters due to higher purchase volumes and increased staffing. If we miscalculate the demand for our products generally or for our product mix during the fiscal quarters ending January 31 and July 31, our net sales could decline, resulting in excess inventory, which could harm our financial performance. A shortfall in expected net sales, combined with our significant additional expenses during these fiscal quarters, could cause a significant decline in our operating results. This could adversely affect our common stock price.

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

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

Pending litigation relating to the sale of credit insurance and the sale of service maintenance agreements in the retail industry, including one lawsuit in which we are the defendant, could adversely affect our business.

States’ attorneys general and private plaintiffs have filed lawsuits against other retailers relating to improper practices conducted in connection with the sale of credit insurance in several jurisdictions around the country. We offer credit insurance in all of our stores and require the purchase of property credit insurance products from us or from third party providers in connection with sales of merchandise on credit; therefore, similar litigation could be brought against us. Additionally, we have been named as a defendant in a purported class action lawsuit alleging breach of contract and violations of state and federal consumer protection laws arising from the terms of our service maintenance agreements. While we believe we are in full compliance with applicable laws and regulations, if we are found liable in the class action lawsuit or any future lawsuit regarding credit insurance or service maintenance agreements, we could be required to pay substantial damages or incur substantial costs as part of an out-of-court settlement, either of which could have a material adverse effect on our results of operations and stock price. An adverse judgment or any negative publicity associated with our service maintenance agreements or any potential credit insurance litigation could also affect our reputation, which could have a negative impact on sales. See “Business—Legal Proceedings.”

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

Our future success depends to a significant degree on the skills, experience and continued service of Thomas J. Frank, Sr., our Chairman of the Board and Chief Executive Officer, William C. Nylin, Jr., our President and Chief Operating Officer, C. William Frank, our Executive Vice President and Chief Financial Officer, David R. Atnip, our Senior Vice President and Secretary/Treasurer, and other key personnel. We have entered into employment agreements with each of these named individuals, all of which include confidentiality and other customary provisions. If we lose the services of any of these individuals, or if one or more of them or other key personnel decide to join a competitor or otherwise compete directly or indirectly with us, our business and operations could be harmed, and we could have difficulty in implementing our strategy. In addition, as our business grows, we will need to locate, hire and retain additional qualified sales personnel in a timely manner and develop, train and manage an increasing number of management level sales associates and other employees. Competition for qualified employees could require us to pay higher wages to attract a sufficient number of employees, and increases in the federal minimum wage or other employee benefits costs could increase our operating expenses. If we are unable to attract and retain personnel as needed in the future, our net sales growth and operating results could suffer.

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

Our 44 stores are located exclusively in Texas and Louisiana. This subjects us to regional risks, such as the economy, weather conditions, hurricanes and other natural disasters. If the region suffered an economic downturn or other adverse regional event, there could be an adverse impact on our net sales and profitability and our ability to implement our planned expansion program. Several of our competitors operate stores across the United States and thus are not as vulnerable to the risks of operating in one region.

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

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

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

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

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

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

provide replacement coverage on the same terms, if at all. Even if we are able to obtain replacement coverage, higher premiums could have an adverse impact on our profitability if we are unable to pass along the increased cost of such coverage to our customers. Inability to obtain insurance coverage for our service maintenance agreements could cause fluctuations in our repair expenses and greater volatility of earnings.

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

A significant portion of our inventory is manufactured overseas and in Mexico. Changes in trade regulations, currency fluctuations or other factors beyond our control may increase the cost of items we purchase or create shortages of these items, which in turn could have a material adverse effect on our results of operations and financial condition. Conversely, significant reductions in the cost of these items in U.S. dollars may cause a significant reduction in the retail prices of those products, resulting in a material adverse effect on our sales, margins or competitive position.

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

We believe that our success and ability to compete depends in part on consumer identification of the name “Conn’s.” We have applied for registration of our trademark “Conn’s” and our logo. We intend to protect vigorously our trademark against infringement or misappropriation by others. A third party, however, could misappropriate our intellectual property in the future. The enforcement of our proprietary rights through litigation could result in substantial costs to us that could have a material adverse effect on our financial condition or results of operations.

Risks Related to our Common Stock and this Offering

Because of its significant stock ownership, a trust to be established by Stephens Group, Inc. will be able to exert significant control over our future direction.

Prior to the completion of this offering, Stephens Group, Inc., Stephens Inc. and the SGI Affiliates will have contributed all of the shares of our stock owned by them to a voting trust, which will contain approximately 60.8% of our outstanding common stock after completion of this offering. The trustee of the voting trust will be appointed by Stephens Group, Inc. but will not be a director, officer or employee of Stephens Group, Inc., Stephens Inc. or any of their affiliates. The trustee will be required under the terms of the voting trust agreement to vote the shares in the voting trust “for” or “against” those proposals submitted to our stockholders (including proposals involving the election of directors) in the same proportion as votes cast “for” and “against” those proposals by all other stockholders. As long as these shares continue to be held in the voting trust, the voting power of all of our other stockholders will be magnified by the operation of the voting trust, and Stephens Group, Inc. and its affiliates will not be able to exercise voting control over our business. However, if the voting trust were terminated, depending upon the number of shares then outstanding and the number of shares voted on a particular matter, Stephens Group, Inc. and its affiliates might be able to exercise substantial influence over all matters requiring our stockholders’ approval, including the election of our entire board of directors, amendment of our certificate of incorporation and approval of significant corporate transactions. Our board of directors has the authority to make decisions affecting our management policies, operations, affairs and capital structure, including decisions to issue additional stock, implement stock repurchase programs and incur indebtedness. This concentration of ownership may delay, prevent or deter a change in control, deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of us or our assets and adversely affect the market price of our common stock. The trust expires in October 2013 and Stephens Group, Inc. has the right to terminate the trust prior to its expiration. See “Principal and Selling Stockholders.” If the trust were terminated, Stephens Inc. might be prohibited from making a market in our common stock.

You will not have control over management’s use of the proceeds from this offering.

We expect to use the net proceeds from this offering to reduce a portion of our existing debt, to redeem a portion of our outstanding preferred stock and for general corporate purposes. However, we will have broad discretion in how we use the net proceeds from this offering. We may ultimately decide to use the proceeds for purposes other than the purposes indicated in this prospectus. We may decide not to use proceeds for any one or more of the indicated purposes. You will not have the opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use the net proceeds or to approve these decisions. See “Use of Proceeds.”

The price of our common stock after this offering may be lower than the offering price you pay and may be volatile.

Our common stock has not been sold in a public market prior to this offering. An active trading market in our common stock may not develop after this offering. If an active trading market develops, it may not continue and the trading price of our common stock may fluctuate widely as a result of a number of factors that are beyond our control, including our perceived prospects, changes in analysts’ recommendations or projections and changes in overall market valuation. The stock market has experienced extreme price and volume fluctuations that have affected the market prices of the stocks of many companies. These broad market fluctuations could adversely affect the market price of our common stock. A significant decline in our stock price could result in substantial losses for individual stockholders and could lead to costly and disruptive securities litigation. The selling price for shares of our common stock in this offering was not established in a competitive market but was negotiated with the representatives of the underwriters based on a number of factors. The price of our common stock that will prevail in the market after this offering may be higher or lower than the offering price.

You will incur immediate and substantial dilution in the book value of your investment.

The initial public offering price of our common stock will be substantially higher than the current net tangible book value per share of the outstanding common stock. If you purchase shares of our common stock in this offering, you will incur immediate and substantial dilution in the amount of $7.05 per share, based on an assumed initial public offering price of $13.00 per share. The exercise of outstanding options or the issuance of additional shares in the future may result in further dilution. See “Dilution.”

Substantial amounts of our common stock could be sold in the near future, which could depress our stock price.

Prior to this offering, there has been no public market for our common stock. We cannot predict the effect, if any, that public sales of shares of common stock after this offering, or the perception that these sales could occur, and the availability of shares of common stock for sale will have on the market price of our common stock prevailing from time to time. All of our currently outstanding shares of common stock are “restricted securities” under the Securities Act of 1933, as amended. These shares are eligible for future sale in the public market at prescribed times pursuant to Rule 144 under the Securities Act or otherwise. Additionally, certain of our stockholders, owning 17,087,888 shares, or 75.8%, of our common stock after this offering, have agreed not to sell or otherwise dispose of any of their shares for a period of 180 days after this date of this prospectus. Sales of a significant number of shares of our common stock in the public market could adversely affect the market price of the common stock. See “Shares Eligible for Future Sale” and “Underwriting.”

Our anti-takeover provisions and Delaware law could prevent or delay a change in control of our company, even if such a change of control would be beneficial to our stockholders.

Provisions of our certificate of incorporation and bylaws, as well as provisions of Delaware law, could discourage, delay or prevent a merger, acquisition or other change in control of our company, even if such a

change in control would be beneficial to our stockholders. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors and take other corporate actions. As a result, these provisions could limit the price that investors are willing to pay in the future for shares of our common stock. These provisions might also discourage a potential acquisition proposal or tender offer, even if the acquisition proposal or tender offer is at a price above the then current market price for our common stock. These provisions include:

- a board of directors that is classified such that only one-third of directors are elected each year;
- authorization of "blank check" preferred stock that our board of directors could issue to increase the number of outstanding shares and thwart a takeover attempt;
- limitations on the ability of stockholders to call special meetings of stockholders;
- a prohibition against stockholder action by written consent and a requirement that all stockholder actions be taken at a meeting of our stockholders; and
- advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, which limits business combination transactions with 15% or greater stockholders that our board of directors has not approved. These provisions and other similar provisions make it more difficult for a third party to acquire us without negotiation. These provisions may apply even if some stockholders may consider the transaction beneficial. See "Description of Capital Stock."

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FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. We sometimes use words such as “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “project” and similar expressions, as they relate to us, our management and our industry, to identify forward-looking statements. Forward-looking statements relate to our expectations, beliefs, plans, strategies, prospects, future performance, anticipated trends and other future events. Specifically, this prospectus contains forward-looking statements relating to, among other things:

- our growth strategy and plans regarding opening new stores and entering adjacent and new markets, including our plans to expand into the Dallas/Fort Worth metroplex;
- our intention to update or expand existing stores;
- estimated capital expenditures and costs related to the opening of new stores or the update or expansion of existing stores;
- the sufficiency of the proceeds from this offering, our cash flows from operations, borrowings from our revolving line of credit and proceeds from securitizations to fund our operations, debt repayment and expansion;
- technological and market developments, growth trends and projected sales in the home appliance and consumer electronics industry, including with respect to digital products like DVD players, HDTV, digital radio, home networking devices and other new products, and our ability to capitalize on such growth;
- our relationships with key suppliers;
- the adequacy of our distribution and information systems and management experience to support our expansion plans;
- our expectations regarding competition and our competitive advantages;
- the outcome of litigation affecting our business; and
- nonpayment of dividends.

We have based our forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. Actual results may differ materially. Some of the risks, uncertainties and assumptions about us that may cause actual results to differ from these forward-looking statements are described in “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not happen.

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

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

USE OF PROCEEDS

We estimate that the net proceeds to us from this offering, after deducting underwriting discounts and other estimated expenses, will be approximately $47.8 million, or $55.3 million if the underwriters exercise their over-allotment option in full, assuming an initial public offering price of $13.00 per share (the midpoint of the estimated price range set forth on the cover page of this prospectus).

We intend to use approximately $34.9 million of the net proceeds from this offering to pay the following existing indebtedness:

- *Revolving and Term Notes*. As of July 31, 2003, we had approximately $20.5 million in outstanding revolving debt and $13.5 million in outstanding term debt under our bank credit facility. The revolving notes mature on September 13, 2005 and provide for quarterly interest payments at a variable rate, which was 4.5% as of July 31, 2003. The term notes mature on September 13, 2005, and provide for aggregate quarterly payments of $1.5 million plus interest at a variable rate, which was 4.0% as of July 31, 2003. We intend to pay the outstanding revolving debt in full and pay $5.0 million of the outstanding term debt.
- *Short-Term Notes*. As of July 31, 2003, we had approximately $1.8 million in outstanding notes payable to a bank and $3.5 million payable to an insurance company. These notes represent short-term borrowings under revolving agreements that bear interest as of July 31, 2003, at 3.75% (in the case of the bank debt, which is prime less 0.5%) and 7.5% (in the case of the insurance company debt, which is prime plus 1.0% with a floor of 7.50%). The bank debt matures in April 2004, and the insurance company debt matures in November 2003.
- *Promissory Notes Payable to Former Stockholders*. As of July 31, 2003, we had approximately $4.0 million in outstanding notes payable to two former stockholders. One of the notes, with a balance of $3.4 million, is subordinated to our senior debt, bears interest at 9.0% and matures in July 2005. The other note, with a balance of $0.6 million, is unsecured, bears interest at 6.0% and matures in January 2005.
- *Installment Obligations Payable to Financial Institutions*. As of July 31, 2003, we had approximately $0.1 million in outstanding notes payable to various financial institutions. These notes represent installment obligations that are due monthly and that had a weighted average interest rate of 4.1% as of July 31, 2003.

We expect to use up to approximately $1.7 million of the net proceeds from this offering to redeem outstanding shares of our preferred stock immediately after the closing of this offering. See “Certain Relationships and Related Transactions—Redemption of our Preferred Stock.”

We expect to use the remaining proceeds of approximately $11.2 million for general corporate purposes, including the continued growth and expansion of our business.

The amount of funds we actually use for any particular purpose will depend on many factors, including changes in our business strategy, material changes in our revenues, expenses and cash flow, and other factors described in “Risk Factors.” For example, if our future revenues and cash flow are less than we currently anticipate, we may need to support our ongoing business operations with proceeds of this offering that we would otherwise use to support growth and expansion. Accordingly, except for the required repayment of the $5.0 million in outstanding term debt and the payment to effect the redemption of our preferred stock, our management will have significant discretion over the use and investment of the net proceeds of this offering and may spend such proceeds for any purpose, including purposes not presently contemplated.

Pending the uses described above, we intend to invest the net proceeds of this offering in interest-bearing accounts, short-term interest-bearing investment grade securities or both.

We will not receive any proceeds from the sale of common stock by the selling stockholder.

DIVIDEND POLICY

We have never paid cash dividends on our common stock. We currently intend to retain all of our earnings in the foreseeable future to finance the operation and expansion of our business. Additionally, our bank credit facility currently prohibits us from declaring or paying any dividends on our common stock. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.” Our future dividend policy will also depend on the requirements of any future financing arrangements to which we may be a party and other factors considered relevant by our board of directors.

CAPITALIZATION

The following table sets forth our capitalization as of July 31, 2003, on:

- an actual basis;
- a pro forma basis reflecting the receipt of cash by all of our preferred stockholders except Thomas J. Frank, Sr., Stephens Group, Inc., Stephens Inc. and the SGI Affiliates upon the redemption of our preferred stock immediately following the closing of this offering; and
- a pro forma as adjusted basis (1) reflecting the receipt of cash by all of our preferred stockholders except Thomas J. Frank, Sr., Stephens Group, Inc., Stephens Inc. and the SGI Affiliates upon the redemption of our preferred stock immediately following the closing of this offering; (2) giving effect to our sale of 4,000,000 shares of common stock in this offering at an assumed initial public offering price of $13.00 per share after deducting underwriting discounts and estimated offering expenses; and (3) reflecting our application of the estimated net proceeds of the offering as described in "Use of Proceeds."

You should read the following table together with our consolidated financial statements and the related notes included elsewhere in this prospectus.

	As of July 31, 2003		
	Actual	**Pro Forma**	**Pro Forma As Adjusted**
	(dollars in thousands, except per share amounts)		
Long-term debt, including current portion	$ 38,105	$ 38,105	$ 8,500
Stockholders' equity:			
Preferred stock, $0.01 par value: 300,000 shares authorized, actual; 1,000,000 shares authorized, pro forma and pro forma as adjusted; 174,648 shares issued and outstanding, actual; and no shares issued and outstanding, pro forma and pro forma as adjusted	15,226	—	—
Common stock, $0.01 par value: 30,000,000 shares authorized, actual; 40,000,000 shares authorized pro forma and pro forma as adjusted; 17,175,480 shares issued and outstanding, actual; 18,997,688 shares issued and outstanding, pro forma; and 22,997,688 shares issued and outstanding, pro forma as adjusted	172	190	230
Paid-in capital	—	23,670	71,470
Retained earnings	78,739	68,545	68,545
Accumulated other comprehensive income	4,141	4,141	4,141
Treasury stock	(3,611)	(3,611)	(3,611)
Total stockholders' equity	94,667	92,935	140,775
Total capitalization	$ 132,772	$ 131,040	$ 149,275

The amounts above reflect balances at July 31, 2003, except that the redemption price of the preferred stock is determined as of November 30, 2003, to reflect the accumulation of dividends through the estimated date of the closing of the offering.

The number of shares of common stock issued and outstanding on an actual basis, a pro forma basis and a pro forma as adjusted basis is based on the number of shares issued and outstanding as of July 31, 2003. It excludes:

- 2,859,767 shares available for future issuance under our director and employee stock option plans, of which 1,223,890 shares are issuable upon the exercise of stock options outstanding at July 31, 2003, at a weighted average exercise price of $8.31 per share; and
- 1,267,085 shares available for future issuance under our employee stock purchase plan.

DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the pro forma as adjusted net tangible book value per share of our common stock immediately after the offering.

The actual net tangible book value of Conn Texas common stock as of July 31, 2003, was $61.3 million, or approximately $3.67 per share. Net tangible book value per share represents the amount of our total tangible assets less our total liabilities and the liquidation value of the outstanding Conn Texas preferred stock, divided by the number of shares of Conn Texas common stock outstanding as of July 31, 2003. All of the Conn Texas preferred stock will be converted into an equal number of shares of our preferred stock in connection with the Delaware reorganization that will take place immediately prior to the closing of this offering, and we will redeem all of our preferred stock shortly after the closing of the offering. Assuming that Thomas J. Frank, Sr., Stephens Group, Inc., Stephens Inc. and the SGI Affiliates elect to receive shares of our common stock in the redemption of their shares of preferred stock and that all of our other preferred stockholders elect to receive cash, the pro forma net tangible book value of our common stock as of July 31, 2003, after giving effect to the redemption but not the issuance of shares of our common stock in this offering, would be $85.0 million, or approximately $4.64 per share. The pro forma net tangible book value of the common stock would be $86.7 million, or approximately $4.74 per share, if all of the holders of preferred stock elected to receive common stock in the redemption.

Dilution in pro forma as adjusted net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of our common stock in this offering and the pro forma as adjusted net tangible book value per share of our common stock immediately afterwards. After giving effect to the sale by us of 4,000,000 shares of our common stock at an assumed initial public offering price of $13.00 per share and deduction of estimated underwriting discounts and offering expenses payable by us, our pro forma as adjusted net tangible book value as of July 31, 2003, would be approximately $132.9 million, or $5.95 per share. This represents an immediate increase in pro forma as adjusted net tangible book value of $1.31 per share to existing stockholders and an immediate dilution in pro forma as adjusted net tangible book value of $7.05 per share to new investors purchasing shares of common stock in this offering. The following table illustrates this dilution on a per share basis.[(1)]

Assumed initial public offering price		$ 13.00
Actual net tangible book value as of July 31, 2003	$ 3.67	
Increase attributable to redemption of preferred stock	.97	
Pro forma net tangible book value	4.64	
Increase attributable to new investors	1.31	
Pro forma as adjusted net tangible book value after giving effect to the offering		5.95
Dilution to new investors		$ 7.05

(1) If all preferred stockholders elect to receive common stock in the redemption, the increase attributable to redemption of preferred stock would be $1.07 per share, the pro forma net tangible book value would be $4.74 per share, the increase attributable to new investors would be $1.29 per share, the pro forma as adjusted net tangible book value after giving effect to the offering would be $6.03 per share and the dilution to new investors would be $6.97 per share.

The following table summarizes, on a pro forma as adjusted basis as of July 31, 2003, the total number of shares of our common stock purchased, the total consideration paid for these shares and the average price per share paid by existing stockholders and by new investors in this offering, calculated after deducting estimated underwriting discounts and offering expenses (in thousands):

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	18,998	82.6%	$ 23,861	33.3%	$ 1.26
New investors	4,000	17.4	47,840	66.7	11.96
Total	22,998	100.0%	$ 71,701	100.0%	$ 3.12

If the underwriters exercise their over-allotment option in full, sales in this offering will reduce the number of shares of common stock held by our existing stockholders to approximately 80.4% of the total shares of common stock outstanding after the offering and will increase the number of shares held by new investors to 4,622,500 shares, or approximately 19.6% of the total shares of common stock outstanding after the offering.

The above tables exclude 150,000 shares of common stock to be sold by the selling stockholder to new investors in this offering and assume no exercise of any outstanding stock options. In addition, the table includes 455,490 shares of treasury stock previously repurchased by us. As of July 31, 2003, there were options outstanding to purchase 1,223,890 shares of common stock at a weighted average exercise price of $8.31 per share. To the extent that any options that are outstanding or that will be issued in the future are exercised, purchasers of the common stock in this offering may incur further dilution. See “Capitalization” and “Management – Employee Equity Incentive Plans – Amended and Restated 2003 Incentive Stock Option Plan.”

SELECTED CONSOLIDATED FINANCIAL DATA

The following restated summary consolidated financial data for the fiscal years ended July 31, 1998, 1999, 2000 and 2001, the six month period ended January 31, 2002, and the fiscal year ended January 31, 2003, are derived from our consolidated financial statements which have been audited by Ernst & Young LLP, independent auditors. The data should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein. The summary consolidated financial data for the twelve month period ended January 31, 2002 and for the six month periods ended July 31, 2002 and 2003 are derived from unaudited financial statements. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which we consider necessary for a fair presentation of the financial position and the results of operations for these periods. Operating results for the six months ended July 31, 2003 are not necessarily indicative of the results that may be expected for the entire year ending January 31, 2004.

	Twelve Months Ended July 31,				Six Months Ended January 31,	Twelve Months Ended January 31,		Six Months Ended July 31,	
	1998	1999	2000	2001	2002	2002	2003	2002	2003
	(dollars and shares in thousands, except per share amounts)								
Statement of Operations Data (1):									
Net sales	$ 194,412	$ 208,378	$ 249,077	$ 292,388	$ 182,611	$ 335,548	$ 389,496	$ 190,323	$ 209,441
Finance charges and other	13,071	28,370	30,588	37,879	26,137	46,535	60,586	29,680	30,145
Total revenues	207,483	236,748	279,665	330,267	208,748	382,083	450,082	220,003	239,586
Operating expense:									
Cost of goods sold, including warehousing and occupancy costs	138,007	147,098	172,143	204,973	129,395	236,784	281,065	135,828	153,593
Selling, general and administrative expense	50,085	69,141	78,304	92,194	58,630	106,949	125,712	63,913	64,154
Provision for bad debts	—	—	793	1,734	1,286	2,406	4,125	1,487	2,188
Total operating expense	188,092	216,239	251,240	298,901	189,311	346,139	410,902	201,228	219,935
Operating income	19,391	20,509	28,425	31,366	19,437	35,944	39,180	18,775	19,651
Interest expense, net	2,622	6,024	4,836	3,754	2,940	4,855	7,237	3,125	3,216
Earnings before income taxes	16,769	14,485	23,589	27,612	16,497	31,089	31,943	15,650	16,434
Provision for income taxes	6,329	5,724	8,991	9,879	5,944	11,130	11,342	5,556	5,827
Net income from continuing operations	10,440	8,761	14,598	17,733	10,553	19,959	20,601	10,094	10,607
Discontinued operations, net of tax	17	224	30	(546)	—	—	—	—	—
Net income	10,457	8,985	14,628	17,187	10,553	19,959	20,601	10,094	10,607
Less preferred stock dividends (2)	(5)	(1,857)	(2,046)	(2,173)	(1,025)	(1,939)	(2,133)	(1,067)	(1,173)
Net income available for common stockholders	$ 10,452	$ 7,128	$ 12,582	$ 15,014	$ 9,528	$ 18,020	$ 18,468	$ 9,027	$ 9,434
Earnings from continuing operations per share (3):									
Basic	$ 0.60	$ 0.39	$ 0.73	$ 0.91	$ 0.56	$ 1.06	$ 1.10	$ 0.54	$ 0.56
Diluted	$ 0.60	$ 0.39	$ 0.72	$ 0.90	$ 0.55	$ 1.04	$ 1.10	$ 0.54	$ 0.56
Earnings per common share:									
Basic	$ 0.60	$ 0.41	$ 0.73	$ 0.87	$ 0.56	$ 1.06	$ 1.10	$ 0.54	$ 0.56
Diluted	$ 0.60	$ 0.41	$ 0.72	$ 0.87	$ 0.55	$ 1.04	$ 1.10	$ 0.54	$ 0.56
Average common shares outstanding:									
Basic	17,368	17,489	17,350	17,169	17,025	17,060	16,724	16,728	16,720
Diluted	17,368	17,489	17,384	17,194	17,327	17,383	16,724	16,728	16,720
Other Financial Data:									
Stores open at end of period	25	26	28	32	36	36	42	39	42
Same store sales growth (4)	13.4%	13.6%	8.9%	10.3%	16.7%	15.6%	1.3%	6.8%	(0.9)%
Inventory turns (5)	5.4	5.5	5.6	5.9	7.5	6.8	6.1	7.6	7.3
Gross margin percentage (6)	33.5%	37.9%	38.4%	37.9%	38.0%	38.0%	37.6%	38.3%	35.9%
Operating margin (7)	9.3%	8.7%	10.2%	9.5%	9.3%	9.4%	8.7%	8.5%	8.2%
Return on average equity (8)	34.7%	40.2%	42.3%	36.7%	35.9%	34.9%	28.3%	29.9%	23.9%
Capital expenditures	$ 6,344	$ 6,781	$ 6,920	$ 14,833	$ 10,551	$ 13,954	$ 15,070	$ 9,319	$ 2,064
Balance Sheet Data:									
Working capital	$ 43,848	$ 46,100	$ 33,888	$ 40,752	$ 45,546	$ 45,546	$ 69,984	$ 50,570	$ 76,347
Total assets	109,113	122,940	114,987	134,425	145,644	145,644	181,558	171,778	190,005
Total debt	65,599	62,651	30,735	31,445	38,750	38,750	51,992	48,105	43,380
Preferred stock	18,632	18,632	18,520	15,400	15,226	15,226	15,226	15,226	15,226
Total stockholders' equity	17,089	26,452	41,785	54,879	62,860	62,860	82,669	72,129	94,667

(1) Information excludes the operations of the rent-to-own division that we sold in February 2001.
(2) Dividends were not actually declared or paid but are presented for purposes of earnings per common share calculations.
(3) After reduction for preferred stock dividends.
(4) Same store sales growth is calculated by comparing the reported sales by store in the current period as compared to stores in the previous period that were open for the total time being measured for each period. Sales from closed stores have been removed from each period. Sales from relocated and expanded stores have been included in each period presented on the basis that the store is already established in the neighborhood and that the relocated store is in the same general geographic market place as the previous store.
(5) Inventory turns are defined as the cost of goods sold, excluding warehousing and occupancy cost, divided by the average of beginning and ending inventory; information for the six months ended January 31, 2002 and the six months ended July 31, 2002 and 2003 has been annualized for comparison purposes.
(6) Gross margin percentage is defined as total revenues less cost of goods sold, including warehousing and occupancy cost, divided by total revenues.
(7) Operating margin is defined as operating income divided by total revenues.
(8) Return on average equity is calculated as current period net income from continuing operations divided by the average of beginning and ending equity; information for the six months ended January 31, 2002 and the six months ended July 31, 2002 and 2003 has been annualized for comparison purposes.

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PRO FORMA STATEMENTS OF OPERATIONS

The following pro forma statements of operations for the year ended January 31, 2003 and the six months ended July 31, 2003 give effect to a) the preferred stock that will be converted to common stock after the closing of the offering; and b) the use of proceeds to repay debt and redeem stock. The adjustments reflected below have been presented as though the transaction took place as of the first day of each period presented and that all preferred stockholders except Thomas J. Frank, Sr., Stephens Group, Inc., Stephens, Inc., and the SGI Affiliates elected to receive cash for their preferred stock.

	Year Ended January 31, 2003			Six Months Ended July 31, 2003		
	As Reported	Pro forma Adjustments	Pro forma As Adjusted	As Reported	Pro forma Adjustments	Pro forma As Adjusted
	(dollars in thousands, except per share amounts)					
Revenues						
Product sales	$ 350,588		$ 350,588	$ 188,477		$ 188,477
Service maintenance agreement commissions (net)	20,488		20,488	11,588		11,588
Service revenues	18,420		18,420	9,376		9,376
Total net sales	389,496	—	389,496	209,441	—	209,441
Finance charges and other	60,586		60,586	30,145		30,145
Total revenues	450,082	—	450,082	239,586	—	239,586
Cost and expenses						
Cost of goods sold, including warehousing and occupancy costs	279,560		279,560	152,949		152,949
Cost of service parts sold, including warehousing and occupancy costs	1,505		1,505	644		644
Selling, general and administrative expense	125,712		125,712	64,154		64,154
Provision for bad debts	4,125		4,125	2,188		2,188
Total cost and expenses	410,902	—	410,902	219,936	—	219,936
Operating income	39,180	—	39,180	19,650	—	19,650
Interest expense	7,237	(2,251)(a)	4,986	3,216	(914)(a)	2,302
Earning before income taxes	31,943	2,251	34,194	16,434	914	17,348
Provision for income taxes						
Current	(13,207)	(810)(b)	(14,017)	(5,300)	(329)(b)	(5,629)
Deferred	1,865		1,852	(527)		(527)
Total provision for income taxes	(11,342)	(810)	(12,152)	(5,827)	(329)	(6,156)
Net Income	20,601	1,441	22,042	10,607	585	11,192
Less preferred dividends	(2,133)	2,133 (c)	—	(1,173)	1,173 (c)	—
Net income available for common stockholders	$ 18,468	$ 3,574	$ 22,042	$ 9,434	$ 1,758	$ 11,192
Earnings per share						
Basic	$ 1.10		$ 0.98	$ 0.56		$ 0.50
Diluted	$ 1.10		$ 0.98	$ 0.56		$ 0.50
Average common shares outstanding						
Basic	16,724	5,822 (d)	22,546	16,720	5,822 (d)	22,542
Diluted	16,724	5,822 (d)	22,546	16,720	5,822 (d)	22,542

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(a) Interest expense has been adjusted to reflect only that interest that was recognized relative to the interest rate swap agreements that were in effect in each period, the impact of any adjustments applicable to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activity*, and interest associated with any unpaid debt as a result of the application of the proceeds of the transaction. A summary of the interest expense adjustment is as follows:

	Year Ended January 31, 2003	Six Months Ended July 31, 2003
Total interest reported	$ 7,237	$ 3,216
Less balance of interest to remain in statements of operations:		
Interest rate swap cost included in original amount reported	4,583	2051
SFAS 133 interest on derivatives included in original amount reported	361	(98)
Interest on debt remaining after application of offering proceeds	42 (e)	349 (e)
Subtotal of interest expense to remain in statements	4,986	2,302
Amount of interest adjustment	$ 2,251	$ 914

(b) Tax effect of interest adjustment at 36%.

(c) Preferred dividends are removed since value of stock has been redeemed or converted to common shares.

(d) Conversion of preferred stock

Total preferred shares to be converted to common	163	163
Per share value of preferred shares at November 30, 2003	$ 145.55	$ 145.55
Total value of shares to be converted	23,689	23,689
Assumed IPO price	$ 13.00	$ 13.00
Number common shares issued upon conversion	1,822	1,822
Number common shares issued in the offering	4,000	4,000
Total share adjustment	5,822	5,822

(e) Summary of interest expense on unpaid debt

Term debt remaining after application of proceeds	$ 2,500 (f)	$ 10,000 (g)
Current interest rate	4.5%	4.5%
Interest expense for first quarter	28	113
Interest expense for second quarter	14	96
Interest expense for third quarter	—	79
Interest expense for fourth quarter	—	62
Total interest expense on unpaid debt	$ 42	$ 349

(f) Provisions of term note provided for payments of $1,250 per quarter.

(g) Provisions of term note provided for payments of $1,500 per quarter.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with the consolidated financial statements and related notes included elsewhere in this prospectus. The information in this section contains forward-looking statements. Our actual results may differ significantly from the results suggested by these forward-looking statements. Some factors that may cause our results to differ from these statements are described below under "Application of Critical Accounting Policies" and in the "Risk Factors" section of this prospectus.

General

Our consolidated financial statements and related notes comprise over 30 pages. The following discussion and analysis is intended to provide you with a more insightful understanding of our financial condition and performance in the indicated periods, including an analysis of those key factors that contributed to our financial condition and performance and that are, or are expected to be, the key "drivers" of our business.

We are a specialty retailer of home appliances and consumer electronics. We sell major home appliances, including refrigerators, freezers, washers, dryers and ranges, and a variety of consumer electronics, including projection, plasma and LCD televisions, camcorders, VCRs, DVD players and home theater products. We also sell home office equipment, lawn and garden products and bedding, and we continue to introduce additional product categories for the home to help increase same store sales and to respond to our customers' product needs. We currently operate 44 retail locations in Texas and Louisiana.

Unlike many of our competitors, we provide in-house credit options for our customers. Historically, we have financed approximately 60% of our retail sales. We finance substantially all of our customer receivables through an asset-backed securitization facility, and we derive servicing fee income and interest income from these assets. See "Business – Finance Operations" for a detailed discussion of our in-house credit programs. As part of our asset-backed securitization facility, we have created a qualifying special purpose entity, which we refer to as the QSPE or the issuer, to purchase customer receivables from us and to issue asset-backed and variable funding notes to third parties. We transfer receivables, consisting of retail installment contracts and revolving accounts extended to our customers, to the issuer in exchange for cash and subordinated securities. To finance its acquisition of these receivables, the issuer has issued notes to third parties.

We also derive revenues from repair services on the products we sell and from product delivery and installation services we provide to our customers. Additionally, acting as an agent for unaffiliated companies, we sell credit insurance to protect our customers from credit losses due to death, disability, involuntary unemployment and property damage.

During fiscal 2001, we sold the operations of our rent-to-own business. As a result of this sale, we restated our statements of operations for fiscal 2000 to reflect results of the rent-to-own division as discontinued operations.

Outlook

An explanation of the changes in our operations for the six months ended July 31, 2003 as compared to the six months ended July 31, 2002 is included beginning on page 31. As explained in that section, our pretax income for the six months ended July 31, 2003 increased approximately $0.8 million as a result of higher revenues and lower selling, general and administrative expenses as a percentage of revenues. These improvements in our operations were offset by a decline in retail product gross margins, a decline in the percentage of credit financed transactions, the conversion of $200.0 million of our asset-backed securitization facility from variable interest rates to higher fixed interest rates and several unusual charges or adjustments that negatively impacted our operations. These adjustments included correction of previous estimates relative to non-

cash revenue adjustments of approximately $0.6 million, one-time expenditures of approximately $0.6 million associated with a change in the methodology for calculating sales commissions, and $0.3 million associated with the settlement of a dispute with a former shareholder. After reviewing our performance for the six months ended July 31, 2003, we implemented several initiatives that we believe will help improve our future operating results, which include:

- using our direct mail marketing campaign as a single promotional activity rather than combining it with other promotional programs, which we believe will reduce the amount of the price discounts that are required in order to influence our customers' purchasing decisions;
- identifying specific demographic make-up within a given U.S. Postal Service carrier route for our direct mail campaigns, which we believe will allow us to obtain better penetration rates for our promotional campaigns;
- communicating to our sales personnel an authorized credit limit in excess of the credit needed to complete a specific transaction for qualified customers, which we believe allows our sales personnel to make "add-on" sales;
- developing a new strategy for the merchandising of our track products, including separate merchandising plans and displays, separate sales and managerial personnel, convenient check-out procedures and diversified inventory, which we believe will increase sales within the track area, but which may decrease our gross product margin;
- reformatting our existing display space to provide additional footage to promote lawn and garden products since our stores are in a geographic area that is conducive to year-around use of these products; and
- implementing certain cost reduction measures that have reduced support, warehouse and delivery and service costs.

In addition, we believe our results for the second half of fiscal 2004 and fiscal 2005 will be positively impacted by the following:

- a modification of our sales commission plan, which we believe has further aligned our sales personnel compensation with our overall sales objectives;
- an increase in same store sales from the new stores opened in late 2002;
- an increase in overall retail sales from our expansion into the Dallas/Fort Worth market in October and November of fiscal 2004 and a higher penetration of credit sales at these new stores based on our strategic site-selection process and our planned direct marketing program in this market;
- a significant reduction in our total interest expense due to the use of proceeds from this offering to repay debt and the expiration of $50.0 million in interest rate swap contracts, assuming interest rates do not increase significantly prior to such expiration; and
- the introduction of a replacement service maintenance agreement, which we believe will encourage customers to purchase replacement coverage on smaller ticket items.

The consumer electronics industry depends on new products to drive same store sales increases. Typically, these new products, such as digital televisions and DVD players, are introduced at relatively high price points which are then gradually reduced as the product becomes more mainstream. To maintain positive same store sales growth, unit sales must increase at a rate greater than the decline in product prices. The affordability of the product helps the unit sales growth. However, as a result of relatively short product life cycles in the consumer electronics industry, which limit the amount of time available for sales volume to increase, combined with rapid price erosion in the industry, retailers are challenged to maintain overall gross margin levels and positive same store sales. This has historically been our experience, and we expect this trend to continue.

Application of Critical Accounting Policies

In applying the accounting policies that we use to prepare our consolidated financial statements, we necessarily make accounting estimates that affect our reported amounts of assets, liabilities, revenues and negatively impacted our operations. After expenses. Some of these accounting estimates require us to make assumptions about matters that are highly uncertain at the time we make the accounting estimates. We base these assumptions and the resulting estimates on authoritative pronouncements, historical information and other factors that we believe to be reasonable under the circumstances, and we evaluate these assumptions and estimates on an ongoing basis. We could reasonably use different accounting estimates, and changes in our accounting estimates could occur from period to period, with the result in each case being a material change in the financial statement presentation of our financial condition or results of operations. We refer to accounting estimates of this type as “critical accounting estimates.” We believe that the critical accounting estimates discussed below are among those most important to an understanding of our consolidated financial statements as of July 31, 2003.

Transfers of Financial Assets. We transfer customer receivables to the QSPE that issues asset-backed securities to third party lenders using these accounts as collateral, and we continue to service these accounts after the transfer. We recognize the sale of these accounts when we relinquish control of the transferred financial asset in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. As we transfer the accounts, we record an asset representing the interest only strip. The gain or loss recognized on these transactions is based on our best estimates of key assumptions, including forecasted credit losses, payment rates, forward yield curves, costs of servicing the accounts and appropriate discount rates. The use of different estimates or assumptions could produce different financial results. For example, if we had assumed a 10.0% reduction in net interest spread (which might be caused by rising interest rates), our interest in securitized assets would have been reduced by $2.8 million as of July 31, 2003, which may have an adverse effect on earnings. We recognize income from our interest in these transferred accounts based on the difference between the interest earned on customer accounts and the costs associated with financing and servicing the transferred accounts. This income is recorded as “Finance Charges and Other” in our consolidated statement of operations.

Deferred Tax Assets. We have significant net deferred tax assets (approximately $7.7 million as of July 31, 2003), which are subject to periodic recoverability assessments. Realization of our net deferred tax assets may be dependent upon whether we achieve projected future taxable income. Our estimates regarding future profitability may change due to future market conditions, our ability to continue to execute at historical levels and our ability to continue our growth plans. These changes, if any, may require material adjustments to these deferred tax asset balances. For example, if we had assumed that future earnings would have been negative rather than positive, we would have adjusted the net deferred tax asset account downward to zero, which would have reduced net income by the amount of the deferred tax asset.

Intangible Assets. We have significant intangible assets related primarily to goodwill and the costs of obtaining various loans and funding sources. The determination of related estimated useful lives and whether or not these assets are impaired involves significant judgments. Effective August 1, 2002, we adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. Prior to adoption of SFAS 142, we amortized goodwill over an estimated life of fifteen years on a straight-line basis. Effective with the implementation of SFAS 142, we ceased amortizing goodwill and began testing potential impairment of this asset annually based on judgments regarding ongoing profitability and cash flow of the underlying assets. Changes in strategy or market conditions could significantly impact these judgments and require adjustments to recorded asset balances. For example, if we had reason to believe that our recorded goodwill had become impaired due to decreases in the fair market value of the underlying business, we would have to take a charge to income for that portion of goodwill that we believe is impaired. Our goodwill balance at July 31, 2003 was $7.9 million.

Revenue Recognition. Revenue from the sale of retail products is recognized at the time the product is delivered to the customer. Such revenues are recognized net of any adjustments for sales incentive offers such as

discounts, coupons, rebates, or other free products or services. We sell service maintenance agreements and credit insurance contracts on behalf of unrelated third parties. For contracts where the third parties are the obligor on the contract, commissions are recognized in revenues at the time of sale, and in the case of retrospective commissions, at the time that they are earned. Where the Company sells service maintenance agreements in which it is deemed to be the obligor on the contract at the time of sale, revenue is recognized ratably, on a straight-line basis, over the term of the service maintenance agreement. These service maintenance agreements are renewal contracts which provide our customers protection against product repair costs arising after the expiration of the manufacturers warranty and the third party obligor contracts. These agreements typically range from 12 months to 36 months. These agreements are separate units of accounting under EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables*. The amounts of service maintenance agreement revenue deferred at January 31, 2002 and 2003 were $2.8 million and $3.8 million, respectively, and are included in “Deferred Revenue” in the accompanying balance sheets.

Vendor Allowances. We receive funds from vendors for price protection, product rebates, marketing and training and promotion programs which are recorded on the accrual basis as a reduction to the related product cost or advertising expense according to the nature of the program. We accrue rebates based on the satisfaction of terms of the program and sales of qualifying products even though funds may not be received until the end of a quarter or year. If the programs are related to product purchases, the allowances, credits, or payments are recorded as a reduction of product cost; if the programs are related to promotion or marketing of the product, the allowances, credits, or payments are recorded as a reduction of advertising expense in the period in which the expense is incurred.

Results of Operations

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

	Years Ended July 31,		Six Months Ended January 31,	Six Months Ended January 31,	Year Ended January 31,	Year Ended January 31,	Six Months Ended July 31,	Six Months Ended July 31,
	2000	2001	2001	2002	2002	2003	2002	2003
	Restated	Restated	(Unaudited)	Restated	(Unaudited)	Restated	(Unaudited)	(Unaudited)
Revenues:								
Product sales	78.9%	79.0%	79.4%	78.5%	78.6%	77.9%	76.8%	78.7%
Service maintenance agreement commissions (net)	5.4	5.4	5.3	5.0	5.1	4.6	5.4	4.8
Service revenues	4.8	4.2	4.3	4.0	4.1	4.1	4.2	3.9
Total net sales	89.1	88.5	89.0	87.5	87.8	86.5	86.5	87.4
Finance charges and other	10.9	11.5	11.0	12.5	12.2	13.5	13.5	12.6
Total revenues	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost and expenses:								
Cost of goods sold, including warehousing and occupancy costs	61.4	61.8	61.8	61.7	61.7	62.1	61.4	63.8
Cost of parts sold, including warehousing and occupancy costs	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.3
Selling, general and administrative expense	28.0	27.9	28.0	28.1	28.0	27.9	29.1	26.8
Provision for bad debts	0.3	0.5	0.4	0.6	0.6	0.9	0.7	0.9
Total costs and expenses	89.8	90.5	90.5	90.7	90.6	91.3	91.5	91.8
Operating income	10.2	9.5	9.5	9.3	9.4	8.7	8.5	8.2
Interest expense	1.7	1.1	1.2	1.4	1.3	1.6	1.4	1.3
Earnings from continuing operations before income taxes	8.4	8.4	8.3	7.9	8.1	7.1	7.1	6.9
Provision for income taxes								
Current	(3.5)	(3.5)	(3.1)	(3.2)	(3.1)	(2.9)	(3.0)	(2.2)
Deferred	0.2	0.5	0.1	0.4	0.2	0.4	0.5	(0.2)
Total provision for income taxes	(3.2)	(3.0)	(3.0)	(2.8)	(2.9)	(2.5)	(2.5)	(2.4)
Net income from continuing operations	5.2%	5.4%	5.4%	5.1%	5.2%	4.6%	4.6%	4.4%

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

Six Months Ended July 31, 2002 (Unaudited), Compared to the Six Months Ended July 31, 2003 (Unaudited)

Revenues. Total revenues increased by $19.6 million, or 8.9%, from $220.0 million for the six months ended July 31, 2002, to $239.6 million for the six months ended July 31, 2003. The increase was attributable to increases of $19.1 million, or 10.0%, in net sales and $0.5 million, or 1.6%, in finance charges and other revenues. Of the $19.1 million increase in net sales, $20.7 million was generated by six retail locations that were not open for six consecutive months in both periods. However, same store sales decreased $1.6 million, or 0.9%, for those stores that were open all six months in both periods. The change in net sales was primarily due to increased unit volume of sales representing an increase of approximately $51.4 million in sales that were offset by deteriorating price points that represent a decrease in sales of approximately $32.3 million. The addition of a second line of computers, increased sales of our bedding and lawn and garden product lines and a significant increase in projection television sales accounted for much of the increased unit volume of sales.

We believe that at least a portion of the decrease in same store sales was the result of a temporary negative impact on our existing stores caused by opening new stores in existing markets. For example, after opening our Sugarland store in the Houston market in January 2003, retail sales in the market increased by 3.3% during the six months ended July 31, 2003 compared to the 2002 period, but our same store sales for the existing 16 stores in this market that were open for a full six months in both periods decreased by 1.8%. Likewise, our San Antonio/Austin market experienced a 23.6% total increase in retail sales as we opened four new stores in the area while our same store sales for our nine existing stores in this market were flat compared to the 2002 period. In addition, in an effort to reduce our delinquency rates, we increased down payment and verification requirements on certain of our credit accounts, which led to lower approval rates, and we modified the selection criteria for our direct mail program, which resulted in fewer credit applications being processed as a percentage of sales. We have since modified our down payment requirements and the selection criteria for our direct mail program to previous levels, which we believe will increase our credit penetration while maintaining our historical delinquency and charge-off rates. As reflected in the table, the percent increase in product sales of 11.5% and the percent increase in total revenues of 10.0% are increasing at a decreasing rate when compared to the percentage changes noted on pages 34, 36, and 38. This decreasing trend results primarily from a decline in same store sales within the last 18 months, indicating that many of our stores may be reaching maturity levels as it relates to market penetration. While we believe that we have positioned many of our stores to have a potential for additional same store sales increases by remerchandising our product offerings, training sales personnel to increase closing rates, regularly updating our stores, continuing to emphasize a high level of customer service and the development of our track area, we do expect that much of our future sales increases will come from new stores.

The following table presents the makeup of net sales by product category in each period, including service maintenance agreement commissions and service revenues, expressed both in dollar amounts and as a percentage of total net sales.

	Six Months Ended July 31,				
	2002		2003		Percent Increase (Decrease)
	Amount	%	Amount	%	
	(dollars in thousands)				
Major home appliances	$ 75,734	39.8%	$ 81,803	39.1%	8.0%
Consumer electronics	66,954	35.2	75,152	35.9	12.2
Home office equipment	12,257	6.4	12,082	5.8	(1.4)(1)
Delivery and installation	3,110	1.6	3,867	1.8	24.3 (2)
Other (including lawn and garden and bedding)	10,981	5.8	15,573	7.4	41.8 (3)
Total product sales	169,036	88.8	188,477	90.0	11.5 %
Service maintenance agreement commissions	11,937	6.3	11,588	5.5	(2.9)(4)
Service revenues	9,350	4.9	9,376	4.5	0.3 (5)
Total net sales	$ 190,323	100.0%	$ 209,441	100.0%	10.0%

(1) The decrease in home office equipment is due to deteriorating price points which are expected to continue in this category.

(2) The increase in delivery and installation reflects growth in appliance and electronic sales and a price increase for delivery and installation charges.

(3) The increase in other sales is due primarily to the continued maturity of the lawn and garden and bedding product lines that were added in early fiscal year 2000. Future increases in these product lines are expected to continue, but at a decreasing rate.

(4) The decrease in service maintenance agreement commissions reflect the impact of deteriorating price points and increases in consumer confidence in consumer electronic items; many price points for computers and projection televisions have deteriorated to the point where consumers are willing to risk required replacement of the product rather than purchase the service maintenance agreement. In addition our new sales compensation program de-emphasizes the sale of this product.

(5) The relative small increase in service revenues is attributable to a more regulated review of billings made to manufacturers for covered warranty services. As a result of these billing reviews, service revenue for the six months ended July 31, 2003 was somewhat softened; however, retrospective settlements that are included in the line item entitled “Finance charges and other” were positively impacted by approximately $0.7 million during this period.

Revenue from finance charges and other increased by approximately $0.5 million, or 1.6%, from $29.6 million for the six months ended July 31, 2002, to $30.1 million for the six months ended July 31, 2003. This increase in revenue resulted primarily from an increase in net insurance commissions of $0.9 million, which was offset by a $0.4 million decrease in income from sales of receivables to the QSPE as a result of higher interest costs associated with the fixing of the interest rate on $200.0 million of the notes issued by the QSPE. Additionally, during the 2003 period, we replaced a number of manual functions associated with the processing of non-cash revenue adjustments in our credit control group with an auto-post function. While we were able to reduce personnel costs associated with this function, we experienced a one-time revenue decrease of approximately $0.6 million as we converted estimates to actual adjustments. Had we not incurred this revenue adjustment, our percentage increase in finance charges and other would have been 3.7%.

Cost of Goods Sold. Cost of goods sold, including warehousing and occupancy cost, increased by $17.8 million, or 13.1%, from $135.8 million for the six months ended July 31, 2002, to $153.6 million for the six months ended July 31, 2003. This increase primarily resulted from the 10.0% net sales increase as well as an increase in cost of retail products sold as a percentage of net product sales from 75.8% in the 2002 period to

78.0% in the 2003 period. The overall increase in cost of goods sold as a percentage of net sales was primarily caused by the continued deterioration of retail price points and margins for consumer electronics products, over-discounting in connection with the promotion of products for store grand openings in February and March 2003, and sales of relatively lower margin lawn and garden and computer products growing at a more rapid rate than sales of higher margin home appliance products.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $0.3 million, or 0.4%, from $63.9 million for the six months ended July 31, 2002, to $64.2 million for the six months ended July 31, 2003. This increase was considerably less than the 8.9% increase in total revenues as we began to focus on cost reductions, including salaries and payroll related costs, advertising and telephone expenses. These cost reductions were partially offset by one-time expenditures of approximately $0.6 million associated with a change in methodology of calculating commissions for sales personnel and $0.3 million for the settlement of a dispute with a former shareholder.

Provision for Bad Debts. The provision for bad debts increased by $0.7 million, or 47.1%, from $1.5 million for the six months ended July 31, 2002, to $2.2 million for the six months ended July 31, 2003. The increase in the bad debt provision resulted from a change in eligibility requirements under the new asset securitization program that we implemented in September 2002, which resulted in our retaining a larger amount of receivables that had become ineligible for transfer to the QSPE, as well as an increase in charge-offs associated with our credit insurance and service programs. While this increase is substantial in percentage terms, we believe that this increase does not necessarily represent a trend of future expectations. Since most of the higher risk receivables have now been retained by us as a result of the modifications that were made to eligibility requirements for account transfer to the QSPE in September 2002, we believe that bad debt expense percentage increases will begin to decline in the future.

Interest Expense. Interest expense increased by $0.1 million, or 2.9%, from $3.1 million for the six months ended July 31, 2002, to $3.2 million for the six months ended July 31, 2003. The increase was attributable to the following:

- increasing interest rates accounted for an increase of approximately $0.1 million in our interest expense;
- average outstanding debt increased from $45.0 million in the 2002 period to $48.7 million in the 2003 period, which resulted in an increase in interest expense of $0.1 million; and
- the expiration of $30.0 million in our interest rate hedges resulted in a decrease of $0.1 million over the 2002 period.

Provision for Income Taxes. The provision for income taxes increased by $0.3 million, or 4.9%, from $5.6 million for the six months ended July 31, 2002, to $5.9 million for the six months ended July 31, 2003. The increase in the tax provision was directly related to the increase in pretax profits of $0.8 million, or 5.0%. The effective tax rate for the two periods was consistent at 35.5%.

Net Income. As a result of the above factors, net income increased by $0.5 million, or 5.1%, from $10.1 million for the six months ended July 31, 2002, to $10.6 million for the six months ended July 31, 2003.

Twelve Months Ended January 31, 2002 (Unaudited), Compared to Fiscal Year Ended January 31, 2003

Revenues. Total revenues increased by $68.0 million, or 17.8%, from $382.1 million for the twelve months ended January 31, 2002, to $450.1 million for the fiscal year ended January 31, 2003. The increase was attributable to increases of $53.9 million, or 16.1%, in net sales and $14.1 million, or 30.2%, in finance charges and other revenues. Of the $53.9 million increase in net sales, $46.2 million was generated by seven retail locations that were not open for 12 consecutive months in both periods, $3.9 million resulted from a same store sales increase of 1.3% and $3.8 million resulted from increases in service maintenance agreement commissions

and service revenues. The increase in net sales was due to increased unit volume of sales of approximately $69.4 million and included an offset from deteriorating price points of approximately $15.5 million. The addition of a second line of computers, increased sales of our bedding and lawn and garden product lines and a significant increase in projection television sales accounted for much of the increased unit volume of sales and the same store sales increase.

We believe that at least a portion of the relatively small same store sales increase during fiscal 2003 resulted from our opening of four new stores in the San Antonio/Austin market. While net sales in this market increased by 40.2% during fiscal 2003 compared to the 2002 period, same store sales for the five existing stores in this market that were open for a full twelve months in both periods decreased by 1.1%. We have experienced a temporary negative impact on our existing stores when we have opened new stores in existing markets. Other factors that contributed to the relatively small increase in same store sales in fiscal 2003 included higher than normal sales in the 2002 period due to the increase in product sales during the three months following the September 11th attacks and the major replacement of products following major flooding in the Houston market in June 2001. These events that increased sales in fiscal 2002 did not occur in fiscal 2003. We do, however, believe that many of our stores may be reaching maturity levels as it relates to market penetration and that same store sales will likely increase at much smaller percentages than in the past. While we believe that we have positioned many of our stores to have a potential for additional same store sales increases, we do expect that much of our future sales increases will come from new stores rather than from substantial increases in sales from existing stores.

The following table presents the makeup of net sales by product category in each period, including service maintenance agreement commissions and service revenues, expressed both in dollar amounts and as a percentage of total net sales.

	Twelve Months Ended January 31, 2002		Fiscal Year Ended January 31, 2003		
	Amount	%	Amount	%	Percent Increase
	(dollars in thousands)				
Major home appliances	$ 127,757	38.1%	$ 147,217	37.8%	15.2%
Consumer electronics	131,692	39.3	155,213	39.9	17.9
Home office equipment	24,811	7.4	25,797	6.6	4.0(1)
Delivery and installation	7,118	2.1	8,231	2.1	15.6
Other (including lawn and garden and bedding)	9,118	2.7	14,130	3.6	55.0(2)
Total product sales	300,496	89.6	350,588	90.0	16.7
Service maintenance agreement commissions	19,530	5.8	20,488	5.3	4.9(3)
Service revenues	15,522	4.6	18,420	4.7	18.7
Total net sales	$ 335,548	100.0%	$ 389,496	100.0%	16.1%

(1) Smaller increase in home office equipment is due to deteriorating price points which are expected to continue in this category.

(2) Increase in other sales is due primarily to the continued maturity of the lawn and garden and bedding product lines that were added in early fiscal year 2000. Increases are expected to continue, but at a decreasing rate.

(3) Smaller increase in service maintenance agreement commissions reflect the impact of deteriorating price points of consumer electronic items. Additionally, increased consumer confidence levels on newer products has resulted in fewer customers purchasing extended service agreements.

Revenue from finance charges and other increased approximately $14.1 million, or 30.2%, from $46.5 million for the twelve months ended January 31, 2002, to $60.6 million for the twelve months ended January 31, 2003. This increase in revenue resulted from increases in net insurance commissions and cash discounts of $5.3 million, or 31.3%. Income from sales of receivables to the QSPE increased approximately $8.8 million, or

29.7%, resulting primarily from a 15.9% growth in the credit portfolio and lower credit losses as a percentage of the average outstanding portfolio balance.

Cost of Goods Sold. Cost of goods sold, including warehousing and occupancy cost, increased by $44.3 million, or 18.7%, from $236.8 million for the twelve months ended January 31, 2002, to $281.1 million for fiscal 2003. This percentage increase was generally consistent with the 16.1% net sales increase, although cost of goods sold continued to increase as a percentage of net product sales from 74.5% in the 2002 period to 76.0% in fiscal 2003. The overall increase in cost of goods sold as a percentage of net sales was primarily caused by the continued deterioration of retail price points for consumer electronics products and sales of relatively lower margin lawn and garden and computer products growing at a more rapid rate than higher margin home appliance products. Labor and other cost increases added $0.7 million to cost of goods sold in fiscal 2003, and the expansion of our San Antonio distribution facility added approximately $0.5 million to occupancy costs in fiscal 2003.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $18.8 million, or 17.5%, from $106.9 million for the twelve months ended January 31, 2002, to $125.7 million for fiscal 2003. This percentage increase was generally consistent with the 17.8% increase in total revenues.

Provision for Bad Debts. The provision for bad debts increased by $1.7 million, or 71.4%, from $2.4 million for the twelve months ended January 31, 2002, to $4.1 million for fiscal 2003. The increase in the bad debt provision resulted from a change in eligibility requirements under the new asset securitization program that we implemented in September 2002, which resulted in our retaining a larger amount of receivables that had become ineligible for transfer to the QSPE, as well as an increase in charge-offs associated with our credit insurance and service programs.

Interest Expense. Interest expense increased by $2.4 million, or 49.1%, from $4.9 million for the twelve months ended January 31, 2002, to $7.3 million for fiscal 2003. The increase was attributable to the following:

- declining interest rates caused the net payments on our interest rate hedges to increase by $1.9 million over the 2002 period;
- imperfect matching of interest rate hedges and hedged obligations resulted in an increase in interest expense of $0.5 million;
- average outstanding debt increased from $33.5 million in the 2002 period to $49.0 million in fiscal 2003, which resulted in an increase in interest expense of $1.0 million; and
- declining interest rates accounted for a decrease of approximately $1.0 million in our interest expense.

Provision for Income Taxes. The provision for income taxes increased by $0.2 million, or 1.9%, from $11.1 million for the twelve months ended January 31, 2002, to $11.3 million for fiscal 2003. The increase was directly related to the increase in pretax profits of $0.8 million, or 2.7%, and a decrease in state taxes paid. The effective tax rates for the two periods, which were 35.8% in the 2002 period and 35.5% in fiscal 2003, were relatively consistent, except for the decrease in the state tax rate.

Net Income. As a result of the above factors, net income increased by $0.6 million, or 3.2%, from $20.0 million for the twelve months ended January 31, 2002, to $20.6 million for fiscal 2003.

Six Months Ended January 31, 2001 (Unaudited), Compared to Six Month Fiscal Period Ended January 31, 2002

Revenues. Total revenues increased by $52.1 million, or 33.3%, from $156.6 million for the six months ended January 31, 2001, to $208.7 million for the six months ended January 31, 2002. The increase was attributable to increases of $43.2 million, or 30.9%, in net sales and $9.0 million, or 52.6%, in finance charges

and other revenues. Of the $43.2 million increase in net sales, $22.4 million resulted from a same store sales increase of 16.7%, $17.2 million was generated by eight retail locations that were not open for six consecutive months in both periods and $3.6 million resulted from increases in service maintenance agreement commissions and service revenues. As in fiscal 2003, the increase in net sales was due to increased unit volume of sales of approximately $42.2 million and included an offset from deteriorating price points of approximately $1.0 million as we continued to experience relatively short product life cycles and significant price erosion in the consumer electronics category. The addition of a second line of computers, increased sales of our bedding and lawn and garden products lines and a significant increase in projection television sales, combined with the higher than normal sales during the three months following the September 11th attacks and the major replacement of products following major flooding in the Houston market in June 2001, accounted for much of the increase in same store sales.

The following table presents the makeup of net sales by product category in each period, including service maintenance agreement commissions and service revenues, expressed both in dollar amounts and as a percentage of total net sales.

	Six Months Ended January 31,				
	2001		2002		
	Amount	%	Amount	%	Percent Increase
	(dollars in thousands)				
Major home appliances	$ 49,694	35.6%	$ 63,822	34.9%	28.4%
Consumer electronics	56,138	40.3	75,254	41.2	34.1
Home office equipment	13,624	9.8	16,501	9.0	21.1
Delivery and installation	2,860	2.1	3,606	2.0	26.1
Other (including lawn and garden and bedding)	2,069	1.5	4,708	2.6	127.5(1)
Total product sales	124,385	89.2	163,891	89.7	31.8
Service maintenance agreement commissions	7,945	5.7	10,443	5.7	31.4
Service revenues	7,121	5.1	8,277	4.5	16.2
Total net sales	$ 139,451	100.0%	$ 182,611	100.0%	31.0%

(1) The increase in other sales is due primarily to the continued maturity of the lawn and garden and bedding product lines that were added in early fiscal 2000. Future increases in these product lines are expected to continue, but at a decreasing rate.

Revenue from finance charges and other increased by $9.0 million, or 52.6%, from $17.1 million for the six months ended January 31, 2001, to $26.1 million for the six months ended January 31, 2002. This increase in revenue resulted primarily from an increase in income from sales of receivables to the QSPE of $6.7 million, or 66.0%, due primarily to a 21.9% increase in the credit portfolio and lower interest costs of securities issued by the QSPE. An increase in net insurance commissions and cash discounts totaling $2.3 million, or 32.9%, also contributed to the increase in revenues from finance charges and other.

Cost of Goods Sold. Cost of goods sold, including warehousing and occupancy cost, increased by $32.2 million, or 33.1%, from $97.2 million for the six months ended January 31, 2001, to $129.4 million for the six months ended January 31, 2002. The 33.1% increase was generally consistent with the 30.9% net sales increase, although costs of retail products sold continued to increase as a percentage of net product sales from 76.3% in the 2001 period to 77.4% in the 2002 period. Sales of relatively lower margin consumer electronics and computer products continuing to grow at a more rapid rate than sales of relatively higher margin home appliance products was the primary reason for the increase in cost of goods sold as a percentage of net sales. Labor and other cost increases added $0.8 million to cost of goods sold in the 2002 period, and the expansion of our San Antonio distribution facility added approximately $0.2 million to occupancy costs in the 2002 period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $14.7 million, or 33.5%, from $43.9 million for the six months ended January 31, 2001, to $58.6 million for the

six months ended January 31, 2002. This increase was generally consistent with the 33.3% increase in total revenues.

Provision for Bad Debts. The provision for bad debts increased by $0.7 million, or 116.7%, from $0.6 million for the six months ended January 31, 2001, to $1.3 million for the six months ended January 31, 2002. The increase resulted from an increase in the charge-offs associated with our credit insurance and service programs.

Interest Expense. Interest expense increased by $1.1 million, or 61.1%, from $1.8 million for the six months ended January 31, 2001, to $2.9 million for the six months ended January 31, 2002. The increase was attributable to the following:

- declining interest rates caused the net payments on our interest rate hedges to increase by $1.9 million over the 2001 period;
- declining interest rates accounted for a reduction of approximately $0.5 million in interest expense; and
- our adoption of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, resulted in a decrease in interest expense of $0.3 million due to the recognition of the impact of imperfect matching of interest rate hedges and hedged obligations.

Provision for Income Taxes. The provision for income taxes increased by $1.3 million, or 28.3%, from $4.6 million for the six months ended January 31, 2001, to $5.9 million for the six months ended January 31, 2002. The increase was directly related to the increase in pretax profits of $3.5 million, or 26.4%. The effective tax rates for the two periods were 35.5% in the 2001 period and 36.0% in the 2002 period.

Net Income from Continuing Operations. As a result in the above factors, net income from continuing operations increased by $2.2 million, or 26.2%, from $8.4 million for the six months ended January 31, 2001, to $10.6 million for the six months ended January 31, 2002.

Fiscal Year Ended July 31, 2000, Compared to Fiscal Year Ended July 31, 2001

Revenues. Total revenues increased by $50.6 million, or 18.1%, from $279.7 million in fiscal 2000 to $330.3 million in fiscal 2001. The increase was attributable to increases of $43.3 million, or 17.4%, in net sales and $7.3 million, or 23.8%, in finance charges and other revenues. Of the $43.3 million increase in net sales, $22.7 million resulted from a same store sales increase of 10.3%, $18.0 million was generated by eight retail locations that were not open for 12 consecutive months in both fiscal years and $2.6 million resulted from increases in service maintenance agreement commissions and service revenues. As in prior periods, the increase in net sales was due to increased unit volume of sales of approximately $39.2 million and approximately $1.5 million from higher per unit price points. Increased sales of the lawn and garden product line that we added in the second quarter of fiscal 2000 and increases in bedding sales and other new product categories accounted for much of the increase in same store sales.

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The following table presents the makeup of net sales by product category in each fiscal year, including service maintenance agreement commissions and service revenues, expressed both in dollar amounts and as a percentage of total net sales.

	Fiscal Years Ended July 31,				
	2000		2001		Percent Increase (Decrease)
	Amount	%	Amount	%	
	(dollars in thousands)				
Major home appliances	$ 101,654	40.8%	$ 114,756	39.2%	12.9%
Consumer electronics	83,880	33.7	107,536	36.8	28.2
Home office equipment	24,235	9.7	22,569	7.7	(6.9)(1)
Delivery and installation	5,429	2.2	6,366	2.2	17.3
Other (including lawn and garden and bedding)	4,734	1.9	9,394	3.2	98.4 (2)
Total product sales	219,932	88.3	260,621	89.1	18.5
Service maintenance agreement commissions	14,884	6.0	17,022	5.8	14.4
Service revenues	14,261	5.7	14,745	5.0	3.4
Total net sales	$ 249,077	100.0%	$ 292,388	100.0%	17.4%

(1) The decrease was the result of a planned slow down in computer sales as we begin to replace the Compaq brand with Hewlett Packard.

(2) The increase in other sales is due primarily to the addition of the lawn and garden and bedding product lines that were introduced in early fiscal 2000. Future increases are expected to grow substantially in the next period and then increase at a decreasing rate thereafter.

Revenue from finance charges and other increased approximately $7.3 million, or 23.8%, from $30.6 million in fiscal 2000, to $37.9 million in fiscal 2001. This increase in revenue resulted primarily from increases in net insurance commissions and cash discounts of $3.7 million, or 32.7%. Income from sales of receivables to the QSPE increased by $3.6 million, or 18.6%, resulting primarily from an 18.0% growth in the credit portfolio and a reduction in interest costs of securities issued by the QSPE.

Cost of Goods Sold. Cost of goods sold, including warehousing and occupancy cost, increased by $32.9 million, or 19.1%, from $172.1 million in fiscal 2000 to $205.0 million in fiscal 2001. The 19.1% increase was generally consistent with the 17.4% increase in net sales, although cost of retail products sold increased from 76.5% of net product sales in fiscal 2000 to 76.9% in fiscal 2001. We attribute this margin decrease to a shift in product mix from relatively higher margin home appliances to relatively lower margin consumer electronics. The increase in warehousing and occupancy cost of $0.7 million, or 27.0%, resulted from the opening of our new warehouse facilities in Houston and San Antonio in August 2000 and June 2001, respectively.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $13.9 million, or 17.7%, from $78.3 million in fiscal 2000 to $92.2 million in fiscal 2001. The increase was generally consistent with the 18.1% increase in total revenues.

Provision for Bad Debts. The provision for bad debts increased by $0.9 million, or 118.7%, from $0.8 million in fiscal 2000 to $1.7 million in fiscal 2001. The increase resulted from an increase in the charge-offs associated with our insurance and service programs.

Interest Expense. Interest expense decreased by $1.0 million, or 22.4%, from $4.8 million in fiscal 2000 to $3.8 million in fiscal 2001. The decrease was attributable to the following:

- average outstanding debt decreased from $57.1 million in fiscal 2000 to $33.3 million in fiscal 2001. This decrease in debt resulted in a decrease of approximately $1.4 million in interest expense. Debt decreases were attributable primarily to a decrease of available credit under our asset-backed securitization program and increased cash flow generated from operations;

- declining interest rates accounted for approximately $0.5 million of the decrease;
- our adoption of SFAS 133 resulted in an increase in interest expense of $0.4 million due to recognition of the effects of imperfect matching of hedges and hedged obligations; and
- declining interest rates caused the net payments on our interest rate hedges to increase by $0.5 million over the prior fiscal year.

Provision for Income Taxes. The provision for income taxes increased by $0.9 million, or 9.9%, from $9.0 million in fiscal 2000 to $9.9 million in fiscal 2001. The increase was directly related to the increase in pretax profits of $4.0 million, or 17.1%. However, we experienced an effective tax rate decrease from 38.1% in fiscal 2000 to 35.8% in fiscal 2001 as a result of an organizational restructuring in fiscal 2000 that reduced our Texas franchise taxes.

Net Income from Continuing Operations. As a result of the above factors, net income from continuing operations increased by $3.1 million, or 21.5%, from $14.6 million in fiscal 2000 to $17.7 million in fiscal 2001.

Impact of Inflation

We do not believe that inflation has a material effect on our net sales or results of operations.

Seasonality and Quarterly Results of Operations

Our business is seasonal, with a higher portion of sales and operating profit realized during the quarters that end January 31 and July 31. These fiscal quarters reflect the holiday selling season and the impact that hot weather has on our sales of air conditioners and lawn and garden equipment. Over the four quarters of fiscal 2003, gross margins were 37.9%, 38.1%, 38.4% and 35.9%. During the same period, operating margins were 8.3%, 8.7%, 8.5% and 9.2%. A portion of the fluctuation in gross margins and operating margins is due to planned infrastructure cost additions, such as increased warehouse space and larger stores, additional personnel and systems required to absorb the significant increase in revenues that we have experienced over the last several years.

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

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

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

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The following table sets forth certain unaudited quarterly statement of operations information, excluding discontinued operations, for the ten quarters ended July 31, 2003. The unaudited quarterly information has been prepared on a consistent basis and includes all normal recurring adjustments that management considers necessary for a fair presentation of the information shown.

	Twelve Months Ended January 31, 2002				Twelve Months Ended January 31, 2003				Six Months Ended July 31, 2003	
	Quarter Ended Apr. 30	Quarter Ended July 31	Quarter Ended Oct. 31	Quarter Ended Jan. 31	Quarter Ended Apr. 30	Quarter Ended July 31	Quarter Ended Oct. 31	Quarter Ended Jan. 31	Quarter Ended Apr. 30	Quarter Ended July 31
Total revenues	$ 80,943	$ 92,389	$ 95,432	$ 113,319	$ 106,689	$ 113,315	$ 108,250	$ 121,828	$ 121,600	$ 117,986
Percent of total revenues (1)	21.2%	24.2%	25.0%	29.6%	23.7%	25.1%	24.1%	27.1%	25.9%	25.1%
Gross profit	$ 31,435	$ 34,507	$ 36,716	$ 42,641	$ 40,476	$ 43,211	$ 41,617	$ 43,713	$ 42,555	$ 43,438
Gross profit as a percentage of total revenues	38.8%	37.3%	38.5%	37.6%	37.9%	38.1%	38.4%	35.9%	35.0%	36.8%
Operating profit	$ 7,501	$ 8,987	$ 8,448	$ 11,008	$ 8,874	$ 9,900	$ 9,162	$ 11,244	$ 9,433	$ 10,218
Operating profit as a percentage of total revenues	9.3%	9.7%	8.9%	9.7%	8.3%	8.7%	8.5%	9.2%	7.8%	8.7%

(1) The percentage for the six months ended July 31, 2003 is based on the last 12 months.

Liquidity and Capital Resources

We have historically financed our operations through a combination of cash flow generated from operations and external borrowings, including primarily bank debt and asset-backed securitization facilities. We have a bank credit facility under which we had outstanding term and revolving debt of $34.0 million as of July 31, 2003. Additionally, we were indebted to a bank, various insurance companies and two former stockholders in the approximate amount of $9.4 million as of July 31, 2003. We expect to use approximately $34.9 million of the offering proceeds to reduce a portion of these debt obligations. See “Use of Proceeds.”

During the six months ended July 31, 2003, net cash provided by operating activities decreased $1.3 million, or 8.9%, from $16.3 million for the six months ended July 31, 2002, to $15.0 million for the six months ended July 31, 2003. The net decrease in cash provided from operations resulted primarily from an increase in net income of $0.5 million and non-cash depreciation expense, bad debt provision, and deferred tax provision of $0.9 million, $0.7 million, and $1.5 million, respectively, a decrease in cash required for inventories of $2.4 million, a decrease in cash required for prepaid expenses and other assets of $2.3 million, a decrease of cash required for income taxes of $1.0 million, and an increase in cash generated of $3.4 million due to the timing of payment of accounts payable and accrued expenses. These increases in cash were offset by an increase of $12.9 million in net cash required to fund our receivables and securitized assets, an increase of cash used for deferred service contracts of $0.8 million, and a decrease of $0.1 million due to imperfect matching of interest rate hedges and hedged obligations.

Net cash used by investing activities decreased $16.4 million, or 72.5%, from $22.6 million for the six months ended July 31, 2002, to $6.2 million for the six months ended July 31, 2003. The decrease in cash used resulted primarily from a reduction in cash required to fund our interest in securitized assets of $9.2 million and a reduction in purchases of property and equipment of $7.0 million for the six months ended July 31, 2003. The decrease in cash expended for property and equipment resulted from fewer new store openings and relatively fewer stores that were updated in the 2003 period. Based on current plans, we do expect to increase the expenditure for property and equipment in the next six months as we open at least three new stores and a small warehouse in the Dallas/Fort Worth market. Cash required from investing activities was further reduced by $0.2 million due to increase in proceeds from the sale of property.

Net cash required by financing activities increased $14.6 million from $5.6 million in net cash provided during the six months ended July 31, 2002, to $9.0 million in net cash used during the six months ended July 31, 2003. This change resulted primarily from the net effect of repayments of borrowings of $14.5 million under our

bank credit facility in 2003 and a $0.2 million reduction of treasury stock repurchases made in 2002 that were not made in 2003.

In October 2002, we increased our bank credit facility from $35.0 million to $55.0 million to provide our ongoing working capital needs. In April 2003, we amended and restated our bank credit facility in anticipation of this offering. The facility consists of a term loan and a revolving credit facility. The revolver portion of the credit facility provides for up to $40.0 million subject to a borrowing base equal to the lesser of: (1) 85% of eligible receivables plus 65% of eligible inventory plus the lesser of 40% of deferred sales proceeds and eligible unpurchased receivables; and (2) $20.0 million, which decreases to $15.0 million upon the closing of this offering. The revolver portion of the bank credit facility had a balance of $20.5 million at July 31, 2003. The term loan, which had an original principal amount of $15.0 million, had a balance of $13.5 million at July 31, 2003, and provides for quarterly principal payments of $1.5 million plus interest beginning on May 1, 2003. Both the term note and the revolver mature on September 13, 2005. Loans under the new credit facility may, at our option, bear interest at either the alternate base rate, which is the greater of the administrative agent’s prime rate or the federal funds rate, or the adjusted LIBOR rate for the applicable interest period, in each case plus an applicable interest margin. The interest margin is between 0.50% and 1.75% for base rate loans and between 1.50% and 2.75% for LIBOR alternative rate loans. The applicable interest margin was 1.50% for base rate loans and 2.50% for LIBOR alternative rate loans as of July 31, 2003. The interest margin will vary depending on our debt coverage ratio. We make a practice of entering into underlying debt agreements that support both the revolver and the term portion of the credit facility for periods of three months or less. We expect to use a portion of the proceeds from this offering to pay the outstanding revolving debt under this facility and all accrued interest, and we expect to be able to utilize the full amount of the revolving facility in the future as cash is required.

Approximately $10.0 million of the additional amount available under our increased bank credit facility was used to implement our new asset-backed securitization program, including funding of transaction expenses and required additional credit enhancements. In addition, the portion of each future receivable advanced in cash under the securitization program has been reduced from approximately 85% to approximately 80% of the face amount of the receivable. Since this results in an increase in the retained balance of accounts receivable, we must finance this increase through sources other than the securitization program itself. We have used, and will continue to require, a portion of our increased bank credit facility to finance this increased level of accounts receivable.

We are subject to certain affirmative and negative covenants contained in our bank credit facility, including covenants that restrict, subject to specified exceptions, the incurrence of additional indebtedness and other obligations and the granting of additional liens; mergers, acquisitions, investments, and disposition of assets; dividends; stock redemptions; capital expenditures; loan guarantees; and use of proceeds of the credit facility. The exceptions provided in the credit facility could allow for transactions to occur outside of the credit facility limitations as follows: additional indebtedness and other obligations totaling approximately $55,000,000; granting of additional liens totaling approximately $32,500,000; capital expenditures of $17,500,000 for any twelve month period; stock redemptions in the amount of $5,200,000 for retiring or terminated employee/stockholders, $3,200,000 of which is for one specific employee/shareholder; and $15,000,000 in loan guarantees for the acquisition and development of sites with leases in favor of us. There are also covenants relating to compliance with certain laws, payments of taxes, maintenance of insurance and financial reporting. In addition, the credit facility requires us to maintain, as of the end of each fiscal quarter end, a minimum net worth equal to $55,000,000 plus 75% of net income after May 1, 2002, and 100% of any capital stock issued; as of each fiscal quarter end for the twelve month period ending on that date, a total leverage ratio of no greater than 3.50 to 1.00 from October 31, 2002 to the date of closing our initial public offering and 2.75 to 1.00, thereafter; a debt coverage ratio no less than 1.75 to 1.00 from October 31, 2002 to the later of January 31, 2004 or the date of the closing of our initial public offering and 2.0 to 1.00, thereafter; and as of each fiscal quarter, an average receivables charge off ratio no greater than .05 to 1.00, an average receivables extension ratio no greater than .04 to 1.00, and an average receivables delinquency ratio no greater than .12 to 1.00. We have been and are in compliance with such positive and negative covenants.

Events of default under the credit facility include, subject to grace periods and notice provisions in certain circumstances, non-payment of principal, interest or fees; violation of covenants; material inaccuracy of any representation or warranty; default under or acceleration of certain other indebtedness; bankruptcy and insolvency events; certain judgments and other liabilities; certain environmental claims; and a change of control. If an event of default occurs, the lenders under the credit facility are entitled to take various actions, including accelerating amounts due under the credit facility and requiring that all such amounts be immediately paid in full. Our obligations under the credit facility are secured by all of our and our subsidiaries' assets, excluding customer receivables owned by the QSPE.

Based on current operating plans, we believe that cash provided by operating activities, available borrowings under our credit facility, access to the unfunded portion of the variable funding portion of our asset- backed securitization program and the net proceeds from this offering will be sufficient to fund our operations, store expansion and updating activities and capital expenditure programs through at least January 31, 2005. However, there are several factors that could decrease cash provided by operating activities, including:

- reduced demand for our products;
- more stringent vendor terms on our inventory purchases;
- increases in product cost that we may not be able to pass on to our customers;
- reductions in product pricing due to competitor promotional activities;
- increases in the retained portion of our receivables portfolio under our current asset-backed securitization program as a result of changes in performance;
- inability to expand our capacity for financing our receivables portfolio under new or replacement asset-backed securitization programs or a requirement that we retain a higher percentage of the credit portfolio under such programs;
- increases in the program costs (interest and administrative fees relative to our receivables portfolio) associated with the funding of our receivables; and
- increases in personnel costs required for us to stay competitive in our markets.

If cash provided by operating activities during this period is less than we expect or if we need additional financing after January 31, 2005, we may need to increase our revolving credit facility or to undertake additional equity or debt offerings. We may not be able to obtain such financing on favorable terms, if at all.

Off-Balance Sheet Financing Arrangements

Since we extend credit in connection with a large portion of our retail, service maintenance and credit insurance sales, we created a QSPE, which we also refer to as the issuer, to purchase customer receivables from us and to issue asset-backed and variable funding notes to third parties. We transfer receivables, consisting of retail installment contracts and revolving accounts extended to our customers, to the issuer in exchange for cash, subordinated securities and the right to receive the interest spread between the assets held by the QSPE and the notes issued to third parties. To finance its acquisition of these receivables, the issuer has issued the notes described below to third parties. The subordinated securities issued to us accrue interest based on prime rates and are subordinate to these third party notes.

At July 31, 2003, the issuer has issued two series of notes: a Series A variable funding note with a capacity of $250.0 million purchased by Three Pillars Funding Corporation and three classes of Series B notes in the aggregate amount of $200.0 million. The Series A variable funding note is rated A1/P1 by Standard and Poors and Moody's, respectively. These ratings represent the highest rating (highest quality) of each rating agencies' three short-term investment grade ratings. Standard and Poors could add a "+" which would convert the highest quality rating to an "extremely strong" rating. The Series B notes consist of: Class A notes in the amount $120.0

million, rated Aaa by Moody's representing the highest rating (highest quality) of the four long term investment grade ratings provided by this organization; Class B notes in the amount $57.8, rated A2 by Moody's representing the middle of the third rating (upper medium quality) of the four long term investment grade ratings provided by this organization; and Class C notes in the amount of $22.2 million, rated Baa2/BBB by Moody's and Fitch, respectively. These ratings represent the lowest of the four investment grades (medium quality) provided by these organizations. The ratings disclosed are not recommendations to buy, sell or hold securities. These ratings may be changed or withdrawn at any time without notice and each of the ratings should be evaluated independently of any other rating. We are not aware of a rating by any other rating organization and are not aware of any changes in these ratings. Private institutional investors, primarily insurance companies, purchased the Series B notes. The issuer used the proceeds of these issuances, along with funds provided by us from borrowings under our bank credit facility, to purchase eligible accounts receivable from us and to fund a required $8.0 million restricted cash account for credit enhancement of the Series B notes.

We are entitled to a monthly servicing fee, so long as we act as servicer, in an amount equal to .0025% multiplied by the average aggregate principal amount of receivables plus the amount of average aggregate defaulted receivables. The issuer records revenues equal to the interest charged to the customer on the receivables less losses, the cost of funds, the program administration fees paid to either Three Pillars Funding Corporation or the Series B noteholders, and the servicing fee. SunTrust Capital Markets, Inc. serves as an administrative agent for Three Pillars Funding Corporation in connection with the Series A variable funding note. SunTrust Robinson Humphrey, a division of SunTrust Capital Markets, Inc., is one of the underwriters for this offering.

The Series A variable funding note permits the issuer to borrow funds up to $250.0 million to purchase receivables from us, thereby functioning as a credit facility to accumulate receivables. When borrowings under the Series A variable funding note approach $250.0 million, the issuer intends to refinance the receivables by issuing a new series of notes and to use the proceeds to pay down the outstanding balance of the Series A variable funding note, so that the credit facility will once again become available to accumulate new receivables. As of July 31, 2003, borrowings under the Series A variable funding note were $46.0 million.

The Series A variable funding note matures on September 1, 2007. The issuer will repay the Series A variable funding note and any refinancing note with amounts received from customers pursuant to receivables that we transferred to the issuer. Beginning on October 20, 2006, the issuer will begin to make scheduled principal payments on the Series B notes with amounts received from customers pursuant to receivables that we transferred to the issuer. To the extent that the issuer has not otherwise repaid the Series B notes, they mature on September 1, 2010.

The Series A variable funding note bears interest at the commercial paper rate plus an applicable margin in most instances of 0.8%, and the Series B notes have fixed rates of 4.469%, 5.769% and 8.180% for the Class A, B and C notes, respectively. In addition, there is an annual administrative fee and a non-use fee associated with the unused portion of the committed facility.

We are not directly liable to the lenders under the asset-backed securitization facility. If the issuer is unable to repay the Series A and Series B notes due to its inability to collect the transferred customer accounts, the issuer could not pay the subordinated notes it has issued to us in partial payment for transferred customer accounts, and the Series B lenders could claim the balance in the restricted cash account. We are also contingently liable under a $10.0 million letter of credit that secures our performance of our obligations or services under the servicing agreement as it relates to the transferred assets that are part of the asset-backed securitization facility.

The issuer is subject to certain affirmative and negative covenants contained in the transaction documents governing the Series A variable funding note and the Series B notes, including covenants that restrict, subject to specified exceptions: the incurrence of additional indebtedness and other obligations and the granting of additional liens; mergers, acquisitions, investments and disposition of assets; and the use of proceeds of the

program. The issuer also makes covenants relating to compliance with certain laws, payment of taxes, maintenance of its separate legal entity, preservation of its existence, protection of collateral and financial reporting. In addition, the program requires the issuer to maintain a minimum net worth.

Events of default under the Series A variable funding note and the Series B notes, subject to grace periods and notice provisions in some circumstances, include, among others: failure of the issuer to pay principal, interest or fees; violation by the issuer of any of its covenants or agreements; inaccuracy of any representation or warranty made by the issuer; certain servicer defaults; failure of the trustee to have a valid and perfected first priority security interest in the collateral; default under or acceleration of certain other indebtedness; bankruptcy and insolvency events; failure to maintain certain loss ratios and portfolio yield; change of control provisions and certain events pertaining to us. The issuer's obligations under the program are secured by the receivables and proceeds.

Both the bank credit facility and the asset-backed securitization program are significant factors relative to our ongoing liquidity and our ability to meet the cash needs associated with the growth of our business. Our inability to use either of these programs because of a failure to comply with their covenants would adversely affect our continued growth. Funding of current and future receivables under the asset-backed securitization program can be adversely affected if we exceed certain predetermined levels of extensions, write-offs, bankruptcies or other ineligible receivable amounts. If the funding under the asset-backed securitization program were reduced or terminated, we would have to draw down our bank credit facility more quickly than we have estimated.

A summary of the total receivables managed under the credit portfolio, including quantitative information about delinquencies, net credit losses and components of securitized assets, is presented in note 2 to our consolidated financial statements.

In an attempt to acquire retail lease space at more competitive rates, in 2001 we asked some members of our management team and the SGI Affiliates to form Specialized Realty Development Services, LP, or SRDS, a real estate development company that would acquire land and develop projects for our purposes. In order to encourage these members of management and the SGI Affiliates to invest in SRDS, we entered into an arrangement with SouthTrust Bank, NA under which we guaranteed the construction debt of SRDS during the construction of these projects. SRDS is owned by certain members of our management, including Thomas J. Frank, Sr., William C. Nylin, Jr., C. William Frank, David R. Atnip, David W. Trahan, Timothy L. Frank, Robert B. Lee, Jr., Larry W. Coker and Walter M. Broussard, and certain of the SGI Affiliates. We do not own SRDS, and its assets, liabilities, results of operations and cash flows are not recorded on our consolidated financial statements; however, as SRDS drew on the guaranteed construction line of credit, we recorded this construction work in process as an asset and the amount of the guaranteed draws as a liability on our financial statements. As of July 31, 2003, total assets of SRDS were $13.4 million and total liabilities of SRDS were $11.6 million, which are reflected on SRDS' balance sheet. As of July 31, 2003, four of the six projects SRDS is responsible for developing were operational and the amount of outstanding indebtedness we had guaranteed under this arrangement had been reduced to zero. We do not have any current obligation to guarantee additional SRDS construction debt, and we do not intend to guarantee any SRDS construction debt in the future.

We have leased each completed project from SRDS as a retail store location for an initial period of 15 years. At the time each lease was executed, our guarantee for the construction portion of the real estate loan was released and the related assets and guaranty obligations were removed from our financial statements. The lease then served as collateral for the loan. SRDS charges us annual lease rates of approximately 11.5% of the total cost of each project, which averages approximately $350,000 per year. In addition, we are responsible for the payment of all property taxes, insurance and common area maintenance expenses, which average approximately $70,000 per project per year. We are required to fund all leasehold improvements made to the buildings. Based on independent appraisals performed on each project, we believe that the terms of the leases that have replaced the guaranty obligations are generally more favorable than we could obtain in an arms' length transaction. SRDS pays us an annual management fee of $5,000 for administrative services that we provide to SRDS.

Certain Transactions

Since 1996, we have leased a retail store location of approximately 19,150 square feet in Houston, Texas from Thomas J. Frank, Sr., our Chairman of the Board and Chief Executive Officer. The lease provides for base monthly rental payments of $17,235 plus escrows for taxes, insurance and common area maintenance expenses of $6,200 monthly through January 31, 2011. We also have an option to renew the lease for two additional five-year terms. Mr. Frank received total payments under this lease of $281,000 in fiscal 2000 and fiscal 2001, $141,000 in the six month fiscal period ended January 31, 2002, $281,000 in fiscal 2003, and $141,000 during the six months ended July 31, 2003. Based on market lease rates for comparable retail space in the area, we believe that the terms of this lease are no less favorable to us than we could have obtained in an arms' length transaction at the date of the lease commencement.

Contractual Obligations

The following table presents a summary of all of our contractual obligations as of July 31, 2003, classified by payments due per period.

	Payments Due By Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
			(in thousands)		
Redemption of preferred stock(1)	$ 25,420	$ 25,420	$ —	$ —	$ —
Notes payable	5,275	5,275	—	—	—
Long term debt	38,105	7,991	30,114	—	—
Operating leases:					
Real estate	90,418	11,748	21,606	19,004	38,060
Equipment	8,268	2,966	3,235	1,201	866
Total contractual cash obligations	$ 167,486	$ 53,400	$ 54,955	$ 20,205	$ 38,926

(1) Redemption of our preferred stock is contingent on the completion of this offering. The redemption, at the option of the stockholder, can be made in cash or in conversion to common shares at the offering price. The holders of 162,753 shares of preferred stock with a value of $23.7 million have already indicated their intent to convert such preferred stock to approximately 1,822,208 shares of common stock.

Quantitative and Qualitative Disclosure About Market Risk

Interest rates under our bank credit facility are variable and are determined, at our option, as the base rate, which is the greater of prime rate or federal funds rate plus 0.50% plus the base rate margin, which ranges from 0.50% to 1.75%, or LIBOR plus the LIBOR margin, which ranges from 1.50% to 2.75%. Accordingly, changes in the prime rate, the federal funds rate or LIBOR, which are affected by changes in interest rates generally, will affect the interest rate on, and therefore our costs under, our bank credit facility. We are also exposed to interest rate risk associated with our interest only strip and the subordinated securities we receive from our sales of receivables to the QSPE.

We held interest rate swaps and collars with notional amounts totaling $100.0 million as of January 31, 2002 and January 31, 2003, with terms extending through 2005. At January 31, 2002, these instruments were accounted for as cash flow hedges. Of these instruments, $80.0 million were designated as hedges against our variable interest rate risk related to the cash flows from our interest only strip. The remaining $20.0 million of these instruments were designated as hedges against our variable rate debt.

In September 2002, we entered into a new agreement to sell customer receivables. As a result of that new agreement, we discontinued hedge accounting for the $80.0 million of instruments previously designated as

hedges against our interest only strip. In accordance with SFAS 133, we recognized changes in fair value for those derivatives after September 2002 as interest expense, and we are amortizing the amount of accumulated other comprehensive loss related to those derivatives as interest expense over the remaining term of the instruments, which expire ending in November 2003. This change had no effect on the $20.0 million of instruments designated as hedges against our variable rate debt.

Ineffectiveness, which arises from differences between the interest rate stated in the derivative instrument and the interest rate upon which the underlying hedged transaction is based, totaled $0.5 million for the year ended July 31, 2001, $0.1 million for the six months ended January 31, 2002 and $0.5 million for the year ended January 31, 2003, and is reflected in "Interest Expense" in our consolidated statement of operations. Ineffectiveness for the year ended January 31, 2003 includes $0.4 million related to discontinued hedge accounting.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board finalized SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS 142 requires, among other things, that companies no longer amortize goodwill but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that we identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets and cease amortization of intangible assets with indefinite useful lives. Intangible assets with indefinite useful lives must be tested for impairment in accordance with the guidance in SFAS 142. We adopted the provisions of SFAS 142 beginning as of February 1, 2002, relative to all goodwill and other intangible assets recognized as of that date, regardless of when we acquired the asset. SFAS 142 required us to complete a transitional goodwill impairment test prior to July 31, 2002, and to reassess the useful lives of other intangible assets within the first interim quarter after our adoption of the pronouncement. We completed the transitional goodwill impairment test in July 2002 and the first annual review in November 2002 and determined that no impairment of goodwill existed. Application of the non-amortization provisions of SFAS 142 to goodwill and other intangible assets, which had previously been amortized over 15 years, resulted in an increase to net income of approximately $0.2 million, or $0.01 per diluted common share, for fiscal 2003, and $0.1 million, or $0.005 per diluted common share, for the six months ended July 31, 2003. As of January 31, 2003, we had unamortized goodwill and other intangible assets of approximately $7.9 million.

In November 2002, the Emerging Issues Task Force of the Financial Accounting Standards Board reached a consensus on Issue 02-16, addressing the accounting for cash consideration received by a customer from a vendor, including vendor rebates and refunds. The consensus reached states that consideration received should be presumed to be a reduction of the prices of the vendor's products or services and should therefore be shown as a reduction of cost of sales in the income statement of the customer. The presumption can be overcome if the vendor receives an identifiable benefit in exchange for the consideration or the consideration represents a reimbursement of a specific incremental identifiable cost incurred by the customer in selling the vendor's product or service. If one of these conditions is met, the cash consideration should be characterized as a reduction of those costs in the income statement of the customer. The consensus reached also concludes that if rebates or refunds can be reasonably estimated, such rebates or refunds should be recognized as a reduction of the cost of sales based on a systematic and rational allocation of the consideration to be received relative to the transactions that mark the progress of the customer toward earning the rebate or refund. The provisions of this consensus are applied prospectively and are consistent with our existing accounting policy.

In November 2002, the Emerging Issues Task Force of the Financial Accounting Standards Board reached a consensus on Issue 00-21, addressing how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet the following criteria: (1) the delivered item has value to the customer on a stand alone basis; (2) there is objective and reliable evidence of the fair value of undelivered items; and (3) delivery of any undelivered item is probable. Arrangement consideration

should be allocated among the separate units of accounting based on their relative fair values, with the amount allocated to the delivered item being limited to the amount that is not contingent on the delivery of additional items or meeting other specified performance conditions. The final consensus will be applicable to agreements entered into in fiscal periods beginning after June 15, 2003, with early adoption permitted. The provisions of this consensus are not expected to have a significant effect on our financial position or operating results.

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*. SFAS 148 amends SFAS No. 123, *Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002, and have been incorporated into our consolidated financial statements and accompanying footnotes.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51*, or FIN 46. FIN 46 requires the consolidation of entities in which a company absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Currently, entities are generally consolidated by a company when it has a controlling financial interest through ownership of a majority voting interest in the entity. We are currently evaluating the effects of the issuance of FIN 46 on the accounting for our leases with SRDS. We do not anticipate the adoption of FIN 46 will have a material impact on our consolidated financial statements.

BUSINESS

Overview

We are a specialty retailer of home appliances and consumer electronics. We sell major home appliances including refrigerators, freezers, washers, dryers and ranges, and a variety of consumer electronics including projection, plasma and LCD televisions, camcorders, VCRs, DVD players and home theater products. We also sell home office equipment, lawn and garden products and bedding, and we continue to introduce additional product categories for the home to help increase same store sales and to respond to our customers' product needs. In the last three years, we have introduced several new product lines, including lawn and garden, bedding and generators. We offer over 1,100 product items, or SKUs, at good-better-best price points representing such national brands as General Electric, Whirlpool, Frigidaire, Mitsubishi, Sony, Panasonic, Thomson Consumer Electronics, Simmons, Hewlett Packard and Compaq. Based on revenue in 2002, we were the 12th largest retailer of home appliances in the United States, and we are either the first or second leading retailer of home appliances in terms of market share in the majority of our existing markets.

We currently operate 44 retail stores located in Texas and Louisiana. We opened 11 stores in the twelve months ended January 31, 2002, of which four were relocations of existing stores, we opened twelve stores in fiscal 2003, of which five were relocations of existing stores and we opened two stores within the last 60 days. We also closed one store during fiscal 2003. We plan to continue our growth program by opening an additional one to two new stores during fiscal 2004 and four to six new stores during fiscal 2005.

We have been known for providing excellent customer service for over 110 years. We believe that our customer-focused business strategies make us an attractive alternative to appliance and electronics superstores, department stores and other national, regional and local retailers. We strive to provide our customers with:

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

We believe that these strategies drive repeat purchases and enable us to generate substantial brand name recognition and customer loyalty. During fiscal 2003, approximately 54% of our credit customers, based on the number of invoices written, were repeat customers.

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

- we have grown from 26 stores to 44 stores, an increase of more than 69%, with three more stores currently under development;
- total revenues have grown at a compounded annual rate of 20.1% from $236.7 million in fiscal 1999, to $450.1 million in fiscal 2003;
- net earnings from continuing operations have grown at a compounded annual rate of 27.7% from $8.8 million in fiscal 1999, to $20.6 million in fiscal 2003; and
- our average same store sales growth from fiscal 1999 to fiscal 2003 has been 10.1%.

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Industry Overview

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

Based on data published in *Twice*, *This Week in Consumer Electronic*s, a newspaper dedicated to the consumer electronics, computer and major appliances industries in the United States, the top 100 major appliance retailers reported sales of approximately $15.2 billion in 2002, up approximately 9.5% from reported sales in 2001 of approximately $13.9 billion. We estimate sales for the appliance industry for 2002, based upon total estimated shipments including builders' sales and those retailers not included in the top 100 retailers as compiled by the Association of Home Appliance Manufacturers, to be in excess of $24 billion. We estimate total sales in the major appliance industry will exceed $29 billion by 2005. The retail appliance market is large and concentrated among a few major dealers. Sears has been the leader in the retail appliance market, with a market share of the top 100 retailers of approximately 37% in 2002, down from approximately 40% in 2001.

As measured by *Twice*, the top 100 consumer electronics retailers in the United States reported sales of $101.5 billion in 2002, a 6.1% increase from the $95.7 billion reported in 2001. According to the Consumer Electronics Association, or CEA, total industry manufacturer sales of consumer electronics products in the United States, including imports, are projected to exceed $109 billion by 2007. The consumer electronics market is highly fragmented. We estimate, based on data provided in *Twice*, that the two largest consumer electronics superstore chains together accounted for less than one-third of the total electronics sales attributable to the 100 largest retailers in 2002. New entrants in both the home appliances and consumer electronics industries have been successful in gaining market share by offering similar product selections at lower prices.

In the home appliance market, many factors drive growth, including consumer confidence, household formations and new product introductions. Product design and innovation is rapidly becoming a key driver of growth in this market. Products either recently introduced or scheduled to be offered include high speed ovens, custom refrigerators, appliances with stainless steel exteriors, personal garment dry cleaning appliances and energy-efficient appliances.

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

- *Digital Television (DTV and High Definition TV).* The Federal Communications Commission has set a target of 2006 for all commercial television stations to transition from broadcasting analog signals to digital signals. The Yankee Group, a communications and networking research and consulting firm, estimates that by the year 2007, HDTV signals will be in nearly 41.6 million, or 40%, of homes in the United States. This represents a compounded annual growth rate of 17.1% from the estimated 18.9 million homes receiving digital cable at the end of 2002. To view a digital transmission, consumers will need either a digital television or a set-top box converter capable of converting the digital broadcast for viewing on an analog set. According to the CEA, DTV unit sales are expected to grow from an estimated 4.3 million units in 2003 to 16.2 million units in 2007, representing a compounded annual growth rate of 39.3%. We believe the recent introduction of high clarity digital flat panel televisions in both liquid crystal display, or LCD, and plasma formats has increased the quality and sophistication of these entertainment products and will be a key driver of digital television growth.

- *Digital Versatile Disc (DVD).* According to the CEA, the DVD player has become the fastest growing consumer electronics product in history. First introduced in March 1997, DVD players are currently in 41% of U.S. homes and we believe that DVD players will reach a household penetration level of 70% by 2007. Sales of DVD players grew from 0.3 million units in 1997 to 17.1 million units in 2002 and are expected to further increase to 24.3 million units in 2004.
- *Digital Radio.* The conversion to digital radio is taking place through two independent platforms, satellite and terrestrial. Digital satellite radio is currently being provided by Sirius Satellite Radio and XM Satellite Radio. As of June 30, 2003, Sirius Satellite Radio and XM Satellite Radio had approximately 105,000 and approximately 692,000 subscribers, respectively. The Yankee Group estimates that the number of U.S. satellite radio subscribers will reach approximately 21 million by 2006. The well-established terrestrial AM/FM radio stations began upgrading to digital radio in 2003.

Home appliance and electronics retailers typically provide few or no in-house financing options. Consumers see home appliances and electronics as necessary or desirable, but many customers are unable to afford them without financing, which may be difficult to obtain. Moreover, once customers purchase an item, they typically have to wait several days for delivery and may be unable to receive product service from the seller.

Business Strategy

Our objective is to be the leading specialty retailer of home appliances and consumer electronics in each of our markets. We strive to achieve this objective through execution of the following strategies.

- ***Providing a high level of customer service.*** We endeavor to maintain a very high level of customer service as a key component of our culture, which has resulted in customer satisfaction levels at rates between 90% and 95%. We measure customer satisfaction in our customer service on the sales floor, in our delivery operation and in our service department by sending survey cards to all customers for whom we have delivered or installed a product or made a service call. Our customer service resolution department attempts to address all customer complaints within 48 hours of receipt. We are working to expand this department to enable us to make customer satisfaction calls to every customer as soon as possible after a delivery is made or a service call is completed.
- ***Developing and retaining highly trained and knowledgeable sales personnel.*** We require all sales personnel to specialize in home appliances, consumer electronics or “track” products. This approach allows the sales person to focus on a specific product category and become an expert in selling and using products in that category. New sales personnel must complete an intensive two-week classroom training program conducted at our corporate office followed by an additional week of on-the-job training riding in a delivery and service truck to observe how we serve our customers after the sale is made.
- ***Offering a broad range of customer-driven, brand name products.*** We offer a comprehensive selection of high-quality, brand name merchandise to our customers at guaranteed low prices. Consistent with our good-better-best merchandising strategy, we offer a wide range of product selections from entry-level models through high-end models. We maintain strong relationships with approximately 50 manufacturers and distributors that enable us to offer over 1,100 SKUs to our customers. Our principal suppliers include General Electric, Whirlpool, Frigidaire, Mitsubishi, Sony, Panasonic, Thomson Consumer Electronics, Simmons, Hewlett Packard and Compaq. To facilitate our responsiveness to customer demand, we use our prototype store, located near our corporate offices in Beaumont, Texas, to test the sale of all new products and obtain customers’ reactions to new display formats before introducing these products and display formats to our other stores.
- ***Offering flexible financing alternatives through our proprietary credit programs.*** Historically, we have financed approximately 60% of our retail sales through our internal credit programs. We believe our credit programs expand our potential customer base, increase our sales revenue and enhance customer loyalty by providing our customers immediate access to financing alternatives that our competitors typically do not offer. Our credit department makes all credit decisions internally, entirely

independent of our sales personnel. We provide special consideration to the customer's credit history with us. Before extending credit, we match our loss experience by product category with the customer's creditworthiness to determine down payment amounts and other credit terms. This facilitates product sales while keeping our credit risk within an acceptable range. Approximately 60% of customers who have active credit accounts with us take advantage of our in-store payment option and come to our stores each month to make their payments, which we believe results in additional sales to these customers. Through our daily calling program, we contact customers with past due accounts and attempt to work with them to collect payments in times of financial difficulty or periods of economic downturn. Our credit decisions and collections process enabled us to achieve a 2.7% net loss ratio in fiscal 2003 and a 2.8% annualized net loss ratio for the six months ended July 31, 2003 on the credit portfolio that we service for the QSPE.

- ***Maintaining same day and next day distribution capabilities.*** We maintain four regional distribution centers and two other related facilities that cover all of the major markets in which we operate. These facilities are part of a sophisticated inventory management system that also includes a fleet of approximately 130 transfer and delivery vehicles that service all of our markets. Our distribution operations enable us to deliver products on the day of, or the day after, the sale to approximately 95% of our customers.
- ***Providing outstanding product repair service.*** We service every product that we sell, and we service only the products that we sell. In this way, we can assure our customers that they will receive our service technicians' exclusive attention to their product repair needs. All of our service centers are authorized factory service facilities that provide trained technicians to offer in-home diagnostic and repair service as well as on-site service and repairs for products that cannot be repaired in the customer's home.

Growth Strategy

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

- ***Increasing same store sales.*** We plan to continue to increase our same store sales by:
  - continuing to offer quality products at competitive prices;
  - remerchandising our product offerings in response to changes in consumer demand;
  - training our sales personnel to increase sales closing rates;
  - updating our stores on a three-year rotating basis;
  - focusing more specifically on sales of computers and smaller electronics within the interior track area of our stores, including the expansion of high margin accessory items;
  - continuing to provide a high level of customer service in sales, delivery and servicing of our products;
  - increasing sales of our merchandise, finance products, service maintenance agreements and credit insurance through direct mail and in-store credit promotion programs; and
  - introducing a replacement service maintenance agreement that covers replacement of smaller ticket items.
- ***Opening new stores.*** We intend to take advantage of our reliable infrastructure and proven store model to continue the pace of our new store openings. This infrastructure includes our proprietary management information systems, training processes, distribution network, merchandising capabilities,

supplier relationships and centralized credit approval and collection processes. We intend to expand our store base in existing, adjacent and new markets, as follows:

- *Existing and adjacent markets.* We intend to increase our market presence by opening new stores in our existing markets, in adjacent markets and in new markets. New store openings in these locations will allow us to take advantage of our perceived market opportunity in those markets and leverage our existing distribution network, cluster advertising, brand name recognition and reputation.
- *New markets.* We have executed leases to open three new stores in the Dallas/Fort Worth metroplex. We have identified several additional markets that meet our criteria for site selection, including the Rio Grande Valley in southwest Texas, New Orleans and central Louisiana around Shreveport, Monroe and Alexandria. We intend to enter these new markets, as well as some in neighboring states, over the next several fiscal years. We will first address markets in states in which we currently operate. We expect that this new store growth will include major metropolitan markets in both Texas and Louisiana. We have also identified a number of smaller markets within Texas and Louisiana in which we expect to explore new store opportunities. Our long-term growth plans include markets in other areas of significant population density within neighboring states. During fiscal 2004, we expect to open three to five stores in new markets in Texas and Louisiana.

- ***Updating, expanding or relocating existing stores.*** Over the last three years, we have updated, expanded or relocated all of our stores. We have implemented our larger prototype store model at all locations at which the physical space would accommodate the required design changes. As we continue to add new stores or replace existing stores, we will modify our floor plan to include this new model. We continuously evaluate our existing and potential sites to ensure our stores are in the best possible locations and relocate stores that are not properly positioned. We typically lease rather than purchase our stores to retain the flexibility of subleasing a location if we later decide that the store is performing below our standards. This approach also conserves capital by avoiding large outlays for real estate purchases. After updating, expanding or relocating a store, we expect to increase sales significantly at those stores.

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Products and Merchandising

Product Categories. Each of our stores sells five major categories of products: major home appliances, consumer electronics, home office equipment, delivery and installation services and other household products, including lawn and garden equipment and bedding. The following table presents a summary of net sales by major product category, service maintenance agreement commissions and service revenues, for fiscal 2000 and fiscal 2001, the six month fiscal period ended January 31, 2002, fiscal 2003 and the six months ended July 31, 2003.

	Twelve Months Ended July 31,				Six Months Ended January 31, 2002(1)		Twelve Months Ended January 31, 2003		Six Months Ended July 31, 2003(2)	
	2000		2001							
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)									
Major home appliances	$ 101,654	40.8%	$ 114,756	39.2%	$ 63,822	34.9%	$ 147,217	37.8%	$ 81,803	39.1%
Consumer electronics	83,880	33.7	107,536	36.8	75,254	41.2	155,213	39.9	75,152	35.9
Home office equipment	24,235	9.7	22,569	7.7	16,501	9.0	25,797	6.6	12,082	5.8
Delivery and installation	5,429	2.2	6,366	2.2	3,606	2.0	8,231	2.1	3,867	1.8
Other (including lawn and garden and bedding)	4,734	1.9	9,394	3.2	4,708	2.6	14,130	3.6	15,573	7.4
Total product sales	219,932	88.3	260,621	89.1	163,891	89.7	350,588	90.0	188,477	90.0
Service maintenance agreement commissions	14,884	6.0	17,022	5.8	10,443	5.7	20,488	5.3	11,588	5.5
Service revenues	14,261	5.7	14,745	5.0	8,277	4.5	18,420	4.7	9,376	4.5
Total net sales	$ 249,077	100.0%	$ 292,388	100.0%	$ 182,611	100.0%	$ 389,496	100.0%	$ 209,441	100.0%

(1) Sales amounts and percentages for this period do not reflect the effect of summer air conditioner sales and lawn and garden product sales.
(2) Sales amounts and percentages for this period do not reflect the holiday sales season.

Within these major product categories (excluding service maintenance agreements and delivery and installation), we offer our customers over 1,100 SKUs in a wide range of price points. Most of these products are manufactured by brand name companies, including General Electric, Whirlpool, Frigidaire, Mitsubishi, Sony, Panasonic, Thomson Consumer Electronics, Simmons, Hewlett Packard and Compaq. As part of our good-better- best merchandising strategy, our customers are able to choose from products ranging from low-end to mid- to high-end models in each of our key product categories, as follows.

Category	Products	Selected Brands
Major appliances	Refrigerators, freezers, washers, dryers, ranges, dishwashers, air conditioners and vacuum cleaners	General Electric, Frigidaire, Whirlpool, Maytag, KitchenAid, Sharp, Samsung, Friedrich, Roper, Hoover and Eureka
Consumer electronics	Projection, plasma and LCD televisions, home theater systems, VCRs, camcorders, digital cameras, DVD players, audio components, compact disc players, speakers and portable electronics	Mitsubishi, Thomson Consumer Electronics, Sony, Toshiba, Sanyo, JVC, Panasonic, Hitachi, Yamaha, Polk, Kenwood and JBL
Home office equipment	Computers, computer peripherals, personal digital assistants and telephones	Hewlett Packard, Compaq, Sony and Panasonic
Other	Lawn and garden, bedding and generators	Poulan, Toro, Weedeater and Simmons

Purchasing. We purchase products from approximately 50 manufacturers and distributors. Our agreements with these manufacturers and distributors typically cover a one or two year time period, are renewable at the option of the parties and are terminable upon 30 days written notice by either party. We purchase a significant portion of our total inventory from a limited number of vendors. During fiscal 2003, we purchased 65.4% of our total inventory from six vendors, including 15.5%, 13.7% and 12.5% of our total inventory from Frigidaire, Whirlpool and Mitsubishi, respectively.

Merchandising Strategy. We focus on providing a comprehensive selection of high-quality merchandise to appeal to a broad range of potential customers. Consistent with our good-better-best merchandising strategy, we offer a wide range of product selections from entry-level models through high-end models. We primarily sell brand name warrantied merchandise. Our established relationships with major appliance and electronic vendors give us purchasing power that allows us to offer custom-featured appliances and electronics and provides us a competitive selling advantage over other independent retailers. We use our prototype store, located near our corporate offices in Beaumont, Texas, to test the sale of all new products and obtain customers' reactions to new display formats before introducing these products and display formats to our other stores. As part of our merchandising strategy, we operate clearance centers in our Houston and San Antonio markets to help sell scratched, used or discontinued merchandise. We have recently redesigned our approach to the merchandising of our "track" products, including computers and other small appliances and electronic products such as camcorders, DVD players, cameras and telephones, to provide consumer-friendly point of sale transactions that take place within a track area located in the interior of our store. We believe that this focused approach to creating consumer awareness and ease of purchase of our track products will help increase same store sales. We do, however, expect product margins to decrease because many of these products are sold at lower margins.

Pricing. We emphasize competitive pricing on all of our products and maintain a low price guarantee that is valid in all markets from 10 to 30 days after the sale, depending on the product. At most of our stores, to print an invoice that contains pricing other than the price maintained within our computer system, sales personnel must

call a special “hotline” number at the corporate office. Store operations management and our corporate office closely monitor the stores that do not have this price adjustment system. Personnel manning this hotline number are familiar with competitor pricing and are authorized to make price adjustments to fulfill our low price guarantee when a customer presents acceptable proof of the competitor’s lower price. This centralized function also allows us to maintain control of pricing and to store and retrieve pricing data of our competitors.

Customer Service

We focus on customer service as a key component of our strategy. We believe our same day or next day delivery option, which is not offered by most of our competitors, is one of the keys to our success. Additionally, we attempt to answer and resolve all customer complaints within 48 hours of receipt. We track customer complaints by individual salesperson, delivery person and service technician. We send out over 30,000 customer satisfaction survey cards each month covering all deliveries and service calls. Based upon a response rate from our customers of approximately 20%, we consistently report customer satisfaction rates between 90% and 95%. We have already planned the physical facilities necessary to implement a proactive customer satisfaction call center, and once the center is fully operational, we expect to contact most customers within 48 hours of product delivery or completed service call to inquire about their satisfaction with their purchases or service call experience with us.

Store Operations

Stores. We currently operate 44 retail stores located in Texas and Louisiana. The following table illustrates our markets, the number of freestanding and strip mall stores in each market and the year we opened our first store in each market.

	Number of Stores		
Market	**Stand-Alone**	**Strip Mall**	**First Store Opened**
Houston	8	10	1983
San Antonio/Austin	7	6	1994
Golden Triangle (1)	1	4	1937
Baton Rouge/Lafayette	1	4	1975
Corpus Christi	1	0	2002
Dallas	—	2	2003
	18	26	

(1) Beaumont, Nederland and Orange, Texas and Lake Charles, Louisiana

Our stores have an average selling space of approximately 19,000 square feet, plus a rear storage area averaging approximately 6,000 square feet for fast-moving or smaller products that customers prefer to carry out rather than wait for in-home delivery. Two of our stores are clearance centers for discontinued product models and damaged merchandise and returns. Our clearance centers are located in the Houston and San Antonio/Austin markets and average 9,000 square feet of selling space. All stores and clearance centers are open from 10:00 a.m. to 9:00 p.m. Monday through Friday, from 9:00 a.m. to 9:00 p.m. on Saturday, and from 11:00 a.m. to 7:00 p.m. on Sunday.

Approximately 60% of our stores are in strip shopping centers and regional malls, with the balance being stand-alone buildings. All of our locations have parking available immediately adjacent to the store’s front entrance. Our storefronts have a distinctive exterior tower that guides the customer to the entrance of the store. Inside the store, a large colorful tile track circles the interior floor of the store. One side of the track leads the customer to major appliances, lawn and garden products and bedding while the other side of the track leads the customer to a large display of television and projection television products. The inside of the track contains

various home office and consumer electronic products such as computers, printers, DVD players, camcorders, digital cameras and telephones. During the six month period ended July 31, 2003, we redesigned our approach to merchandising of our track products to provide consumer-friendly point of sale transactions. The area inside the track now has its own manager, sales personnel and merchandising approach for its products, including a check-out area dedicated to the purchase of track products. The rear of the store contains a display for audio and stereo products, as well as cashier stations. To reach the cashiers at the rear of the store, our customers must walk past our products. We believe this increases sales to customers that have purchased products from us on credit in the past and who return to our stores to make their monthly credit payments.

We have updated or relocated all of our stores in the last three years. We expect to continue to update stores on a three year cycle. All of our updated stores, as well as our new stores, include modern interior selling spaces featuring attractive signage and display areas specifically designed for each major product type. Our prototype store for future expansion has from 20,000 to 24,000 square feet of retail selling space, which is approximately 15% more than the average size of our existing stores and a rear storage area of between 5,000 and 7,000 square feet. We generally spend approximately $375,000 to $425,000 to update a store, and as a result of the updating, we expect to increase same store sales at those stores. Over the last three years, we have spent approximately $20 million updating, refurbishing or relocating our existing stores.

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

Store Economics. We lease 40 of our 44 current store locations, with an average monthly rent of $21,000. Our average investment for the 13 stores we have opened in the last two years was approximately $1.1 million, including leasehold improvements, fixtures and equipment and inventory (net of accounts payable). For these same new stores, the net sales per store has averaged $0.7 million per month for the last 18 months or the actual time the store has been open, if less than 18 months.

Our new stores have typically been profitable on an operating basis within their first three to six months of operation and, on average have returned our investment in 20 months or less. We consider a new store to be successful if it achieves $8 million to $9 million in sales volume and 2% to 5% in operating margins before allocations of overhead and advertising in the first full year of operation. Successful stores that have matured, which generally occurs after two to three years of operations, typically generate annual sales of approximately $12 million to $15 million and 5% to 9% in operating margins before allocations. Assuming that the store location is both visible and accessible from major thoroughfares and that major competition exists in the general area, we believe that there is a significant difference in sales volume between stores that are freestanding and stores that are located in strip malls. Most of our new and replacement stores, therefore, are stand-alone stores unless there is compelling demographic data to cause us to locate the store in a strip mall.

Personnel and Compensation. We staff a typical store with a store manager, an assistant manager, 10 to 20 sales personnel and other support staff including cashiers and/or porters. Managers have an average tenure with us of approximately seven years and typically have prior sales floor experience. In addition to store managers, we have four district managers that oversee from eight to 12 stores in each market. Our district managers generally have five to 15 years of sales experience and report to our senior vice president of store operations, who has over 20 years of sales experience. We treat the track area of our stores as a store within a store with a separate staff and cashier function.

We compensate home appliance and consumer electronics sales specialists on a straight commission arrangement, while we generally compensate store managers and cashiers on a salary basis plus incentives or at an hourly rate. Our store managers receive a base salary and monthly bonuses; in some instances, store managers receive earned commissions plus base salary. Our clearance centers are staffed with a manager and six to eight sales personnel who are paid on a straight commission arrangement. Sales personnel within the track area are compensated on an hourly basis plus a sales incentive. We believe that because our store compensation plans are tied to sales, they generally provide us an advantage in attracting and retaining highly motivated employees.

Training. New sales personnel must complete an intensive two-week classroom training program conducted at our corporate office. We then require them to spend an additional week riding in a delivery and service truck to gain an understanding of how we serve our customers after the sale is made. Installation and delivery staff and service personnel receive training through an on-the-job program in which individuals are assigned to an experienced installation and delivery or service employee as helpers prior to working alone.

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

Marketing

We design our marketing and advertising programs to increase our brand name recognition, educate consumers about our products and services and generate customer traffic in order to increase sales. Our programs include periodic promotions such as three, six or twelve months of no interest financing. We conduct our advertising programs primarily through local newspapers, local radio and television stations and direct marketing through direct mail, telephone and our website.

Direct marketing has become an effective way for us to present our products and services to our existing customers and potential new customers. We use direct mail to target promotional mailings to creditworthy individuals, including new residents in our market areas from time to time. In addition, we use direct mail to market increased credit lines to existing customers, to encourage customers using third party credit to convert to our credit programs and for customer appreciation mailings. We also conduct a mail program to reestablish contact with customers who applied for credit recently at one of our stores but did not purchase a product. During fiscal 2003, customers representing approximately $158.2 million, or 41%, of retail sales at our stores, had recently received a direct mail offer prior to purchasing a product. We also call customers who recently applied for credit at one of our retail locations but did not purchase a product; this often redirects these potential purchasers back into the original store location. This telephone program was responsible for an additional $15.3 million in revenue during fiscal 2003.

Our website, www.conns.com, offers a selection of products from our total product inventory and provides useful information to the consumer on pricing, features and benefits for each product. Our website also allows the customer to apply and be approved for credit, to see our special on-line promotional items and to make purchases on-line through the use of approved credit cards. The website currently averages approximately 3,140 visits per day from potential and existing customers. During fiscal 2003, our website was the initial source of approximately 54,000 credit applications that resulted in $25.8 million in sales completed in our stores. The website is linked to a call center, allowing us to better assist customers with their credit and product needs.

Distribution and Inventory Management

We typically cluster our stores around four regional distribution centers located in Houston, San Antonio and Beaumont, Texas and Lafayette, Louisiana and a smaller warehouse facility in Austin, Texas. This enables us to deliver products to our customers quickly, reduces inventory requirements at the individual stores and facilitates regionalized inventory and accounting controls. As part of our entry into the Dallas market, we have leased a warehouse facility of approximately 36,000 square feet.

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

We maintain a fleet of 18-wheeler transport trucks that allow us to move products from market to market and from distribution centers to stores. At each distribution center or warehouse facility, we also maintain a fleet of home delivery vehicles that allow us to deliver directly to the customer. Our customers pay a delivery charge based on their choice of same day or next day delivery, and we are able to deliver our products on the same day as, or the next day after, the sale to approximately 95% of our customers.

Finance Operations

General. We sell our products for cash or for payment through major credit cards, which we treat as cash sales. We also offer our customers several financing alternatives through our proprietary credit programs. Historically, we have financed approximately 60% of our retail sales through one of our two proprietary credit programs. We offer our customers a choice of installment payment plans and revolving credit plans through our primary credit portfolio. We also offer an installment program through our secondary credit portfolio to a limited number of customers who do not qualify for credit under our primary credit portfolio. The following table shows our product sales, excluding returns and allowances and service revenues, by method of payment for the periods indicated.

	Twelve Months Ended July 31,				Six Months Ended January 31, 2002		Twelve Months Ended January 31, 2003		Six Months Ended July 31, 2003	
	2000		2001							
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(dollars in thousands)									
Cash and other credit cards	$ 94,722	38.5%	$ 112,350	38.6%	$ 72,168	39.5%	$ 154,305	39.8%	$ 95,442	45.6%
Primary credit portfolio:										
Installment	115,060	46.8	136,348	46.8	86,208	47.2	181,441	46.8	90,643	43.4%
Revolving	19,904	8.1	18,429	6.3	10,020	5.5	20,370	5.3	9,457	4.5%
Secondary credit portfolio	16,060	6.5	24,000	8.2	14,173	7.8	31,815	8.2	13,551	6.5%
Total	$ 245,745	100.0%	$ 291,127	100.0%	$ 182,569	100.0%	$ 387,931	100.0%	$ 209,093	100.0%

As of July 31, 2003, we employed approximately 250 employees who focus on credit approval and collections. These employees are highly trained to follow our strict methodology in approving credit, collecting our accounts and charging off any uncollectible accounts.

Credit Approval. Our credit programs are operated by our centralized credit department staff, completely independent of sales personnel. As part of our centralized credit approval process, we have developed a proprietary standardized scoring model that provides preliminary credit decisions, including down payment amounts and credit terms, based on both customer and product risk. Although we rely on this program to approve automatically some credit applications from customers for whom we have previous credit experience, over 87% of our credit decisions are based on human evaluation of the customer’s creditworthiness. We developed this model with the assistance of Equifax® to correlate the product category of a customer purchase with the default probability.

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A significant part of our ability to control delinquency and charge-off rates is tied to the relatively high level of down payments that we require and the purchase money security interest that we obtain in the product financed, which reduce our credit risk and increase our customers' willingness to meet their future obligations. Consistent with industry practice, we require the customer to provide proof of credit property insurance coverage to offset potential losses relating to theft or damage of the product financed.

Installment accounts are paid over a specified period of time with set monthly payments. Revolving accounts provide customers with a specified amount which the customer may borrow, repay and re-borrow so long as the credit limit is not exceeded. Most of our installment accounts provide for payment over 12 to 36 months, and for those accounts paid in full during fiscal 2003 and the six months ended July 31, 2003, the average account was outstanding for approximately 13 to 15 months. Our revolving accounts were outstanding approximately 14 to 16 months for those accounts paid in full during fiscal 2003 and the six months ended July 31, 2003. During fiscal 2003 and the six months ended July 31, 2003, approximately 13% of the applications approved under the primary program were handled automatically through our computer system based on previous credit history with us. We automatically send the application of any new credit customer or any customer seeking additional credit where there has been a past delinquency or performance problem to an experienced, in-house credit grader.

We created our secondary credit portfolio program to meet the needs of those customers who do not qualify for credit under our primary program. If we cannot approve a customer's application for credit under our primary portfolio, we automatically send the application to the credit staff of our secondary portfolio for further consideration. We offer only the installment program to these customers, and we grant credit to these consumers under stricter terms, including higher down payments. An experienced, in-house credit grader administers the credit approval process. Most of the installment accounts approved under this program provide for repayment over 12 to 36 months, and for those accounts paid in full during fiscal 2003 and the six months ended July 31, 2003, the average account was outstanding for approximately 13 to 15 months.

The following two tables present, for comparison purposes, information regarding our two credit portfolios.

	Primary Portfolio			
	Twelve Months Ended July 31, 2001	Six Months Ended January 31, 2002	Twelve Months Ended January 31, 2003	Six Months Ended July 31, 2003
	(dollars in thousands, except average outstanding balance)			
Total outstanding balance (period end)	$ 195,920	$ 220,268	$ 249,410	$ 257,981
Average outstanding customer balance	$ 1,019	$ 1,054	$ 1,063	$ 1,110
Number of active accounts (period end)	192,136	209,035	234,738	232,374
Total applications processed (1)	324,803	202,842	451,422	238,389
Percent of retail sales financed	53.1%	52.7%	52.1%	47.9%
Total applications approved	64.7%	63.3%	57.3%	59.3%
Average down payment	11.0%	10.8%	10.3%	10.0%
Average interest spread (2)	12.8%	14.4%	13.0%	12.6%

	Secondary Portfolio			
	Twelve Months Ended July 31, 2001	Six Months Ended January 31, 2002	Twelve Months Ended January 31, 2003	Six Months Ended July 31, 2003
	(dollars in thousands, except average outstanding balance)			
Total outstanding balance (period end)	$ 34,473	$ 41,925	$ 54,417	$ 53,586
Average outstanding customer balance	$ 1,074	$ 1,089	$ 1,077	$ 1,076
Number of active accounts (period end)	32,417	38,482	50,509	49,784
Total applications processed (1)	113,996	77,679	194,407	91,870
Percent of retail sales financed	8.2%	7.8%	8.2%	6.5%
Total applications approved	28.8%	33.4%	27.6%	26.9%
Average down payment	24.5%	25.0%	27.0%	28.8%
Average interest spread (2)	14.3%	15.6%	14.3%	13.1%

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

Credit Quality. We enter into securitization transactions to sell our retail receivables to a QSPE. After the sale, we continue to service these receivables under a contract with the QSPE. We closely monitor these credit portfolios to identify delinquent accounts early and dedicate resources to contacting customers concerning past due accounts. We believe that our local presence, ability to work with customers and flexible financing alternatives contribute to the historically low charge-off rates on these portfolios. In addition, our customers have the opportunity to make their monthly payments in our stores, and approximately 60% of our active credit accounts did so at some time during the last 24 months. We believe that these factors help us maintain a relationship with the customer that keeps losses low while encouraging repeat purchases.

Our follow-up collection activities involve a combination of centralized efforts that take place in our corporate office and outside collection efforts that involve a visit by one of our credit counselors to the customer's home. We maintain a sophisticated predictive dialer system and letter campaign that helps us contact approximately 19,000 delinquent customers daily. We also maintain a very experienced skip-trace department that utilizes current technology to locate customers who have moved and left no forwarding address. Our outside collectors provide an on-site contact with the customer to assist in the collection process or, if needed, to actually repossess the product in the event of non-payment. Repossessions are made when it is clear that the customer is unwilling to establish a reasonable payment process. Our legal department represents us in bankruptcy proceedings and filing of delinquency judgment claims and helps handle any legal issues associated with the collection process.

Generally, we deem an account to be uncollectible and charge it off if the account is 120 days past due and has not had a payment in the last seven months. We have historically recovered approximately 24% of charged-off amounts through our collection activities. The income that we realize from our interest in securitized receivables depends on a number of factors, including expected credit losses. Therefore, it is to our advantage to maintain a low delinquency rate and loss ratio on these credit portfolios.

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

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

	Primary Portfolio			
	Twelve Months Ended July 31, 2001	Six Months Ended January 31, 2002	Twelve Months Ended January 31, 2003	Six Months Ended July 31, 2003
	(dollars in thousands)			
Total outstanding balance (period end)	$ 195,920	$ 220,228	$ 249,410	$ 257,981
Average total outstanding balance	$ 184,184	$ 198,400	$ 234,819	$ 251,861
Account balances over 60 days old (period end)	$ 8,980	$ 10,800	$ 13,267	$ 12,856
Percent of balances over 60 days old to total outstanding (period end)	4.6%	4.9%	5.3%	5.0%
Allowance for doubtful accounts (period end)	$ 7,019	$ 7,602	$ 8,722	$ 9,024
Percent allowance for doubtful accounts to total outstanding (period end)	3.6%	3.5%	3.5%	3.5%
Bad debt write-offs (net of recoveries)	$ 4,886	$ 2,691	$ 6,135	$ 3,602
Percent of write-offs (net) to average outstanding	2.7%	2.7%	2.6%	2.9%

	Secondary Portfolio			
	Twelve Months Ended July 31, 2001	Six Months Ended January 31, 2002	Twelve Months Ended January 31, 2003	Six Months Ended July 31, 2003
	(dollars in thousands)			
Total outstanding balance (period end)	$ 34,473	$ 41,925	$ 54,417	$ 53,586
Average total outstanding balance	$ 28,401	$ 34,779	$ 48,171	$ 54,788
Account balances over 60 days old (period end)	$ 1,694	$ 2,583	$ 3,737	$ 4,033
Percent of balances over 60 days old to total outstanding (period end)	4.9%	6.2%	6.9%	7.5%
Allowance for doubtful accounts (period end)	$ 1,082	$ 1,333	$ 1,853	$ 2,393
Percent allowance for doubtful accounts to total outstanding (period end)	3.1%	3.2%	3.4%	4.5%
Bad debt write-offs (net of recoveries)	$ 778	$ 463	$ 1,425	$ 710
Percent of write-offs (net) to average outstanding	2.7%	2.7%	3.0%	2.6%

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

	Twelve Months Ended July 31,			Six Months Ended January 31, 2002	Twelve Months Ended January 31, 2003	Six Months Ended July 31, 2003
	1999	2000	2001			
	(dollars in thousands)					
Beginning balance	$ 159,647	$ 187,354	$ 228,547	$ 271,846	$ 311,032	$ 362,076
New receivables financed	162,947	196,151	232,550	147,539	302,494	145,458
Revolving finance charges	4,850	5,124	5,210	2,509	4,818	2,228
Returns on account	(2,198)	(2,696)	(3,220)	(2,222)	(5,508)	(2,761)
Collections on account	(133,573)	(152,018)	(185,576)	(105,486)	(243,200)	(131,436)
Accounts charged off	(5,793)	(6,812)	(7,476)	(4,347)	(10,528)	(6,058)
Recoveries of charge-offs	1,474	1,444	1,811	1,193	2,968	1,745
Ending balance	187,354	228,547	271,846	311,032	362,076	371,253
Less unearned interest at end of period	(26,064)	(33,389)	(41,455)	(48,879)	(58,249)	(59,685)
Total portfolio managed, net	$ 161,290	$ 195,158	$ 230,391	$ 262,153	$ 303,827	$ 311,568

Product Support Services

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

We require proof of property insurance on all credit purchases, although we do not require that customers purchase this insurance from us. Approximately 79% of our credit customers purchase one or more of the credit insurance products we offer, and approximately 46% purchase all of the insurance products we offer. Commission revenues from the sale of credit insurance contracts represented approximately 2% of total net sales for fiscal 2003 and for the six months ended July 31, 2003.

Warranty Service. We provide warranty service for all of the products we sell and only for the products we sell. Customers purchase service maintenance agreements on products representing approximately 53% of our total retail sales for fiscal 2003. These agreements broaden and extend the period of covered manufacturer warranty service for up to five years from the date of purchase, depending on the product, and cover certain items during the manufacturer's warranty period. These agreements are sold at the time the product is purchased. Customers may finance the cost of the agreements along with the purchase price of the associated product. We contact the customer prior to the expiration of the service maintenance period to offer to renew the period of warranty coverage.

We have contracts with unaffiliated third party insurers that issue the service maintenance agreements to cover the costs of repairs performed by our service department under these agreements. The initial service contract is between the customer and the independent insurance company, but we are the insurance company's first choice to provide service when it is needed. We receive a commission on the sale of the contract, and we bill the insurance company for the cost of the service work that we perform. Commissions on these third party contracts are recognized in revenues, net of the payment to the third party obligor. Renewal contracts are between the customer and our in-house service department. Under renewal contracts we record the cost of the service work performed as products are repaired.

Of the 15,000 to 20,000 repairs that we perform each month, approximately 45% are covered under these service maintenance agreements, approximately 45% are covered by manufacturer warranties and the remainder are "walk-in" repairs from our customers. Revenues from the sale of service contracts represented approximately 9.4% of total net retail sales during fiscal 2003 and approximately 9% during the six months ended July 31, 2003.

Management Information Systems

We have a fully integrated management information system that tracks on a real-time basis point-of-sale information, inventory receipt and distribution, merchandise movement and financial information. The management information system also includes a local area network that connects all corporate users to e-mail, scheduling and various servers. The servers and our stores are linked by a wide-area network that provides communication for in-house credit authorization and real time polling of sales and merchandise movement at the store level. In our distribution centers, we use radio frequency terminals to assist in receiving, stock put-away, stock movement, order filling, cycle counting and inventory management. At our stores, we currently use desktop terminals to assist in receiving, transferring and maintaining perpetual inventories. We expect to expand the use of product scanning technology to help in inventory control at the retail store level within the next six to nine months.

Our integrated management information system also includes extensive functionality for management of the complete credit portfolio life cycle as well as functionality for the management of product service. The credit

system continues from our in-house credit authorization through account set up and tracking, credit portfolio condition, collections, credit employee productivity metrics, skip-tracing, bankruptcy and fraud and legal account management. The service system provides for service order processing, warranty claims processing, parts inventory management, technician scheduling and dispatch, technician performance metrics and customer satisfaction measurement. All of these systems share a common customer and product sold database.

Our point of sale system uses an IBM AS/400 hardware system that runs on the OS/400 operating system. This system enables us to use a variety of readily available applications in conjunction with software that supports the system. All of our current business application software, except our accounting and human resources systems, has been developed in-house by our management information system employees. We believe our management information systems efficiently support our current operations and provide a foundation for future growth.

In fiscal 2001, we installed a new Nortel telephone switch and state of the art Mosaix system predictive dialer, as well as a frame relay network and cable plant, to improve the efficiency of our collection and overall corporate communication efforts.

As part of our ongoing disaster recovery plan, we are currently implementing a secondary AS/400 system in two phases. In phase one, we installed a second back-up machine in our corporate office with the primary AS/400 to provide the ability to switch production processing from the primary system to the secondary system within fifteen to thirty minutes should the primary system become disabled or unreachable. The two machines are kept synchronized utilizing third party software. The first phase provides “high availability” of the production processing environment. The second phase will add “disaster recovery” support through the relocation of the secondary AS/400 to another site geographically removed from our corporate office. The remainder of the functionality, synchronization of data and switch of production processing from primary to secondary, will continue to function as in the first phase. This configuration will also allow for more frequent system and software maintenance without disrupting normal production.

Competition

According to *Twice*, *This Week in Consumer Electronics*, total industry manufacturer sales of home appliances and consumer electronics products in the United States, including imports, to the top 100 dealers were estimated to be $15.2 billion and $101.5 billion, respectively, in 2002. The retail home appliance market is large and concentrated among a few major suppliers. Sears has been the leader in the retail home appliance market, with a market share among the top 100 retailers of approximately 37% in 2002, down from 40% in 2001. The consumer electronics market is highly fragmented. We estimate that the two largest consumer electronics superstore chains accounted for less than one-third of the total electronics sales attributable to the 100 largest retailers in 2002. However, new entrants in both industries have been successful in gaining market share by offering similar product selections at lower prices.

As reported by *Twice*, based upon revenue in 2002, we were the 12th largest retailer of home appliances. Our competitors include national mass merchants such as Sears and Wal-Mart, specialized national retailers such as Circuit City and Best Buy, home improvement stores such as Lowe’s and Home Depot, and locally-owned regional or independent retail specialty stores. The availability and convenience of the Internet and other direct-to-consumer alternatives are increasing as a competitive factor in our industry, especially for distribution of computer and entertainment software.

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

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Facilities

We currently operate 44 retail stores located in Texas and Louisiana. We lease 40 of these store locations. Our store leases typically have terms of 10 to 15 years, with renewal options. Most of these leases provide for periodic rent escalation upon renewal. We have executed leases for three additional store sites in the Dallas/Fort Worth area, and we plan to open these stores during the second half of fiscal 2004.

We lease warehouse facilities located in Houston, Texas (230,000 square feet), San Antonio, Texas (198,000 square feet) and Dallas, Texas (36,000 square feet). These leases have a term of two, five or 10 years with renewal options, and provide for periodic rent escalation upon renewal. We own warehouse facilities in Beaumont, Texas (110,000 square feet), Lafayette, Louisiana (47,000 square feet) and Austin, Texas (12,000 square feet).

We also lease a 108,500 square foot corporate headquarters facility located in Beaumont, Texas.

Most of our stores and facilities are pledged as collateral under our bank credit facility. The four retail stores that we own are subject to mortgages which are insignificant in amount.

Regulation

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

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

Employees

As of July 31, 2003, we had approximately 1,800 full-time employees and 90 part-time employees, of which approximately 650 were store employees. We provide a comprehensive benefits package including health, life, long term disability, and dental insurance coverage as well as a 401(k) plan, paid vacation, sick pay and holiday pay. None of our employees are covered by collective bargaining agreements. We have never had a work stoppage, and we believe our employee relations are good.

Tradenames and Trademarks

We have applied for registration of the trademarks “Conn’s” and our logo.

Legal Proceedings

In December 2002, Martin E. Smith, as named plaintiff, filed a lawsuit against us in the state district court in Jefferson County, Texas, that attempts to create a class action for breach of contract and violations of state and

federal consumer protection laws arising from the terms of our service maintenance agreements. The lawsuit alleges an inappropriate overlap in the warranty periods provided by the manufacturers of our products and the periods covered by the service maintenance agreements that we sell. The lawsuit seeks unspecified actual damages as well as an injunction against our current practices and extension of affected service contracts. We believe that the warranty periods provided by our service maintenance agreements are consistent with industry practice. We believe that it is premature to predict whether class action status will be granted or, if it is granted, the outcome of this litigation.

We are involved in routine litigation incidental to our business from time to time. We do not expect the outcome of any of this routine litigation to have a material effect on our financial condition or results of operations.

MANAGEMENT

Directors and Executive Officers

Our directors and executive officers and their ages, positions and years of service with us, including their service with Conn Texas, are set forth in the following table.

Name	Age	Positions	Years of Service with Conn's
Thomas J. Frank, Sr.	63	Chairman of the Board and Chief Executive Officer	44
William C. Nylin, Jr.	60	President and Chief Operating Officer	11
C. William Frank	56	Executive Vice President and Chief Financial Officer	6
David R. Atnip	56	Senior Vice President and Secretary/Treasurer	11
Walter M. Broussard	44	Senior Vice President – Store Operations	18
Robert B. Lee, Jr.	56	Senior Vice President – Advertising	4
David W. Trahan	42	Senior Vice President – Merchandising	16
Reymundo de la Fuente, Jr.	43	Senior Vice President – Credit	5
Marvin D. Brailsford	64	Director	*
Jon E. M. Jacoby	65	Director	*
Bob L. Martin	54	Director	*
Douglas H. Martin	50	Director	5
William T. Trawick	57	Director	7
Theodore M. Wright	41	Director	*

* Less than one year

Thomas J. Frank, Sr. was appointed as our Chairman of the Board and Chief Executive Officer in 1994. He has been employed by us for 44 years, has been a member of our board of directors since 1980 and has held every key management position within the organization, including responsibilities for distribution, service, credit, information technology, accounting and general operations. Mr. Frank and C. William Frank are brothers. Mr. Frank holds a B.A. degree in industrial arts from Sam Houston State University and attended graduate courses at Harvard University and Texas A&M University.

William C. Nylin, Jr. has served as our President and Chief Operating Officer since 1995. He became a member of our board of directors in 1993 and served in that capacity until September 2003. In addition to performing responsibilities as Chief Operating Officer, he has direct responsibility for credit granting and collections, information technology, distribution, service and training. From 1984 to 1995, Dr. Nylin held several executive management positions, including Deputy Chancellor and Executive Vice President of Finance and Operations at Lamar University. Dr. Nylin obtained his B.S. degree in mathematics from Lamar University and holds both a masters degree and a doctorate degree in computer sciences from Purdue University. He has also completed a post-graduate program at Harvard University.

C. William Frank has served as our Executive Vice President since October 2001 and as our Chief Financial Officer since joining us in 1997. He joined our board of directors in October 1997 and served in that capacity until September 2003. From 1992 to 1996, Mr. Frank served as Vice President and Chief Accounting Officer of Living Centers of America, a publicly-held provider of long term healthcare facilities. Mr. Frank and Thomas J. Frank, Sr. are brothers. Mr. Frank obtained his undergraduate degree in accounting from Lamar University and his M.B.A. from Pepperdine University.

David R. Atnip has served as our Senior Vice President since October 2001 and as our Secretary/Treasurer since 1997. He joined us in 1992 and served as Chief Financial Officer from 1994 to 1997. In 1995, he joined our board of directors and served in that capacity until September 2003. Mr. Atnip holds a B.B.A. in accounting from The University of Texas at Arlington and has over 20 years of financial experience in the savings and loan industry.

Walter M. Broussard has served as our Senior Vice President – Store Operations since October 2001. Mr. Broussard has served us in numerous retail capacities since 1985, including working on the sales floor as a sales consultant, store manager and district manager. He has over 24 years of retail sales experience. He attended Lamar University and has completed special study programs at Harvard University, Rice University and the University of Notre Dame.

Robert B. Lee, Jr. has served as our Senior Vice President – Advertising since October 2001. He joined us in 1999 as our Vice President – Advertising. His responsibilities include planning and implementing our $25 million advertising budget and our consumer research activities and validating geographical data for the site selection process. From 1990 until 1998, he was a partner in Ann Lee & Associates, a Beaumont-based advertising agency and public relations firm where he served as Chief Operating Officer. Mr. Lee obtained a B.B.A. from The University of Texas at Austin and completed a post-graduate program at the University of Notre Dame.

David W. Trahan has served as our Senior Vice President – Merchandising since October 2001. He has been employed by us since 1986 in various capacities, including sales, store operations and merchandising. He has been directly responsible for our merchandising and product purchasing functions, as well as product display and pricing operations, for the last three years. Mr. Trahan has completed special study programs at Harvard University, Rice University and Lamar University.

Reymundo de la Fuente, Jr. has served as our Senior Vice President – Credit since October 2001. Since joining us in 1998, he has served in several positions that involve direct responsibility for credit underwriting, customer service inbound operations, collections, recovery of charge offs, and legal activities. Mr. de la Fuente has worked in the credit receivables industry since 1986 with national credit organizations. His responsibilities included the strategic direction and development of large credit portfolios. Mr. de la Fuente obtained his B.B.A. in Finance from The University of Texas at San Antonio and holds a Master of Business Administration from Our Lady of the Lake in San Antonio.

Marvin D. Brailsford has served as a director since September 2003. From 1996 until 2002, General Brailsford served as Vice President-Material Stewardship Project Manager for the U.S. government's Rocky Flats Environmental Technology Site where he was responsible for managing engineered systems and commodities purchasing. From 1992 to 1996, General Brailsford was president of the Brailsford Group, Inc., a management consulting company, and served as president of Metters Industries, Inc., an information technology and systems engineering company, during this time period. In 1992, he retired from the U.S. Army as a Lieutenant General, after 33 years of service, most recently where he served as Deputy Commanding General Materiel Readiness/Executive Director for Conventional Ammunition at the U.S. Materiel Command in Alexandria, Virginia. Since 1996, General Brailsford has served on the board of directors of Illinois Tool Works, Inc. and has been a member of its audit committee and chairman of its corporate governance committee. He also serves or has served on the boards of directors of various private and governmental entities. General Brailsford earned a B.S. degree in biology from Prairie View A & M University and a M.S. degree in bacteriology from Iowa State University. He is also a graduate of the Executive Program at the Graduate School of Business Administration, University of California at Berkley; Harvard University's John F. Kennedy School of Government; the U.S. Army Command and General Staff College; and the Army War College.

Jon E. M. Jacoby has served as a director since April 2003. Mr. Jacoby is a director of Stephens Group, Inc. and its wholly-owned subsidiary Stephens Inc. In September 2003, he retired as a Senior Executive Vice President of Stephens Inc., a wholly-owned subsidiary of Stephens Group, Inc., where he had been employed since 1963. His positions included Investment Analyst, Assistant to the President and Manager of the Corporate Finance Department and the Special Investments Department for Stephens Group, Inc. Mr. Jacoby serves on the board of directors of Delta and Pine Land Company, Power-One, Inc., Sanagamo BioSciences, Inc. and Eden Bioscience Corporation. He received his B.S. from the University of Notre Dame and his M.B.A. from Harvard Business School.

Bob L. Martin has served as a director since September 2003. Mr. Martin has over 31 years of retailing and merchandising experience. Prior to retiring from the retail industry in 1999, he headed the international operations of Wal-Mart International, Inc. for 15 years. From 1968 to 1983, Mr. Martin was responsible for technology services for Dillard's, Inc. He currently serves on the board of directors of Gap, Inc., Sabre Holdings Corporation and Edgewater Technology, Inc. He has experience as chairman of the corporate governance committee and has been a member of the audit and chairman of compensation committees of publicly held companies. Mr. Martin attended South Texas University and holds an honorary doctorate degree from Southwest Baptist University.

Douglas H. Martin has served as a director since 1998. Mr. Martin is an Executive Vice President of Stephens Group, Inc. and Stephens Inc., a wholly-owned subsidiary of Stephens Group, Inc., where he has been employed since 1981. He is responsible for the investment of the firm's capital in private companies. Mr. Martin serves as a member of the board of directors of numerous privately held companies. He received his B.A. in physics and economics from Vanderbilt University and his M.B.A. from Stanford University.

William T. Trawick has served as a director since September 2003. Since August 2000, he has served as Executive Director of NATM Buying Corporation where he oversees the administrative activities of the multi-billion dollar regional group purchasing program of which we are a member. He also functions as a consultant to our merchandising department on an ongoing basis. From September 1996 to July 1999, Mr. Trawick served as our Vice President of Merchandising and was responsible for all product purchasing, merchandising and store operations.

Theodore M. Wright has served as a director since September 2003. Mr. Wright has served as the President of Sonic Automotive, Inc., a New York Stock Exchange listed and Fortune 300 automotive retailer, since October 2002 and has served as one of its directors since 1997. Previously Mr. Wright served as its chief financial officer from April 1997 to April 2003. From 1995 to 1997, Mr. Wright was a Senior Manager in Deloitte & Touche LLP's Columbia, South Carolina office. From 1994 to 1995, he was a Senior Manager in Deloitte & Touche LLP's National Office of Accounting Research and SEC Services Department. Mr. Wright received a B.A. from Davidson College.

Each of our officers is elected annually by the board of directors to serve until his successor is elected or qualified or until the earlier of his resignation, removal or death.

Board of Directors

Our board of directors consists of seven directors, four of whom are independent directors. Our certificate of incorporation provides for a board of directors to be divided into three classes, whose current terms expire at the annual meetings of the stockholders to be held in 2004, 2005 and 2006. Marvin D. Brailsford and William T. Trawick are Class I directors whose terms expire in 2004; Bob L. Martin and Jon E. M. Jacoby are Class II directors whose terms expire in 2005; and Thomas J. Frank, Sr., Douglas H. Martin and Theodore M. Wright are Class III directors whose terms expire in 2006. At each annual meeting of the stockholders beginning in fiscal 2005, the successors to the directors whose terms will expire will be elected to serve for three year terms. In addition, our certificate of incorporation provides that the authorized number of directors may be changed only by resolution of a majority of the board of directors. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes such that, as nearly as possible, each class will consist of one-third of the directors.

Compensation of Directors

We pay each of our non-employee directors a $5,000 annual retainer, $1,000 for each board meeting attended and $750 for each committee meeting attended. In addition, we reimburse all directors for expenses incurred in connection with attendance at board or committee meetings.

We adopted the 2003 Non-Employee Director Stock Option Plan in February 2003, subject to the completion of this offering. The plan is administered by the board of directors. Only non-employee directors are eligible grantees. Upon the closing of this offering, we will grant each of our then-current non-employee directors an option to purchase 40,000 shares of our common stock, and we will grant an option to purchase 40,000 shares of our common stock to any new board member. We will also grant our non-employee directors an option to purchase an additional 10,000 shares following each annual stockholders meeting on and after the fourth anniversary of each non-employee director's initial election or appointment to the board of directors. All options issued to non-employee directors vest equally over a four year period. The board of directors has reserved 300,000 shares for issuance upon the exercise of options granted under the plan, subject to adjustment. The exercise price of each option is equal to the fair market value of our common stock at the time the option is granted. The options have a term of up to ten years. Upon a change in control or sale of the company, optionees have special vesting and exercise rights.

Board Committees

The board of directors has established an audit committee, a compensation committee and a real estate committee. Marvin D. Brailsford, Bob L. Martin and Theodore M. Wright serve on our audit committee. Jon E. M. Jacoby, Douglas H. Martin and Thomas J. Frank, Sr. serve on our compensation committee. Thomas J. Frank, Sr. and Douglas H. Martin serve on our real estate committee. The audit committee selects the independent accountants to audit our annual financial statements and will establish the scope of, and oversee, the annual audit and approve any non-audit services provided by our independent accountants. The compensation committee makes recommendations to the board of directors regarding the approval of employment agreements, management and consultant employment and approves executive compensation. The real estate committee approves all real estate lease transactions that have a term longer than five years and all capital expenditures in excess of $0.5 million for a single property or project.

Our audit committee consists of three directors who meet all requirements imposed by the rules and regulations of the Securities and Exchange Commission and the Nasdaq National Market. The audit committee is comprised of three independent directors, each of whom is able to read and understand fundamental financial statements, including a balance sheet, income statement and statement of cash flows. In addition, Theodore M. Wright serves as our audit committee financial expert. In keeping with the Nasdaq National Market's listing requirements, our board of directors has adopted a charter for the audit committee, and we will file this charter at least every three years as an appendix to the annual proxy statement that we will file with the SEC.

Compensation Committee Interlocks and Insider Participation

Our compensation committee consists of Jon E. M. Jacoby, Douglas H. Martin and Thomas J. Frank, Sr. Mr. Frank also serves as our Chief Executive Officer. None of our executive officers serves as a member of the board of directors or compensation committee of any other company that has one or more of its executive officers serving as a member of our board of directors or compensation committee. See "Certain Relationships and Related Transactions."

Executive Compensation

Summary Compensation Table

The following table sets forth information concerning all cash and non-cash compensation earned by our Chief Executive Officer and our four other most highly compensated executive officers for the fiscal year ended January 31, 2003. We sometimes refer to these five executive officers as our "named executive officers."

	Annual Compensation		All Other Compensation
Name and Position	Salary	Bonus	Company Contributions to 401(k) Plan
Thomas J. Frank, Sr. Chairman of the Board and Chief Executive Officer	$ 480,000	$ 825,000	$ 11,198
William C. Nylin, Jr. President and Chief Operating Officer	$ 250,000	$ 266,000	$ 11,243
C. William Frank Executive Vice President and Chief Financial Officer	$ 250,000	$ 230,000	$ 12,258
David W. Trahan Senior Vice President-Merchandising	$ 180,000	$ 168,500	$ 9,730
Walter M. Broussard Senior Vice President-Store Operations	$ 144,000	$ 153,000	$ 8,388

Employment Agreements

We have employment agreements with Thomas J. Frank, Sr., our Chairman of the Board and Chief Executive Officer, William C. Nylin, Jr., our President and Chief Operating Officer, C. William Frank, our Executive Vice President and Chief Financial Officer, and David R. Atnip, our Senior Vice President and Secretary/Treasurer. Under the terms of these employment agreements, each of our executive officers is entitled to payment of an annual salary plus a bonus based upon attainment of performance goals determined by our compensation committee, to participate in our employee benefit plans and to receive options to purchase shares of our common stock. In the event that we terminate the executive officer's employment other than for cause or we do not renew the employment agreement when it expires, we are obligated to pay the executive officer severance in an amount equal to the executive officer's annual base salary. All of our executive officers' employment agreements with us contain confidentiality and other customary provisions.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table provides certain information with respect to options to purchase common stock held by our named executive officers as of January 31, 2003. None of these options have been exercised, and none of the options issued were in-the-money as of January 31, 2003. We did not grant any stock options to our named executive officers during fiscal 2003.

	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable
William C. Nylin, Jr.	5,600	22,470	—	—
C. William Frank	33,950	65,730	—	—
Walter M. Broussard	18,200	27,300	—	—

Employee Equity Incentive Plans

Amended and Restated 2003 Incentive Stock Option Plan. In February 2003, we adopted our Amended and Restated 2003 Incentive Stock Option Plan, subject to the completion of this offering. The plan is administered by the compensation committee of our board of directors. Our employees and employees of our subsidiaries, subject to certain exclusions, are eligible to participate in the plan. Option grants are made within the discretion of the compensation committee. Options may be granted for such terms as the compensation committee may determine, but not for terms greater than ten years from the date of grant. The maximum number of shares of our common stock that may be issued under this plan is 2,559,767 shares, subject to adjustment. All options issued vest equally over a five year term. As of July 31, 2003, there were options to purchase 1,223,890 shares of Conn Texas common stock outstanding under the predecessor plan. Each of these options will be assumed by us pursuant to the terms of the reorganization to be effected immediately prior to the closing of this offering, and the exercise price per share of each outstanding option will remain the same.

Employee Stock Purchase Plan. In February 2003, we adopted our Employee Stock Purchase Plan, subject to the completion of this offering. The plan is administered by the compensation committee of our board of directors. Our employees and employees of our subsidiaries, subject to certain exclusions, are eligible to participate in the plan. Eligible employees are able to purchase shares of our common stock without brokerage commissions and at a discount from market prices. The maximum number of shares of our common stock that may be issued under this plan is 1,267,085 shares, subject to adjustment.

401(k) Plan. We have a defined contribution 401(k) plan for our full time employees and the employees of our subsidiaries who are least 21 years old and have completed one year of service, working 1,000 hours in the 12-month period. Employees may contribute up to 20% of their compensation to the plan, and we will match up to 100% of the first 3% and up to 50% of the next 2% contributed by the employee. At our option, we may also make supplemental contributions to the plan. During fiscal 2000, fiscal 2001, the six month fiscal period ended January 31, 2002, fiscal 2003 and the six months ended July 31, 2003, we contributed approximately $0.8 million, $1.0 million, $0.5 million, $1.1 million, and $0.6 million, respectively, to the 401(k) plan.

Restricted Stock Agreements

Conn Texas issued 5,331,340 shares of restricted common stock to certain of its directors and executive officers pursuant to restricted stock agreements dated July 21, 1998. The restricted stockholders are subject to transfer restrictions and forfeiture provisions in the event of termination prior to the date that their restricted stock becomes fully vested. Pursuant to the terms of the restricted stock agreements, Conn Texas has a right of first refusal prior to the transfer of any restricted shares, which we intend to waive upon completion of this offering. In the event of any termination of a restricted stockholder, Conn Texas has an option to purchase any or all of the restricted shares. The shares of common stock to be issued in exchange for shares of Conn Texas common stock in connection with the reorganization will be subject to the terms of the restricted stock agreements. The terms of our bank credit facility restrict our ability to purchase our common stock pursuant to these restricted stock agreements.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Specialized Realty Development Services, L.P.

Specialized Realty Development Services, L.P., or SRDS, is owned by certain members of our management and the SGI Affiliates who are also our stockholders. SRDS was established to acquire, develop and lease real estate for our benefit. The capital contributed by the general partner and limited partners of SRDS and each partner's ownership interest are presented in the following table.

	Capital Contributed	Ownership Interest
General Partner – SRDS, LLC (1)	$ 12,500	1.0%
Limited Partners – Management		
Thomas J. Frank, Sr.	168,750	13.5
Larry W. Coker	106,250	8.5
William C. Nylin, Jr.	90,625	7.3
C. William Frank	90,625	7.3
David R. Atnip	62,500	5.0
David Trahan	25,000	2.0
Walter M. Broussard	25,000	2.0
Timothy L. Frank	25,000	2.0
Robert B. Lee, Jr.	25,000	2.0
Limited Partners - SGI Affiliates (2)	618,750	49.5
Total	$ 1,250,000	100.0%

(1) SRDS, LLC is owned 50% by Thomas J. Frank, Sr. and 50% by Douglas H. Martin.

(2) Consists of interests held by certain of the SGI Affiliates.

In order to encourage these members of management and the SGI Affiliates to invest in SRDS, we entered into an arrangement with SouthTrust Bank, NA under which we guaranteed the construction debt of SRDS during the construction of these projects. As of July 31, 2003, four of the six projects SRDS is responsible for developing were operational and the amount of outstanding indebtedness we guaranteed during the construction period had been reduced to zero. We do not have any current obligation to guarantee additional SRDS construction debt, and we do not intend to guarantee any SRDS construction debt in the future.

We have leased each completed project from SRDS as a retail store location for an initial period of 15 years. At the time each lease was executed, our guarantee for that portion of the real estate loan was released and the lease then served as collateral for the loan. SRDS charges us annual lease rates of approximately 11.5% of the total cost of each project, which averages approximately $350,000 per project per year. In addition, we are responsible for the payment of all property taxes, insurance and common area maintenance expenses, which average approximately $70,000 per project per year. We are required to fund all leasehold improvements made to the buildings. Based on independent appraisals performed on each project, we believe that the terms of the leases are generally more favorable than we could obtain in an arms' length transaction. SRDS pays us an annual management fee of $5,000 for administrative services that we provide to SRDS.

Lease Arrangement

Since 1996, we have leased one of our Houston, Texas store locations containing approximately 19,150 square feet from Thomas J. Frank, Sr., our Chairman of the Board and Chief Executive Officer. The lease provides for base monthly rental payments of $17,235 plus escrows for taxes, insurance and common area

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maintenance expenses of $6,200 per month through January 31, 2011. We also have an option to renew the lease for two additional five-year terms. Mr. Frank received total payments under this lease of $281,000 in fiscal 2000 and fiscal 2001, $141,000 in the six month fiscal period ended January 31, 2002, $281,000 in fiscal 2003, and $141,000 for the six months ended July 31, 2003. Based on current market lease rates for comparable retail space in the area, we believe that the terms of this lease are no less favorable to us than we could have obtained in an arms' length transaction at the date of the lease commencement**.**

Related Employees

Mr. John J. Frank, the father of Thomas J. Frank, Sr. and C. William Frank, manages our used appliance disposal program on an independent contractor basis. We paid him a total of $63,966 in fiscal 2000, $72,524 in fiscal 2001, $49,470 in the six month fiscal period ended January 31, 2002, $77,683 in fiscal 2003, and $45,362 for the six months ended July 31, 2003. We also employ Timothy L. Frank, the son of Thomas J. Frank, Sr., as our Vice President of Direct Marketing. We paid him a salary and bonus of $143,332 in fiscal 2000, $203,330 in fiscal 2001, $60,000 in the six month fiscal period ended January 31, 2002, $210,000 in fiscal 2003, and $135,000 for the six months ended July 31, 2003. We also employ Jon Steven Frank, the son of C. William Frank, as our Director of Telemarketing. We paid him a salary and bonus of $34,225 during fiscal 2003 and $47,482 during the six months ended July 31, 2003.

Independent Contractor

William T. Trawick has served as a member of our board of directors since September 2003 and has served as an advisory director of Conn Texas since August 1999. In addition to the fees paid to Mr. Trawick in his capacity as a director, we paid him consulting fees in the amount of $60,000 in fiscal 2000 and fiscal 2001, $30,000 in the six month fiscal period ended January 31, 2002, $60,000 in fiscal 2003, and $30,000 during the six months ended July 31, 2003. Mr. Trawick is also the President and Executive Director of NATM Buying Corporation, a national buying group representing nine regional retailers, including us, in the appliance and electronics industry. NATM coordinates the buying and merchandising strategies for its member retailers. We recorded expenses of cash payments to NATM for membership dues of $83,000 in fiscal 2000 and fiscal 2001, $41,500 in the six months ended January 31, 2002, $83,000 in the twelve months ended January 31, 2003 and $42,000 in the six months ended July 31, 2003.

Redemption of Conn Texas Preferred Stock

Conn Texas purchased 35,149 shares of its preferred stock in May 2001, pursuant to a redemption offer made pro rata to all holders of Conn Texas preferred stock. The aggregate purchase price for all shares redeemed was approximately $4.0 million, which represents the par value of the purchased shares plus accumulated but unpaid dividends through the date of the redemption. Certain of our directors and executive officers and certain of the SGI Affiliates elected to participate in the redemption, as reflected in the following table.

	Shares Redeemed	Purchase Price	Par Value of Shares Redeemed	Accumulated Dividends
SGI Affiliates	26,367	$ 3,020,750	$ 2,298,674	$ 722,075
Thomas J. Frank, Sr.	3,831	438,190	333,987	104,203
William C. Nylin, Jr.	95	10,866	8,282	2,584
David W. Trahan	212	24,249	18,482	5,767
Walter M. Broussard	83	9,494	7,236	2,258
David R. Atnip	141	16,128	12,292	3,836
Jon E. M. Jacoby	1,428	163,592	124,493	39,099
Douglas H. Martin	761	87,180	66,344	20,836

Stock Transaction

On January 10, 2003, Thomas J. Frank, Sr., our Chairman of the Board and Chief Executive Officer, sold 490,000 shares of Conn Texas common stock to Stephens Group, Inc. for $4.9 million in cash.

Redemption of our Preferred Stock

Immediately after the closing of this offering, we will redeem all of the outstanding shares of our preferred stock pursuant to the mandatory redemption feature of our preferred stock. These preferred shares will be issued in the Delaware reorganization on a share-for-share basis in exchange for the outstanding Conn Texas preferred stock. In response to the call for redemption of our preferred stock, each holder of our preferred stock will have the option to redeem his or her preferred stock for either:

- cash in an amount equal to $87.18 per share, the initial issue price of the Conn Texas preferred stock, plus accrued and unpaid dividends at the time of the redemption, which will equal approximately $58.37 per share as of November 30, 2003; or
- a number of shares of our common stock with a value, based on the initial public offering price, equal to the cash redemption price.

Thomas J. Frank, Sr., Stephens Group, Inc., Stephens Inc. and the SGI Affiliates have indicated that they will elect to receive common shares for the 162,753 shares of Conn Texas preferred stock they hold, which we will redeem for an aggregate of approximately 1,822,208 shares of our common stock. Our other executive officers and directors, excluding Douglas H. Martin and Jon E. M. Jacoby, who are included in the SGI Affiliates, own an aggregate of 1,963 shares of Conn Texas preferred stock and will receive an aggregate maximum of either $285,715 in cash, or 21,978 shares of our common stock in the redemption, depending upon their respective elections. See “Principal and Selling Stockholders.”

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information concerning shares of Conn Texas common stock and preferred stock beneficially owned (1) as of the date of this prospectus; and (2) as adjusted to reflect the sale of shares in this offering and the related transactions described below, by:

- our directors;
- our named executive officers;
- all of our executive officers and directors as a group;
- each stockholder known by us to be the beneficial owner of more than 5% of Conn Texas common stock or preferred stock; and
- the selling stockholder.

The address of each of our named executive officers is 3295 College Street, Beaumont, Texas 77701.

Unless otherwise indicated, each person has sole voting and investment power with respect to the shares shown as beneficially owned by that person. The number of shares of our common stock beneficially owned by a person includes shares of common stock issuable with respect to options held by the person that are exercisable on or within 60 days after the date of this prospectus. We have calculated the percentage of our common stock beneficially owned by a person assuming that the person has exercised all such options and that no other persons have exercised any options or redeemed any preferred stock.

The data under the heading “Shares Beneficially Owned Prior to the Offering” reflects beneficial ownership of Conn Texas common stock and preferred stock as of the date of this Prospectus. These common and preferred shares will be exchanged on a share-for-share basis for our common and preferred shares in the Delaware reorganization immediately prior to the closing of this offering. The column entitled “Shares of Common Stock Beneficially Owned After the Offering” reflects beneficial ownership of our common stock after giving effect to (1) this offering and (2) the mandatory redemption of our preferred stock immediately after the closing of this offering, assuming that all of the preferred stockholders elect to redeem their preferred stock for cash except Thomas J. Frank, Sr., Stephens Group, Inc., Stephens Inc. and the SGI Affiliates (including Jon E. M. Jacoby and Douglas H. Martin), all of whom we expect will elect to redeem their preferred stock for shares of common stock.

Thomas J. Frank, Sr. is selling 150,000 shares of common stock in this offering.

	Shares Beneficially Owned Prior to the Offering				Shares of Common Stock Beneficially Owned After the Offering	
	Common Stock		Preferred Stock(1)			
Name	Number	Percentage	Number	Percentage	Number	Percentage
Stephens Group, Inc., Stephens Inc., and the SGI Affiliates(2)	12,189,913	72.9%	134,971	77.3%	13,701,069(3)	60.8%
Stephens Group, Inc.	490,000	2.9%	51,127	29.3%	1,062,426(3)	4.7%
Stephens Inc.	—	0.0%	14,351	8.2%	160,676(3)	*
Warren A. Stephens	3,753,984(4)	22.5%	25,147(5)	14.4%	4,035,534(3)	17.9%
W.R. Stephens, Jr.	3,328,997(6)	19.9%	3,527(7)	2.0%	3,368,486(3)	14.9%
Elizabeth Stephens Campbell	3,079,724(8)	18.4%	3,431(9)	2.0%	3,118,138(3)	13.8%
Pamela Dianne Stephens Trust One	1,664,534	10.0%	1,763	1.0%	1,684,273(3)	7.5%
Jackson T. Stephens	—	0.0%	20,017(10)	11.5%	224,113(3)	1.0%
Bess C. Stephens	227,774(11)	1.4%	20,017(12)	11.5%	451,887(3)	2.0%
Jon E. M. Jacoby	2,957,120(13)	17.7%	7,270(14)	4.2%	3,038,516(3)	13.5%
Douglas H. Martin	160,580(15)	1.0%	1,914(15)	1.1%	182,009(3)	0.8%
All other SGI Affiliates	1,017,639	6.1%	9,950	5.7%	1,129,041(3)	5.0%

Name	Shares Beneficially Owned Prior to the Offering				Shares of Common Stock Beneficially Owned After the Offering	
	Common Stock		Preferred Stock(1)			
	Number	Percentage	Number	Percentage	Number	Percentage
Thomas J. Frank, Sr.	1,260,000	7.5%	19,252	11.0%	1,325,548	5.9%
William C. Nylin, Jr.	354,158(16)	2.1%	479	*	354,158	1.6%
C. William Frank	276,192(17)	1.6%	—	—	276,192	1.2%
David W. Trahan	194,530(18)	1.2%	1,067	*	194,530	*
Walter M. Broussard	112,700(19)	*	417	*	112,700	*
Marvin D. Brailsford(20)	—	—	—	—	—	—
Bob L. Martin(21)	—	—	—	—	—	—
William T. Trawick(22)	75,390	*	—	—	75,390	*
Theodore M. Wright(23)	—	—	—	—	—	—
All directors and executive officers as a group (14 persons) (16)(17)(18)(19)	14,421,513	86.4%	156,186	89.4%	16,189,387	71.8%

* Less than 1%

(1) We will redeem all of our preferred stock immediately after the closing of this offering. Each holder of our preferred stock will have the option to redeem each share of preferred stock held for approximately 11.2 shares of our common stock, assuming an initial public offering price of $13.00 and a liquidation value (initial issue price plus accumulated and unpaid dividends) of our preferred stock of $145.55 as of November 30, 2003.

(2) The principal stockholders of Stephens Group, Inc. are the Jackson T. Stephens Trust No. One UID 1/4/88 and the Bess C. Stephens Trust UID 1/4/85. Warren A. Stephens is a director and an officer of Stephens Group, Inc. and its subsidiary Stephens Inc. W.R. Stephens, Jr. is a director and an officer of Stephens Group, Inc. and Stephens Inc. Mr. Jacoby is a director of Stephens Group, Inc. and Stephens Inc. Mr. Martin is an officer of Stephens Group, Inc. Jackson T. Stephens is Chairman of the Board of Directors and Bess C. Stephens is a director of Stephens Group, Inc. The address of each of the above named persons is c/o Stephens Group, Inc., 111 Center Street, Little Rock, Arkansas 72201.

(3) These shares will be contributed to a voting trust agreement prior to the completion of the offering and will be held and voted by an independent third party, James Sommers, as voting trustee. The voting trust will vote such shares in the same proportion as votes cast “for” or “against” those proposals by all other stockholders. The voting trust agreement will also impose substantial limitations on the sale or other disposition of the shares subject to the voting trust. The voting trust agreement will expire in October 2013 or such earlier time as Stephens Inc. ceases to be an affiliate of ours or a market maker of our common stock. The address of the trustee of this voting trust is 237 Cherokee Road, Charlotte, North Carolina 28207.

(4) Includes 2,019,526 shares owned by Warren A. Stephens Trust, 3,920 shares owned by Warren Miles Amerine Stephens Trust, 3,920 shares owned by John Calhoun Stephens Trust, and 3,920 shares owned by Laura Whitaker Stephens Trust as to which Mr. Stephens has sole power to vote and sole power of disposition; also includes 765,100 shares owned by Grandchild’s Trust #2 as to which Mr. Stephens, as a co-trustee, has shared power to vote and shared power of disposition, 789,100 shares owned by Harriet C. Stephens Trust and 168,498 shares owned by Warren A. Stephens Grantor Trust. Does not include shares owned by Stephens Group, Inc. or any of its affiliates, except as mentioned in this footnote.

(5) Includes 5,004 shares owned by Warren A. Stephens Trust, 42 shares owned by Warren Miles Amerine Stephens Trust, 42 shares owned by John Calhoun Stephens Trust, and 42 shares owned by Laura Whitaker Stephens Trust as to which Mr. Stephens has sole power to vote and sole power of disposition; also includes 20,017 shares owned by Jackson T. Stephens Trust No. One, as to which Mr. Stephens, as a co-trustee, has shared power to vote and shared power of disposition. Does not include shares owned by Stephens Group, Inc. or any of its affiliates, except as mentioned in this footnote.

(6) Includes 1,345,190 shares owned by W.R. Stephens, Jr. Revocable Trust as to which Mr. Stephens has sole power to vote and sole power of disposition; also includes 227,774 shares owned by W.R. Stephens, Jr. Children’s Trust, 38,990 shares held by W.R. Stephens III Trust, 38,990 shares held by Arden Jewell Stephens Trust and 1,664,534 shares held by Pamela D. Stephens Trust One as to which Mr. Stephens, as a co-trustee or otherwise, has shared power to vote and shared power of disposition and 13,519 shares owned

by Carol Stephens. Does not include shares owned by Stephens Group, Inc. or any of its affiliates, except as mentioned in this footnote.

(7) Includes 1,668 shares owned by W.R. Stephens, Jr. Revocable Trust as to which Mr. Stephens has sole power to vote and sole power of disposition; also includes 48 shares held by W.R. Stephens III Trust, 48 shares held by Arden Jewell Stephens Trust and 1,763 shares held by Pamela D. Stephens Trust One as to which Mr. Stephens, as a co-trustee or otherwise, has shared power to vote and shared power of disposition. Does not include shares owned by Stephens Group, Inc. or any of its affiliates, except as mentioned in this footnote.

(8) Includes 1,415,190 shares owned by Elizabeth S. Campbell Revocable Trust as to which Ms. Campbell has sole power to vote and sole power of disposition; also includes 1,664,534 shares owned by Pamela D. Stephens Trust One, as to which Ms. Campbell, as a co-trustee, has shared power to vote and shared power of disposition.

(9) Includes 1,668 shares owned by Elizabeth S. Campbell Revocable Trust as to which Ms. Campbell has sole power to vote and sole power of disposition; also includes 1,763 shares owned by Pamela D. Stephens Trust One, as to which Ms. Campbell, as a co-trustee, has shared power to vote and shared power of disposition.

(10) Includes 20,017 shares owned by Jackson T. Stephens Trust No. One as to which Mr. Stephens, as a co-trustee, has shared power to vote and shared power of disposition. Does not include shares owned by Stephens Group, Inc. or any of its affiliates, except as mentioned in this footnote.

(11) Includes 227,774 shares owned by W.R. Stephens, Jr. Children's Trust as to which Ms. Stephens, as a co-trustee, has shared power to vote and shared power of disposition.

(12) Includes 20,017 shares owned by Bess C. Stephens Trust as to which Ms. Stephens has sole power to vote and sole power of disposition. Does not include shares owned by Stephens Group, Inc. or any of its affiliates, except as mentioned in this footnote.

(13) Includes 602,210 shares owned by Mr. Jacoby, 168,498 shares owned by Warren A. Stephens Grantor Trust, 1,018,123 shares owned by Warren & Harriet Stephens Children's Trust, 51,282 shares owned by Warren Miles Amerine Stephens 95 Trust, 51,282 shares owned by John Calhoun Stephens 95 Trust, and 51,282 shares owned by Laura Whitaker Stephens 95 Trust as to which Mr. Jacoby has sole power to vote and sole power of disposition; also includes 765,100 shares owned by Grandchild's Trust #2 and 249,344 shares owned by MAM International Holdings, Inc., as to which Mr. Jacoby, as a co-trustee or otherwise, has shared power to vote and shared power of disposition. Does not include shares owned by Stephens Group, Inc. or any of its affiliates, except as mentioned in this footnote.

(14) Includes 7,175 shares as to which Mr. Jacoby has sole power to vote and sole power of disposition; also includes 95 shares owned by MAM International Holdings, Inc., as to which Mr. Jacoby has shared power to vote and shared power of disposition. Does not include shares owned by Stephens Group, Inc. or any of its affiliates, except as mentioned in this footnote.

(15) Does not include shares owned by Stephens Group, Inc. or any of its affiliates.

(16) Includes 302,930 restricted shares of common stock and options to purchase 11,228 shares of common stock. Pursuant to a Restricted Stock Agreement dated July 21, 1998, the restricted shares are subject to transfer limitations and forfeiture of unvested shares in the event of termination of employment.

(17) Includes 222,320 restricted shares of common stock and options to purchase 53,872 shares of common stock. Pursuant to a Restricted Stock Agreement dated July 21, 1998, the restricted shares are subject to transfer limitations and forfeiture of unvested shares in the event of termination of employment.

(18) Includes 105,000 restricted shares of common stock. Pursuant to a Restricted Stock Agreement dated July 21, 1998, the restricted shares are subject to transfer limitations and forfeiture of unvested shares in the event of termination of employment.

(19) Includes 59,500 restricted shares of common stock and options to purchase 18,200 shares of common stock. Pursuant to a Restricted Stock Agreement dated July 21, 1998, the restricted shares are subject to transfer limitations and forfeiture of unvested shares in the event of termination of employment.

(20) Mr. Brailsford's address is 7445 Prestwick Circle, Beaumont, Texas 77007.

(21) Mr. Martin's address is 30 Pinnacle Drive, Rogers, Arkansas 72758.

(22) Mr. Trawick's address is 22 Highwood Road, Sutauket, New York 11733.

(23) Mr. Wright's address is 5401 East Independence Boulevard, Charlotte, North Carolina 28212.

DESCRIPTION OF CAPITAL STOCK

The following description summarizes the most important terms of our capital stock. Because it is only a summary, it does not contain all of the information that may be important to you. For a complete description, you should refer to our certificate of incorporation and bylaws, which we have filed as exhibits to the registration statement of which this prospectus is a part, as well as the relevant portions of the Delaware General Corporation Law.

Our authorized capital stock consists of 40,000,000 shares of common stock, par value $0.01 per share, and 1,000,000 shares of preferred stock, par value $0.01 per share. There currently are 1,000 shares of our common stock and no shares of our preferred stock issued and outstanding.

Immediately prior to the closing of this offering, we will effect the Delaware reorganization pursuant to which the common and preferred stock of Conn Texas will be exchanged on a share-for-share basis for shares of our common and preferred stock. Upon completion of the Delaware reorganization and prior to the issuance of shares of common stock in this offering, there will be 16,719,990 shares of our common stock, which are held by 76 holders, and 174,648 shares of our preferred stock, which are held by 60 holders, issued and outstanding. After this offering, there will be 22,542,198 shares of our common stock outstanding, or 23,194,698 shares if the underwriters exercise their over-allotment option in full, after giving effect to the conversion of 162,753 shares of our preferred stock into common stock and our redemption of 11,895 shares of preferred stock for cash upon completion of this offering. See " – Preferred Stock."

The preferred stockholders of Conn Texas are entitled to receive cumulative, compounded dividends at a rate of 10% per year on the $87.18 initial issue price of the Conn Texas preferred stock. Dividends are not payable until declared by the board of directors. The board of directors of Conn Texas has declared a dividend equal to the total arrearages, payable only upon completion of this offering. We will assume the obligation to pay this dividend pursuant to the Delaware reorganization. The holders of preferred stock have no voting rights, except that a majority vote of the preferred stockholders is required to amend the terms of the preferred stock, change the authorized number of shares of preferred stock, exchange or cancel all or part of the preferred stock or create a new class of stock senior to the preferred stock.

Common Stock

The holders of our common stock, subject to any rights that may be granted to any preferred stockholders, elect all directors and are entitled to one vote per share on all other matters coming before a stockholders' meeting. Our common stock has no cumulative voting rights. Accordingly, the holders of a majority of the shares of common stock entitled to vote in any election of directors can elect all of the directors standing for election, if they so choose. All shares of common stock participate equally in dividends when and as declared by the board of directors and in net assets on liquidation. The shares of common stock have no preemptive rights to participate in future stock offerings.

Preferred Stock

The terms of our preferred stock to be issued in the Delaware reorganization are essentially the same as the terms of the Conn Texas preferred stock discussed above, except that our preferred stock is subject to mandatory redemption upon the closing of an initial public offering. Immediately after the closing of this offering and prior to the payment of the dividend declared by the board of directors of Conn Texas, we will redeem all outstanding shares of our preferred stock. The preferred stockholders may elect to receive in the redemption either: (1) cash in an amount equal to the par value of the preferred stock plus the dividends accumulated through the date of the redemption, whether or not declared; or (2) a number of shares of common stock with a value (at the initial public offering price) equal to the cash redemption price. Assuming an initial public offering price of $13.00 per share and the closing of the initial public offering on November 30, 2003, each holder of the preferred stock may

elect to receive in the redemption either cash of $145.55 per share of preferred stock or approximately 11.2 shares of common stock per share of preferred stock. We will pay cash in lieu of fractional shares based on the fair market value of our common stock. After the redemption of our preferred stock, the preferred stock will be cancelled.

Our board of directors is authorized to issue preferred stock from time to time in the future, without stockholder approval, in such series and with such preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or other provisions as may be fixed by the board of directors in the resolution authorizing their issuance. The issuance of preferred stock by the board of directors could adversely affect the rights of holders of shares of common stock. For example, the issuance of preferred stock could result in a class of securities outstanding that would have certain preferences with respect to dividends and liquidation over the common stock and could result in a dilution of the voting rights of the common stock. Further, the issuance of preferred stock could decrease the amount of earnings and assets available for distribution to holders of common stock and may have the effect of delaying, deferring or preventing a change in control of our company. We have no agreements or understandings for the issuance of any shares of preferred stock, other than in connection with the Delaware reorganization.

Anti-Takeover Provisions of Delaware Law and our Charter

Some provisions of Delaware law and our certificate of incorporation and bylaws could make the following transactions more difficult:

- acquisition of us by means of a tender offer;
- acquisition of us by means of a proxy contest or otherwise; or
- removal of our incumbent officers and directors.

These provisions, summarized below, are intended to encourage persons seeking to acquire control of us to first negotiate with our board of directors. These provisions also serve to discourage hostile takeover practices and inadequate takeover bids. We believe that these provisions are beneficial because the negotiation they encourage could result in improved terms of any unsolicited proposal.

Delaware Anti-Takeover Statute. We are subject to Section 203 of the Delaware General Corporation Law. In general, the statute prohibits a publicly-held Delaware corporation from engaging in any “business combination” with any person deemed to be an “interested stockholder” for a period of three years following the date that the stockholder became an interested stockholder unless:

- prior to the date that the person became an interested stockholder, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding those shares owned by persons who are directors and also officers and by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or subsequent to the date that the person became an interested stockholder, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock not held by the interested stockholder.

Section 203 defines “business combination” to include:

- any merger or consolidation involving the corporation and the interested stockholder;

- any sale, lease, transfer, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;
- any transaction involving the corporation which directly or indirectly materially increases the proportionate share of stock owned by the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any person beneficially owning 15% or more of the outstanding voting stock of the corporation and any person controlling, controlled by or under common control with that person.

Classification of the Board of Directors; Removal and Replacement. Our board of directors is divided into three classes of directors, with each class as nearly equal in number as possible, serving staggered three-year terms. This does not include directors who may be elected by holders of preferred stock. As a result, approximately one-third of our board of directors will be elected each year. The classified board of directors provision helps to assure the continuity and stability of our board of directors and our business strategies and policies as determined by our board of directors. The classification of the board of directors could delay stockholders who do not like the policies of our board of directors from electing a majority of our board of directors for two years. The approval of 75% of our stockholders is required to remove a director, and directors may only be removed by our stockholders for cause. See “Management—Board of Directors.”

No Stockholder Action by Written Consent; Special Meetings. Any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by written consent without a meeting unless approved in advance by our board of directors. Special meetings of our stockholders for any purpose or purposes may be called only by our chairman of the board, our president or by a majority of our board of directors.

Advance Notice Procedures. Our bylaws establish an advance notice procedure for stockholders to make nominations of candidates for election as directors and to bring other business before an annual meeting of our stockholders. For notice of stockholder nominations to be timely, the notice must be received by our secretary not later than the close of business on the 90th calendar day, nor earlier than the close of business on the 120th calendar day, prior to the first anniversary of the date of the preceding year’s proxy statement in connection with the preceding year’s annual meeting. In addition to these procedures, a stockholder’s notice proposing to nominate a person for election as a director or relating to the conduct of business other than the nomination of directors must contain specified information. Otherwise, the chairman of a meeting may determine that an individual was not nominated or the other business was not properly brought before the meeting.

Amendment. The affirmative vote of the holders of at least 75% of the outstanding shares, voting together as a single class, is required to amend provisions of our certificate of incorporation and bylaws relating to stockholder action without a meeting; the calling of special meetings; the number, election and term of the directors; the filling of vacancies; and the removal of directors.

Limitation of Liability of Directors and Indemnification Agreements

Our certificate of incorporation provides that to the fullest extent permitted by Delaware law, our directors will not be liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director. Under Delaware law, liability of a director may not be limited:

- for any breach of the director’s duty of loyalty to us or our stockholders;

- for any act or omission not in good faith or involving intentional misconduct or a knowing violation of law;
- in respect of certain unlawful dividend payments or stock redemptions or repurchases; and
- for any transaction from which the director derives an improper personal benefit.

The effect of these provisions of our certificate of incorporation is to eliminate our rights and the rights of our stockholders, through stockholders' derivative suits on our behalf, to recover monetary damages against a director for breach of the fiduciary duty of care as a director (including breaches resulting from negligent or grossly negligent behavior), except in the situations described above. This provision does not limit or eliminate our rights or any of our stockholder's rights to seek nonmonetary relief, such as an injunction or rescission, in the event of a breach of a director's duty of care. Our certificate of incorporation and bylaws provide that we shall indemnify our directors, officers, employees and agents against claims, liabilities, damages, expenses, losses, costs, penalties or amounts paid in settlement incurred by such director or officer in or arising out of his or her capacity as our director, officer, employee and/or agent to the extent the person acted in good faith and in a manner reasonably believed to be in or not opposed to our best interest.

We have entered into agreements with each of our directors and executive officers pursuant to which we have agreed to indemnify our directors and officers from liabilities (including those arising under the Securities Act) and expenses, penalties or amounts paid in settlement incurred by our directors and officers in or arising out of their capacities as a director, officer, employee or agent of us or of any other corporation of which such person is a director or officer at our request to the maximum extent provided by applicable law. In addition, each director or officer is entitled to an advance of expenses to the maximum extent authorized by law. Our agreements with the underwriters in this offering also contains covenants of indemnity among the underwriters and us against civil liabilities, including liabilities under the Securities Act. All of our directors and executive officers are covered under our directors and officers insurance policy.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is EquiServe Trust Company, N.A.

SHARES ELIGIBLE FOR FUTURE SALE

Before this offering, there has been no public market for our common stock, and a significant public market for our common stock may not develop or be sustained after the offering. Any future sales of substantial amounts of our common stock in the open market, or the perception that such sales could occur, may adversely affect the market price of the common stock offered by this prospectus and impair our future ability to raise capital through an offering of our equity securities.

When we complete this offering, we will have 22,542,198 shares of common stock outstanding, or 23,194,698 shares if the underwriters exercise their over-allotment option in full. Of this amount, the 4,150,000 shares sold in this offering, or 4,772,500 shares if the underwriters exercise the over-allotment option in full, will be freely tradable without restriction or further registration under the Securities Act, unless the shares are purchased by persons who are our "affiliates," as that term is defined in Rule 144 under the Securities Act. Sales by our affiliates are subject to the limitations and restrictions imposed by Rule 144, as described below.

We sold the remaining 18,392,198 outstanding shares in private transactions. Unless registered under the Securities Act, these shares, which we refer to as "restricted shares," must be sold in accordance with the holding period requirements, volume limits and other conditions of an applicable exemption from registration, such as Rule 144 as discussed below.

Additionally, all of our directors and executive officers, Stephens Group, Inc., Stephens Inc. and certain SGI Affiliates have agreed, subject to limited exceptions, not to offer, sell, contract to sell or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, for a period of 180 days after the date of this prospectus, without, in each case, the prior written consent of Stephens Inc. Stephens Inc. may, in its sole discretion, release all or a portion of the shares subject to any lock-up agreement. There are no existing agreements between Stephens Inc. and any of our stockholders who have executed a lock-up agreement providing consent to the sale of shares prior to the expiration of the lock-up period.

In general, under Rule 144 as currently in effect, a person, or persons whose shares are aggregated, who has beneficially owned and paid for shares for at least one year is entitled to sell within any three-month period commencing 90 days after the date of this prospectus a number of shares that does not exceed the greater of:

- 1% of the then outstanding shares of common stock (approximately 226,000 shares immediately after the offering); or
- the average weekly trading volume of the common stock during the four calendar weeks preceding the sale.

Additionally, persons selling either restricted or unrestricted shares under Rule 144 must comply with the rule's requirements concerning the availability of specified public information about us, the manner of sale and filing of notice of sale on Form 144. However, a person, or persons whose shares are aggregated, who is not deemed to have been an affiliate of ours at any time during the three months immediately preceding the sale and who has beneficially owned and paid for his or her restricted shares for at least two years is entitled to sell his or her restricted shares under Rule 144(k) without regard to the limitations described above. Persons deemed to be our affiliates must always comply with the volume limitations as to all of their restricted and unrestricted shares, even after the expiration of the one-year or two-year holding period applicable to restricted shares.

Rule 701 under the Securities Act provides that any of our employees, consultants or advisors who purchased or received shares from us in connection with a compensatory stock plan, option plan or other written

agreement will be eligible to resell the shares 90 days after the date of this prospectus in reliance on Rule 144 but without compliance with some Rule 144 restrictions, including the holding period, volume, public information and notice conditions, so long as the holder is not an affiliate of ours. If the holder is an affiliate, the holder may resell the shares 90 days after the date of this prospectus in reliance on Rule 144 but without compliance with the holding period requirement of Rule 144.

Based on the above, the following table indicates when the shares that will be outstanding upon the completion of this offering will be available for sale in the public market:

Days after the Date of this Prospectus	Approximate Shares Eligible for Future Sale	Comment
1-89 days		Freely tradable shares sold in this offering and restricted shares saleable under Rule 144(k) that are not subject to 180-day lock-up.
90-180 days		Restricted shares saleable under Rules 144 or 144(k), including shares issued under Rule 701, that are not subject to 180-day lock-up.
181-365 days		Lock-up released; restricted shares saleable under Rules 144 and 144(k), including shares issued under Rule 701, that are subject to 180-day lock-up.

We intend to file registration statements on Form S-8 under the Securities Act to register 4,126,852 shares of common stock reserved for issuance under our Amended and Restated 2003 Incentive Stock Option Plan, 2003 Non-Employee Director Stock Option Plan and Employee Stock Purchase Plan. This will permit non-affiliates to sell immediately in the public market those shares received upon exercise of awards granted under the plans without limitation and will permit affiliates to sell their shares received upon exercise of awards granted under the plans, subject to all of the requirements of Rule 144 except the holding period requirement.

We cannot estimate the number of shares that will be sold under Rule 144 since this will depend on the market price of our common stock, the personal circumstances of the sellers and other factors.

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UNDERWRITING

Subject to the terms and conditions of an underwriting agreement dated , 2003, we have agreed to sell and each of the underwriters named below, through their representatives, Stephens Inc. and SunTrust Capital Markets, Inc., has agreed to purchase from us and the selling stockholder the respective number of shares of common stock set forth opposite its name below:

Underwriters	Number of Shares
Stephens Inc.	
SunTrust Capital Markets, Inc.	
Total	

The underwriters' obligations are several, which means that the underwriters are required to purchase the number of shares set forth opposite their names but are not responsible for the commitment of any other underwriter to purchase shares.

The underwriting agreement provides that the obligations of the underwriters are subject to certain conditions, including the absence of any materially adverse change in our business and the receipt of certain certificates, opinions and letters from us and our attorneys and independent auditors. The nature of the underwriters' obligation is such that they are obligated to purchase all of the shares, other than those covered by the over-allotment option described below, if they purchase any of the shares.

The representatives have advised us that the underwriters propose to offer the shares of our common stock to the public at the public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of $ per share. The underwriters may allow, and such dealers may re-allow, a concession not in excess of $ per share to certain other dealers. After the completion of this offering, the public offering price, concession and reallowance to dealers may be reduced by the representatives. No such reduction will change the amount of proceeds that we or the selling stockholder are to receive, as set forth on the cover page of this prospectus. The offering of the shares of common stock is made for delivery when, as and if accepted by the underwriters and subject to prior sale and to withdrawal, cancellation or modification of this offering without notice. The underwriters reserve the right to reject an order for the purchase of shares, in whole or in part.

The underwriters have advised us that they do not expect sales to discretionary accounts to exceed 5% of the total number of shares offered.

Over-Allotment Option

We have granted an option to the underwriters, exercisable for 30 days after the date of this prospectus, to purchase a maximum of 622,500 additional shares of our common stock at the initial public offering price, less the underwriting discount set forth on the cover page of this prospectus. The underwriters may exercise their option solely to cover over-allotments, if any, in connection with the sale of our common stock. If this option is exercised in full, the total price to the public will be $62.0 million and the net proceeds to us will be approximately $55.3 million, assuming an offering price of $13.00 per share. If the underwriters exercise the over-allotment option, each underwriter will be obligated, subject to certain conditions, to purchase a number of additional shares of our common stock proportionate to the underwriter's initial amount set forth in the table above.

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Underwriting Discounts and Offering Expenses

The following table summarizes the underwriting discounts to be paid by us and the selling stockholder to the underwriters for each share of our common stock and in total. This information is presented assuming either no exercise or full exercise of the underwriters' over-allotment option to purchase additional shares of common stock and assuming an offering price of $ per share.

		Total	
	Per Share	Without Option	With Option
Underwriting discounts payable by us	$	$	$
Underwriting discounts payable by the selling stockholder	$	$	$

We estimate that the total expenses of the offering, excluding the underwriting discount, will be approximately $ million, all of which is payable by us.

Determination of Offering Price

Prior to this offering, there has been no public market for our common stock. Therefore, the initial public offering price for our common stock will be determined through negotiations between us and the representatives. Principal factors to be considered in these negotiations include:

- information in this prospectus and otherwise available to the representatives;
- our industry's history and prospects;
- ability of our management team;
- prospects for our future revenues and earnings;
- present state of our business operations and financial condition;
- general condition of the securities markets at the time of this offering; and
- recent market prices of, and demand for, publicly traded common stock of comparable companies.

The estimated initial public offering price range set forth on the cover page of this prospectus is subject to change as a result of market conditions and other factors. A pricing committee of our board of directors will establish the initial public offering price following such negotiations.

Listing

We have applied for approval for quotation of our common stock on the Nasdaq National Market under the symbol "CONN."

Indemnity

The underwriting agreement contains covenants of indemnity among the underwriters and us and the selling stockholder against civil liabilities, including liabilities under the Securities Act.

Lock-up Agreements

Our directors and executive officers, Stephens Group, Inc., Stephens Inc. and certain SGI Affiliates have agreed, subject to limited exceptions, not to offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our

common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, for a period of 180 days after the date of this prospectus, without, in each case, the prior written consent of Stephens Inc., other than (1) the surrender of shares of Conn Texas stock for shares of our stock in connection with the Delaware reorganization, (2) the surrender of our preferred stock upon redemption by us immediately following the completion of the offering, (3) the transfer of shares of stock by Stephens Group, Inc., Stephens Inc. and the SGI Affiliates to a voting trust prior to the closing of the offering, (4) in connection with a merger or acquisition, and (5) bona fide gifts, provided the recipient of such gift agrees to the terms of this paragraph for the remainder of such 180 day period. See "Principal and Selling Stockholders." Stephens Inc. may, in its sole discretion, release all or a portion of the shares subject to any lock-up agreement. Although Stephens may, in its sole discretion, release all or a portion of the shares subject to any lockup agreement, Stephens does not intend to do so except in cases of financial hardship, subject to market conditions. If a stockholder should request that Stephens waive the 180-day lock-up period, Stephens would likely take into consideration the number of shares as to which the request relates, the identity of the requesting stockholder, the relative demand for additional shares of common stock in the market, the period of time since the completion of the offering, and the average trading volume and price performance of the common stock during that period. There are no existing agreements between the representatives and any of our stockholders who have executed a lock-up agreement providing consent to the sale of shares prior to the expiration of the lock-up period. Stephens Inc. is a wholly-owned subsidiary of Stephens Group, Inc.

In addition, we and the selling stockholder have agreed that for a period of 180 days following the date of this prospectus, we and the selling stockholder will not, without the prior written consent of Stephens Inc., offer, sell, contract to sell or otherwise dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock, other than (1) our sale of shares in this offering, (2) our issuance of shares in connection with the Delaware reorganization immediately prior to the completion of this offering, (3) our issuance of shares in redemption of our preferred stock upon the completion of this offering, (4) the grant of options to purchase shares of common stock to employees and directors pursuant to, and the issuance of shares of common stock pursuant to, employee, director or other stock and stock option plans described in or contemplated by this prospectus, (5) in connection with a merger or acquisition, and (6) bona fide gifts, provided the recipient of such gift agrees to the terms of this paragraph for the remainder of such 180 day period.

Underwriters' Market Activities

The underwriters may engage in over-allotment and syndicate covering transactions, stabilizing transactions and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of the common stock, in accordance with Regulation M under the Securities Exchange Act of 1934:

- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares they may purchase in the over-allotment option. In a naked short position, the number of shares over-allotted is greater than the number of shares that the underwriters may purchase in the over-allotment option. The underwriters may close out any syndicate short position by exercising their over-allotment option and/or repurchasing shares in the open market. In determining the source of shares to close out a syndicate short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

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- Stabilizing transactions occur when the representatives make bids or purchases for the purpose of pegging, fixing or maintaining the price of shares, so long as the stabilizing bids do not exceed a specified maximum.
- Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These syndicate covering transactions, stabilizing transactions and penalty bids may have the effect of raising or maintaining the market price of the common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of the common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters make any representation that the underwriters will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

Electronic Availability of Prospectus

A prospectus in electronic format may be made available on Internet sites or through other online services maintained by one or more of the underwriters and/or selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending on the particular underwriter or selling group member, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocations for online distributions will be made by the representatives on the same basis as other allocations.

Other than the prospectus in electronic format, information contained in any other web site maintained by an underwriter or selling group member is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been endorsed by us or the underwriters or any selling group member in its capacity as underwriter or selling group member and should not be relied on by investors in deciding whether to purchase any shares of common stock. The underwriters and selling group members are not responsible for information contained in web sites that they do not maintain.

Directed Shares

At our request, the underwriters will reserve up to 10% of the shares of common stock for sale in this offering, at the initial public offering price, to our directors, officers, employees, customers, partners, business associates and other persons. The number of shares of common stock available for sale to the general public will be reduced to the extent that these individuals purchase all or a portion of the reserved shares. Any reserved shares that are not purchased may be reallocated to other directors, officers, employees, customers, partners, and other persons business associates or offered to the general public on the same basis as the other shares of common stock offered by this prospectus.

Qualified Independent Underwriter

Stephens Group, Inc., Stephens Inc. and the SGI Affiliates own 12,189,913 shares of Conn Texas common stock and 134,971 shares of Conn Texas preferred stock, which together give them beneficial ownership of 72.9% of Conn Texas common stock and 77.3% of Conn Texas preferred stock issued and outstanding. Stephens Inc. is one of the managing underwriters of this offering. Further, two of our directors, Douglas H. Martin and

Jon E. M. Jacoby, are directors or executive officers of Stephens Group, Inc. or Stephens Inc. Additionally, we intend to pay more than 10% of the net proceeds of this offering to SunTrust Bank, an affiliate of SunTrust Robinson Humphrey, to repay indebtedness under our bank credit facility. SunTrust Robinson Humphrey is one of the managing underwriters of this offering. Because of the stock ownership and other affiliated relationships between us and Stephens Group, Inc. and Stephens Inc. and because of our intention to pay more than 10% of the net offering proceeds to an affiliate of SunTrust Robinson Humphrey, this offering is being conducted in accordance with Rule 2710(c)(8) and applicable "conflicts of interest" provisions of Rule 2720 of the Conduct Rules of the National Association of Securities Dealers, Inc.

Under Rule 2710(c)(8) and Rule 2720, when a member of the NASD, such as Stephens Inc. and SunTrust Robinson Humphrey, proposes to underwrite or otherwise assist in the public distribution of equity securities by an issuer with which it may be deemed to have a "conflict of interest," the price at which such securities are to be distributed to the public must be no higher than that recommended by a "qualified independent underwriter" that meets certain standards. In accordance with this requirement, Sanders Morris Harris Inc. is assuming the responsibilities and liabilities of acting as "qualified independent underwriter", including liabilities under Section 11 and other portions of the Securities Act. Sanders Morris Harris is also recommending the maximum public offering price for the shares of common stock. The initial price at which the shares of common stock will be distributed to the public will be no higher than the price recommended by Sanders Morris Harris Inc. Sanders Morris Harris Inc. is performing due diligence investigations and is reviewing and participating in the preparation of this prospectus and the registration statement of which this prospectus forms a part. The underwriters will pay Sanders Morris Harris Inc. a fee of $50,000 and reimbursement of its out-of-pocket expenses for serving as the qualified independent underwriter in connection with this offering. We also have agreed to indemnify Sanders Morris Harris Inc. against certain liabilities, including liabilities under the Securities Act, and to afford certain rights of contribution.

Business Relationships with Underwriters and Their Affiliates

Stephens Inc., SunTrust Robinson Humphrey and their affiliates have in the past engaged, and may in the future engage, in transactions with us and perform services for us, including commercial banking, financial advisory and investment banking services, in the ordinary course of business. These firms have received, and may receive, customary fees for their services. For information regarding our relationships with Stephens Inc. and its affiliates, see "Management—Directors and Executive Officers," "Certain Relationships and Related Transactions" and "Principal and Selling Stockholders." As noted in the immediately preceding subsection, SunTrust Bank, an affiliate of SunTrust Robinson Humphrey, is a lender under our credit facility and, therefore, will receive a portion of any proceeds from this offering used to reduce indebtedness under our credit facility. See "Use of Proceeds." Additionally, SunTrust Capital Markets, Inc., of which SunTrust Robinson Humphrey is a division, serves as an administrative agent for Three Pillars Funding Corporation in connection with the Series A variable funding note under our asset-backed securitization program. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Off-Balance Sheet Financing Arrangements."

LEGAL MATTERS

Winstead Sechrest & Minick P.C., Dallas, Texas, will pass upon the legality of the shares of common stock offered by this prospectus. Alston & Bird LLP will pass upon legal matters for the underwriters.

EXPERTS

The consolidated financial statements of Conn Appliances, Inc. at January 31, 2002 and 2003 and for the years ended July 31, 2000 and 2001, for the six months ended January 31, 2002 and for the year ended January 31, 2003, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1 with respect to the common stock offered by this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or in the exhibits and schedules which are part of the registration statement. For further information with respect to us and our common stock, we refer you to the registration statement and exhibits and schedules filed as part of the registration statement. Statements contained in this prospectus concerning the contents of any contract or any other documents are necessarily summaries. If a contract or document has been filed as an exhibit to the registration statement, we refer you to the copy of the contract or document that has been filed. Any document we file may be read and copied at the SEC public reference rooms at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference rooms. Our filings with the SEC are also available to the public from the SEC’s website at www.sec.gov.

Upon completion of this offering, we will become subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, and, accordingly, will file periodic reports, proxy statements and other information with the SEC. Such periodic reports, proxy statements and other information will be available for inspection and copying at the SEC’s public reference rooms and the website of the SEC referred to above.

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Report of Independent Auditors

The Board of Directors and
Shareholders of Conn Appliances, Inc.

We have audited the accompanying consolidated balance sheets of Conn Appliances, Inc. and subsidiaries as of January 31, 2002, and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended July 31, 2000 and 2001, the six months ended January 31, 2002, and the year ended January 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 16(b). These financial statements and the schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Conn Appliances, Inc. and subsidiaries at January 31, 2002 and 2003, and the consolidated results of their operations and their cash flows for the years ended July 31, 2000 and 2001, the six months ended January 31, 2002, and the year ended January 31, 2003 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, effective February 1, 2002, the Company changed its method of accounting for goodwill.

As discussed in Note 1, the consolidated financial statements for the years ended July 31, 2000 and 2001, the six months ended January 31, 2002, and the year ended January 31, 2003 have been restated.

ERNST & YOUNG LLP

Houston, Texas
September 12, 2003

Conn Appliances, Inc.

CONSOLIDATED BALANCE SHEETS

AS RESTATED—See Note 1

(in thousands, except share data)

	January 31, 2002	January 31, 2003
Assets		
Current Assets		
Cash and cash equivalents	$ 1,571	$ 2,448
Accounts receivable, net of allowance for doubtful accounts of $117 at both dates	6,008	12,617
Interest in securitized assets	50,772	60,803
Inventories	35,280	46,118
Deferred income taxes	3,000	3,981
Prepaid expenses and other assets	2,834	3,473
Total current assets	99,465	129,440
Debt issuance and other costs	335	543
Non-current deferred income tax asset	4,389	4,785
Property and equipment		
Land	3,534	3,746
Buildings	7,335	6,189
Equipment and fixtures	5,438	6,704
Transportation equipment	3,028	2,687
Leasehold improvements	32,185	42,219
Subtotal	51,520	61,545
Less accumulated depreciation	(18,380)	(23,279)
Total property and equipment, net	33,140	38,266
Goodwill, net	7,917	7,917
Other assets, net	398	607
Total assets	$ 145,644	$ 181,558
Liabilities and Stockholders' Equity		
Current Liabilities		
Notes payable	$ 8,084	$ 7,500
Current portion of long-term debt	7,174	7,928
Accounts payable	22,208	24,501
Accrued expenses	7,821	8,601
Income taxes payable	668	949
Deferred income taxes	748	209
Deferred revenue	5,415	6,873
Fair value of derivatives	1,405	2,895
Other current liabilities	396	—
Total current liabilities	53,919	58,203
Long-term debt	23,492	36,564
Non-current deferred tax liability	52	250
Deferred gain on sale of property	1,145	977
Fair value of derivatives	4,176	1,642
Stockholders' equity		
Preferred stock ($0.01 par value, 300,000 shares authorized; 174,648 issued and outstanding at January 31, 2002 and 2003) 10% cumulative dividend	15,226	15,226
Common stock ($0.01 par value, 30,000,000 shares authorized; 17,175,480 shares issued; and 16,738,470 and 16,719,990 shares outstanding at January 31, 2002 and 2003)	172	172
Accumulated other comprehensive income	3,343	2,751
Retained earnings	47,530	68,131
Treasury stock at cost (437,010 and 455,490 shares of common stock at January 31, 2002 and 2003, respectively)	(3,411)	(3,611)
Total stockholders' equity	62,860	82,669
Total liabilities and stockholders' equity	$ 145,644	$ 181,558

See notes to consolidated financial statements.

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Conn Appliances, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
AS RESTATED—See Note 1
(in thousands except earnings per share)

	Years Ended July 31,		Six Months Ended January 31,	Year Ended January 31,	Year Ended January 31,
	2000	2001	2002	2002	2003
				Unaudited	
Revenues					
Product sales	$ 220,556	$ 260,905	$ 163,891	$ 300,496	$ 350,588
Service maintenance agreement commissions (net)	15,101	17,684	10,443	19,530	20,488
Service revenues	13,420	13,799	8,277	15,522	18,420
Total net sales	249,077	292,388	182,611	335,548	389,496
Finance charges and other	30,588	37,879	26,137	46,535	60,586
Total revenues	279,665	330,267	208,748	382,083	450,082
Cost and expenses					
Cost of goods sold, including warehousing and occupancy costs	171,613	204,236	128,775	235,781	279,560
Cost of service parts sold, including warehousing and occupancy costs	530	737	620	1,003	1,505
Selling, general and administrative expense	78,304	92,194	58,630	106,949	125,712
Provision for bad debts	793	1,734	1,286	2,406	4,125
Total cost and expenses	251,240	298,901	189,311	346,139	410,902
Operating income	28,425	31,366	19,437	35,944	39,180
Interest expense	4,836	3,754	2,940	4,855	7,237
Earnings from continuing operations before income taxes	23,589	27,612	16,497	31,089	31,943
Provision for income taxes					
Current	(9,683)	(11,549)	(6,750)	(11,860)	(13,207)
Deferred	692	1,670	806	730	1,865
Total provision for income taxes	(8,991)	(9,879)	(5,944)	(11,130)	(11,342)
Income from continuing operations	14,598	17,733	10,553	19,959	20,601
Discontinued operations					
Income (loss) from discontinued operation, net	30	(157)			
Loss on disposal of discontinued operation, net		(389)		(389)	
Net income	14,628	17,187	10,553	19,570	20,601
Less preferred dividends	(2,046)	(2,173)	(1,025)	(1,939)	(2,133)
Net income available for common stockholders	$ 12,582	$ 15,014	$ 9,528	$ 17,631	$ 18,468
Earnings per share					
Basic	$ 0.73	$ 0.87	$ 0.56	$ 1.03	$ 1.10
Diluted	$ 0.72	$ 0.87	$ 0.55	$ 1.01	$ 1.10
Average common shares outstanding					
Basic	17,350	17,169	17,025	17,060	16,724
Diluted	17,384	17,194	17,327	17,383	16,724

See notes to consolidated financial statements.

Conn Appliances, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

AS RESTATED—See Note 1

(in thousands except share repurchase amounts)

	Preferred Stock		Common Stock		Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock		Total
	Shares	Amount	Shares	Amount			Shares	Amount	
Balance July 31, 1999	214	$ 18,632	17,602	$ 173	$ 1,431	$ 6,222	—	$ —	$ 26,458
Net income						14,628			14,628
Adjustment of fair value of interest in securitized assets, (net of tax of $811) (net of reclassification adjustments of $1,139 (net of $702 tax)					1,317				1,317
Total comprehensive income									15,945
Preferred stock redeemed $87.18 per share plus accrued dividends	(1)	(112)				(15)			(127)
Common stock forfeited			(297)	—		—			—
Treasury stock purchased $4.35 per share							113	(491)	(491)
Balance July 31, 2000	213	18,520	17,305	172	2,748	20,835	113	(491)	41,785
Net income						17,187			17,187
Cumulative effect adjustment to adopt FAS 133, net of tax of $551					1,023				1,023
Unrealized loss on derivative instruments, (net of tax of $1,972) net of reclassification adjustments of $279 (net of $156 tax)					(3,661)				(3,661)
Adjustment of fair value of interest in securitized assets, (net of tax of $1,967) net of reclassification adjustments of $2,555 (net of $1,423 tax)					3,530				3,530
Total comprehensive income									18,079
Preferred stock redeemed $87.18 per share plus accrued dividends	(36)	(3,120)				(977)			(4,097)
Common stock forfeited		—	(66)	—		—	—	—	—
Treasury stock purchased $8.22 per share							108	(888)	(888)
Balance July 31, 2001	177	15,400	17,239	172	3,640	37,045	221	(1,379)	54,879
Net income						10,553			10,553
Unrealized loss on derivative instruments, (net of tax of $200) net of reclassification adjustments of $957 (net of $539 tax)					(356)				(356)
Adjustment of fair value of interest in securitized assets, (net of tax of $33) net of reclassification adjustments of $4,267 (net of $2,404 tax)					59				59
Total comprehensive income									10,256
Common stock forfeited			(64)			—			(1)
Preferred stock redeemed $87.18 per share plus accrued dividends	(2)	(174)				(68)			(242)
Treasury stock purchased $9.41 per share							216	(2,032)	(2,032)
Balance January 31, 2002	175	15,226	17,175	172	3,343	47,530	437	(3,411)	62,860

(continued on next page)

Conn Appliances, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AS RESTATED—See Note 1
(in thousands except share repurchase amounts)

	Preferred Stock		Common Stock		Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock		Total
	Shares	Amount	Shares	Amount			Shares	Amount	
Balance January 31, 2002	175	$ 15,226	17,175	$ 172	$ 3,343	$ 47,530	437	$ (3,411)	$ 62,860
Net income						20,601			20,601
Unrealized gain on derivative instruments, (net of tax benefit of $389) net of reclassification adjustments of $1,164 (net of tax of $641)					691				691
Adjustment of fair value of interest in securitized assets, (net of tax of $722) net of reclassification adjustments of $3,126 (net of tax of $1,721)					(1,283)				(1,283)
Total comprehensive income									20,009
Treasury stock purchased $10.83 per share							18	(200)	(200)
Balance January 31, 2003	175	$ 15,226	17,175	$ 172	$ 2,751	$ 68,131	455	$ (3,611)	$ 82,669

See notes to consolidated financial statements.

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Conn Appliances, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
AS RESTATED—See Note 1
(in thousands)

	Years Ended July 31,		Six Months Ended January 31,	Year Ended January 31,	Year Ended January 31,
	2000	2001	2002	2002	2003
				Unaudited	
Cash flows from operating activities					
Net income	$ 14,628	$ 17,187	$ 10,553	$ 19,570	$ 20,601
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation	6,327	4,464	2,110	3,883	5,411
Amortization	831	836	440	614	374
Provision for bad debts	793	1,734	1,286	2,406	4,125
Provision for deferred income taxes	(692)	(1,670)	(806)	(1,710)	(1,865)
Loss (gain) from sale of assets	(149)	1,756	206	2,008	(15)
Ineffectiveness of derivatives	—	507	70	119	361
Change in operating assets and liabilities:					
Accounts receivable	(36,796)	(33,996)	(37,697)	(44,902)	(36,770)
Proceeds from sale of loans receivable	56,106	36,804	30,596	47,643	25,593
Inventory	(8,398)	(179)	(541)	(4,226)	(10,838)
Prepaid expenses and other assets	859	201	(1,199)	253	(852)
Accounts payable	9,389	(1,767)	(2,181)	7,010	2,293
Accrued expenses	169	(1,914)	597	(2,995)	780
Income taxes payable	418	580	86	183	281
Deferred service contract revenue	279	1,700	475	2,302	1,457
Other current liabilities	(1,184)	(318)	(4)	(951)	(395)
Net cash provided by operating activities	42,580	25,925	3,991	31,207	10,541
Cash flows from investing activities					
Purchase of property and equipment	(6,920)	(14,833)	(10,551)	(15,547)	(15,070)
Proceeds from sale of property	253	2,005	437	2,396	14
Interests in securitized assets	(3,058)	(5,774)	(1,442)	(3,285)	(11,692)
Net cash provided (used) by investing activities	(9,725)	(18,602)	(11,556)	(16,436)	(26,748)
Cash flows from financing activities					
Redemption of preferred stock	(127)	(4,098)	(242)	(4,293)	—
Purchase of treasury stock	(485)	(888)	(2,033)	(2,559)	(200)
Net borrowings (payments) under line of credit	(25,845)	6,872	10,432	69	12,029
Payments on term note	(5,000)	(5,000)	(2,500)	(5,000)	(2,500)
Borrowing on term note	0	0	0	0	10,000
Increase in debt issuance costs	—	—	(335)	—	(492)
Payment of promissory notes	(1,071)	(1,281)	(626)	(1,453)	(1,753)
Net cash provided (used) by financing activities	(32,528)	(4,395)	4,698	(13,236)	17,084
Net change in cash	327	2,927	(2,867)	1,535	877
Cash and cash equivalents					
Beginning of the year	1,184	1,511	4,438	36	1,571
End of the year	$ 1,511	$ 4,438	$ 1,571	$ 1,571	$ 2,448
Supplemental disclosure of cash flow information					
Cash interest paid	$ 4,905	$ 3,385	$ 2,731	$ 4,054	$ 6,812
Cash income taxes paid	$ 9,055	$ 10,658	$ 7,047	$ 11,560	$ 13,114

See notes to consolidated financial statements.

CONN APPLIANCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2003

1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Conn Appliances, Inc. and its subsidiaries, limited liability companies and limited partnerships, all of which are wholly-owned (the "Company"), which is also known as Conn Texas. All material inter-company transactions and balances have been eliminated in consolidation.

The Company enters into securitization transactions to sell its retail installment and revolving customer receivables. These securitization transactions are accounted for as sales in accordance with Statement of Financial Accounting Standards ("SFAS") No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* because the Company has relinquished control of the receivables. Additionally, the Company has transferred such receivables to a qualifying special purpose entity ("QSPE"). Accordingly, neither the transferred receivables nor the QSPE are included in the consolidated financial statements of the Company. See Note 2 for further discussion.

Restated Financial Statements. In connection with its initial public offering of common stock, the Company determined that the calculation of the recorded fair value of its interest in securitized assets, which utilized certain cash flow assumptions, were inconsistent with the requirements of SFAS 140, which became effective for the Company on August 1, 2000. The calculation of fair value utilized historically achieved cash flow results and not those anticipated in the future. Such fair value calculations now utilize management's current estimates of cash flow. Also certain other corrections of cash flow assumptions were made. The Company also determined that its classification of these securitized assets as trading securities was inconsistent with the requirements of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. SFAS No. 115 contemplates that trading securities are bought and held for the purpose of selling them in the near term with the objective of generating profits on short-term differences in prices. The Company has never sold any of its securitized assets and has no intention of doing so in the future. These securitized assets are reflected as available-for-sale in the restated consolidated financial statements. A significant portion of the reduction in reported net income related to the restatement was a result of properly classifying the securitized assets as available-for-sale. The Company's independent auditors concurred with these changes.

The following table represents the impact of these changes on the consolidated financial statements (in thousands, except per share amounts):

	For the Year Ended July 31,			
	2000		2001	
	Previously Reported	As Restated	Previously Reported	As Restated
Selected statement of operations data				
Total revenues	$ 286,368	$ 279,665	$ 338,255	$ 330,267
Earnings before income taxes	25,040	23,589	29,030	27,612
Provision for income taxes	9,543	8,991	10,382	9,879
Net income	15,527	14,628	18,102	17,187
Earnings per share:				
Basic	$ 0.78	$ 0.73	$ 0.93	$ 0.87
Diluted	$ 0.78	$ 0.72	$ 0.93	$ 0.87

CONN APPLIANCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

	As of and for the			
	Six Months Ended January 31, 2002		Year Ended January 31, 2003	
	Previously Reported	As Restated	Previously Reported	As Restated
Selected balance sheet data				
Total current assets	$ 98,197	$ 99,465	$ 121,695	$ 129,440
Non-current assets	46,365	46,179	62,071	52,118
Total current liabilities	53,844	52,514	58,667	56,561
Total non-current liabilities	30,270	30,270	42,329	42,329
Total stockholders’ equity	60,448	62,860	82,770	82,669
Selected statement of operations data				
Total revenues	$ 213,142	$ 208,748	$ 459,594	$ 450,082
Earnings before income taxes	17,652	16,497	34,247	31,943
Provision for income taxes	6,357	5,944	12,154	11,342
Net income	11,295	10,553	22,093	20,601
Earnings per share:				
Basic	$ 0.60	$ 0.56	$ 1.19	$ 1.10
Diluted	$ 0.59	$ 0.55	$ 1.19	$ 1.10

The effect of the restatement on the beginning balance of retained earnings was as follows for the indicated periods (in thousands):

Year ended July 31, 2000	$ 1,369
Year ended July 31, 2001	2,268
Six months ended January 31, 2002	3,183
Year ended January 31, 2003	3,825

Business Activities. The Company, through its retail stores, provides products and services to its customer base in five primary market areas, including southern Louisiana, southeast Texas, Houston, Corpus Christi, and San Antonio/Austin, Texas. Products and services offered through retail sales outlets include major home appliances, consumer electronics, home office equipment, lawn and garden products, bedding, service maintenance agreements, installment and revolving credit account services, and various credit insurance products. These activities are supported through an extensive service, warehouse and distribution system. For the reasons discussed below, the aggregation of operating companies represent one reportable segment under SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information.* Accordingly, the accompanying consolidated financial statements reflect the operating results of the Company’s single reportable segment. The Company’s retail stores bear the “Conn’s” name, and deliver the same products and services to a common customer group. The Company’s customers generally are individuals rather than commercial accounts. All of the retail stores follow the same procedures and methods in managing their operations. The Company’s management evaluates performance and allocates resources based on the operating results of the retail stores and considers the credit programs, service contracts and distribution system to be an integral part of the Company’s retail operations.

Fiscal Year. Effective August 1, 2001, the Company changed its fiscal year end from July 31 to January 31.

Stock Split/Dividend. On July 25, 2002, the Company’s board of directors approved a 70-for-1 stock split, effected as a dividend of the Company’s common stock. As a result, shareholders received 69 shares for each share held as of July 25, 2002. The par value of the Company’s common stock remained $0.01. All related financial information presented, including per share data, reflects the effects of the stock dividend.

CONN APPLIANCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

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.

Vendor Programs. The Company receives funds from vendors for price protection, product rebates, marketing and training and promotion programs which are recorded on the accrual basis as a reduction to the related product cost or advertising expense according to the nature of the program. The Company accrues rebates based on the satisfaction of terms of the program and sales of qualifying products even though funds may not be received until the end of a quarter or year. If the programs are related to product purchases, the allowances, credits, or payments are recorded as a reduction of product cost; if the programs are related to promotion or marketing of the product, the allowances, credits, or payments are recorded as a reduction of advertising expense in the period in which the expense is incurred.

Earnings Per Share. In accordance with SFAS No. 128, *Earnings per Share*, the Company calculates basic earnings per share 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 granted calculated under the treasury method; such shares were 33,460, 25,060 and 302,850, respectively, for the years ended July 31, 2000 and 2001 and the six months ended January 31, 2002. The Company has excluded approximately 1,241,390 of options to acquire shares of common stock for the year ended January 31, 2003, the only period that there would be an anti-dilutive effect, in the calculation of diluted earnings per share because to do so would have been anti-dilutive. Since the preferred dividend obligations of the Company are cumulative, they have been reported on the Consolidated Statements of Operations even though they have not yet been declared as payable.

Cash and Cash Equivalents. The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Inventories. Inventories include only finished goods or parts and are valued at the lower of cost (moving weighted average method) or market.

Property and Equipment. Property and equipment are recorded at cost. Costs associated with major additions and betterments that increase the value or extend the lives of assets are capitalized and depreciated. Normal repairs and maintenance that do not materially improve or extend the lives of the respective assets are charged to operating expenses as incurred. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, or in the case or leasehold improvements, over the shorter of the estimated useful lives or the remaining lives of the respective leases. The estimated lives used to compute depreciation expense are summarized as follows:

Buildings	3 – 40 years
Equipment and fixtures	3 – 20 years
Transportation equipment	1 – 5.5 years
Leasehold improvements	3 – 20 years

Property and equipment are evaluated for impairment at the retail store level. An impairment evaluation is performed whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. The Company does not perform a periodic assessment of assets for impairment in the absence of such information or indicators. The most likely condition that would necessitate an assessment would be an adverse change in historical and estimated future results of a retail store’s performance. For property and equipment to be held and used, the Company recognizes an impairment loss only if its carrying amount is not

recoverable through its undiscounted cash flows and measures the impairment loss based on the difference between the carrying amount and fair value.

All gains and losses on sale of assets are included in “Selling, general and administrative expense” in the consolidated statements of operations.

(in thousands)	Years Ended July 31,		Six Months Ended January 31,	Year Ended January 31,
	2000	2001	2002	2003
Gain (loss) on sale of assets	149	(1,756)	(206)	15

Receivable Sales and Interests in Securitized Receivables. The Company enters into securitization transactions to sell customer retail installment and revolving receivable accounts. In these transactions, the Company retains interest-only strips and subordinated securities, all of which are retained interests in the securitized receivables. Gain or loss on sale of the receivables depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer.

Retained interests are carried at fair value on the Company’s balance sheet as available-for-sale securities in accordance with SFAS No. 115. Impairment and interest income are recognized in accordance with Emerging Issues Task Force (“EITF”) No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*. The Company recognized impairment losses of $0.1 million in each of the years ended July 31, 2000 and 2001 which arose because of unfavorable changes in non-interest rate valuation assumptions.

The Company estimates fair value of its retained interest in both the initial securitization and thereafter based on the present value of future expected cash flows using management’s best estimates of the key assumptions—credit losses, prepayment rates, forward yield curves, and discount rates commensurate with the risks involved.

Goodwill. Goodwill represents primarily the excess of purchase price over the fair market value of net assets acquired. Effective February 1, 2002, the Company adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* whereby goodwill is no longer amortized, but rather the Company assesses the potential future impairment of goodwill on an annual basis, or at any other time when impairment indicators exist. As part of the adoption of SFAS 142 , the Company completed a transitional goodwill impairment test and determined that goodwill was not impaired. Additionally, the Company performed the first annual impairment test in November 2002 and concluded that goodwill is not impaired.

The table below provides a reconciliation of reported net income and earnings per share to adjusted net income and earnings per share as if the non-amortization provisions of SFAS 142 had been applied beginning August 1, 1999 (in thousands except per share data).

	Years Ended July 31,		Six Months Ended January 31,
	2000	2001	2002
Reported net income available for common stockholders	$ 12,582	$ 15,014	$ 9,528
Add back goodwill amortization, net of tax effect	426	449	220
Pro forma net income	$ 13,008	$ 15,463	$ 9,748
Pro forma earnings per share:			
Basic	$ 0.75	$ 0.90	$ 0.57
Diluted	$ 0.75	$ 0.90	$ 0.56

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

Income Taxes. The Company follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Revenue Recognition. Revenue from the sale of retail products is recognized at the time the product is delivered to the customer. Such revenues are recognized net of any adjustments for sales incentive offers such as discounts, coupons, rebates or other free products or services. The Company sells service maintenance agreements and credit insurance contracts on behalf of unrelated third parties. For contracts where the third parties are the obligor on the contract, commissions are recognized in revenues at the time of sale, and in the case of retrospective commissions, at the time that they are earned. Where the Company sells service maintenance agreements in which it is deemed to be the obligor on the contract at the time of sale, revenue is recognized ratably, on a straight-line basis, over the term of the service maintenance agreement. These Company obligor service maintenance agreements are renewal contracts which provide our customers protection against product repair costs arising after the expiration of the manufacturers warranty and the third party obligor contracts. These agreements typically range from 12 months to 36 months. These agreements are separate units of accounting under EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables*. The amounts of service maintenance agreement revenue deferred at January 31, 2002 and 2003 were $2.8 million and $3.8 million, respectively, and are included in “Deferred Revenue” in the accompanying balance sheets. Under renewal contracts, the Company records the cost of the service work performed as products are repaired.

The classification of the amounts included as “finance charges and other” is summarized as follows (in thousands):

	Years Ended July 31,		Six Months Ended January 31,	Year Ended January 31,
	2000	2001	2002	2003
Securitization income	$ 17,521	$ 24,552	$ 17,015	$ 39,724
Interest income from receivables not sold	2,584	—	—	243
Insurance commissions	7,854	10,697	6,106	14,789
Cash discounts and other	2,629	2,660	3,016	5,830
	$ 30,588	$ 37,879	$ 26,137	$ 60,586

The Company offers interest free promotional programs for three to twelve month contracts and has recorded interest income only on those contracts that are not expected to make payments within the time period specified to satisfy the promotional requirements. Other than these promotional programs, the Company does not extend credit at interest rates other than market rates.

The Company classifies amounts billed to customers relating to shipping and handling as revenues. Costs of $9.7 million, $12.3 million, $7.7 million, and $15.1 million associated with shipping and handling revenues are included in “Selling, general and administrative expense” for each of the years ended July 31, 2000 and 2001, for the six months ended January 31, 2002, and for the year ended January 31, 2003, respectively.

Fair Value of Financial Instruments. The fair value of cash and cash equivalents, receivables, and notes and accounts payable approximate their carrying amounts because of the short maturity of these instruments. The fair value of the Company’s interests in securitized receivables is determined by estimating the present value of future expected cash flows using management’s best estimates of the key assumptions, including credit losses, prepayment rates, forward yield curves and discount rates commensurate with the risks involved. See Note 2. The fair value of the Company’s long-term debt and interest rate swap agreements is estimated based on the current rates available to the Company for instruments with similar terms and maturities. See Note 3.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

Derivatives are recognized as assets and liabilities measured at fair value in “Fair Value of Derivatives” in the consolidated balance sheets. The Company does not use derivative financial instruments for trading purposes. The Company uses derivatives to hedge variable interest rate risk related to the cash flows from its interest only strip and its variable rate debt. All the Company’s derivatives, which consist of interest rate swaps and collars, are designated as cash flow hedges. The criteria used to determine if this cash flow hedge designation is appropriate are (a) the designation of the hedge to an underlying exposure, (b) whether overall risk is being reduced and (c) if there is correlation between the value of the derivative instrument and the underlying obligation. Therefore, the effective portion of changes in the fair value of derivatives is recognized in other comprehensive income until the hedged item is recognized in earnings. The effectiveness of the hedge is measured by comparing the cumulative change in the fair value of the derivatives to the cumulative change in the present value of future cash flows of the hedged item. The ineffective portion of a derivative’s change in fair value, which is the amount by which the change in the value of the derivative does not exactly offset the change in the value of the hedged item, is immediately recognized in earnings.

The Company held interest rate swaps and collars with notional amounts totaling $100.0 million as of January 31, 2002 and January 31, 2003, with terms extending through 2005. At January 31, 2002, these instruments were accounted for as cash flow hedges. Of these instruments, $80.0 million were designated as hedges against the Company’s variable interest rate risk related to the cash flows from its interest only strip. The remaining $20.0 million of these instruments were designated as hedges against the Company’s variable rate debt.

In September 2002, the Company entered into a new agreement to sell customer receivables. See Note 2. As a result of that new agreement, the Company discontinued hedge accounting for the $80.0 million of financial instruments previously designated to the interest only strip. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activity*, the Company recognized changes in fair value for those derivatives after September 2002 as interest expense, and is amortizing the amount of accumulated other comprehensive loss related to those derivatives as interest expense over the remaining term of the financial instruments, which expire ending in November 2003. This change had no effect on the $20.0 million of instruments designated as hedges against the Company’s variable rate debt.

Ineffectiveness, which arises from differences between the interest rate stated in the derivative instrument and the interest rate upon which the underlying hedged transaction is based, totaled $0.5 million for the year ended July 31, 2001, $0.1 million for the six months ended January 31, 2002 and $0.5 million for the year ended January 31, 2003, and is reflected in “Interest Expense” in the consolidated statement of operations. Ineffectiveness for the year ended January 31, 2003 includes $0.4 million related to discontinued hedge accounting. For the year ending January 31, 2004, the Company will reclassify approximately $2.9 million of unrealized derivative losses into earnings.

Stock-Based Compensation. As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company follows the intrinsic value method of accounting for stock-based compensation issued to employees, as prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees, and related interpretations. Since all options have been issued at or above fair value, no compensation expense has been recognized under the Company’s stock option plan for any of the periods presented.*

If compensation expense for the Company’s stock option plan had been recognized using the fair value method of accounting under SFAS 123, net income from continuing operations and earnings per share would have decreased by 0.1% and 1.0%, respectively, for the years ended July 31, 2000 and 2001, 1.6% for the six months ended January 31, 2002, and 1.7% for the year ended January 31, 2003. The fair value of the options issued was estimated on the date of grant, using the minimum valuation option-pricing model with the following

CONN APPLIANCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

weighted average assumptions used for grants during the years ended July 31, 2000 and 2001, the six months ended January 31, 2002 and the year ended January 31, 2003, respectively: expected risk free interest rates of 6.3%, 4.8%, 4.4% and 4.3%, and expected lives of 5 years in all periods. The following table presents the impact to earnings per share if the Company had adopted the fair value recognition provisions of SFAS 123 (in thousands except per share data):

	Years Ended July 31,		Six Months Ended January 31,	Year Ended January 31,
	2000	2001	2002	2003
Net income available for common stockholders—as reported	$ 12,582	$ 15,014	$ 9,528	$ 18,468
Stock-based employee compensation cost—as reported	—	—	—	—
Stock-based compensation, net of tax, that would have been reported under SFAS 123	(8)	(152)	(150)	(323)
Pro forma net income	$ 12,574	$ 14,862	$ 9,378	$ 18,145
Earnings per share—as reported				
Basic	$ 0.73	$ 0.87	$ 0.56	$ 1.10
Diluted	$ 0.72	$ 0.87	$ 0.55	$ 1.10
Pro forma earnings per share:				
Basic	$ 0.72	$ 0.87	$ 0.55	$ 1.09
Diluted	$ 0.72	$ 0.86	$ 0.54	$ 1.09

Self insurance. The Company is self-insured for certain losses relating to group health, workers' compensation, automobile, general and product liability claims. The Company has stop loss coverage to limit the exposure arising from these claims. Self-insurance losses for claims filed and claims incurred, but not reported, are accrued based upon the Company's estimates of the aggregate liability for uninsured claims incurred using development factors provided by the Company's insurance administrators.

Advertising Costs. The Company expenses the net cost of advertising, after vendor rebates, as incurred. Advertising expense was $6.3 million and $5.8 million for the years ended July 31, 2000 and 2001, respectively, $2.4 million for the six months ended January 31, 2002, and $5.2 million for the year ended January 31, 2003.

Expense Classifications. The Company records as cost of goods sold the direct cost of products sold, any related in-bound freight costs, and receiving costs, inspection costs, internal transfer costs, and other costs associated with the operations of its distribution system. In addition, the Company records as the costs of service parts sold the direct cost of parts used in its service operation and the related inbound freight costs, purchasing and receiving costs, inspection costs, internal transfer costs, and other costs associated with the warranty and service distribution operation.

The costs associated with the Company's merchandising function, including product purchasing, advertising, sales commissions, and all store occupancy costs are included in Selling, General and Administrative Expense. That portion of the merchandising costs that is applicable to the purchasing function was approximately $1.0 million for the years ended July 31, 2000 and 2001, respectively, approximately $0.7 million for the six months ended January 31, 2002 and approximately $1.3 million for the year ended January 31, 2003.

Recent Accounting Pronouncements. In November 2002, the EITF reached a consensus on Issue 02-16, addressing the accounting of cash consideration received by a customer from a vendor, including vendor rebates and refunds. The consensus states that consideration received should be presumed to be a reduction of the prices

of the vendor’s products or services and should therefore be shown as a reduction of cost of sales in the statement of operations of the customer. The presumption could be overcome if the vendor receives an identifiable benefit in exchange for the consideration or the consideration represents a reimbursement of a specific incremental identifiable cost incurred by the customer in selling the vendor’s product or service. If one of these conditions is met, the cash consideration should be characterized as a reduction of those costs in the statement of operations of the customer. The consensus reached also concludes that if rebates or refunds can be reasonably estimated, such rebates or refunds should be recognized as a reduction of the cost of sales based on a systematic and rational allocation of the consideration to be received relative to the transactions that mark the progress of the customer toward earning the rebate or refund. The provisions of this consensus will be applied prospectively and are consistent with the Company’s existing accounting policy.

In November 2002, the EITF reached a consensus on Issue 00-21, addressing how to account for arrangements that involve the delivery or performance of multiple products, services, and/or rights to use assets. The consensus states that revenue arrangements with multiple deliverables should be divided into separate units of accounting, if the deliverables in the arrangement meet the following criteria: (1) the delivered item has value to the customer on a stand alone basis; (2) there is objective and reliable evidence of the fair value of undelivered items; and (3) delivery of any undelivered item is probable. Arrangement consideration should be allocated among the separate units of accounting based on their relative fair values, with the amount allocated to the delivered item being limited to the amount that is not contingent on the delivery of additional items or meeting other specified performance conditions. The final consensus will be applicable to agreements entered into in fiscal periods beginning after June 15, 2003, with early adoption permitted. The provisions of this consensus are not expected to have a significant effect on the Company’s financial position or operating results.

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*. This statement amends SFAS 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure provisions of SFAS 148 are effective for fiscal years ended after December 15, 2002, and have been incorporated into the accompanying financial statements and footnotes.

In November 2002, FASB Interpretation (“FIN”) No. 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, was issued. FIN 45 enhances the disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued. It also requires, on a prospective basis, beginning after January 1, 2003, that the guarantors recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. See disclosures in this footnote regarding revenue recognition for a discussion of the Company’s obligations under certain service maintenance agreements it sells.

Reclassifications. Certain reclassifications have been made in the prior years’ financial statements to conform to the current year’s presentation.

Accumulated Other Comprehensive Income. The balance of accumulated other comprehensive income at January 31, 2003 was comprised of $5.0 million of unrealized gains on interests in securitized assets less $2.2 million unrealized losses on derivatives. The balance of accumulated other comprehensive income at January 31, 2002 was comprised of $6.3 million of unrealized gains on interests in securitized assets less $3.0 million of unrealized losses on derivatives.

CONN APPLIANCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

2. Interests in Securitized Receivables

In September 2002, the Company entered into a new agreement to sell customer receivables; as part of this agreement, the Company sells eligible retail installment and revolving receivable accounts to a QSPE that pledges the transferred accounts to a trustee for the benefit of investors, with the amount transferred not to exceed $450.0 million. The September 2002 agreement replaced an agreement with a financial intermediary that was developed and utilized for the same purpose. The following table summarizes the availability of funding under the Company's securitization program at January 31, 2003 (in millions):

	Capacity	Utilized	Available
Series A	$ 250.0	$ 45.1	$ 204.9(1)
Series B – Class A	120.0	120.0	—
Series B – Class B	57.8	57.8	—
Series B – Class C	22.2	22.2	—
Total	$ 450.0	$ 245.1	$ 204.9

(1) Availability of the Series A program is reduced by $10.0 million for a letter of credit issued by the Company to provide assurance to the trustee that monthly funds collected by the Company, as servicer, will be remitted as required under the base indenture and other related documents.

The September 2002 agreement includes a Series A variable funding note with a capacity of $250.0 million. The Series A program functions as a credit facility to fund the initial transfer of eligible receivables. When the facility approaches capacity, the QSPE will issue another bond series and use the proceeds to pay down the outstanding balance in the Series A variable funding note; at that point, the facility will once again become available to accumulate the transfer of new receivables or to meet required principal payments on other series as they become due. The Series A program matures September 1, 2007, and the Series B program (which is non-amortizing for the first four years) matures officially September 1, 2010, although it is expected that the principal payments will retire the bonds prior to that date.

The agreement contains certain covenants requiring the maintenance of various financial ratios and receivables performance standards. As part of the new securitization program, the Company arranged for the issuance of a stand-by letter of credit in the amount of $10.0 million to provide assurance to the trustee on behalf of the bondholders that monthly funds collected by the Company, as servicer, will be remitted as required under the base indenture and other related documents. The letter of credit has a term of one year, and the maximum potential amount of future payments is the face amount of the letter of credit. The Series A program available capacity has been reduced by the amount of the letter of credit, and the letter of credit is callable, at the option of trustee, if the Company, as servicer, fails to meet the required monthly payments to the trustee of the cash collected.

Through its retail sales activities, the Company generates customer retail installment and revolving receivable accounts. The Company enters into securitization transactions to sell these accounts to the QSPE. In these securitizations, the Company retains servicing responsibilities and subordinated interests. The Company receives annual servicing fees approximating 3.9% of the outstanding balance and rights to future cash flows arising after the investors in the securities issued by or on behalf of the QSPE have received from the trustee all contractually required principal and interest amounts. The Company did not record an asset or liability related to any servicing obligations because the servicing fee received was determined to be just adequate to compensate the Company for its servicing responsibilities. The investors and the securitization trustee have no recourse to the Company's other assets for failure of the individual customers of the Company and the QSPE to pay when due. The Company's retained interests are subordinate to investors' interests. Their value is subject to credit,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

prepayment, and interest rate risks on the transferred financial assets. The fair values of the Company's interest in securitized assets were as follows (in thousands):

	January 31,	
	2002	2003
Interest-only strip	$ 12,080	$ 11,924
Subordinated securities	38,692	48,879
Total fair value of interests in securitized assets	$ 50,772	$ 60,803

The table below summarizes valuation assumptions used for each period presented:

	Years ended July 31,		Six months ended January 31,	Year ended January 31,
	2000	2001	2002	2003
Prepayment rates				
Primary installment	1.5%	1.5%	1.5%	1.5%
Primary revolving	3.0%	3.0%	3.0%	3.0%
Secondary installment	1.5%	1.5%	1.5%	1.5%
Net interest spread				
Primary installment	11.7%	12.0%	12.6%	13.2%
Primary revolving	11.7%	12.0%	12.6%	13.2%
Secondary installment	11.7%	13.8%	14.0%	14.3%
Expected losses				
Primary installment	3.3%	3.8%	3.8%	3.8%
Primary revolving	3.3%	3.8%	3.8%	3.8%
Secondary installment	3.3%	3.8%	3.8%	3.8%
Projected expense				
Primary installment	3.3%	3.3%	3.9%	3.9%
Primary revolving	3.3%	3.3%	3.9%	3.9%
Secondary installment	2.9%	2.8%	3.8%	3.8%
Discount rates				
Primary installment	10.0%	10.0%	9.0%	10.0%
Primary revolving	10.0%	10.0%	9.0%	10.0%
Secondary installment	12.0%	14.0%	13.0%	14.0%
Delinquency and deferral rates				
Primary installment	10.0%	9.5%	9.2%	10.7%
Primary revolving	8.0%	10.3%	10.9%	11.3%
Secondary installment	10.0%	9.7%	10.4%	13.8%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

At January 31, 2003, key economic assumptions and the sensitivity of the current fair value of the interests in securitized assets to immediate 10% and 20% adverse changes in those assumptions are as follows (dollars in thousands):

	Primary Portfolio Installment	Primary Portfolio Revolving	Secondary Portfolio Installment
Fair value of interest in securitized assets	$ 36,806	$ 4,360	$ 19,637
Weighted average life	1.4 years	.9 years	2.5 years
Annual prepayment rate assumption	1.5%	3.0%	1.5%
Impact on fair value of 10% adverse change	$ 81	$ 9	$ 56
Impact on fair value of 20% adverse change	$ 160	$ 18	$ 110
Net interest spread assumption	13.2%	13.2%	14.3%
Impact on fair value of 10% adverse change	$ 1,722	$ 204	$ 840
Impact on fair value of 20% adverse change	$ 3,444	$ 409	$ 1,629
Expected losses assumptions	3.8%	3.8%	3.8%
Impact on fair value of 10% adverse change	$ 365	$ 43	$ 154
Impact on fair value of 20% adverse change	$ 729	$ 86	$ 308
Projected expense assumption	3.9%	3.9%	3.8%
Impact on fair value of 10% adverse change	$ 374	$ 45	$ 154
Impact on fair value of 20% adverse change	$ 748	$ 88	$ 308
Discount rate assumption	10.0%	10.0%	14.0%
Impact on fair value of 10% adverse change	$ 24	$ 3	$ 50
Impact on fair value of 20% adverse change	$ 69	$ 5	$ 95
Delinquency and deferral	10.7%	11.3%	13.8%
Impact on fair value of 10% adverse change	$ 66	$ 4	$ 27
Impact on fair value of 20% adverse change	$ 131	$ 8	$ 52

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of the variation in a particular assumption on the fair value of the interest-only strip is calculated without changing any other assumption; in realty, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities.

The table below summarizes certain information regarding cash flows and income between the Company and the securitization program (in millions):

	Years Ended July 31,		Six Months Ended January 31,	Year Ended January 31,
	2000	2001	2002	2003
Income and cash flows:				
Servicing fees	$ 4.6	$ 6.2	$ 3.6	$ 9.4
Gains on sales of receivable	4.3	8.8	8.3	16.1
Interest earned on interest-only strip, net of impairment	5.9	6.5	4.0	12.3
Interest earned on subordinated securities, net of impairment	2.6	3.0	1.1	1.9
Cash flows:				
Proceeds from new receivables	196.2	232.6	147.5	302.5
Customer repayment of sold receivables	152.0	185.6	105.5	243.2

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

The following illustration presents quantitative information about the receivables portfolios managed by the Company (in millions):

	Total Principal Amount of Receivables January 31,		Principal Amount 60 Days or More Past Due (1) January 31,	
	2002	2003	2002	2003
Primary portfolio:				
Installment	$ 191.8	$ 223.0	$ 9.5	$ 12.1
Revolving	28.5	26.4	1.3	1.2
Subtotal	220.3	249.4	10.8	13.3
Secondary portfolio:				
Installment	41.9	54.4	2.6	3.7
Total receivables managed	262.2	303.8	13.4	17.0
Receivables sold	(262.2)	296.2	(13.4)	(15.4)
Receivables not sold	—	7.6	$ —	$ 1.6
Non-customer receivables	6.0	5		
Total accounts receivable, net	$ 6.0	$ 12.6		

	Average Balances January 31,		Net Credit Losses January 31, (2)	
	2002	2003	2002	2003
Primary portfolio:				
Installment	$ 170.1	$ 207.3		
Revolving	28.3	27.5		
Subtotal	198.4	234.8	$ 2.7	$ 6.1
Secondary portfolio:				
Installment	34.8	48.2	0.5	1.4
Total receivables managed	233.2	283.0	3.2	7.5
Receivables sold	(233.2)	(278.8)	(3.2)	6.6
Receivables not sold	$ —	$ 4.2	$ —	$ (0.9)

(1) Amounts are based on end of period balances.
(2) Amounts are based on total receivables outstanding and are expressed net of recoveries; January 31, 2002 is for six months.

3. Notes Payable and Long-Term Debt

Notes payable of $8.1 million and $7.5 million, respectively, as of January 31, 2002 and January 31, 2003 represent short-term bank or insurance company borrowings under revolving agreements that bear interest at rates tied to the prime rate, in the case of the bank debt, at 3.75% as of January 31, 2003 and, in the case of the insurance company, at 7.5% as of January 31, 2003. The agreements, in effect, provide for bank borrowings of up to $5.0 million at January 31, 2002 and $8.0 million at January 31, 2003, and insurance company borrowings of $3.5 million at January 31, 2002 and January 31, 2003, respectively. All short-term notes are unsecured.

CONN APPLIANCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

Long-term debt consists of the following (in thousands except repayment explanations):

	January 31,	
	2002	2003
Revolving note payable to banks, with interest at variable rates (ranging from 3.63% to 5.50% at January 31, 2003)	$ 16,000	$ 24,500
Term note payable to banks, due in quarterly installments of $1.5 million beginning April 30, 2003 plus interest at variable rates (ranging from 3.6% to 3.7% at January 31, 2003)	7,500	15,000
Promissory notes to various companies secured by real estate or equipment, due in monthly installments of $9,501 and $7,494 plus interest; all loans provide for variable rates (4.12% at January 31, 2003) through July 1, 2003	618	140
Promissory note payable to previous stockholder, due in monthly installments of $34,600, with interest at 6%	1,137	781
Subordinated term note payable to previous stockholder, due in monthly installments of $147,698, with interest at 9%	5,411	4,071
Total long-term debt	30,666	44,492
Less amounts due within one year	(7,174)	(7,928)
Amounts classified as long-term	$ 23,492	$ 36,564

In July 1998, a new syndicated bank credit facility was executed with six banks with JP Morgan Chase, NA (formerly Chase Bank of Texas, NA) acting as Administrative Agent (the “Agent”). The facility originally included a $25.0 million term note (the “Term Note”) and a $55.0 million revolving note (the “Revolver”). The Term Note originally matured July 31, 2003 and provided for quarterly repayments of $1.25 million each plus interest beginning September 30, 1998. The Revolver originally matured July 14, 2003 and provided for quarterly interest payments. In May 2000, proceeds of a new arrangement with a financial intermediary were used to retire existing debt under the Revolver by $19.0 million, the capacity of the outstanding Revolver was reduced to $30 million and the syndication was reduced to five banks.

In September 2002, the Company executed an additional amendment (subsequently amended and restated) to the syndicated bank credit facility whereby the maturity date on both the Term Note and Revolver was extended until September 2005 and the Term Note was increased from the then existing balance of $5.0 million to $15.0 million and the Revolver was increased from the existing maximum amount of $30.0 million to $40.0 million. The new Term Note provides for quarterly repayments of $1.5 million beginning May 1, 2003. The amount of borrowings from the Revolver are limited to 65% of eligible inventory, the lesser of 40% of (a) interest in transferred accounts as defined by the bank credit facility or (b) $20.0 million, and 85% of eligible accounts receivable. Interest rates for both loans are variable and are determined, at the option of the Company, at the Base Rate (the greater of Agent’s prime rate or federal funds rate plus 0.50%) plus the Base Rate Margin (which ranges from 0.50% to 1.75%) or LIBOR Rate plus the LIBOR Margin (which ranges from 1.50% to 2.75%). Both the Base Rate Margin and the LIBOR Margin are determined quarterly based on the rolling four-quarter relationship of total debt (including lease obligations) to earnings before interest, taxes, depreciation, amortization and rent. The Company is obligated to pay a non-use fee on a quarterly basis on the non-utilized portion of the Revolver at rates ranging from ..375% to .500%. Both the Term Note and the Revolver are secured by the assets of the Company not otherwise encumbered and a pledge of substantially all of the stock held by members of Stephens Group, Inc. and its affiliates as well as the stock of all of the Company’s present and future subsidiaries. In anticipation of an initial public offering, the Company amended its bank credit facility effective October 31, 2002 to clarify certain definitions of covenant calculations. The new agreement also provides for

bank approval of the contemplated transaction, the repayment of certain debt, and the modification of certain covenant requirements in the event of a successful public offering. Both the Term Note and the Revolver are subject to the Company maintaining various financial and non-financial covenants and restrictions on the amount of total capital expenditures and stock redemptions that can be made. In addition, the provisions of the bank credit facility prohibits the payment of dividends on the Company's common stock. As of January 31, 2002 and January 31, 2003, the Company was in compliance with all financial and non-financial covenants.

Since the total capacity of the amended credit facility was greater than the original capacity, the Company has, in accordance with accounting guidance provided by EITF 98-14, not accounted for the transaction as an extinguishment of debt; therefore, no gains or losses have been recorded. The fees paid in connection with the amendments were $0.5 million and have been deferred. Such fees are being amortized over the remaining extended life of the agreement, along with the minimal unamortized balance of the original loan acquisition fees.

Aggregate maturities of long-term debt as of January 31 in the year indicated are as follows (in thousands):

	Aggregate Maturities
2004	$ 7,928
2005	11,060
2006	25,504
Total	$ 44,492

Based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities, the fair value of long-term debt at January 31, 2002 and January 31, 2003 approximated the recorded balances.

The Company held interest rate swaps and collars with notional amounts totaling $100.0 million as of January 31, 2002 and January 31, 2003, with terms extending through 2005. These instruments have been accounted for as cash flow hedges. Ineffectiveness, which arises from differences between the interest rate stated in the swap or collar and the interest rate upon which the underlying hedged transaction is based, totaled $0.5 million for the year ended July 31, 2001, $0.1 million for the six months ended January 31, 2002 and $0.5 million for the year ended January 31, 2003 and is reflected in "Interest Expense" in the consolidated statement of operations.

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4. Income Taxes

Deferred income taxes reflect the net effects of temporary timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred tax assets result primarily from differences between financial and tax methods of accounting for income recognition on service contracts and residual interests, capitalization of costs in inventory, and deductions for depreciation and doubtful accounts, and the fair value of derivatives. The deferred tax assets and liabilities are summarized as follows (in thousands):

	January 31,	
	2002	2003
Deferred Tax Assets		
Allowance for doubtful accounts	$ 42	$ 728
Deferred revenue	2,499	2,848
Fair value of derivatives	2,009	1,633
Property and equipment	1,967	2,799
Inventories	635	758
Other	237	—
Total deferred tax assets	7,389	8,766
Deferred Tax Liabilities		
Fair value of interests in securitized assets	(748)	(209)
Goodwill	(52)	(250)
Total deferred tax liability	(800)	(459)
Net deferred tax asset	$ 6,589	$ 8,307

CONN APPLIANCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

Significant components of income taxes for continuing operations were as follows (in thousands):

	Years Ended July 31,		Six Months Ended January 31,	Year Ended January 31,
	2000	2001	2002	2003
Current:				
Federal	$ 9,298	$ 11,287	$ 6,607	$ 13,125
State	385	262	143	82
	9,683	11,549	6,750	13,207
Deferred:				
Federal	(729)	(1,627)	(767)	(2,152)
State	37	(43)	(39)	287
	(692)	(1,670)	(806)	(1,865)
Total tax provision	$ 8,991	$ 9,879	$ 5,944	$ 11,342

A reconciliation of the statutory tax rate and the effective tax rate for each of the periods presented in the statements of operations is as follows:

	Years Ended July 31,		Six Months Ended January 31,	Year Ended January 31,
	2000	2001	2002	2003
U.S. Federal statutory rate	35.0%	35.0%	35.0%	35.0%
State and local income taxes	3.0	0.7	0.7	0.4
Non-deductible entertainment and other	0.1	0.1	0.3	0.1
Effective tax rate attributable to continuing operations	38.1%	35.8%	36.0%	35.5%

5. Insurance Program

In August 2002, the Company renewed substantially all of its insurance coverages and assumed a significant part of the risk exposure for the worker's compensation, general liability, property and automobile policies by agreeing to absorb an initial deductible amount on each claim of $0.25 million, $0.25 million, $0.1 million, and $0.1 million, respectively. The worker's compensation, general liability and automobile policies have individual stop loss coverage provisions so that the Company's total obligation under the three policies will not exceed $1.0 million, $0.2 million, and $0.2 million, respectively. In addition, the three policies have a combined stop loss provision of $1.5 million. The potential exposure under the property policy is unlimited. As of January 31, 2003, the Company has provided a reserve in the amount of $0.6 million to cover the unpaid portion of expected future claims under all self-retained risk programs. In the opinion of management, this reserve is sufficient to cover any run-off associated with known claims. As part of this program, the Company was required to provide a stand-by letter of credit in the amount of $0.5 million in favor of the insurance company. The letter of credit has an initial term of one year, with the expiration date tracking the expiration of the insurance policy. It provides for an increasing face amount of $0.6 million for the period February 28, 2003 through May 30, 2003 and $0.7 million for the period May 31, 2003 through August 31, 2003. The maximum potential amount of future payments is considered to be the face amount of the letter of credit. The Company, however, has an obligation to provide additional letters of credit in amounts considered sufficient by the carrier to cover expected losses of claims that remain open after the expiration of the initial policy coverage period. The letter of credit is callable, at the option of the insurance company, if the Company does not honor its requirement to fund deductible amounts as billed.

6. Leases

The Company leases certain of its facilities and operating equipment from outside parties and from stockholders/officers. The real estate leases generally have initial lease periods of from 5 to 15 years with renewal options at the discretion of the Company; the equipment leases generally provide for initial lease terms

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of three to seven years and provide for a purchase right by the Company at the end of the lease term at the fair market value of the equipment.

The following is a schedule of future minimum base rental payments required under the operating leases that have initial non-cancelable lease terms in excess of one year (in thousands):

Years Ended January 31,	Third Party	Related Party	Total
2004	$ 12,917	$ 1,645	$ 14,562
2005	11,797	1,645	13,442
2006	10,490	1,645	12,135
2007	9,186	1,645	10,831
2008	8,237	1,645	9,882
Thereafter	28,022	13,772	41,794
Total	$ 80,649	$ 21,997	$ 102,646

Total lease expense was approximately $5.6 million and $7.9 million for the years ended July 31, 2000 and 2001, respectively, $5.3 million for the six months ended January 31, 2002 and $12.3 million for the year ended January 31, 2003, including approximately $0.3 million, $0.3 million, $0.1 million, and $1.1 million, respectively, paid to related parties.

Certain of our leases are subject to scheduled rent increases or escalation provisions, the cost of which is recognized on a straight-line basis over the minimum lease term.

7. Common Stock

In October 1999, the Company's shareholders and board of directors approved an Incentive Stock Option Plan that provides for a pool of up to 3.5 million options to purchase shares of the Company's common stock. Such options are to be granted to various officers and employees at prices equal to the market value on the date of the grant. The options are exercisable over a ten-year period beginning three or five years after the date of grant. The provisions of the stock option plan provide that the 3.5 million share maximum option pool must be reduced by the number of restricted shares of common stock that are outstanding at any date which effectively reduces the number of options that can be issued as of January 31, 2003 to 1.8 million.

A summary of the status of the Company's stock option plan and the activity during the year ended July 31, 2001, the six months ended January 31, 2002 and the year ended January 31, 2003 is presented below (all amounts and average exercise prices have been adjusted to reflect the 70 for 1 stock split effected as a dividend that was issued in July 2002 and are presented in thousands except per share amounts):

	Year Ended July 31, 2000		Year Ended July 31, 2001		Six Months Ended January 31, 2002		Year Ended January 31, 2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	—	$ —	388	$ 7.50	1,160	$ 7.91	1,174	$ 8.08
Granted	388	7.50	807	8.03	74	9.02	116	10.83
Canceled	—	—	(35)	(6.25)	(60)	(8.21)	(49)	(8.21)
Outstanding, end of year	388	$ 7.50	1,160	$ 7.91	1,174	$ 8.08	1,241	$ 8.34
Weighted average grant date fair value of options granted during period		$ 1.31		$ 1.15		$ 1.17		$ 1.37
Options exercisable at end of year	11		74		227		363	
Options available for grant	1,629		516		566		524	

CONN APPLIANCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding As Of January 31, 2003	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Exercisable As Of January 31, 2003	Weighted Average Exercise Price
$4.29—$4.29	52	6.88	$ 4.29	31	$ 4.29
$8.21—$10.83	1,189	8.28	8.52	382	7.28
	1,241	8.21	$ 8.34	413	$ 7.05

8. Significant Vendors

As shown in the table below, a significant portion of the Company's merchandise purchases for the years ended July 31, 2000 and 2001, the six months ended January 31, 2002 and the year ended January 31, 2003 were made from six vendors:

	Years Ended July 31,		Six Months Ended January 31,	Year Ended January 31,
Vendor	2000	2001	2002	2003
A	5.2%	11.1%	9.6%	15.5%
B	14.4	17.3	12.6	13.7
C	8.9	11.3	17.0	12.5
D	7.4	8.5	8.3	10.0
E	11.3	7.9	8.5	7.6
F	—	1.6	7.9	6.0
Totals	47.2%	57.7%	63.9%	65.3%

9. Related Party Transactions

The Company leases certain store locations from directors, stockholders and/or officers. See Note 6. At January 31, 2002, the Company was guarantor on construction debt in the amount of $4.5 million incurred by Specialized Realty Development Services, LP ("SRDS"), a real estate development company that is owned by various members of management and individual investors of Stephens Group, Inc. The partnership is developing up to six sites (four of which have been completed) for retail store locations that will be leased to the Company. The Company is obligated to lease each completed project for an initial period of 15 years. As soon as the development of each project is completed and the lease is placed into effect, the Company's debt guarantee is reduced by the amount of construction debt associated with that project. The Company's guarantee obligation on the two undeveloped properties will extend to a maximum debt of $5.5 million. SRDS charges the Company annual lease rates of approximately 11.5% of the total cost of each project; in addition, the Company is responsible for the payment of all property taxes, insurance and common area maintenance expenses. Based on independent appraisals that have been performed on each project that has been completed, the Company believes that the terms of the leases that replaced the guarantee obligations are at least comparable to those that could be obtained in an arms' length transaction. As part of the ongoing operation of SRDS, the Company receives a management fee associated with the administrative functions that are provided to SRDS.

10. Benefit Plans

The Company has established a defined contribution 401(k) plan for full time employees who are least 21 years old and have completed 90 days of service. Employees may contribute up to 15% of their applicable compensation to the plan, and the Company will match up to 50% of the first 6% of the employee contributions made after the employee has completed one year of service. As of August 1, 2001, the Company amended the

plan to provide for matching contributions equal to 100% of the first 3% of employee withholdings and 50% of the next 2% of employee withholdings.

At its option, the Company may also make supplemental contributions to the plan. During the years ended July 31, 2000 and 2001, the six months ended January 31, 2002, and the year ended January 31, 2003, the Company contributed approximately $0.8 million, $1.0 million, $0.5 million, and $1.1 million, respectively, to the plan.

11. Common and Preferred Stock

The Company has issued and outstanding 16,719,990 shares of common stock, of which 2,061,920 shares are restricted as to various vesting rights and a right of first refusal on the part of the Company for the purchase of such stock. An additional 2,188,060 shares of the Company's common stock are also subject to a right of first refusal on the part of the Company for the purchase of such stock.

As part of the Company's recapitalization and reorganization that took place in 1998, a total of 213,720 shares of preferred stock were issued in exchange for existing common stock of the Company; such shares were valued as of the date of the transaction at $87.18 per share and bear a cumulative dividend of 10% that is not payable until declared by the Company's board of directors. Such cumulative dividends must be paid before dividends on the common stock can be distributed. At January 31, 2002 and January 31, 2003, there were $6.1 million ($34.96 per share) and $8.2 million ($47.17 per share), respectively, of accumulated dividends that had not been declared as payable by the Company's board of directors. On January 24, 2003, the board of directors declared a preferred stock dividend as of April 30, 2003 in the amount of $8.8 million ($50.53 per share) contingent upon the completion of a proposed initial public offering.

During the years ended July 31, 2000 and 2001, and the six months ended January 31, 2002, the Company redeemed 1,283 shares, 35,792 shares and 1,997 shares of the preferred stock at a total cost of $0.1 million, $4.1 million and $0.2 million, respectively, of which $0.015 million, $1.0 million and $0.07 million, respectively, represented accumulated dividends.

12. Sale of Rent-to-Own Business Unit

On February 1, 2001, the Company sold substantially all of the assets of its rent-to-own business unit. The cash purchase price for the rent-to-own assets was $1.9 million and the Company recognized a loss from the transaction of $0.6 million. The loss, net of taxes, is included in the loss from discontinued operations. Operating results of the discontinued rent-to-own operations are as follows (such amounts have been reclassified to the discontinued operations section of the statement of operations) and are included in the following table (in thousands):

	Years Ended July 31,	
	2000	2001
Net revenues	$ 5,613	$ 2,540
Income (loss) before income taxes	47	(261)
Loss on disposition of assets		(607)
Provision for income taxes	(17)	323
Income (loss) from discontinued operations	$ 30	$ (546)

CONN APPLIANCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

13. Contingencies

In December 2002, Martin E. Smith, as named plaintiff, filed a lawsuit against the Company in the state district court in Jefferson County, Texas, that attempts to create a class action for breach of contract and violations of state and federal consumer protection laws arising from the terms of the Company's service maintenance agreements. The lawsuit alleges an inappropriate overlap in the product warranty periods provided by the manufacturer and the periods covered by the service maintenance agreements that the Company sells. The lawsuit seeks unspecified actual damages as well as an injunction against the Company's current practices and extension of affected service contracts. The Company believes that the warranty periods covered in its service maintenance agreements are consistent with industry practice. The Company also believes that it is premature to predict whether class action status will be granted or, if granted, the outcome of this litigation. There is not currently a basis on which to estimate a range of potential losses in this matter.

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

	January 31, 2003	July 31, 2003
Assets		
Current Assets		
Cash and cash equivalents	$ 2,448	$ 2,234
Accounts receivable, net of allowance for doubtful accounts of $117 at both dates	12,617	15,906
Interest in securitized assets	60,803	64,840
Inventories	46,118	50,433
Deferred income taxes	3,981	4,011
Prepaid expenses and other assets	3,473	2,298
Total current assets	129,440	139,722
Debt issuance and other costs	543	569
Non-current deferred income tax asset	4,785	4,048
Property and equipment		
Land	3,746	3,714
Buildings	6,189	5,482
Equipment and fixtures	6,704	7,085
Transportation equipment	2,687	2,716
Leasehold improvements	42,219	44,521
Subtotal	61,545	63,518
Less accumulated depreciation	(23,279)	(26,343)
Total property and equipment, net	38,266	37,175
Goodwill, net	7,917	7,917
Other assets, net	607	574
Total assets	$ 181,558	$ 190,005
Liabilities and Stockholders' Equity		
Current Liabilities		
Notes payable	$ 7,500	$ 5,275
Current portion of long-term debt	7,928	7,991
Accounts payable	24,501	31,943
Accrued expenses	8,601	8,346
Income taxes payable	949	1,606
Deferred income taxes	209	—
Deferred revenue	6,873	6,115
Fair value of derivatives	2,895	2,055
Other current liabilities	—	44
Total current liabilities	58,203	63,375
Long-term debt	36,564	30,114
Non-current deferred tax liability	250	368
Deferred gain on sale of property	977	895
Fair value of derivatives	1,642	586
Stockholders' equity		
Preferred stock ($0.01 par value, 300,000 shares authorized; 174,648 issued and outstanding at January 31, 2003 and July 31, 2003) 10% cumulative dividend	15,226	15,226
Common stock ($0.01 par value, 30,000,000 shares authorized; 17,175,480 shares issued; and 16,719,990 shares outstanding at January 31, 2003 and July 31, 2003)	172	172
Accumulated other comprehensive income	2,751	4,141
Retained earnings	68,131	78,739
Treasury stock at cost (437,010 and 455,490 shares of common stock at January 31, 2003 and July 31, 2003, respectively)	(3,611)	(3,611)
Total stockholders' equity	82,669	94,667
Total liabilities and stockholders' equity	$ 181,558	$ 190,005

See notes to consolidated financial statements.

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Conn Appliances, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except earnings per share)

	Six Months Ended July 31, 2002	Six Months Ended July 31, 2003
Revenues		
Product sales	$ 169,036	$ 188,477
Service maintenance agreement commissions (net)	11,937	11,588
Service revenues	9,350	9,376
Total net sales	190,323	209,441
Finance charges and other	29,680	30,145
Total revenues	220,003	239,586
Cost and expenses		
Cost of goods sold, including warehousing and occupancy costs	135,053	152,949
Cost of service parts sold, including warehousing and occupancy costs	775	644
Selling, general and administrative expense	63,913	64,155
Provision for bad debts	1,487	2,188
Total cost and expenses	201,228	219,936
Operating income	18,775	19,650
Interest expense	3,125	3,216
Earning from continuing operations before income taxes	15,650	16,434
Provision for income taxes		
Current	(6,575)	(5,300)
Deferred	1,019	(527)
Total provision for income taxes	(5,556)	(5,827)
Net Income	10,094	10,607
Less preferred dividends	(1,067)	(1,173)
Net income available for common stockholders	$ 9,027	$ 9,434
Earnings per share		
Basic	$ 0.54	$ 0.56
Diluted	$ 0.54	$ 0.56
Average common shares outstanding		
Basic	16,728	16,720
Diluted	16,728	16,720

See notes to consolidated financial statements.

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Conn Appliances, Inc.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands except share repurchase amounts)

	Preferred Stock		Common Stock		Accumulated Other Compre-hensive Income	Retained Earnings	Treasury Stock		Total
	Shares	Amount	Shares	Amount			Shares	Amount	
Balance January 31, 2003	175	$ 15,226	17,175	$ 172	$ 2,751	$ 68,131	455	$ (3,611)	$ 82,669
Net income						10,608			10,608
Unrealized gain on derivative instruments, (net of tax of $242) net of reclassification adjustments of $1,239 (net of tax of $682)					1,151				1,151
Adjustment of fair value of interest in securitized assets, (net of tax of $131) net of reclassification adjustments of $3,375 (net of tax of $1,858)					239				239
Total comprehensive income									11,998
Balance July 31, 2003	175	$ 15,226	17,175	$ 172	$ 4,141	$ 78,739	455	$ (3,611)	$ 94,667

See notes to consolidated financial statements.

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Conn Appliances, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Six Months Ended July 31,	
	2002	2003
Cash flows from operating activities		
Net income	$ 10,094	$ 10,608
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,739	3,637
Provision for bad debts	1,487	2,188
Provision for deferred income taxes	(1,019)	527
Loss (gain) from sale of assets	(5)	(16)
Ineffectiveness of derivatives	11	(98)
Change in operating assets and liabilities:		
Accounts receivable	(11,601)	(5,967)
Proceeds from sale of loans receivable	18,723	176
Inventory	(6,672)	(4,315)
Prepaid expenses and other assets	(1,089)	1,175
Accounts payable	3,494	7,442
Accrued expenses	426	(255)
Income taxes payable	(305)	657
Deferred service contract revenue	44	(758)
Other current liabilities	(25)	44
Net cash provided by operating activities	16,302	15,045
Cash flows from investing activities		
Purchase of property and equipment	(9,319)	(2,364)
Proceeds from sale of property	5	189
Interests in securitized assets	(13,269)	(4,042)
Net cash used by investing activities	(22,583)	(6,217)
Cash flows from financing activities		
Purchase of treasury stock	(200)	—
Net borrowings (payments) under line of credit	9,369	(6,137)
Payments on term note	(2,500)	(1,500)
Increase in debt issuance costs	(424)	(429)
Payment of promissory notes	(655)	(976)
Net cash provided (used) by financing activities	5,590	(9,042)
Net change in cash	(691)	(214)
Cash and cash equivalents		
Beginning of the year	1,571	2,448
End of the year	$ 880	$ 2,234

See notes to consolidated financial statements.

CONN APPLIANCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

July 31, 2003

1. Significant Accounting Policies

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature. Operating results for the six months ended July 31, 2003 are not necessarily indicative of the results that may be expected for the year ending January 31, 2004. The financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto.

The balance sheet at January 31, 2003 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

Principles of Consolidation. The consolidated financial statements include the accounts of Conn Appliances, Inc. and its subsidiaries, limited liability companies and limited partnerships, all of which are wholly-owned (the "Company"), which is also known as Conn Texas. All material inter-company transactions and balances have been eliminated in consolidation.

The Company enters into securitization transactions to finance its retail installment and revolving customer receivables. These securitization transactions are accounted for as sales in accordance with Statement of Financial Accounting Standards ("SFAS") No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* because the Company has relinquished control of the receivables. Since the Company has relinquished control over these receivables and does not control the qualifying special purpose subsidiary that holds the receivables, the amounts held in these securitization facilities are not included in the consolidated financial statements of the Company.

Earnings Per Share. In accordance with SFAS No. 128, *Earnings per Share*, the Company calculates basic earnings per share 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 granted calculated under the treasury method; as there were no options outstanding in the interim periods that were valued in excess of the grant price, there were no such shares included in outstanding share total. Since the preferred stock dividend obligations of the Company are cumulative, they have been reported on the Consolidated Statements of Operations even though they have not yet been declared as payable.

Goodwill. Goodwill represents primarily the excess of purchase price over the fair market value of net assets acquired. Effective February 1, 2002, the Company adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* whereby goodwill is no longer amortized, but rather the Company assesses the potential future impairment of goodwill on an annual basis, or at any other time when impairment indicators exist. Information presented in the Consolidated Statements of Operations for all periods excludes any amortization of goodwill.

Stock-Based Compensation. As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company follows the intrinsic value method of accounting for stock-based compensation issued to

CONN APPLIANCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(Unaudited)

employees, as prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Since all options have been issued at or above fair value, no compensation expense has been recognized under the Company's stock option plan for any of the financial statements presented.

If compensation expense for the Company's stock option plan had been recognized using the fair value method of accounting under SFAS 123, net income from continuing operations and earnings per share would have decreased by 1.8% for both the six months ended July 31, 2002 and 2003. The fair value of the options issued was estimated on the date of grant, using the minimum valuation option-pricing model with the following weighted average assumptions used for grants during the quarter and six months ended July 31, 2002: expected risk free interest rates of 6.3% and expected lives of 5 years in all periods. The following table presents the impact to earnings per share if the Company had adopted the fair value recognition provisions of SFAS 123 (in thousands except per share data):

	Six Months Ended July 31,	
	2002	2003
Net income available for common stockholders	$ 9,027	$ 9,434
Stock-based compensation, net of tax, that would have been reported under SFAS 123	(161)	(169)
Pro forma net income	$ 8,866	$ 9,265
Pro forma earnings per share:		
Basic	$ .53	$ .55
Diluted	$ .53	$ .55

Recent Accounting Pronouncements. In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, an interpretation of Accounting Research Bulletin No. 51 ("FIN 46"). FIN 46 requires the consolidation of entities in which a company absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Currently, entities are generally consolidated by a company when it has a controlling financial interest through ownership of a majority voting interest in the entity. The Company is currently evaluating the effects of the issuance of FIN 46 on the accounting for its leases with Specialized Realty Development Services, LP. We do not anticipate the adoption of FIN 46 will have a material impact on the Company's consolidated financial statements.

Reclassifications. Certain reclassifications have been made in the prior years' financial statements to conform to the current year's presentation.

2. Finance Charges and Other

A summary of the classification of the amounts that are included as "finance charges and other" is summarized as follows (in thousands):

	Six Months Ended July 31,	
	2002	2003
Securitization income	$ 19,661	$ 19,953
Interest income from receivables not sold	—	409
Insurance commissions	7,350	6,612
Cash discounts and other	2,669	3,171
	$ 29,680	$ 30,145

CONN APPLIANCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(Unaudited)

3. Unusual Items

Modification to Calculation of Sales Compensation. During the six months ended July 31, 2003, the Company changed the methodology on how sales commissions are calculated and paid. The previous practice of advancing a semi-monthly draw against commissions to be earned was eliminated and previous amounts in excess of commissions earned that were held for offset against future commissions ("arrearages") were forgiven and were charged to the statement of income. As a result of the modification of this program, $0.7 million was charged to the Consolidated Statement of Operations for the six months ended July 31, 2003.

Automation of Revenue Adjustments. During the six months ended July 31, 2003, the Company automated its Credit Control Department so that revenue adjustments that were previously estimated based on a manual process were automatically uploaded for posting to a customer's account. While this process allowed the Company to refine its level of estimation in developing a monthly adjustment and also allowed it to reduce personnel requirements in this department, it accelerated the recognition of revenue adjustments in the current period. As a result, the Company recognized approximately $0.6 million in write-offs in the six months ended July 31, 2003, that would have previously been deferred to a future time period.

4. Fair Value of Derivatives

The Company held interest rate swaps and collars with notional amounts totaling $100.0 million as of January 31, 2003 and July 31, 2003, with terms extending through 2005. Until September 2002, these instruments were accounted for as cash flow hedges. Of these instruments, $80.0 million were designated as hedges against the Company's variable interest rate risk related to the cash flows from its interest only strip. The remaining $20.0 million of these instruments were designated as hedges against the Company's variable rate debt.

In September 2002, the Company entered into a new agreement to sell customer receivables. As a result of that new agreement, the Company discontinued hedge accounting for the $80.0 million of financial instruments previously designated as hedges against the Company's interest only strip. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, the Company recognized changes in fair value for those derivatives after September 2002 as interest expense, and is amortizing the amount of accumulated other comprehensive loss related to those derivatives as interest expense over the remaining term of the instruments, which expire ending in November 2003. This change had no effect on the $20.0 million of instruments designated as hedges against the Company's variable rate debt.

Ineffectiveness, which arises from differences between the interest rate stated in the derivative instrument and the interest rate upon which the underlying hedged transaction is based, totaled $.01 million for the six months ended July 31, 2002, and $(0.1) million for the six months ended July 31, 2003, and is reflected in "Interest Expense" in the consolidated statement of operations. Ineffectiveness for the six months ended July 31, 2003 includes $0.2 million related to discontinued hedge accounting.

5. Letters of Credit

The Company had outstanding at January 31, 2003 and July 31, 2003 unsecured letters of credit aggregating $10.5 million and $10.7 million, respectively, that secure a portion of the asset-backed securitization program and the deductible under the Company's insurance program. The maximum potential amount of future payments under these letters of credit is considered to be the face amount of the letter of credit. As part of the asset-backed

CONN APPLIANCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(continued)

(Unaudited)

securitization program, the Company arranged for the issuance of a stand-by letter of credit in the amount of $10.0 million to provide assurance to the trustee that monthly funds collected by the Company would be remitted as required under the base indenture and other related documents. The letter of credit has a term of one year and expires in September 2003, at which time the Company expects to renew such obligation. The Company also has an obligation to provide additional letters of credit under its insurance program in amounts considered sufficient by the carrier to cover expected losses of claims that remain open after the expiration of the initial policy coverage period. The letter of credit is callable, at the option of the insurance company, if the Company does not honor its requirement to fund deductible amounts as billed.

6. Stock Preference

As part of the Company's recapitalization and reorganization that took place in 1998, a total of 213,720 shares of preferred stock were issued in exchange for existing common stock of the Company; such shares were valued as of the date of the transaction at $87.18 per share and bear a cumulative dividend of 10% that is not payable until declared by the Company's board of directors. Such cumulative dividends must be paid before dividends on the common stock can be distributed. At July 31, 2003, there were $9.4 million ($53.89 per share) of accumulated dividends that had not been declared as payable by the Company's board of directors. In September 2003, the board of directors declared a preferred stock dividend as of November 30, 2003 of $10.2 million ($58.37 per share) contingent upon the completion of a proposed initial public offering.

7. Contingencies

In December 2002, Martin E. Smith, as named plaintiff, filed a lawsuit against the Company in the state district court in Jefferson County, Texas, that attempts to create a class action for breach of contract and violations of state and federal consumer protection laws arising from the terms of the Company's service maintenance agreements. The lawsuit alleges an inappropriate overlap in the product warranty periods provided by the manufacturer and the periods covered by the service maintenance agreements that the Company sells. The lawsuit seeks unspecified actual damages as well as an injunction against the Company's current practices and extension of affected service contracts. The Company believes that the warranty periods covered in its service maintenance agreements are consistent with industry practice. The Company also believes that it is premature to predict whether class action status will be granted or, if granted, the outcome of this litigation. There is not currently a basis on which to estimate a range of potential losses in this matter.

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[Graphic depicting home appliances, consumer electronics and bedding store displays and service and delivery functions]

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4,150,000 Shares

PROSPECTUS

Stephens Inc.
SunTrust Robinson Humphrey

, 2003

Dealer Prospectus Delivery Obligation

Until , 2003 (25 days after the commencement of the offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the estimated costs and expenses, other than underwriting discounts, payable in connection with the sale of common stock being registered, all of which will be paid by the registrant:

	Amount
Registration fee—Securities and Exchange Commission	$ 5,536.00
Filing fee—National Association of Securities Dealers, Inc.	7,343.00
Listing fee—The Nasdaq National Market	5,000.00
Printing and engraving expenses	
Legal fees and expenses	
Accounting fees and expenses	
Blue sky fees and expenses	
Transfer agent and registrar fees and expenses	
Miscellaneous	
Total	$

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law, or the DGCL, provides that a corporation has the power to indemnify its officers, directors, employees and agents (or persons serving in such positions in another entity at the request of the corporation) against expenses, including attorney's fees, judgments, fines or settlement amounts actually and reasonably incurred by them in connection with the defense of any action to which such persons are a party or are threatened to be made a party by reason of being or having been directors or officers, if such person shall have acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation (and, with respect to any criminal action, had no reasonable cause to believe the person's conduct was unlawful), except that if such action shall be by or in the right of the corporation, no such indemnification shall be provided as to any claim, issue or matter as to which such person shall have been judged to have been liable to the corporation unless and to the extent that the Court of Chancery of the State of Delaware, or another court in which the suit was brought, shall determine upon application that, in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnification. The registrant's certificate of incorporation provides that the registrant will indemnify its officers and directors to the fullest extent permitted by Delaware law.

As permitted by Section 102 of the DGCL, the registrant's certificate of incorporation provides that no director shall be liable to the registrant or its stockholders for monetary damages for any breach of fiduciary duty as a director other than (1) for breaches of the director's duty of loyalty to the registrant or its stockholders; (2) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (3) for the unlawful payment of dividends or unlawful stock purchases or redemption under Section 174 of the DGCL; or (4) for any transaction from which the director derived an improper personal benefit.

The underwriting agreement provides that the underwriters are obligated to indemnify directors, officers and controlling persons of the registrant against certain liabilities, including liabilities under the Securities Act. Reference is made to the form of underwriting agreement filed as Exhibit 1 of this registration statement.

The registrant maintains directors and officer's liability insurance for the benefit of its directors and certain of its officers and intends to enter into indemnification agreements (in the form filed as Exhibit 10.16 of this registration statement) for the benefit of its directors and executive officers.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

The shareholders of Conn Texas voted to approve the merger of Conn Texas with a wholly owned subsidiary of the registrant at a special meeting of shareholders held on February 7, 2003. The merger will be effective upon the consummation of the offering contemplated by this registration statement. Holders of Conn Texas common stock, $0.01 par value per share, will receive one share of the registrant's common stock for each share of Conn Texas common stock held. Holders of Conn Texas preferred stock, $0.01 par value per share, will receive one share of the registrant's preferred stock, $0.01 per share, for each share of Conn Texas preferred stock held. The preferred stock issued in the merger will be redeemed on a mandatory basis for cash or shares of the registrant's common stock at the option of the stockholder. The conversion ratio into common stock is calculated by dividing the liquidation value (including accrued and unpaid dividends) of the Conn Texas preferred stock by the offering price per share of the registrant's common stock sold in the offering contemplated by this registration statement.

The offering and sale of securities effected by the merger are exempt under Section 4(2) of the Securities Act and Rule 506 thereunder. The offering was limited to the shareholders of Conn Texas, who consist of persons that qualify as accredited investors and fewer than 35 other persons. Non-accredited offerees were represented by a "purchaser representative" as defined in Rule 501(h) under the Securities Act. The registrant complied with all of the applicable requirements of Rules 501 and 502.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

See exhibits listed on the Exhibit Index following the signature page of this registration statement, which is incorporated herein by reference.

(b) Financial Statement Schedules

Schedule II—Valuation and Qualifying Accounts.

ITEM 17. UNDERTAKINGS

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification by the registrant for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions referenced in Item 14 of this registration statement or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by a director, officer or controlling person in connection with the securities being registered hereunder, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act, and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Schedule II-Valuation and Qualifying Accounts
Conn Appliances, Inc.

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Year ended July 31, 2000					
Reserves and allowances from asset accounts:					
Allowance for doubtful accounts	$ 107	$ 793		$ (750)[1]	$ 150
Year ended July 31, 2001					
Reserves and allowances from asset accounts:					
Allowance for doubtful accounts	150	1,734		(1,734)[1]	150
Six months ended January 31, 2002					
Reserves and allowances from asset accounts:					
Allowance for doubtful accounts	150	1,286		(1,319)[1]	117
Year ended January 31, 2003					
Reserves and allowances from asset accounts:					
Allowance for doubtful accounts	117	4,125		(4,125)[1]	117
Six months ended July 31, 2003					
Reserves and allowances from asset accounts:					
Allowance for doubtful accounts	117	2,188		(2,188)[1]	117

(1) Uncollectible accounts written off, net of recoveries

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Beaumont, State of Texas, on the 29th day of October, 2003.

CONN'S, INC.

By: /s/ Thomas J. Frank, Sr.

Thomas J. Frank, Sr.,
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated below.

Signature	Title	Date
/s/ Thomas J. Frank, Sr. Thomas J. Frank, Sr.	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	October 29, 2003
/s/ C. William Frank C. William Frank	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	October 29, 2003
* Marvin D. Brailsford	Director	
* Jon E.M. Jacoby	Director	
* Bob L. Martin	Director	
* Douglas H. Martin	Director	
* William T. Trawick	Director	
* Theodore M. Wright	Director	

*By: /s/ C. William Frank

C. William Frank
Attorney-in-Fact

EXHIBIT INDEX

Exhibit Number	Description
1	Form of Underwriting Agreement
+2	Agreement and Plan of Merger dated January 15, 2003, by and among Conn's, Inc., Conn Appliances, Inc. and Conn's Merger Sub, Inc.
+3.1	Certificate of Incorporation of Conn's, Inc.
+3.2	Bylaws of Conn's, Inc.
4.1	Specimen of certificate for shares of Conn's, Inc.'s common stock
5.1	Opinion of Winstead Sechrest & Minick P.C.
+10.1	Amended and Restated 2003 Incentive Stock Option Plan
+10.2	2003 Non-Employee Director Stock Option Plan
+10.3	Employee Stock Purchase Plan
+10.4	Conn's 401(k) Retirement Savings Plan
+10.5	Shopping Center Lease Agreement dated May 3, 2000, by and between Beaumont Development Group, L.P., f/k/a Fiesta Mart, Inc., as Lessor, and CAI, L.P., as Lessee, for the property located at 3295 College Street, Suite A, Beaumont, Texas
+10.5.1	First Amendment to Shopping Center Lease Agreement dated September 11, 2001, by and among Beaumont Development Group, L.P., f/k/a Fiesta Mart, Inc., as Lessor, and CAI, L.P., as Lessee, for the property located at 3295 College Street, Suite A, Beaumont, Texas
+10.6	Industrial Real Estate Lease dated June 16, 2000, by and between American National Insurance Company, as Lessor, and CAI, L.P., as Lessee, for the property located at 8550-A Market Street, Houston, Texas
+10.7	Lease Agreement dated December 5, 2000, by and between Prologis Development Services, Inc., f/k/a The Northwestern Mutual Life Insurance Company, as Lessor, and CAI, L.P., as Lessee, for the property located at 4810 Eisenhauer Road, Suite 240, San Antonio, Texas
+10.7.1	Lease Amendment No. 1 dated November 2, 2001, by and between Prologis Development Services, Inc., f/k/a The Northwestern Mutual Life Insurance Company, as Lessor, and CAI, L.P., as Lessee, for the property located at 4810 Eisenhauer Road, Suite 240, San Antonio, Texas
+10.8	Lease Agreement dated August 18, 2003, by and between Robert K. Thomas, as Lessor, and CAI, L.P., as Lessee, for the property located at 4610-12 McEwen Road, Dallas, Texas
+10.9	Credit Agreement dated April 24, 2003, by and among Conn Appliances, Inc. and the Borrowers thereunder, the Lenders party thereto, JPMorgan Chase Bank, as Administrative Agent, Bank of America, N.A., as Syndication Agent, and SunTrust Bank, as Documentation Agent
+10.10	Receivables Purchase Agreement dated September 1, 2002, by and among Conn Funding II, L.P., as Purchaser, Conn Appliances, Inc. and CAI, L.P., collectively as Originator and Seller, and Conn Funding I, L.P., as Initial Seller
+10.11	Base Indenture dated September 1, 2002, by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank Minnesota, National Association, as Trustee
+10.12	Series 2002-A Supplement to Base Indenture dated September 1, 2002, by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank Minnesota, National Association, as Trustee

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Exhibit Number	Description
+10.13	Series 2002-B Supplement to Base Indenture dated September 1, 2002, by and between Conn Funding II, L.P., as Issuer, and Wells Fargo Bank Minnesota, National Association, as Trustee
+10.14	Servicing Agreement dated September 1, 2002, by and among Conn Funding II, L.P., as Issuer, CAI, L.P., as Servicer, and Wells Fargo Bank Minnesota, National Association, as Trustee
10.15	Form of Executive Employment Agreement
+10.16	Form of Indemnification Agreement
+21	Subsidiaries of Conn's, Inc.
23.1	Consent of Ernst & Young LLP
23.2	Consent of Winstead Sechrest & Minick P.C. (included in Exhibit 5.1)
+24	Power of Attorney

\+ Previously filed.

Exhibit 1

Alston & Bird LLP
Draft dated 10/28/03

Conn's, Inc.

[__________] SHARES*
Common Stock

($0.01 par value)

UNDERWRITING AGREEMENT

___________, 2003

Stephens Inc.
SunTrust Capital Markets, Inc.
As Representatives of the several
Underwriters named in Schedule I hereto.
c/o Stephens Inc.
111 Center Street
Little Rock, Arkansas 72201

Ladies and Gentlemen:

Conn's, Inc., a Delaware corporation (the "Company"), and Thomas J. Frank, Sr., as the selling stockholder (the "Selling Stockholder"), severally and not jointly confirm their agreement with the several underwriters (the "Underwriters") for whom you are acting as representatives (the "Representatives") as follows:

The Company proposes to issue and sell [_________] shares of its authorized and unissued common stock, par value $0.01 per share, (the "Company Shares"), and the Selling Stockholder proposes to sell [________] shares of the issued and outstanding common stock of the Company (the "Selling Stockholder Shares"), to the Underwriters. The Company Shares and the Selling Stockholder Shares are hereinafter collectively referred to as the "Underwritten Shares." The Company's common stock is more fully described in the Registration Statement and the Prospectus hereinafter mentioned. For the sole purpose of covering over-allotments in connection with the sale of the Underwritten Shares, the Company grants to the Underwriters an option (the "Option") to purchase all or any part of an additional [__________] shares of the Company's common stock from the Company (the "Option Shares"). The Underwritten Shares and the Option Shares purchased pursuant to this Underwriting Agreement (this "Agreement") are herein called the "Shares," and the proposed offering of the Shares by the Underwriters is hereinafter referred to as the "Public Offering."

As part of the Public Offering, the Underwriters have agreed to reserve out of the Underwritten Shares up to [_________] shares for sale to the Company's directors,

- -------------
* Plus up to [____________] additional shares of common stock to cover over-allotments.

officers, employees and other parties associated with the Company (collectively, "Participants"), as part of the distribution of the Shares by the Underwriters (the "Directed Share Program"), subject to the terms of this Agreement and applicable laws, rules and regulations. Stephens Inc. ("Stephens") will process all sales to Participants under the Directed Share Program. The Underwritten Shares to be sold by the Underwriters pursuant to the Directed Share Program (the "Directed Shares") will be sold by the Underwriters pursuant to this Agreement at the public offering price. Any Directed Shares not subscribed for by the end of the business day on which this Agreement is executed will be offered to the public by the Underwriters as part of the Public Offering contemplated hereby.

The Company has filed with the Securities and Exchange Commission (the "Commission"), pursuant to the Securities Act of 1933, as amended (the "Act"), and published rules and regulations adopted by the Commission under the Act (the "Rules"), a registration statement on Form S-1 (the "Form S-1") (File No. 333-109046), including a form of prospectus, relating to the Shares, and such amendments to the Form S-1 as may have been filed with the Commission prior to the date of this Agreement. The Company has furnished to the Representatives copies of the Form S-1, each amendment to it filed by the Company with the Commission, and each Preliminary Prospectus (as defined herein) filed by the Company with the Commission. The Form S-1, as amended, at the time it was declared effective (the "Effective Date"), including all financial statement schedules and exhibits thereto and any information deemed to be included in the Prospectus (as defined herein) by Rule 430A under the Act, is called the "Registration Statement." The term "Preliminary Prospectus" means any (i) prospectus subject to completion included at any time as a part of the Form S-1 or any amendment or post-effective amendment thereto that was delivered by the Company or the Underwriters to potential investors in the Public Offering, and (ii) prospectus subject to completion, if any, included in the Registration Statement at the Effective Date); and the term "Prospectus" means the prospectus in the form first used by the Underwriters to confirm sales of the Shares. If the Company has filed or is required pursuant to the terms hereof to file an amendment to the Registration Statement pursuant to Rule 462(b) under the Act registering additional shares of the Company's common stock (a "Rule 462(b) Registration Statement"), such Rule 462(b) Registration Statement will become effective no later than 10:00 p.m., eastern time, on the date of this Agreement. Unless otherwise specified, any reference herein to the term "Registration Statement" shall be deemed to include such Rule 462(b) Registration Statement.

As the Representatives, you have advised the Company and the Selling Stockholder that (a) you are authorized to enter into this Agreement on behalf of the several Underwriters and (b) the Underwriters are willing, acting severally and not jointly, to purchase the amounts of the Underwritten Shares set forth opposite their respective names on Schedule I hereto, plus their pro rata portion of the Option Shares if the Representatives elect to exercise the over-allotment Option in whole or in part for the accounts of the several Underwriters.

As used in this Agreement, the "Company" means Conn's, Inc. or Conn Appliances, Inc., as applicable. As used in this Agreement, references to the "Company's knowledge," to the "knowledge of the Company" or other similar language means and

refers to those facts that are actually known or should have been known after reasonable inquiry by any of David R. Atnip, Walter M. Broussard, Thomas J. Frank, Sr., C. William Frank, Robert B. Lee, Jr., William C. Nylin, Jr. or David W. Trahan.

In consideration of the mutual agreements contained herein and of the interests of the parties in the transactions contemplated hereby, the Company, the Selling Stockholder and the Underwriters hereby agree as follows:

1. Representations, Warranties and Agreements.

(a) The Company represents and warrants to, and agrees with, each Underwriter as follows:

(i) Each of Conn's Inc. and Conn Appliances, Inc. has been duly incorporated and organized and is validly existing as a corporation in good standing under the laws of Delaware and Texas, respectively, with full power and authority (corporate and other) to own, lease and operate its properties and conduct its business as described in the Prospectus. Each subsidiary of the Company (each a "Subsidiary" and collectively the "Subsidiaries") has been duly incorporated and organized and is validly existing as a corporation, limited liability company or limited partnership, in good standing under the laws of the jurisdiction of its organization, with full power and authority (corporate and other) to own, lease and operate its properties and conduct its business as described in the Prospectus. Each of the Company and the Subsidiaries is duly qualified to transact business as a foreign corporation in good standing in all other jurisdictions in which the ownership or lease of their properties requires such qualifications. All of the issued and outstanding capital stock or other equity interest of each Subsidiary has been duly authorized and validly issued and is fully paid and non-assessable. Except as disclosed in the Prospectus, the Company owns all of the outstanding capital stock of its Subsidiaries free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest. The Company does not own or control, directly or indirectly, any corporation or other entity other than the subsidiaries listed in Exhibit 21 to the Registration Statement.

(ii) The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus under the caption "Capitalization" (other than for subsequent issuances, if any, pursuant to employee benefit plans described in the Prospectus). The common stock of the Company (including the Shares) conforms in all material respects to the description thereof contained in the Prospectus. All of the issued and outstanding shares of common stock of the Company have been duly authorized and are validly issued, fully paid and nonassessable. None of the issued and outstanding shares of common stock of the Company were issued in violation of any preemptive rights, rights of first refusal or other similar rights to subscribe for or purchase securities of the Company. There are no authorized or outstanding options, warrants, preemptive rights, rights of first refusal or other rights to purchase, or equity or debt securities convertible into or exchangeable or exercisable for, any capital stock of the Company or any of its subsidiaries other than (A) those accurately described in the Prospectus or

(B) the put options that will terminate immediately following the consummation of the Public Offering. The description of the Company's stock option, stock bonus and other stock plans or arrangements, and the options or other rights granted thereunder, set forth in the Prospectus accurately and fairly presents the information required to be shown with respect to such plans, arrangements, options and rights.

(iii) The Company Shares and the Option Shares are duly authorized and, when issued and paid for as contemplated herein, will be validly issued and fully paid and non-assessable and will conform to the description thereof in the Prospectus.

(iv) Except as disclosed in the Prospectus, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Act with respect to any equity or debt securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statement or in any securities being registered pursuant to any other registration statement filed by the Company under the Act. Neither the filing of the Registration Statement nor the offering or sale of the Shares as contemplated by this Agreement gives rise to any rights for or relating to the registration of any securities of the Company.

(v) Any Preliminary Prospectus, the Prospectus and the Registration Statement, when filed, complied in all material respects as to form with the requirements of the Act and the Rules, including those of Form S-1. The Registration Statement and any Rule 462(b) Registration Statement have been declared effective by the Commission under the Act. To the knowledge of the Company, the Company has complied to the Commission's satisfaction with all requests of the Commission for additional information. Neither the Commission nor any other agency, body, authority, court or arbitrator of competent jurisdiction has, by order or otherwise, prohibited or suspended the use of any Preliminary Prospectus or the Prospectus relating to the Public Offering of the Shares or instituted or, to the Company's knowledge, threatened proceedings for that purpose. No stop order suspending the effectiveness of the Registration Statement or any part thereof has been issued and no proceeding for that purpose has been instituted or, to the Company's knowledge, threatened or is contemplated by the Commission or the securities authority of any state or other jurisdiction.

(vi) When any Preliminary Prospectus was filed with the Commission it did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Registration Statement and each amendment thereto, and the Prospectus and each supplement thereto, as of its date and while effective or during the period in which the Prospectus is required to be delivered, (A) contained or will contain all statements required to be stated therein in accordance with, and complied or will comply in all material respects with the requirements of, the Act and the Rules and (B) did

not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; if the Company is required to file a Rule 462(b) Registration Statement after the effectiveness of this Agreement, such Rule 462(b) Registration Statement or any amendment thereto, if applicable, when it becomes effective and while it is effective, (X) will contain all statements required to be stated therein in accordance with, and will comply in all material respects with the requirements of, the Act and the Rules and (Y) will not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading. The Company does not make any of the foregoing representations or warranties as to information contained in or omitted from the Registration Statement or the Prospectus, or any such amendment or supplement, in reliance upon, and in conformity with, written information furnished to the Company by or on behalf of any Underwriter through the Representatives, expressly for use in the preparation thereof as hereinafter set forth in Section 12. The statistical and market-related data included in the Prospectus are based on or derived from independent sources which the Company believes to be reliable and accurate in all material respects or represent the Company's good faith estimates that are made on the basis of data derived from such sources.

(vii) The consolidated financial statements of the Company and the Subsidiaries, together with related notes and schedules, as set forth in the Registration Statement, the Prospectus or any Preliminary Prospectus present fairly the consolidated financial position, the results of operations and cash flows of the Company and the Subsidiaries, on a consolidated basis, as of the indicated dates and for the indicated periods. Such financial statements comply as to form in all material respects with the Rules with respect thereto and have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"), consistently applied throughout the periods involved, and all adjustments necessary for a fair presentation of results for such periods have been made; any schedules included in the Registration Statement present fairly the information required to be stated therein. No other financial statements or supporting schedules are required to be included in the Registration Statement. Except (A) as disclosed in the Prospectus, (B) as reflected in the Company's unaudited balance sheet at July 31, 2003 or liabilities described in any notes thereto (or liabilities for which neither accrual nor footnote disclosure is required pursuant to GAAP) or (C) for liabilities incurred in the ordinary course of business since July 31, 2003 consistent with past practice, neither the Company nor any Subsidiary has any material liabilities or obligations of any nature. Except as set forth in the Prospectus, neither the Company nor any Subsidiary has engaged in or effected any transaction or arrangement that would constitute an "off-balance sheet arrangement" (as defined in Item 303 of Regulation S-K of the Commission). The financial information included in the Prospectus included under the captions "Summary--Summary Consolidated Financial Data", "Capitalization," "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business--Products and Merchandising" and "Business--Finance Operations"

(and any amendment or supplement thereto) present fairly in accordance with GAAP the information shown therein and have been compiled on a basis consistent with that of the audited and unaudited financial statements from which they were derived.

(viii) Except as disclosed in the Prospectus, there is no action, litigation, arbitration, claim, proceeding (formal or informal) or investigation pending, threatened or any basis therefor or, to the knowledge of the Company, contemplated against the Company, any Subsidiary or any of their respective officers or of which any of their properties, assets or rights are the subject before any court, regulatory authority or other governmental body which (A) if determined adversely to the Company or such Subsidiary could reasonably be expected to (1) result in any material adverse change in the financial position, or in the business, affairs, properties, business prospects or results of operations of the Company and its Subsidiaries taken as a whole (a "Material Adverse Change" or "Material Adverse Effect," as the case may be), whether or not arising in the ordinary course of business or (2) adversely affect the performance of this Agreement or the consummation of the transactions herein contemplated or (B) is required to be disclosed in the Prospectus.

(ix) Since the date of the most recent audited financial statements included in the Registration Statement and the Prospectus, neither the Company nor any Subsidiary has sustained any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as disclosed in or contemplated by the Prospectus.

(x) Except as disclosed in the Prospectus, neither the Company nor any Subsidiary is in violation of or in default with respect to any law, ordinance, governmental rule or regulation, or court order, judgment or decree to which they may be subject, except for violations or defaults which could not reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect.

(xi) The Company and its Subsidiaries have (A) good and marketable title to all of the real properties and (B) valid title to all other assets reflected in the consolidated financial statements described Section 1(a)(vii) of this Agreement or as described in the Prospectus as being owned by them, in each case subject to no lien, mortgage, pledge, security interest or encumbrance of any kind except those that would not materially affect the value thereof or materially interfere with the use made or to be made thereof by them and described in the Prospectus. The Company and its Subsidiaries occupy or hold their leased properties under valid, subsisting and binding leases with no exceptions that would materially interfere with the use made or to be made thereof by them. There exists no default by the Company, or to the Company's knowledge, any other party, under the provisions of any lease, contract or other obligation relating to its properties and to which the Company or its Subsidiaries are a party, which could reasonably be expected to result in a Material Adverse Effect.

(xii) The Company and its Subsidiaries have filed all federal, state and

local income, franchise tax, sales tax and other tax returns and reports which are required to be filed by them and have paid all taxes (including, without limitation, withholding taxes) shown as due by said returns and all other taxes, assessments and governmental charges (including, without limitation, all penalties and interest) that are due, and there is no tax deficiency that has been or, to the Company's knowledge, might be asserted against the Company or any Subsidiary. All material tax liabilities are adequately provided for on the financial statements of the Company and its Subsidiaries.

(xiii) Since the respective dates as of which information is given in the Registration Statement and the Prospectus, as they may be amended or supplemented, and except as set forth in the Prospectus, (A) there has not been any Material Adverse Change nor any development or event that could reasonably be expected to result in a Material Adverse Change, (B) there has not been any transaction entered into by the Company or its Subsidiaries that is material to the business, affairs, properties, business prospects or results of operations of the Company and its Subsidiaries taken as a whole, (C) other than changes in the amounts outstanding under the Company's and its Subsidiaries' revolving credit facilities, there has not been any change in the capital stock, long-term debt or material liabilities of the Company or its Subsidiaries, and (D) there has not been any dividend or distribution of any kind declared, paid or made on the capital stock of the Company or any Subsidiary or any repurchase or redemption of any class of capital stock by the Company or any Subsidiary.

(xiv) The filing of the Registration Statement and the Prospectus have been duly authorized by the Board of Directors of the Company; this Agreement has been duly authorized, executed and delivered and constitutes a valid and binding obligation of the Company enforceable in accordance with its terms except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other laws affecting creditors' rights generally and by general principles of equity and federal and state securities laws. Neither the Company nor any Subsidiary is in violation of its charter or bylaws or in breach or violation of or default under any indenture, mortgage, deed of trust, lease, contract, note or other agreement or instrument to which it is a party or by which it or any of its properties is bound and which breach, violation or default could reasonably be expected to result in a Material Adverse Effect. The execution, delivery and performance of this Agreement and the issuance and sale of the Shares will not (A) conflict with, or (with or without the giving of notice or the passage of time or both) result in a breach or violation of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien upon any property or assets of the Company pursuant to, any indenture, mortgage, deed of trust, lease, contract, note or other agreement or instrument to which the Company or any Subsidiary is a party or by which any of their properties are bound which could reasonably be expected to have a Material Adverse Effect, (B) conflict with or violate any provision of the Company's or any Subsidiary's charter or bylaws or (C) conflict with or violate any constitution, law, decree, order, rule, writ, injunction or regulation of any court, regulatory authority or other governmental body having jurisdiction over the Company, the Subsidiaries or any of their properties.

(xv) No approval, consent, order, authorization, designation, declaration or filing by or with any regulatory authority or other governmental body is required in connection with the sale of the Shares and the execution and delivery by the Company of this Agreement and the performance of its obligations hereunder except as such have been obtained or made and are in full force and effect and except for such additional steps as may be necessary to qualify the Shares for public offering by the Underwriters under Blue Sky laws, and filing the Prospectus under Rule 424(b).

(xvi) Each of the Company and each Subsidiary holds all licenses, authorizations, charters, certificates and permits (each, an "Authorization") of, and has made all filings with and notices to regulatory authorities or governmental bodies which are necessary to own their properties and conduct their businesses, except for failures to hold any Authorization that could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect. Each such Authorization is valid and in full force and effect, and the Company is in compliance, in all material respects, with all the terms and conditions thereof and with the applicable rules and regulations of the regulatory authorities and governmental bodies having jurisdiction with respect thereto, except any such noncompliance that could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect, and no event has occurred (including, without limitation, the receipt of any notice from any regulatory authority or governmental body) which allows or, after notice or lapse of time or both, would allow revocation, suspension or termination of any such Authorization or results or, after notice or lapse of time or both, would result in any other impairment of the rights under any such Authorization, except such revocations, suspensions, terminations or impairments that could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect on the Company and the Subsidiaries taken as a whole; and no such Authorization contains any restriction that is materially burdensome to the Company.

(xvii) Except as otherwise set forth in the Prospectus, the Company and its Subsidiaries own or otherwise possess rights to use the patents, patent rights, licenses, inventions, copyrights, trademarks, service marks and trade names presently employed by them in connection with the businesses now operated by them as described in the Prospectus, and the expected expiration of any of the foregoing could not reasonably be expected to result in a Material Adverse Change. Neither the Company nor any Subsidiary has infringed, is infringing or received any notice of infringements of or conflict with asserted rights of others with respect to any of the foregoing which could reasonably be expected to have a Material Adverse Effect.

(xviii) To the Company's knowledge, Ernst & Young LLP ("Ernst & Young"), independent auditors, who have certified certain of the financial statements of the Company and its Subsidiaries contained in the Prospectus and Registration Statement, are and were during the periods covered by their reports included in the Registration Statement and the Prospectus independent public

accountants within the meaning of the Act, the Rules and Regulation S-X of the Commission and Rule 101 of the Code of Professional Ethics of the American Institute of Certified Public Accountants. Ernst & Young (A) based solely on representations made by Ernst & Young, to the Company's knowledge, is a registered public accounting firm (as defined in Section 2(a)(12) of the Sarbanes-Oxley Act of 2002 ("SOX")) and (B) is, with respect to the Company, in compliance with subsections (g) through (l) of Section 10A of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(xix) There are no (A) agreements, contracts or other documents of a character required to be described in the Registration Statement or the Prospectus or required to be filed as exhibits to the Registration Statement which are not described or filed as required, (B) laws, orders, judgments, decrees, rules or regulations that are required to be described in the Registration Statement or the Prospectus and are not so described as required, (C) pending or threatened legal or governmental proceedings that are required to be described in the Registration Statement or the Prospectus and are not so described as required, or (D) outstanding loans, advances, guarantees of indebtedness or other transactions or relationships, direct or indirect, between or among the Company or its Subsidiaries or affiliates, on the one hand, and the directors, officers or stockholders of the Company or its Subsidiaries or affiliates on the other hand, that are required to be described in the Registration Statement or the Prospectus and are not so described as required; and all descriptions thereof in the Registration Statement (including the statements under Items 14 and 15 of Part II of the Registration Statement) and the Prospectus are fair summaries thereof and fairly present the information required to be disclosed with respect thereto under the Act.

(xx) No labor dispute is pending or, to the knowledge of the Company, threatened by the Company's or any Subsidiary's employees, or to the Company's knowledge, by the employees of any principal supplier of the Company, which could reasonably be expected to result in a Material Adverse Effect. No collective bargaining agreement exists or is contemplated with any of the Company's or any Subsidiary's employees.

(xxi) All offers and sales of the Company's capital stock prior to the date hereof were at all relevant times, and all planned offers and sales of the Company's capital stock described in the Registration Statement and the Prospectus under the caption "Certain Relationships and Related Transactions--Redemption of our Preferred Stock" were or will be, exempt from the registration requirements of the Act and were or will be the subject of an available exemption from the registration requirements of the applicable Blue Sky laws.

(xxii) Neither the Company nor any of its officers, directors or affiliates has (A) distributed any offering materials in connection with the offering and sale of the Shares other than a Preliminary Prospectus, the Prospectus or the Registration Statement, (B) issued any press releases or other communications, directly or indirectly or held any press conferences with respect to (1) since July 31, 2003, the Company, its financial condition or results of operations, except

with the approval of the Representatives, or (2) the Public Offering, (C) except with the approval of the Representatives, taken, directly or indirectly, any action designed to cause or result in, or that has constituted or might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares or (D) except to the Underwriters pursuant to this Agreement, since the filing of the Registration Statement (1) sold, bid for, purchased or paid anyone any compensation for soliciting purchases of, the Shares or (2) paid or agreed to pay to any person any compensation for soliciting another to purchase any other securities of the Company.

(xxiii) Without limiting the generality of any of the foregoing representations (A) none of the operations of the Company or its Subsidiaries is in violation of any federal, state or local statute, rule, regulation, decision or order of any regulatory authority or governmental body or any court relating to the use, disposal or release of hazardous or toxic substances or relating to the protection of human health and safety or the protection or restoration of the environment or human exposure to hazardous or toxic substances or wastes, pollutants or contaminants (collectively, "environmental laws"); (B) neither the Company nor any Subsidiary has been notified that it is under investigation or under review by any regulatory authority or governmental body with respect to compliance with any environmental law; (C) neither the Company nor any Subsidiary has any material liability in connection with the past generation, use, treatment, storage, disposal or release of any hazardous material; (D) there is no hazardous material that may reasonably be expected to pose any material risk to safety, health, or the environment, on, under or about any property owned, leased or operated by the Company or any Subsidiary or, to the knowledge of the Company, any property adjacent to any such property; and (E) there has heretofore been no release of any hazardous material on, under or about such property, or, to the knowledge of the Company, any such adjacent property. None of the currently owned real property or, to the knowledge of the Company, currently leased or previously owned real property of the Company or any Subsidiary is listed or proposed for listing on the National Priorities List pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or on the Comprehensive Environmental Response Compensation Liability Information System List or any similar state list of sites requiring remedial action. To the knowledge of the Company, neither the Company nor any Subsidiary is subject to any state environmental property transfer act. The Company has reasonably concluded that any environmental liabilities could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Change.

(xxiv) The Company and its Subsidiaries maintain insurance of the types and in the amounts customary for the businesses in which they are engaged, including, but not limited to, insurance covering liability and real and personal property owned or leased by the Company against theft, damage, destruction, acts of vandalism and all other risks customarily insured against, all of which insurance is in full force and effect and issued by insurers of recognized financial responsibility; and neither the Company nor any Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and

when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a comparable cost, except as disclosed in the Prospectus.

(xxv) Other than as contemplated by this Agreement, including, without limitation Sections 2 and 8, there are no contracts, agreements or understandings between the Company and any person that would give rise to a valid claim against the Company or any Underwriter for a brokerage commission, finder's fee or other like payment in connection with the offering and sale of the Shares.

(xxvi) The Company is not and, after giving effect to the offering and sale of the Shares and the application of the proceeds thereof as described in the Prospectus, will not be an "investment company" or a company "controlled by" an "investment company" as defined in the Investment Company Act of 1940, as amended (the "Investment Company Act"); provided the Company makes no representation that Stephens is not an "investment company" or controlled by an "investment company."

(xxvii) (A) the Registration Statement, the Prospectus and any Preliminary Prospectus comply, and any further amendments or supplements thereto will comply, with any applicable laws or regulations of foreign jurisdictions in which the Prospectus or any Preliminary Prospectus, as amended or supplemented, if applicable, are distributed in connection with the Directed Share Program, and (B) no authorization, approval, consent, license, order, registration or qualification of or with any regulatory authority or governmental body or court, other than such as have been obtained, is necessary under the securities laws and regulations of foreign jurisdictions in which the Directed Shares are offered outside the United States. The Company has not offered, or caused the Underwriters to offer, any Shares to any person pursuant to the Directed Share Program with the specific intent to unlawfully influence (X) a customer or supplier of the Company to alter the customer's or supplier's level or type of business with the Company of (Y) a trade journalist or publication to write or publish favorable information about the Company or its products.

(xxviii) The Shares have been approved for listing on the Nasdaq National Market, subject only to official notice of issuance.

(xxix) The Company maintains systems of internal accounting and disclosure controls and procedures sufficient to provide reasonable assurances that (A) transactions are executed in accordance with management's general or specific authorization; (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (C) access to assets is permitted only in accordance with management's general or specific authorization; (D) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (E) accounts, notes and other receivables and inventory are recorded accurately, and proper and adequate procedures are implemented to effect the collection thereof on a current and timely basis. The Company has complied with such systems of internal

accounting and disclosure controls and procedures in all material respects and has not received a notification or other communication from any accountants, independent auditors or other consultants challenging the adequacy or requesting modification of such systems. Such systems of internal accounting and disclosure controls and procedures (X) are sufficient to ensure that information required to be disclosed by the Company in the reports that it will file and submit to the Commission under the Exchange Act is accumulated, recorded, processed, communicated to the Company's principal executive officer and principal financial officer, summarized and reported within the time periods specified in the Commission's rules and forms, (Y) contain no deficiencies in the design or operation of such controls and procedures which could materially adversely affect the Company's ability to so accumulate, record, process, communicate, summarize and report financial and other relevant information and (Z) are sufficient to satisfy Section 302 of SOX and related rules promulgated thereunder.

(xxx) The Company and its Subsidiaries and any "employee benefit plan" (as defined under the Employee Retirement Income Security Act of 1974, as amended, and the regulations and published interpretations thereunder (collectively, "ERISA")) established or maintained by the Company, its Subsidiaries or their "ERISA Affiliates" (as defined below) are in compliance in all material respects with ERISA. "ERISA Affiliate" means, with respect to the Company or a Subsidiary, any member of any group of organizations described in Sections 414(b), (c), (m) or (o) of the Internal Revenue Code of 1986, as amended, and the regulations and published interpretations thereunder (the "Code") of which the Company or such Subsidiary is a member. No "reportable event" (as defined under ERISA) has occurred or is reasonably expected to occur with respect to any "employee benefit plan" established or maintained by the Company, its Subsidiaries or any of their ERISA Affiliates. No "employee benefit plan" established or maintained by the Company, its Subsidiaries or any of their ERISA Affiliates, if such "employee benefit plan" were terminated, would have any "amount of unfunded benefit liabilities" (as defined under ERISA). Neither the Company, its Subsidiaries nor any of their ERISA Affiliates has incurred or reasonably expects to incur any liability under (A) Title IV of ERISA with respect to termination of, or withdrawal from, any "employee benefit plan" or (B) Sections 412, 4971, 4975 or 4980B of the Code. Each "employee benefit plan" established or maintained by the Company, its Subsidiaries or any of their ERISA Affiliates that is intended to be qualified under Section 401(a) of the Code is so qualified and nothing has occurred, whether by action or failure to act, which would cause the loss of such qualification.

(xxxi) Except as disclosed in the Prospectus, the Company has not, since September 23, 2003, extended or maintained credit, arranged for the extension of credit, or renewed an extension of credit, in the form of a personal loan to or for any director or executive officer of the Company; and any such credit that was outstanding on September 23, 2003 or that is currently outstanding was in place on or before July 30, 2002, and there has been no material modification to any term of such credit or any renewal of such credit on or after July 30, 2002.

(b) The Selling Stockholder represents and warrants, and agrees with, each Underwriter as follows:

(i) Each of this Agreement and the Custody Agreement signed by the Selling Stockholder and EquiServe Trust Company, N.A., as custodian (the "Custodian"), relating to the deposit of the Shares to be sold by the Selling Stockholder (the "Custody Agreement") has been duly executed and delivered by the Selling Stockholder and is a valid and binding obligation of the Selling Stockholder, enforceable in accordance with its terms, except as rights to indemnification hereunder and thereunder may be limited by applicable law and except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other laws affecting creditors' rights generally and by general principles of equity.

(ii) The execution, delivery and performance of this Agreement, the Custody Agreement and the sale of the Shares will not (A) conflict with, or (with or without the giving of notice or the passage of time or both) result in a material breach or violation of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien upon any property or assets of the Selling Stockholder pursuant to, any indenture, mortgage, deed of trust, lease, contract, note or other agreement or instrument to which the Selling Stockholder is a party or by which any of his properties are bound or (B) conflict with or violate any constitution, law, decree, order, rule, writ, injunction or regulation of any court, regulatory authority or other governmental body having jurisdiction over the Selling Stockholder or any of his properties.

(iii) No approval, consent, order, authorization, designation, declaration or filing by or with any regulatory authority or other governmental body is required in connection with the sale of the Shares and the execution and delivery by the Selling Stockholder of this Agreement and the Custody Agreement and the performance of his obligations hereunder and thereunder except as such have been obtained or made and are in full force and effect and except for such additional steps as may be necessary to qualify the Shares for public offering by the Underwriters under Blue Sky laws, and filing the Prospectus under Rule 424(b).

(iv) The Selling Stockholder has and will have on the Closing Date (as such date is hereinafter defined) good and valid title to the portion of the Shares to be sold by the Selling Stockholder, free of any liens, encumbrances, equities and claims, and full right, power and authority to effect the sale and delivery of such Shares; and upon the delivery of and payment for such Shares pursuant to this Agreement, good and valid title thereto, free of any liens, encumbrances, equities and claims, will be transferred to the several Underwriters.

(v) The information contained under the caption "Principal and Selling Stockholders" in the Prospectus and each supplement thereto, as of its date or during the period in which the Prospectus is required to be delivered, insofar as such information relates to the Selling Stockholder, did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be

stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(vi) Other than as contemplated by this Agreement, including, without limitation Sections 2 and 8, there are no contracts, agreements or understandings between the Selling Stockholder and any person that would give rise to a valid claim against the Selling Stockholder or any Underwriter for a brokerage commission, finder's fee or other like payment in connection with the offering and sale of the Selling Stockholder Shares.

(c) Any certificate signed by any officer of the Company or the Selling Stockholder and delivered to the Representatives or counsel for the Underwriters with respect to the Public Offering shall be deemed a representation and warranty by the Company or the Selling Stockholder, as the case may be, to the Underwriters as to the matters covered thereby.

(d) Each of the Company and the Selling Stockholder acknowledges that the Underwriters and, for purposes of the opinions to be delivered pursuant to Section 6 hereof, counsel to the Company and the Selling Stockholder and counsel to the Underwriters, will rely upon the accuracy and truthfulness of the foregoing representations and hereby consents to such reliance.

2. Purchase, Sale and Delivery of the Underwritten Shares. On the basis of the representations, warranties and covenants herein contained, and subject to the terms and conditions herein set forth, the Company and the Selling Stockholder, severally and not jointly, agree to sell to each Underwriter, and each Underwriter agrees, severally and not jointly, to purchase, at a price of $______ per share, the Company Shares and the Selling Stockholder Shares, respectively. The obligation of each Underwriter to the Company and to the Selling Stockholder shall be to purchase from the Company or the Selling Stockholder that number of Company Shares or Selling Stockholder Shares, as the case may be, which, adjusted by the Representatives in such manner as to avoid fractional shares, is in the same proportion to the number of Company Shares or Selling Stockholder Shares as the case may be (subject to adjustment as provided as provided in Section 10 hereof) is to the total number of Underwritten Shares to be purchased by all of the Underwriters under this Agreement.

Payment for the Underwritten Shares shall be made by wire transfer of immediately available Federal (same day) funds to designated accounts of the Company and the Selling Stockholder, against delivery of certificates for the Underwritten Shares to the Representatives for the accounts of the several Underwriters. Delivery of certificates shall be to the Representatives c/o Stephens Inc., 111 Center Street, Little Rock, Arkansas 72201, or at such other address as Stephens may designate in writing. Payment will be made at the offices of Stephens, or at such other place as shall be agreed upon by Stephens and the Company, at approximately 9:00 a.m., eastern time, on __________, 2003, such time and date being herein referred to as the "Closing Date." For purposes of Rule 15c6-1 under the Exchange Act, the Closing Date (if later than the otherwise applicable settlement date) shall be the settlement date for payment of funds and delivery of securities for all of the Underwritten Shares sold pursuant to this Agreement. The certificates for the Underwritten Shares will be delivered in such

denominations and in such registrations as Stephens reasonably requests in writing and will be made available for inspection at such locations as Stephens may request at least one full business day prior to the Closing Date.

In addition, on the basis of the representations, warranties, agreements and covenants herein contained and subject to the terms and conditions herein set forth, the Company hereby grants the Option to the several Underwriters to purchase the Option Shares at the price per share as set forth in the first paragraph of this Section 2. The Option may be exercised in whole or in part from time to time upon written notice (or oral notice, subsequently confirmed in writing) given not more than thirty (30) days following the date of this Agreement, by Stephens, on behalf of the Representatives, to the Company setting forth the number of Option Shares as to which the several Underwriters are exercising the Option and the names and denominations in which the Option Shares are to be registered. The Company agrees to sell to the Underwriters the number of Option Shares, respectively specified in such notice, and the Underwriters agree, severally and not jointly, upon such exercise to purchase such Option Shares. Each closing of the purchase of the Option Shares (each an "Option Closing Date"), if any, shall occur at a time and date determined by Stephens (which may be simultaneous with, but not earlier than, the Closing Date), but not later than five (5) full business days following the date upon which notice of exercise of the Option is given to the Company, and shall take place at the offices of Stephens, or at such other place as shall be agreed upon by Stephens and the Company. Subject to Section 10, the number of Option Shares to be purchased by each Underwriter shall be in the same proportion as the number of shares set forth on Schedule I hereto bears to the total number of Underwritten Shares, adjusted by the Representatives in such manner as to avoid fractional shares. The Option may be exercised only to cover over-allotments in the sale of the Underwritten Shares by the Underwriters. Stephens, on behalf of the Representatives, may cancel such Option at any time prior to its expiration by giving written notice (or oral notice, subsequently confirmed in writing) of such cancellation to the Company. To the extent, if any, that the Option is exercised, on each Option Closing Date payment for the Option Shares shall be made by wire transfer of immediately available Federal (same day) funds to a designated account of the Company. Certificates for the Option Shares shall be delivered on each Option Closing Date in the same manner and upon the same terms as the Underwritten Shares. Time shall be of the essence, and delivery of the Underwritten Shares and the Option Shares at the time and place specified in this Agreement is a further condition to the obligations of the Underwriters.

3. Offering by the Underwriters. It is understood that the Public Offering of the Underwritten Shares is to be made as soon as the Representatives deem it advisable to do so after the Registration Statement has become effective. The Underwritten Shares are to be initially offered to the public at the public offering price and on the other terms and conditions set forth in the Prospectus. To the extent, if at all, that any Option Shares are purchased pursuant to Section 2 hereof, the Underwriters will offer them to the public on the foregoing terms. It is further understood that you will act as the Representatives for the Underwriters in the offering and sale of the Shares, in accordance with an Agreement Among Underwriters which has been entered into by you and the several other Underwriters.

4. Covenants of the Company and the Selling Stockholder. The Company

and the Selling Stockholder (with respect to paragraphs (c), (h) and (m)) severally, and not jointly, covenant and agree with each of the several Underwriters that:

(a) The Company will file the Prospectus with the Commission in the manner and within the time period required by Rule 424(b). The Company will advise the Representatives promptly of any such filing pursuant to Rule 424(b). The Company will not file any amendment or supplement to the Prospectus or any amendment to the Registration Statement unless the Representatives have received a reasonable period of time to review the Prospectus or any such proposed amendment or supplement and consented to the filing thereof, which consent shall not be unreasonably withheld or delayed.

(b) The Company will advise the Representatives promptly of any request of the Commission or other securities regulatory agency ("Other Securities Regulator") for amendment of the Registration Statement or for supplement to the Prospectus or for any additional information, or of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the use of the Prospectus or of the institution of any proceedings for that purpose, or action taken or initiated by any Other Securities Regulator to suspend the qualification of the Shares for offer or sale in any jurisdiction or to remove, suspend or terminate from listing or quotation the Shares from any securities exchange upon which they are listed for trading or included or designated for quotation, and the Company will use commercially reasonable efforts to prevent the issuance of any such stop order preventing or suspending the use of the Prospectus or such qualification, removal, suspension or termination and to obtain as soon as possible the lifting thereof, if issued.

(c) If, during the period necessary to effect the distribution of the Shares, any event shall occur or condition shall exist as a result of which, in the judgment of the Company, the Selling Stockholder or the Representatives or in the opinion of counsel for the Underwriters, it becomes necessary to amend or supplement the Prospectus in order that the Prospectus at the time it is delivered to a purchaser does not contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading or it is otherwise necessary to amend or supplement the Prospectus to comply with law, the Company and the Selling Stockholder will promptly, subject to the Representatives' prior review, prepare and file with the Commission and any appropriate Other Securities Regulator and furnish at its own expense to the Underwriters and to dealers appropriate amendments or supplements to the Prospectus so that the Prospectus as so amended or supplemented will not, in light of the circumstances when it is delivered to a purchaser, be misleading, or so that the Prospectus will comply with applicable law. If required, the Company will file any amendment or supplement to the Prospectus with the Commission in the manner and within the time period required by Rule 424(b). The Company will advise the Representatives, promptly after receiving notice thereof, of the time when any amendment to the Registration Statement, or when any Rule 462(b) Registration Statement or any amendment thereto, has been filed or declared effective or when the Prospectus or any amendment or supplement thereto has been filed and will provide evidence to the Representatives of each such filing or effectiveness.

(d) The Company will cooperate with the Representatives and counsel for the

Underwriters to qualify or register the Shares for offering and sale under (or obtain exemptions from the application of) the securities or Blue Sky laws of such jurisdictions (including foreign jurisdictions) as the Representatives may reasonably designate, and will make such applications, file such documents, and furnish such information as may be reasonably required for that purpose; provided, however, the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction where it is not so qualified or required to file such a consent. The Company will, from time to time, prepare and file such statements, reports, and other documents, as are or may be required to continue such qualifications in effect for so long a period as the Representatives may reasonably request for distribution of the Shares.

(e) The Company will deliver to, upon the order of, the Representatives, from time to time without charge, as many copies of any Preliminary Prospectus or the Prospectus, or as thereafter amended or supplemented, as the Representatives may reasonably request. The Company will deliver to each of the Representatives at or before the Closing Date, two (2) manually signed copies of the Registration Statement and all amendments thereto, including all exhibits filed therewith, and will deliver to the Representatives such number of conformed copies of the Registration Statement, but without exhibits, and of all amendments thereto, as the Underwriters may reasonably request.

(f) Prior to the Closing Date, the Company will furnish the Representatives, as soon as they have been prepared by or are available to the Company, a copy of any unaudited interim financial statements of the Company for any period subsequent to the period covered by the most recent financial statements appearing in the Registration Statement and the Prospectus.

(g) The Company will use the net proceeds from the sale of the Shares in the manner set forth in the Prospectus under the caption "Use of Proceeds" and will in no event invest or otherwise use such net proceeds in such a manner as would require the Company or any of the Subsidiaries to register as an investment company under the Investment Company Act.

(h) Neither the Company nor the Selling Stockholder (i) during any "restricted period" (as defined in Rule 100 of Regulation M) will take, directly or indirectly, any action designed to cause or result in, or that might reasonably be expected to constitute, the stabilization or manipulation of the price of any securities of the Company, (ii) will distribute any Prospectus or offering materials in connection with the Public Offering and (iii) prior to the Closing Date or, if applicable, the Option Closing Date, will issue any press releases or other communications, directly or indirectly, and will hold no press conferences with respect to the Company, its financial condition or results of operations, or the Public Offering, without the prior consent of the Representatives other than as may be required by any applicable law or regulation.

(i) During the period necessary to effect the distribution of the Shares, the Company shall file, on a timely basis, with the Commission and the Nasdaq National Market all reports and documents required to be filed under the Exchange Act. Additionally, the Company shall report the use of proceeds from the issuance of the Shares as may be required under Rule 463 under the Act.

(j) As soon as practicable, but not later than the Availability Date (as defined below), the Company will make generally available to its stockholders, an earnings statement, which will satisfy the provisions of Section 11(a) of the Act, covering a period of at least twelve (12) consecutive months beginning after the Effective Date or, if later, the Effective Date of the Rule 462(b) Registration Statement. For the purpose of the preceding sentence, "Availability Date" means the 45th day after the end of the fourth fiscal quarter following the fiscal quarter that includes such Effective Date, except that, if such fourth fiscal quarter is the last quarter of the Company's fiscal year, "Availability Date" means the 90th day after the end of such fourth fiscal quarter.

(k) For a period of three (3) years from the date of this Agreement, the Company will furnish to the Representatives, to the extent not available on the Commission's Electronic Data Gathering, Analysis and Retrieval (EDGAR) System, (i) concurrently with furnishing of such reports to its stockholders, statements of operations of the Company for each quarter in the form furnished to the Company's stockholders; (ii) concurrently with furnishing of such reports to its stockholders, balance sheets of the Company as of the end of such fiscal year, together with statements of operations, stockholders' equity and cash flows of the Company for such fiscal year, all in reasonable detail and accompanied by a copy of the report thereon of independent public accountants; (iii) as soon as they are available, copies of all reports (financial or other) mailed to stockholders; (iv) as soon as they are available, copies of all reports and financial statements furnished to or filed with the Commission; (v) every press release which is released by the Company regarding the Company's financial condition or prospects, or results of operations; and (vi) any additional information of a public nature concerning the Company or its business which the Representatives may reasonably request. During such period, if the Company shall have active Subsidiaries, the foregoing financial statements shall be on a consolidated basis to the extent that the accounts of the Company and its Subsidiaries are consolidated, and shall be accompanied by similar financial statements for any Subsidiary which is not so consolidated.

(l) The Company will use its commercially reasonable efforts to maintain a transfer agent at all times when its common stock is publicly traded and, if necessary under the jurisdiction of incorporation of the Company, a registrar for its common stock and for a period of three (3) years after the date of this Agreement will use its commercially reasonably efforts to maintain the listing of the Shares on the Nasdaq National Market or a national securities exchange (provided nothing in this Section 4(l) shall be deemed to prevent the Company from seeking and/or agreeing to any merger or acquisition).

(m) Each of the Company and the Selling Stockholder will not, for a period of one-hundred eighty (180) days after the date of the Prospectus, offer, sell, contract to sell, or otherwise dispose of, directly or indirectly, any shares of the Company's common stock or securities convertible into or exchangeable or exercisable for shares of the Company's common stock, enter into any transaction that would have the same effect or enter into any swap, hedge or other arrangement that transfers in whole or in part any of the economic consequences of ownership of the Company's common stock, whether any of these transactions are to be settled by delivery of the Company's common stock or other securities, in cash or otherwise, or publicly disclose the intention to do any of the

foregoing, without the prior written consent of Stephens (which consent may be withheld at the sole discretion of Stephens), except (i) with respect to the Shares as contemplated by this Agreement, (ii) in connection with the transactions described in the Prospectus under the caption "Certain Relationships and Related Transactions -- Redemption of our Preferred Stock", (iii) in the case of the Company, (A) with respect to grants of stock options to employees of the Company, (B) the issuance of shares of common stock pursuant to employee, director or other stock and stock option plans described in or contemplated by the Prospectus, or (C) in connection with a merger or acquisition or (iv) in the case of the Selling Stockholder, (X) bona fide gifts, provided the recipient of such gift shall agree to the terms of this paragraph for the remainder of such one hundred eighty (180) day period or (Y) in connection with a merger or a transaction to acquire a majority of the capital stock of the Company pursuant to an offer made on substantially the same terms to all of the Company's stockholders.

(n) The Company will enforce all existing agreements between the Company and any of its security holders that prohibit the offer, sale, pledge or other disposition of any of the Company's securities in connection with the Public Offering or otherwise. In addition, the Company will direct its transfer agent to place stop transfer restrictions upon any such securities of the Company that are bound by such existing "lock-up" or other agreements for the duration of the periods contemplated in those agreements.

(o) In connection with the Directed Share Program, the Company will ensure that the Directed Shares will be restricted to the extent required by the National Association of Securities Dealers, Inc. (the "NASD") or the NASD rules from sale, transfer, assignment, pledge or other disposition for a period of three (3) months following the Effective Date. Stephens will notify the Company as to which Participants shall be so restricted. The Company will direct its transfer agent to place stop transfer restrictions upon such shares for such period of time.

The foregoing covenants and agreements shall apply to any successor of the Company, including without limitation, any entity into which the Company might consolidate or merge.

5. Costs and Expenses. Whether or not the Public Offering is completed, the Company will pay all costs, expenses and fees incident to the performance of the obligations of the Company and the Selling Stockholder under this Agreement, including, without limiting the generality of the foregoing, the following: accounting fees of the Company; the fees and disbursements of counsel for the Company and the Selling Stockholder; the cost of printing and delivering to the Underwriters copies of the Registration Statement, any Preliminary Prospectus, the Prospectus, this Agreement, the Agreement Among Underwriters, the Selected Dealer Agreement, Underwriters' Questionnaire and Power of Attorney, and any survey of Blue Sky laws and any supplements thereto; the filing fees of the Commission; the filing fees and other expenses (including fees and disbursements of counsel to the Underwriters) incident to securing any required review by the NASD of the terms of the sale of the Shares on behalf of, and any disbursements made by, the Representatives; the filing fees and other expenses (including fees and disbursements of counsel to the Underwriters) incident to qualifying or registering (or obtaining exemption from qualification or registration of) the shares for offer and sale under the securities or Blue Sky laws of applicable states and foreign

jurisdictions; Nasdaq listing fees; the cost of printing certificates representing the Shares; fees and disbursements of counsel to the Underwriters incurred by the Underwriters in connection with the Directed Share Program; and the cost and charges of any transfer agent or registrar. Any transfer taxes imposed on the sale of the Shares to the Underwriters will be paid by the Company [and the Selling Stockholder], with respect to the Shares sold by the Company [or the Selling Stockholder], as the case may be. Neither the Company nor the Selling Stockholder shall, however, be required to pay for any of the Underwriters' expenses (other than those related to qualification, registration or exemption of the Shares under applicable Blue Sky laws, review by the NASD, or the Directed Share Program) except that if the Public Offering shall not be consummated because this Agreement is terminated by the Representatives pursuant to Section 6 or Section 10 or because the conditions in Section 6 hereof are not satisfied, or by reason of any failure, refusal or inability on the part of the Company or the Selling Stockholder to perform any undertaking or satisfy any condition of this Agreement or to comply with any of the terms hereof on their part to be performed, unless such failure to satisfy said condition or to comply with said terms is due to the default or omission of any Underwriter, then the Company shall reimburse the several Underwriters upon demand for all costs and expenses, including fees and disbursements of counsel to the Underwriters, incurred in connection with investigating, marketing and proposing to market the Shares or in contemplation of performing their obligations hereunder, but the Company shall in no event be liable to any of the several Underwriters for damages on account of loss of anticipated profits from the sale by them of the Shares.

6. Conditions of Obligations of the Underwriters. The obligations of the several Underwriters to purchase and pay for the Shares as provided herein are subject to the accuracy, as of the date hereof, as of the Closing Date and as of each Option Closing Date, of the representations and warranties of each of the Company and the Selling Stockholder contained herein, to the timely performance by each of the Company and the Selling Stockholder of their obligations hereunder and to the following additional conditions:

(a) The Registration Statement shall have become effective, and no stop order or other order suspending the effectiveness thereof or the qualification or registration of the Shares under the Blue Sky laws of any jurisdiction shall have been issued and no proceeding for that purpose shall have been instituted or, to the knowledge of the Company, shall be contemplated or threatened by the Commission or any Other Securities Regulator. If the Company has elected to rely upon Rule 430A, the price of the Shares and any price-related information previously omitted from the effective Registration Statement pursuant to Rule 430A shall have been transmitted to the Commission for filing pursuant to Rule 424(b) within the prescribed time period, and prior to the Closing Date the Company shall have provided evidence satisfactory to the Representatives of such timely filing, or a post-effective amendment providing such information shall have been promptly filed and declared effective in accordance with the requirements of Rule 430A. All requests for additional information on the part of the Commission or any Other Securities Regulator shall be complied with to the satisfaction of the Commission or such Other Securities Regulator.

(b) The Representatives shall have received the opinion of Winstead Sechrest & Minick P.C., counsel for the Company and the Selling Stockholder, dated as of the

Closing Date and, if applicable, each Option Closing Date, addressed to the Underwriters in form and substance satisfactory to Alston & Bird LLP, counsel to the Underwriters, to the effect that:

(i) Conn's, Inc., Conn Appliances, Inc. and the Subsidiaries have been duly incorporated and are validly existing in good standing under the laws of the jurisdictions of their organization, with corporate power and authority to own, lease and operate their properties and conduct their business as described in the Prospectus; and Conn's, Inc., Conn Appliances, Inc. and the Subsidiaries are duly qualified to transact business as foreign corporations in good standing in the jurisdictions set forth on Schedule II;

(ii) the authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus under the caption "Capitalization" (other than for subsequent issuances, if any, pursuant to employee benefit plans and any other adjustments described in the Prospectus);

(iii) all of the outstanding shares of capital stock of the Company prior to the issuance of the Company Shares or the Company Option Shares, as the case may be, have been duly authorized and validly issued and are fully paid and nonassessable; none of the outstanding shares of capital stock were issued in violation of or subject to any preemptive right of any person to subscribe for or to purchase any securities of the Company arising under the Company's articles or certificate of incorporation or bylaws, the Texas Business Corporation Act or the Delaware General Corporation Law, as applicable; there are no preemptive rights of any person to subscribe for or to purchase any securities of the Company arising under the Company's articles or certificate of incorporation or bylaws, the Texas Business Corporation Act or the Delaware General Corporation Law, as applicable; and other than as disclosed in the Prospectus, to the knowledge of such counsel, no options or warrants or other rights to purchase or otherwise acquire from the Company, no agreements or other obligations to issue and no other rights to convert any security or obligation into any shares of capital stock or other ownership interests in the Company are outstanding;

(iv) all of the outstanding shares of capital stock of each of the Subsidiaries have been duly authorized and validly issued and are fully paid and non-assessable; none of the outstanding shares of capital stock of any of the Subsidiaries was issued in violation of or subject to any preemptive right of any person arising under the articles or certificate of incorporation or bylaws of such Subsidiary or the general corporation law or business corporation code of its state of incorporation; the Company owns all of the outstanding stock of each of the Subsidiaries free and clear of all possessory liens, pledges, security interests (other than the pledge of the stock of the Subsidiaries to secure the Company's secured credit facility); and other than as disclosed in the Prospectus, to the knowledge of such counsel, no options or warrants or other rights to purchase from the Company or any Subsidiary, no agreements or other obligations to issue and no other rights to convert any obligations into any shares of capital stock or other ownership interests in any of the Subsidiaries are outstanding other than those described in the Prospectus;

(v) to the knowledge of such counsel, all sales of the Company's capital stock by Conn's, Inc. or Conn Appliances, Inc. during the three-year period prior to the date hereof were exempt from the registration requirements of the Act and of the Texas Securities Act;

(vi) other than as disclosed in the Prospectus, to the knowledge of such counsel, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Act with respect to any securities of the Company or to include any securities of the Company in any registration statement of the Company; and, to the knowledge of such counsel, neither the filing of the Registration Statement nor the offer or sale of the Shares as contemplated thereby gives rise to any rights for or related to the registration of any shares of common stock or any other securities of the Company;

(vii) the Registration Statement, including any Rule 462(b) Registration Statement, and the Prospectus, and each amendment or supplement to the Registration Statement and the Prospectus (other than the financial statements and the notes thereto and the other financial and statistical data included therein or omitted therefrom, as to all of which such counsel need express no opinion), as of their respective effective or issue dates, complied as to form in all material respects with the applicable requirements of the Act and the Rules;

(viii) to the knowledge of such counsel, (A) there are no contracts, instruments or other documents or agreements to which the Company or any of the Subsidiaries is a party of a character required to be described or referred to in the Prospectus or to be filed as exhibits to the Registration Statement which are not so described, referred to or filed as required, (B) there are no constitutions, statutes, laws, judicial or administrative decrees, writs, judgments, orders, rules or regulations of a character required to be described or referred to in the Prospectus which are not so described or referred to as required, and (C) there are no legal or governmental proceedings pending, or overtly threatened by a written communication, against the Company or any of the Subsidiaries or any of their respective properties of a character required to be described or referred to in the Prospectus which are not so described or referred to as required;

(ix) the statements in the Prospectus under the captions "Risk Factors -- Pending litigation relating to the sale of credit insurance and the sale of service maintenance agreements in the retail industry, including one lawsuit in which we are the defendant, and could adversely affect our business," "Risk Factors -- Our anti-takeover provisions and Delaware law could prevent or delay a change in control of our company, even if such a change of control would be beneficial to our stockholders," "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources," "Business -- Regulation," "Business -- Legal Proceedings," "Management," "Certain Relationships and Related Transactions," "Description of Capital Stock," "Shares Eligible for Future Sale," and "Underwriting" and in Item 14 and Item 15 of the Registration Statement, insofar as such statements constitute a summary of

the legal matters, documents or proceedings referred to therein, fairly present the information called for with respect to such legal matters, documents or proceedings;

(x) the Shares conform in all material respects as to legal matters to the description thereof in the Prospectus under the caption "Description of Capital Stock;"

(xi) the Registration Statement has become effective under the Act; all filings required by Rules 424(b), 430A and 462(b) (if relied upon by the Company) of the Commission have been made in the manner and within the time period required; and to the knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement under the Act has been issued and no proceedings for that purpose have been instituted or are pending or threatened by the Commission;

(xii) the common stock of Conn's, Inc. has been registered under the Exchange Act, and the Shares have been approved for listing on the Nasdaq National Market, subject only to notice of issuance;

(xiii) the form of certificate evidencing the common stock of Conn's, Inc. and included as an exhibit to the Registration Statement complies in all material respects with all requirements of Delaware law, any applicable requirements of the certificate of incorporation and bylaws of Conn's, Inc. and the requirements of the Nasdaq National Market;

(xiv) neither the Company nor any of the Subsidiaries is or will be, after giving effect to the offer and sale of the Shares and the application of the net proceeds thereof as described in the Registration Statement and the Prospectus, an "investment company" or a company controlled by an "investment company" within the meaning of the Investment Company Act, and in giving such opinion, counsel may assume Stephens is not an "investment company";

(xv) the Company has duly authorized the execution, delivery and performance of this Agreement and has duly executed and delivered this Agreement, and assuming the due authorization, execution and delivery of this Agreement by the Representatives, this Agreement is enforceable against the Company except to the extent that (A) enforceability may be limited by applicable bankruptcy, insolvency, liquidation, reorganization, moratorium and other laws relating to or affecting the rights and remedies of creditors generally, (B) the remedy of specific performance and other forms of equitable relief may be subject to certain defenses and to the discretion of the court before which a proceeding may be brought, and (C) the enforcement of rights to indemnity and contribution under this Agreement may be limited by federal and applicable Blue Sky laws or principles of public policy underlying such laws or otherwise;

(xvi) the Company Shares and the Company Option Shares have been duly authorized for issuance and sale to the Underwriters pursuant to this Agreement and, when issued and delivered by the Company against payment of

the consideration set forth in this Agreement, will be validly issued, fully paid and nonassessable; and the issuance of such Shares will not be in violation of or subject to any preemptive right of any person to subscribe for or to purchase any securities of the Company arising under the certificate of incorporation or bylaws of Conn's, Inc., the Delaware General Corporation Law;

(xvii) the execution and delivery by the Company of this Agreement did not, and the performance by the Company of its obligations hereunder and the consummation by the Company of the transactions contemplated hereby (other than the performance of the Company's indemnification and contribution obligations hereunder, as to which such counsel need express no opinion) will not (with or without the giving of notice or the passage of time or both), result in any violation by the Company of its articles or certificate of incorporation or bylaws, or result in any breach of or default under, or the creation or imposition of any contractual lien or security interest in, on or against any property or assets of the Company or any of the Subsidiaries pursuant to, any indenture, mortgage, deed of trust, loan agreement, lease or other written agreement or instrument filed as an Exhibit to the Registration Statement or result in any violation in any material respect of any constitution, statute or law or any judicial or administrative decree, writ, judgment, order, rule or regulation to which, to the knowledge of such counsel, the Company or any of the Subsidiaries or any of their respective properties or assets is subject or result in the suspension, termination or revocation of any consent, approval or authorization of the Company or any of the Subsidiaries issued or provided thereunder;

(xviii) no consent, approval, authorization, order or other action of, or notice to or registration, qualification or filing with, any court, regulatory body, administrative agency, governmental body or arbitrator of the United States or the States of Texas or Delaware or, to the knowledge of such counsel, any third party is required on the part of the Company for the performance by the Company of the transactions contemplated by this Agreement, except (A) such as have been obtained under the Act the Exchange Act and the Rules, (B) such as may be required under applicable Blue Sky laws, rules and regulations in connection with the offer, sale and distribution of such Shares by the Underwriters and (C) such as may be required by the NASD (as to which, with regard to clauses (B) and (C), such counsel need express no opinion);

(xix) the Selling Stockholder has duly executed and delivered this Agreement and the Custody Agreement, and assuming the due authorization, execution and delivery of this Agreement by the Representatives and the Custody Agreement by the Custodian, this Agreement and the Custody Agreement are enforceable against the Selling Stockholder except to the extent that (A) enforceability may be limited by applicable bankruptcy, insolvency, liquidation, reorganization, moratorium and other laws relating to or affecting the rights and remedies of creditors generally, (B) the remedy of specific performance and other forms of equitable relief may be subject to certain defenses and to the discretion of the court before which a proceeding may be brought, and (C) the enforcement of rights to indemnity and contribution under this Agreement and the Custody

Agreement may be limited by federal and applicable Blue Sky laws or principles of public policy underlying such laws;

(xx) the execution and delivery by the Selling Stockholder of this Agreement and the Custody Agreement did not, and the performance by the Selling Stockholder of its obligations hereunder and thereunder and the consummation by the Selling Stockholder of the transactions contemplated hereby and thereby (other than the performance of the Selling Stockholder's indemnification and contribution obligations hereunder, as to which such counsel need express no opinion) will not (with or without the giving of notice or the passage of time or both), result in any breach of or default under, any agreement listed on Schedule III to which the Selling Stockholder is a party or result in any violation in any material respect of any constitution, statute or law or any judicial or administrative decree, writ, judgment, order, rule or regulation to which, to the knowledge of such counsel, the Selling Stockholder is subject;

(xxi) to the knowledge of such counsel, upon the delivery and payment for the Selling Stockholder Shares as contemplated in the Agreement, each of the Underwriters will receive such Shares purchased by it from the Selling Stockholder, free and clear of any adverse claim, assuming, for the purpose of such opinion, that the Underwriters purchased the same in good faith without notice of any adverse claims; and

(xxii) no consent, approval, authorization, order or other action of, or notice to or registration, qualification or filing with, any court, regulatory body, administrative agency, governmental body or arbitrator of the United States or the States of Texas or Delaware or, to the knowledge of such counsel, any third party is required on the part of the Selling Stockholder for the performance by the Selling Stockholder of the transactions contemplated by this Agreement and the Custody Agreement, except (A) such as have been obtained under the Act the Exchange Act and the Rules, (B) such as may be required under applicable Blue Sky laws, rules and regulations in connection with the offer, sale and distribution of such Shares by the Underwriters and (C) such as may be required by the NASD (as to which, with regard to clauses (B) and (C), such counsel need express no opinion).

In addition, such counsel shall state that although they do not assume any responsibility for the accuracy, completeness or fairness of the information and statements contained in the Registration Statement or the Prospectus, other than those mentioned in subparagraphs (x) and (xi) above, on the basis of the foregoing, no facts have come to its attention that lead it to believe that the Registration Statement, on the Effective Date, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus, at the time the Prospectus was issued or on the Closing Date or the Option Closing Date, as applicable, included or includes any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that such counsel need express no belief regarding the financial statements and notes thereto and other financial and statistical data

included in or omitted from the Registration Statement or the Prospectus.

In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws of any jurisdiction other than the General Corporation Law of the State of Delaware, the Texas Business Corporation Act or the federal law of the United States, to the extent they deem proper and specified in such opinion, upon the opinion (which shall be dated the Closing Date or the Option Closing Date, as the case may be, shall be satisfactory in form and substance to the Underwriters, shall expressly state that the Underwriters may rely on such opinion as if it were addressed to them and shall be furnished to the Representatives) of other counsel of good standing whom they believe to be reliable and who are reasonably satisfactory to counsel for the Underwriters and (B) as to matters of fact, to the extent they deem proper, on certificates of the Selling Stockholder and responsible officers of the Company and public officials.

(c) The Representatives shall have received the opinion of Alston & Bird LLP, counsel to the Underwriters, dated as of the Closing Date, and if applicable, each Option Closing Date with respect to the incorporation of the Company, the validity of the Shares delivered on such Closing Date, the Registration Statement, the Prospectus and other related matters as the Representatives may require, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(d) The Representatives shall have received at or prior to the Closing Date from Alston & Bird LLP a memorandum or summary, in form and substance satisfactory to the Representatives, with respect to the registration, qualification or exemption therefrom for offering and sale by the Underwriters of the Shares under the Blue Sky laws of such jurisdictions as the Representatives may reasonably have designated.

(e) On the date hereof, the Representatives shall have received from Ernst & Young LLP, independent public or certified public accountants for the Company, a letter dated the date hereof addressed to the Underwriters, in form and substance satisfactory to the Representatives, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters, delivered according to Statement of Auditing Standards No. 72 (or any successor bulletin), with respect to the audited and unaudited financial statements and certain financial information contained in the Registration Statement and the Prospectus (and the Representatives shall have received an additional two (2) conformed copies of such accountants' letter for each of the several Underwriters).

(f) On each of the Closing Date and each Option Closing Date, the Representatives shall have received from Ernst & Young LLP a letter dated such date, in form and substance satisfactory to the Representatives, to the effect that they reaffirm the statements made in the letter furnished by them pursuant to paragraph (e) of this Section 6, except that the specified date referred to therein for the carrying out of procedures shall be no more than three business days prior to the Closing Date or Option Closing Date, as the case may be (and the Representatives shall have received an additional two (2) conformed copies of such accountants' letter for each of the several Underwriters).

(g) Neither the Company nor any of the Subsidiaries shall have sustained,

since the date of the latest audited financial statements included in the Prospectus, any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus, and since the respective dates as of which information is given in the Prospectus, there shall not have been any change in the capital stock or long-term debt of the Company or any of the Subsidiaries or any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and the Subsidiaries, otherwise than as set forth or contemplated in the Prospectus, the effect of which, in either such case is in the judgment of the Representatives so material and adverse as to make it impracticable or inadvisable to proceed with the Public Offering or the delivery of the Shares on the terms and in the manner contemplated in the Prospectus;

(h) On or after the date of this Agreement, there shall not have occurred any downgrading, nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change, in the rating accorded any securities of the Company, any of its Subsidiaries or affiliates, or Conn Funding II, L.P. by any "nationally recognized statistical rating organization" as such term is defined for purposes of Rule 436(g)(2) under the Act.

(i) On or after the date of this Agreement, there shall not have occurred any of the following: (i) a suspension or material limitation or disruption in trading in securities generally on the New York Stock Exchange or the Nasdaq National Market, or the establishment of minimum or maximum prices for trading or maximum ranges for prices of securities on the New York Stock Exchange or the Nasdaq National Market; (ii) a suspension or material limitation or disruption in trading in the Company's securities on the Nasdaq National Market; (iii) a general moratorium on commercial banking activities declared by either federal or New York State or Texas authorities or a material disruption in commercial banking or securities settlement, payment or clearance services in the United States; (iv) the outbreak or escalation of hostilities or acts of terrorism involving the United States or the declaration by the United States of a national emergency or war; or (v) the occurrence of any other calamity or crisis or any change in financial, political or economic conditions in the United States or elsewhere, if the effect of any such event specified in clause (iv) or (v) in the judgment of the Representatives makes it impracticable or inadvisable to proceed with the Public Offering or the delivery of the Shares on the terms and in the manner contemplated in the Prospectus;

(j) The Shares shall have been approved for listing on the Nasdaq National Market, subject only to official notice of issuance.

(k) On or prior to the date of this Agreement, the Company shall have furnished to the Representatives lock-up agreements, in form and substance satisfactory to the Representatives and attached hereto as Exhibit A or Exhibit B, from each director and executive officer of Conn's, Inc., other than the Selling Stockholder and such agreements shall be in full force and effect on the Closing Date and each Option Closing Date.

(l) The Company shall have furnished to the Representatives evidence of the due qualification of the Company and the Subsidiaries to transact business in the jurisdictions set forth on Schedule II.

(m) The Representatives shall have received on the Closing Date and on each Option Closing Date, as the case may be, a certificate or certificates of the Company, executed by the Chief Executive Officer and the Chief Financial Officer of the Company to the effect that, as of the Closing Date and each Option Closing Date, as the case may be, each of them severally represents as follows:

(i) (A) the representations and warranties of the Company in this Agreement are true and correct on and as of the Closing Date and on and as of each Option Closing Date, as the case may be, and (B) the Company has complied with all of its agreements and covenants and has satisfied all of the conditions on its part to be performed or satisfied as of or prior to the Closing Date and as of or prior to each Option Closing Date, as the case may be.

(ii) They have carefully examined the Registration Statement and the Prospectus and, in their opinion, such Registration Statement and Prospectus did not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading.

(n) The Representatives shall have received on the Closing Date a certificate from the Selling Stockholder to the effect that, as of the Closing Date, the Selling Stockholder represents as follows:

(i) (A) the representations and warranties of the Selling Stockholder in this Agreement are true and correct on and as of the Closing Date, and (B) the Selling Stockholder has complied with all of his agreements and covenants and has satisfied all of the conditions on his part to be performed or satisfied as of or prior to the Closing Date.

(ii) The Selling Stockholder has carefully examined the Registration Statement and the Prospectus and, in his opinion, such Registration Statement and Prospectus did not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading

(o) On or before each of the Closing Date and each Option Closing Date, the Representatives and counsel for the Underwriters shall have received such information, documents and opinions as they may reasonably require for the purposes of enabling them to pass upon the issuance and sale of the Shares as contemplated herein or in order to evidence the accuracy of any of the representations and warranties, or the satisfaction of any of the conditions or agreements, herein contained.

(p) The Company and the Representatives shall have received from Sanders Morris Harris Inc. (the "QIU") a letter, dated as of the Closing Date and in form and substance satisfactory to the Company that:

(i) The QIU is a member of the NASD and is qualified to act as a

"qualified independent underwriter" within the meaning of paragraph (b)(15) of NASD Rule 2720.

(ii) The QIU has participated in the preparation of the Registration Statement and the Prospectus relating to the offer and sale of the Shares and has exercised the usual standards of `due diligence" in respect thereto.

(iii) The QIU has undertaken the legal responsibilities and liabilities of an underwriter under the Act, specifically including those inherent in Section 11 of the Act.

(iv) Based upon (A) a review of the Company, including an examination of the Registration Statement, information regarding the earnings, assets, capital structure, and growth rate of the Company, and other pertinent financial and statistical data, (B) inquiries of and conferences with management of the Company and its counsel and independent public accountants regarding the business and prospects of the Company, (C) consideration of the prospects for the industry in which the Company competes, estimates of the business potential of the Company, assessments of its management, the general condition of the securities markets, market prices of the capital stock and debt securities of, and financial and operating data concerning, companies believed by the QIU to be comparable to the Company, and the demand for securities of comparable companies similar to the Shares, and (D) such other studies, analyses, and investigations as the QIU deems appropriate, and assuming the offering and sale of the Shares is made as contemplated in the Prospectus, the QIU has recommended a maximum initial public offering price for the Shares.

If any of the conditions hereinabove provided for in this Section 6 shall not have been fulfilled when and as required by this Agreement to be fulfilled, the obligations of the Underwriters hereunder may be terminated by the Representatives by notifying the Company of such termination in writing or by confirmed telefax at or prior to the Closing Date or, if applicable, any Option Closing Date. In such event, the Company, the Selling Stockholder and the Underwriters shall not be under any obligation to each other (except to the extent provided in Sections 5, 7 and 8 hereof).

7. Indemnification.

(a) The Company agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls within the meaning of the Act and the Rules any Underwriter from and against any and all losses, claims, damages, and liabilities, joint or several, to which such Underwriter or such controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a Prospectus or Preliminary Prospectus, in light of the circumstances in which such statements were made) not misleading; and the Company

will reimburse each Underwriter and each such controlling person for legal and other expenses incurred in connection with investigating or defending any such loss, claim, damage, liability, action or proceeding; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any untrue statement or alleged untrue statement made in the Registration Statement, any Preliminary Prospectus, the Prospectus, or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Company by or through the Representatives specifically for use in the preparation thereof, it being understood and agreed that the only such information furnished by any Underwriter consists of the information described as such in Section 12 below; and provided further, that with respect to any untrue statement or alleged untrue statement in or omission or alleged omission from any Preliminary Prospectus, the indemnity contained in this Section 7(a) shall not inure to the benefit of any Underwriter from whom the person asserting any such losses, claims, damages or liabilities purchased the Shares concerned, to the extent that a prospectus relating to such Shares was required to be delivered by such Underwriter under the Act in connection with such purchase and any such loss, claim, damage or liability of such Underwriter results from the fact that there was not sent or given to such person, at or prior to the written confirmation of the sale of such Shares to such person, a copy of the Prospectus as then amended or supplemented, if the Company had previously furnished copies thereof to such Underwriter. This indemnity will be in addition to any liability which the Company may otherwise have.

The Company agrees to indemnify and hold harmless Stephens and each person, if any, who controls Stephens within the meaning of either the Act or the Exchange Act (the "Designated Entities"), from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses incurred in connection with defending or investigating any such action or claim) (i) caused by any untrue statement or alleged untrue statement of a material fact contained in any material prepared by or with the consent of the Company for distribution to Participants in connection with the Directed Share Program or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; (ii) caused by the failure of any Participant to pay for and accept delivery of Directed Shares that the Participant agreed to purchase; or (iii) related to, arising out of, or in connection with the Directed Share Program, other than losses, claims, damages or liabilities (or expenses relating thereto) that are finally judicially determined to have resulted from the bad faith or gross negligence of the Designated Entities.

(b) The Selling Stockholder agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls within the meaning of the Act and the Rules any Underwriter from and against any and all losses, claims, damages, and liabilities, joint or several, to which such Underwriter or such controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement made by the Selling Stockholder in Section 1(b) of this Agreement; or (ii) any untrue statement or alleged untrue statement of any material fact contained under the caption "Principal and Selling Stockholders" in the Prospectus and each supplement thereto, insofar as such information relates to the Selling

Stockholder, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a Prospectus, in light of the circumstances in which such statements were made) not misleading; and the Selling Stockholder will reimburse each Underwriter and each such controlling person for legal and other expenses incurred in connection with investigating or defending any such loss, claim, damage, liability, action or proceeding; provided, however, that the Selling Stockholder will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any untrue statement or alleged untrue statement made in the Registration Statement, any Preliminary Prospectus, the Prospectus, or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Company by or through the Representatives specifically for use in the preparation thereof, it being understood and agreed that the only such information furnished by any Underwriter consists of the information described as such in Section 12 below; provided further, that with respect to any untrue statement or alleged untrue statement in or omission or alleged omission from any Preliminary Prospectus, the indemnity contained in this Section 7(b) shall not inure to the benefit of any Underwriter from whom the person asserting any such losses, claims, damages or liabilities purchased the Shares concerned, to the extent that a prospectus relating to such Shares was required to be delivered by such Underwriter under the Act in connection with such purchase and any such loss, claim, damage or liability of such Underwriter results from the fact that there was not sent or given to such person, at or prior to the written confirmation of the sale of such Shares to such person, a copy of the Prospectus as then amended or supplemented, if the Company had previously furnished copies thereof to such Underwriter; and provided further that the Selling Stockholder shall only be liable pursuant to this Section 7(b)(ii) only to the extent that any untrue statement or alleged untrue statement in or omission or alleged omission from the Registration Statement, the Preliminary Prospectus or the Prospectus is based upon written information furnished to the Company by him, in his individual capacity as a Selling Stockholder, specifically for use therein. This indemnity will be in addition to any liability which the Selling Stockholder may otherwise have. In no event shall the liability of the Selling Stockholder pursuant to this Section or Section 7(e) exceed the net proceeds received by the Selling Stockholder with respect to the sale of the Shares.

(c) Each Underwriter severally, but not jointly, will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed the Registration Statement, the Selling Stockholder and each person, if any, who controls within the meaning of the Act and the Rules the Company from and against any losses, claims, damages or liabilities to which the Company, the Selling Stockholder or any such director, officer, or controlling person may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto, and will reimburse any legal or other expenses incurred by the Company, the Selling Stockholder or any such director, officer, or controlling person in connection with investigating or defending any such loss, claim, damage, liability, action or proceeding; provided, however, that each Underwriter will be liable under this Section 7(c) only to the extent that such untrue statement, or alleged untrue statement has been made in the Registration Statement, any Preliminary

Prospectus, the Prospectus, or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Company by or through the Representatives expressly for use in the preparation thereof, which information is described in Section 12. This indemnity will be in addition to any liability which such Underwriter may otherwise have.

(d) Promptly after receipt by an indemnified party under this Section 7 or Section 8 of notice of the commencement of any action or proceeding, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party under this Section 7 or Section 8, notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under this Section 7 or Section 8. In case any such action or proceeding is brought against any party, and it notifies an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein, and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof with counsel satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section 7 or Section 8 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof, other than reasonable costs of investigation. Notwithstanding anything contained herein to the contrary, if indemnity may be sought pursuant to the last paragraph in Section 7(a) hereof in respect of such action or proceeding, then in addition to such separate firm for the indemnified parties, the indemnifying party shall be liable for the reasonable fees and expenses of not more than one separate firm (in addition to any local counsel) for the Designated Entities for the defense of any losses, claims, damages and liabilities arising out of the Directed Share Program. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement (i) includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding and (ii) does not include a statement as to, or an admission of, fault, culpability or a failure to act by or on behalf of an indemnified party. Any indemnified party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (A) the employment of such counsel has been specifically authorized in writing by the indemnifying party, (B) the indemnifying party has failed to assume the defense and employ counsel, or (C) the named parties to any such action (including any impleaded parties) including such indemnified party and the indemnifying party, as the case may be, and such indemnified party shall have been advised in writing by such counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the indemnifying party, in which case the indemnifying party shall not have the right to assume the defense of such action on behalf of such indemnified party, it being understood, however, that (X) the indemnifying party shall, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable only for the reasonable fees and expenses of one separate firm of attorneys (in addition to any local counsel) for all such indemnified parties, which firm

shall be designated in writing by the indemnified parties, and that (Y) all such reasonable fees and expenses shall be reimbursed as they are incurred.

(e) In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in this Section 7 or Section 8 is for any reason held to be unavailable to an indemnified party under subsection (a) or (b) above with respect to any losses, claims, damages, liabilities or expenses referred to therein, then each applicable indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities and expenses (i) in such proportion as is appropriate to reflect the relative benefits received by the Company, the Selling Stockholder and the Underwriters from the Public Offering of the Shares or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the parties in connection with the statements, omissions or other conduct which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company and the Selling Stockholder on the one hand and the Underwriters on the other hand shall be deemed to be in the same proportion as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company and the Selling Stockholder bears to the underwriting discounts and commissions received by the Underwriters. The relative fault of a party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by each party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any such action or claim.

The Company, the Selling Stockholder and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7 or Section 8 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this Section 7, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such Underwriters would have otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute shall be several in proportion to their respective underwriting obligations and not joint.

(f) In any proceeding relating to the Registration Statement, any Preliminary Prospectus, the Prospectus or any supplement or amendment thereto, each party against

whom contribution may be sought under this Section 7 or Section 8 hereby consents to the jurisdiction of any court having jurisdiction over any other contributing party, agrees that process issuing from such court may be served upon him or it by any other contributing party and consents to the service of such process and agrees that any other contributing party may join him or it as an additional defendant in any such proceeding in which such other contributing party is a party.

8. Qualified Independent Underwriter. The Company hereby confirms that at its request and pursuant to a letter agreement dated October 15, 2003 among the Company, Stephens and the QIU, the terms of which are incorporated herein by reference, the QIU acted as "qualified independent underwriter" within the meaning of Rule 2720 of the Conduct Rules of the NASD in connection with the Public Offering. The Company will indemnify and hold harmless the QIU and each person who controls the QIU within the meaning of either the Act or the Exchange Act against any and all losses, claims, damages or liabilities, joint or several, to which the QIU may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon the QIU's acting (or alleged failing to act) as such "qualified independent underwriter" and will reimburse the QIU for any legal or other expenses reasonably incurred by the QIU in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage, or liability results from the gross negligence or willful misconduct of the QIU or any misrepresentation or breach of warranty by the QIU under the terms of such letter agreement. As compensation for the services of the QIU hereunder, Stephens agrees to pay the QIU $50,000 on the Closing Date and to reimburse the QIU for all reasonable expenses, including fees and disbursements of counsel, incurred by it as the QIU. The price at which the Shares will be sold to the public shall not be higher than the maximum price recommended by the QIU.

9. Representations, Warranties and Agreements to Survive Delivery. The respective representations, warranties and agreements of the Company, the Selling Stockholder, the several Underwriters and the officers of the Company herein or in certificates delivered pursuant hereto, and the indemnity and contribution agreements contained in Section 7 and Section 8 hereof, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Underwriters or any controlling person, or by or on behalf of the Company, any of its officers, directors or controlling persons or the Selling Stockholder, and shall survive delivery of the Underwritten Shares and, if appropriate, the Option Shares to the Representatives or termination of this Agreement.

10. Default by Underwriters. If any Underwriter shall fail to purchase and pay for the Shares which such Underwriter has agreed to purchase and pay for hereunder (otherwise than by reason of any default on the part of the Company or the Selling Stockholder), you, as the Representatives of the Underwriters, shall use your commercially reasonable efforts to procure within twenty-four hours thereafter one or more of the other Underwriters, or any others, to purchase from the Company and the Selling Stockholder such amounts as may be agreed upon and upon the terms set forth herein, the Shares which the defaulting Underwriter or Underwriters failed to purchase. If during such twenty-four hours you, as such Representatives, shall not have procured such

other Underwriters, or any others, to purchase the Shares agreed to be purchased by the defaulting Underwriter or Underwriters, then (a) if the aggregate number of Shares with respect to which such default shall occur does not exceed 10% of the Shares which the Underwriters are obligated to purchase hereby, the other Underwriters shall be obligated, severally, in proportion to the respective number of Shares which they are obligated to purchase hereunder, to purchase the Shares which such defaulting Underwriter or Underwriters failed to purchase, or (b) if the aggregate number of Shares with respect to which such default shall occur exceeds 10% of the Shares covered hereby, the Company or you, as the Representatives of the Underwriters, will have the right, by written notice given within the next twenty-four hour period to the parties to this Agreement, to terminate this Agreement without liability on the part of the non-defaulting Underwriters, the Company or the Selling Stockholder except to the extent provided in Section 7 or Section 8 hereof (provided that if such default occurs with respect to Option Shares after the Closing Date, this Agreement will not terminate as to the Underwritten Shares or any Option Shares purchased prior to such termination). In the event of a default by any Underwriter or Underwriters, as set forth in this Section 10, the time of closing may be postponed for such period, not to exceed seven days, as you, as the Representatives, may determine in order that the required changes in the Registration Statement, the Prospectus or in any other documents or arrangements may be effected. The term "Underwriters" includes any person substituted for a defaulting Underwriter. Any action taken under Section 10 shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

11. Notices. All notices and communications hereunder shall be in writing and, except as otherwise provided in, will be mailed, delivered or telefaxed and confirmed as follows: if to the Underwriters, c/o the Representatives as follows: to Stephens Inc., 111 Center Street, Little Rock, Arkansas 72201, Attention: Sandra Farmer, with a copy to M. Hill Jeffries, Alston & Bird LLP, One Atlantic Center, 1201 West Peachtree Street, Atlanta, Georgia 30309, if to the Company or to the Selling Stockholder, to Conn's, Inc. 3925 College Street, Beaumont, Texas 77701, Attention: Thomas J. Frank, Sr., with a copy to Thomas W. Hughes, Winstead Sechrest & Minick P.C., 5400 Renaissance Tower, 1201 Elm Street, Dallas, Texas 75270.

12. Information Furnished by Underwriters. The information set forth in the Prospectus: (a) in the final paragraph on the cover page, (b) in the fourth paragraph under the caption "Shares Eligible for Future Sale," relating to the early release of shares from lock-up agreements, (c) in the table under the caption "Underwriting," listing the Underwriters and the number of shares each has agreed to purchase, (d) in the fourth paragraph under the caption "Underwriting," relating to the concession to dealers and the re-allowance to certain other dealers and the delivery of the Shares, (e) in the first paragraph under the caption "Underwriting--Lock-up Agreements," relating to the early release of shares from lock-up agreements and (f) in the first paragraph under the caption "Underwriting--Underwriters' Market Activities," constitute the written information furnished by or on behalf of any Underwriters referred to in paragraph (a) (vi) of Section 1 hereof and in paragraphs (a) and (b) of Section 7 hereof.

13. Successors. This Agreement has been and is made solely for the benefit of the Underwriters, the Company, the Selling Stockholder and their respective successors, executors, administrators, heirs, and assigns, and the officers, directors and controlling

persons referred to herein, and except as provided herein no other person will have any right or obligation hereunder. The term "successors" shall not include any purchaser of the Shares merely because of such purchase.

14. Miscellaneous. The Representatives will act for the several Underwriters in connection with the Public Offering, and any action under this Agreement taken by the Representatives jointly or by Stephens will be binding upon all of the Underwriters.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

The invalidity or unenforceability of any section, paragraph or provision of this Agreement shall not affect the validity or enforceability of any other section, paragraph or provision of this Agreement. If any section, paragraph or provision of this Agreement is for any reason determined to be invalid or unenforceable, there shall be deemed to be made such minor changes (and only such minor changes) as are necessary to make it valid and enforceable.

THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CHOICE OF LAW OR CONFLICT OF LAW PRINCIPLES THEREOF. The Company and the Selling Stockholder hereby submit to the non-exclusive jurisdiction of the Federal and state courts in the Borough of Manhattan in The City of New York in any suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicates hereof, whereupon it will become a binding agreement among the Company, the Selling Stockholder and the several Underwriters in accordance with its terms.

Very truly yours,

CONN'S, INC.

By:___________________________
Name: ________________________
Title: _________________________

CONN APPLIANCES, INC.

By:___________________________
Name: ________________________
Title: _________________________

THOMAS J. FRANK, SR.

The foregoing Underwriting Agreement
is hereby confirmed and accepted as
of the date first above written.

STEPHENS INC.
SUNTRUST CAPITAL MARKETS, INC.

By: Stephens Inc.

By:___________________________
Name: ________________________
Title: _________________________

As Representatives of the several Underwriters
named in Schedule I hereto

Schedule I

Underwriter	Number of Underwritten Shares
Stephens Inc.	
SunTrust Capital Markets, Inc.	
Total	

Schedule II

Texas
Louisiana

Schedule III

Exhibit A

Form of Lockup Agreement

Conn's, Inc.
Conn Appliances, Inc.
3295 College Street
Beaumont, Texas 77701

Stephens Inc.
SunTrust Capital Markets, Inc.
as Representatives of the Several Underwriters
c/o Stephens Inc.
111 Center Street
Little Rock, Arkansas 72201

Dear Sirs:

As an inducement to the Underwriters to execute the Underwriting Agreement pursuant to which an offering will be made that is intended to result in the establishment of a public market for the common stock, par value $0.01 per share (the "Common Stock"), of Conn's, Inc. (together with any successor (by merger or otherwise) thereto, the "Company"), the undersigned hereby agrees that from the date hereof and until 180 days after the public offering date set forth on the final prospectus used to sell the Common Stock (the "Public Offering Date"), the undersigned will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of Common Stock or shares of common stock, par value $0.01 per share, of Conn Appliances, Inc. or securities convertible into or exchangeable or exercisable for any such shares (all of such shares and other securities being referred to collectively hereinafter as the "Securities"), enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the Securities, whether any such aforementioned transaction is to be settled by delivery of the Securities or such other securities, in cash or otherwise, or publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Stephens Inc., except for (1) the transfer by the undersigned of Securities in connection with the merger of Conn's Merger Sub, Inc. with and into Conn Appliances, Inc., (2) the transfer by the undersigned of Securities to the Company in connection with a redemption of Securities, (3) bona fide gifts, provided the recipient of such gift shall agree to be bound by this Agreement for the remainder of such 180 day period, and (4) in connection with merger or a transaction to acquire a majority of the capital stock of the Company or Conn Appliances, Inc. pursuant to an offer made on substantially the same terms to all of the Company's or Conn Appliances, Inc.'s stockholders.

Any Securities received upon exercise of options granted to the undersigned will also be subject to this Agreement. Any Securities acquired by the undersigned in the open market or in the Company's directed share program will not be subject to this Agreement. A transfer of Securities to a family member or trust may be made, provided the transferee agrees to be bound in writing by the terms of this Agreement.

In furtherance of the foregoing, Conn Appliances, Inc., the Company and its transfer agent and registrar are hereby authorized to decline to make any transfer of Securities if such transfer would constitute a violation or breach of this Agreement.

This Agreement shall be binding on the undersigned and the successors, heirs, personal representatives and assigns of the undersigned. This Agreement shall lapse and become null and void if the Public Offering Date shall not have occurred on or before March 23, 2004.

Very truly yours,

____

____
Printed Name(s)

Date: ______________, 2003

Exhibit B

Alternate Form of Lockup Agreement

Conn's, Inc.
Conn Appliances, Inc.
3295 College Street
Beaumont, Texas 77701

Stephens Inc.
SunTrust Capital Markets, Inc.
as Representatives of the Several Underwriters
c/o Stephens Inc.
111 Center Street
Little Rock, Arkansas 72201

Dear Sirs:

As an inducement to the Underwriters to execute the Underwriting Agreement pursuant to which an offering will be made that is intended to result in the establishment of a public market for the common stock, par value $0.01 per share (the "Common Stock"), of Conn's, Inc. (together with any successor (by merger or otherwise) thereto, the "Company"), the undersigned hereby agrees that from the date hereof and until 180 days after the public offering date set forth on the final prospectus used to sell the Common Stock (the "Public Offering Date"), the undersigned will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of Common Stock or shares of common stock, par value $0.01 per share, of Conn Appliances, Inc. or securities convertible into or exchangeable or exercisable for any such shares (all of such shares and other securities being referred to collectively hereinafter as the "Securities"), enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the Securities, whether any such aforementioned transaction is to be settled by delivery of the Securities or such other securities, in cash or otherwise, or publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Stephens Inc., except for (1) the transfer by the undersigned of Securities in connection with the merger of Conn's Merger Sub, Inc. with and into Conn Appliances, Inc., (2) the transfer by the undersigned of Securities to the Company in connection with a redemption of Securities, and (3) the transfer by the undersigned, prior to the closing of the public offering, of all Securities then beneficially owned by the undersigned to a revocable trust to be established pursuant to the terms of a voting trust agreement to be entered into among James Sommers as trustee, the undersigned and the other beneficial owners of Securities to be named therein.

Any Securities received upon exercise of options granted to the undersigned will also be subject to this Agreement. Any Securities acquired by the undersigned in the open market or in the Company's directed share program will not be subject to this

Agreement. A transfer of Securities to a family member or trust may be made, provided the transferee agrees to be bound in writing by the terms of this Agreement.

In furtherance of the foregoing, Conn Appliances, Inc., the Company and its transfer agent and registrar are hereby authorized to decline to make any transfer of Securities if such transfer would constitute a violation or breach of this Agreement.

This Agreement shall be binding on the undersigned and the successors, heirs, personal representatives and assigns of the undersigned. This Agreement shall lapse and become null and void if the Public Offering Date shall not have occurred on or before March 23, 2004.

Very truly yours,

____

____
Printed Name(s)

Date: ______________, 2003

Exhibit 4.1

NUMBER SHARES

CS

[LOGO OF CONN'S]
Appliances Electronics TVs Computers
CONN'S, INC.

COMMON STOCK INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE CUSIP 208242 10 7

SEE REVERSE FOR CERTAIN DEFINITIONS

THIS CERTIFIES THAT

is the owner of

FULLY PAID AND NONASSESSABLE SHARES OF COMMON STOCK, PAR VALUE $.01 PER SHARE, OF
CONN'S, INC.

(the "Corporation"), a Delaware corporation. The shares represented by this Certificate are transferable only on the stock transfer books of the Corporation by the holder of record hereof, or by his duly authorized attorney or legal representative, upon the surrender of this Certificate properly endorsed. This Certificate is not valid until countersigned and registered by the Corporation's transfer agent and registrar.

This Security is not a deposit or account and is not federally insured or guaranteed.

In Witness Whereof, the Corporation has caused this Certificate to be executed by the facsimile signatures of its duly authorized officers and has caused a facsimile of its corporate seal to be hereunto affixed.

DATED

/s/ David R. Atnip	CONN'S, INC. CORPORATE [SEAL] 2003 DELAWARE *	/s/ Thomas J. Frank, Sr.
SECRETARY/TREASURER		CHAIRMAN OF THE BOARD

COUNTERSIGNED AND REGISTERED
EquiServe Trust company, N.A.
TRANSFER AGENT AND REGISTRAR

By:

AUTHORIZED SIGNATURE

AMERICAN BANK NOTE COMPANY 711 ARMSTRONG LANE COLUMBIA, TENNESSEE 38401 (931) 388-3003	PRODUCTION COORDINATOR: MIKE PETERS 931-490-1714 PROOF OF OCTOBER 6, 2003 CONN'S INC. TSB 13389 FACE
SALES: P. SHEERIN 708-599-0404/RANDY GRAY 214-823-2700	OPERATOR: TERESA
/ ETHER 13 / LIVE JOBS / C / CONN'S / 13389 FACE	NEW

CONN'S, INC.

The shares represented by this Certificate are issued subject to all the provisions of the Certificate of Incorporation and Bylaws of Conn's, Inc. (the "Corporation") as from time to time amended (copies of which are on file at the principal executive offices of the Corporation).

The Board of Directors of the Corporation is authorized by resolution or resolutions, from time to time adopted, to provide for the issuance of serial preferred stock in series and to fix and state the powers, designations, preferences and relative, participating, optional or other special rights of the shares of each such series and the qualifications, limitations and restrictions thereof. The Corporation will furnish to any shareholder upon request and without charge a full description of each class of stock and any series thereof.

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	-- as tenants in common	UNIF GIFT/TRANSFER MIN ACT --	----------- Custodian -----------
TEN ENT	-- as tenants by the entireties		(Cust) (Minor) under Uniform Gifts/Transfer to Minors Act
JT TEN	-- as joint tenants with right of survivorship and not as tenants in common		---------------------- (State)

Additional abbreviations may also be used though not in the above list.

For value received, ---------- hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

- ---------------------------------------

- ---------------------------------------

- --

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

- --

- --

- -- Shares

of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint --

Attorney to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated ----------------------------------

NOTICE: ---

THE SIGNATURE OF THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

SIGNATURE(S) GUARANTEED: ---

THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 14Ad-15.

EXHIBIT 5.1

Winstead Sechrest & Minick P.C.
5400 Renaissance Tower
1201 Elm Street
Dallas, Texas 75270
(214) 745-5400 Phone
(214) 745-5390 Fax

________________, 2003

Conn's, Inc.
3295 College Street
Beaumont, Texas 77701

Re: Conn's, Inc.
Registration Statement on Form S-1 (File No. 333-109046)

Ladies and Gentlemen:

We have acted as counsel for Conn's, Inc., a Delaware corporation (the "Company"), in connection with the registration statement on Form S-1 (the "Registration Statement") filed by the Company with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Securities Act"), covering the registration of 4,150,000 shares (the "Shares") of the Company's common stock, par value $.01 per share.

In that connection, we have examined originals, or copies certified or otherwise identified to our satisfaction, of such documents, corporate records and other instruments as we have deemed necessary or appropriate for the purposes of our opinion, including: (i) the Company's Certificate of Incorporation and all amendments thereto, (ii) the Company's Bylaws, as amended, (iii) the applicable minutes of meetings or consents in lieu of meetings of the Company's board of directors and stockholders, and (iv) with respect to certain factual matters not independently verified, certificates of officers of the Company.

For the purposes of expressing the opinion hereinafter set forth, we have assumed: (i) the genuineness of all signatures and documents; (ii) the authenticity of all documents submitted to us as originals; (iii) the conformity to the originals of all documents submitted to us as copies; (iv) the correctness and accuracy of all facts set forth in the documents referred to in this opinion letter; and (v) the due authorization, execution, and delivery of and the validity and binding effect of all documents.

Based on the foregoing and subject to the qualifications set forth herein, we are of the opinion that the Shares have been duly authorized and, when issued as described in the prospectus forming a part of the Registration Statement, will be validly issued, fully paid and nonassessable.

Our opinions herein are limited in all respects to the General Corporation Law of the State of Delaware, which includes those statutory provisions as well as all applicable provisions

of the Delaware Constitution and the reported judicial decisions interpreting such laws, and the federal laws of the United States of America, and we do not express any opinion as to the applicability of or the effect thereon of the laws of any other jurisdiction. We express no opinion as to any matter other than as set forth herein, and no opinion may be inferred or implied herefrom.

We are aware that we are referred to under the heading "Legal Matters" in the prospectus forming part of the Registration Statement, and we hereby consent to such use of our name therein and the filing of this opinion letter as Exhibit 5.1 to the Registration Statement. In giving this consent, we do not thereby admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Commission promulgated thereunder.

Very truly yours,

Winstead Sechrest & Minick P.C.

EXHIBIT 10.15

FORM OF EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (this "Agreement") is made as of October ____, 2003, by and between Conn's, Inc, a Delaware corporation with its principle offices at 3295 College Street, Beaumont, Texas 77701 ("Conn's"), and __________________________, an individual (the "Executive").

WHEREAS, Executive is currently employed by Conn Appliances, Inc., a Texas corporation ("Conn Texas");

WHEREAS, Conn Texas intends to effect a reorganization whereby it will become a wholly owned subsidiary of Conn's, and simultaneously with such reorganization, Conn's intends to effect an initial public offering of its common stock (the "IPO");

WHEREAS, subject to consummation of the IPO, Conn's desires to employ Executive as ________________________, and Executive desires to be so employed, upon the terms and conditions set forth herein; and

WHEREAS, Conn's and Executive desire to have this Agreement supersede any and all prior agreements, oral or written, relating to the employment of Executive by Conn Texas or Conn's.

NOW, THEREFORE, in consideration of the foregoing and in consideration of the mutual promises and agreements contained herein, the parties hereto agree as follows:

A. Employment Period. The employment period shall be for the period beginning on the date on which Conn's consummates the IPO (the "Effective Date") and ending on January 31, 2006 (as may be renewed, the "Employment Period"), unless earlier terminated pursuant to Section D. In the event the IPO is not consummated, this Agreement shall be null and void. This Agreement may be extended for additional one year periods upon the mutual written consent of Conn's and Executive.

B. Nature of Duties.

1. Executive's duties and responsibilities shall be to serve Conn's as its ___________________, or in such other capacity as Conn's Board of Directors (the "Board") shall direct, in conformity with management policies, guidelines and directions issued by Conn's, and shall have general charge and supervision of those functions and such other responsibilities as the Board shall determine. The Board may cause Executive to serve as an officer of any subsidiary of the Company. Executive's employment shall be subject to all of Conn's corporate policies and personnel manuals as modified by this Agreement. Executive shall report to the __________________________.

2. Executive shall work exclusively for Conn's on a full-time basis in such capacity and shall carry on his employment at such location as shall be required by the CEO. During normal business hours, Executive shall devote all of his time and attention to Conn's business. During the Employment Period, it shall not be a violation of this Agreement for Executive to (i) serve on corporate, civic or charitable boards or committees to the extent permitted by Sections and G and Q, (ii) deliver lectures or

fulfill speaking engagements and (iii) manage personal investments, so long as such activities do not materially interfere with the performance of Executive's responsibilities in accordance with this Agreement. Executive shall perform his duties and responsibilities diligently, faithfully and loyally in order to cause the proper, efficient and successful operation of Conn's business.

C. Compensation and Benefits.

1. Conn's shall pay to Executive as compensation for services rendered by Executive during the term of this Agreement a base annualized salary of $______ per year, (the "Salary"), subject to adjustment as set forth below, payable semi-monthly. The Compensation Committee shall review the Salary no less frequently than annually, and may, in its discretion, adjust the Salary upward or downward, but in no event shall the Salary be less than $_______ per year.

2. With respect to each fiscal year during the Employment Period, Executive shall be eligible to receive an annual cash bonus (the "Incentive Compensation"), the amount of such bonus to be determined by the Compensation Committee based on Executive's attainment of certain performance goals relating to Conn's annual business plan/budget as established by the Compensation Committee. Such performance goals shall be communicated to Executive in writing no later than sixty (60) days from the beginning of each fiscal year during the Employment Period. With respect to the Incentive Compensation to be paid to the Executive for the period ending on January 31, 2004, the performance goals shall be communicated to Executive in writing no later than thirty (30) days after the Effective Date. In the event such performance goals are met, the Incentive Compensation shall be paid to Executive no later than forty-five (45) days following the close of the fiscal year to which such Incentive Compensation relates.

3. Executive shall be entitled to participate in 401(k), life insurance, major medical, dental, disability and other employee benefit plans of Conn's that may be in effect from time to time and which other senior executives of Conn's are otherwise eligible, to the extent Executive is eligible under the terms of such plans (collectively, the "Benefits").

4. Conn's may, from time to time, grant stock options exercisable for shares of Conn's common stock, and such options shall be subject to the terms and conditions determined by the Compensation Committee.

5. Executive shall be entitled to paid vacation each calendar year and to such personal and sick leave with pay in accordance with the policy of Conn's, as may be established from time to time by Conn's and applied to all other employees of Conn's.

6. If Conn's maintains any liability insurance covering members of its Board of Directors, Executive will be included within the covered class of individuals under such policy.

7. During the Employment Period, Conn's may provide an automobile and gas card to Executive for business and personal use. Income shall be imputed to Executive for the personal use of such automobile.

8. Conn's shall reimburse Executive for all customary and reasonable expenses incurred by Executive in performance of his duties under this Agreement; provided, however, that Executive must furnish to Conn's an itemized account satisfactory to Conn's, in substantiation of such expenditures and such expenditures shall otherwise be in accordance with Conn's policies and procedures.

D. Termination.

1. This Agreement shall terminate automatically upon Executive's death.

2. Conn's may terminate Executive other than for Cause (as hereinafter defined) or if Executive becomes permanently disabled, at any time, upon no fewer than five (5) days prior written notice to Executive. For purposes of this Agreement, permanent disability (i) shall be determined in accordance with the disability insurance that Conn's may then have in effect, if any, or (ii) if no such insurance is in effect, shall mean that Executive is subject to a medical determination that he, because of a medically determinable disease, injury, or other mental or physical disability, is unable to perform substantially all of his regular duties, and that such disability is determined or reasonably expected to last at least twelve (12) months, based on then-available medical information.

3. Conn's may terminate Executive for Cause, at any time, without written notice.

4. Executive may terminate his employment, at any time, upon no fewer than thirty (30) days prior written notice to Conn's.

5. Any termination under this Section D shall be communicated to the other party in writing and if the date of termination is other than the date of receipt of such notice, such written notice shall specify the date of termination (which shall not be more than ninety (90) days after giving of such notice). The date of termination shall be the date of receipt of the notice of termination or any later date specified therein.

E. Effects of Termination.

1. In the event of automatic termination by reason of Executive's death or by Conn's by reason of Executive's permanent disability, Conn's shall have no further obligations under this Agreement except for its obligation to pay Executive's Base Salary and Incentive Compensation, if any, earned and accrued but unpaid through the date of death or permanent disability. Executive shall have the right to receive payments under the death or disability benefits, if any, provided to Executive pursuant to Section C.3. of this Agreement.

2. In the event (i) Conn's exercises its right of termination other than for Cause or (ii) this Agreement is not renewed by Conn's when it expires, Conn's shall be obligated to pay Executive's Base Salary and Incentive Compensation, if any, earned and accrued but unpaid through the date of termination. In addition, Conn's shall pay as severance

pay one (1) year of Executive's current Base Salary. Such payments shall be made in equal installments in such intervals as the Base Salary was paid at the time of such termination or expiration.

3. In the event Conn's terminates Executive for Cause or Executive terminates his employment, Conn's shall have no further obligations under this Agreement except for its obligations to pay Executive's Base Salary earned and accrued but unpaid through the date of termination.

F. Certain Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

1. "Affiliate" shall mean, with respect to a person, any other person controlling, controlled by or under common control with the first person.

2. "Cause" shall mean (i) behavior of Executive which is adverse to Conn's interests, (ii) Executive's dishonesty, criminal charge or conviction, grossly negligent misconduct, willful misconduct, acts of bad faith, neglect of duty or (iii) material breach of this Agreement.

3. "Confidential Information" shall mean information: (i) disclosed to or known by the Executive as a consequence of or through his employment with Conn's, (ii) not generally known outside Conn's and (iii) which relates to any aspect of Conn's or its business, research, or development. "Confidential Information" includes, but is not limited to Conn's trade secrets, proprietary information, business plans, marketing plans, methodologies, computer code and programs, formulas, processes, compilations of information, results of research, proposals, reports, records, financial information, compensation and benefit information, cost and pricing information, customer lists and contact information, supplier lists and contact information, vendor lists and contact information, and information provided to Conn's by a third party under restrictions against disclosure or use by Conn's or others; provided, however, that the term "Confidential Information" does not include information that (a) at the time it was received by Executive was generally available to the public, (b) prior to its use by Executive, becomes generally available to the public through no act or failure of Executive, (c) is received by Executive from a person or entity other than Conn's or an Affiliate of Conn's who is not under an obligation of confidence with respect to such information or (d) was generally known by Executive by virtue of his experience and know how gained prior to employment with Conn's.

4. "Control," and correlative terms, shall mean the power, whether by contract, equity ownership or otherwise, to direct the policies or management of a person.

5. "Copyright Works" shall mean materials for which copyright protection may be obtained including, but not limited to literary works (including all written material), computer programs, artistic and graphic works (including designs, graphs, drawings, blueprints, and other works), recordings, models, photographs, slides, motion pictures, and audio-visual works, regardless of the form or manner in which documented or recorded.

6. "Person" shall mean an individual, partnership, corporation, limited liability company, trust or unincorporated organization, or a government or agency or political subdivision thereof.

7. "Work Product" shall mean all methods, analyses, reports, plans, computer files and all similar or related information which (i) relate to Conn's or any of its Affiliates and (ii) are conceived, developed or made by Executive in the course of his employment by Conn's.

G. Non-Disclosure, Non-Competition and Non-Solicitation. Executive and Conn's acknowledge and agree that during and solely as a result of his employment by Conn's, Conn's has provided and will continue to provide Confidential Information and special training to Executive in order to allow Executive to fulfill his obligations as an executive of a publicly-held company and under this Agreement. In consideration of the special and unique opportunities afforded to Executive by Conn's as a result of Executive's employment, as outlined in the previous sentence, Executive hereby agrees as follows:

1. Executive agrees that Executive will not, except as Conn's may otherwise consent or direct in writing, reveal or disclose, sell, use, lecture upon, publish or otherwise disclose to any third party any Confidential Information of Conn's or any of its Affiliates, or authorize anyone else to do these things at any time either during or subsequent to Executive's employment with Conn's. This Section G.1 shall continue in full force and effect after termination of Executive's employment for any reason. Executive's obligations under this Section G.1 with respect to any specific Confidential Information shall cease only when that specific portion of the Confidential Information becomes publicly known, other than as a result of disclosure by Executive, in its entirety and without combining portions of such information obtained separately. It is understood that such Confidential Information of Conn's and any of its Affiliates includes matters that Executive conceives or develops, as well as matters Executive learns from other executives of Conn's and any of its Affiliates.

2. During the Employment Period, Executive will not (other than for the benefit of Conn's or any of its Affiliates pursuant to this Agreement) compete with Conn's or any of its Affiliates by engaging in the conception, design, development, production, marketing, or servicing of any product or service that is substantially similar to the products or services which Conn's or any of its Affiliates provides, and that he will not work for, assist, loan money, extend credit or become affiliated with as an individual, owner, partner, director, officer, stockholder, employee, advisor, independent contractor, joint venturer, consultant, agent, representative, salesman or any other capacity, either directly or indirectly, any individual or business which offers or performs services, or offers or provides products substantially similar to the services and products provided by Conn's or any of its Affiliates. The restrictions of this Section G.2 shall not be violated by the ownership of no more than 1% of the outstanding securities of any company whose equity securities are traded on a national securities exchange or is quoted on the NASDAQ National Market.

3. Executive agrees that he shall not, directly or indirectly, at any time during the period of one (1) year after the termination of this Agreement for any reason, including

expiration of the Agreement, within the geographical area of 100 miles of any existing or specifically contemplated Conn's retail or support location at the time of termination, as an individual, owner, partner, director, officer, stockholder, employee, advisor, independent contractor, joint venturer, consultant, agent, representative, salesman or any other capacity, work for, assist, loan money, extend credit or become affiliated with, either directly or indirectly, any individual or business which offers or performs services, or offers or provides products substantially similar to the services and products provided by Conn's or any of its Affiliates. The restrictions of this Section G.3 shall not be violated by the ownership of no more than 1% of the outstanding securities of any company whose equity securities are traded on a national securities exchange or is quoted on the NASDAQ National Market. It is understood that the geographical area set forth in this covenant is divisible so that if this clause is invalid or unenforceable in an included geographic area, that area is severable and the clause remains in effect for the remaining included geographic areas in which the clause is valid.

4. Executive agrees that for the duration of this Agreement, and for a period of two (2) years after the termination of this Agreement or expiration of this Agreement, Executive will not either directly or indirectly, on his behalf or on behalf of others, solicit, attempt to hire, or hire any person employed by Conn's and any of its Affiliates to work for Executive or for another entity, firm, corporation, or individual.

5. Executive acknowledges that Conn's has taken reasonable steps to maintain the confidentiality of its Confidential Information and the ownership of its Work Product and Copyright Works, which is extremely valuable to Conn's and provides Conn's with a competitive advantage in its market. Executive further acknowledges that Conn's would suffer irreparable harm if Executive were to use or enable others to use such knowledge, information, and business acumen in competition with Conn's. Executive acknowledges the necessity of the restrictive covenants set forth herein to: protect Conn's legitimate interests in Conn's Confidential Information; protect Conn's customer relations and the goodwill with customers and suppliers that Conn's has established at its substantial investment; and protect Conn's as a result of providing Executive with specialized knowledge, training, and insight regarding Conn's operations as a publicly-held company. Executive further agrees and acknowledges that these restrictive covenants are reasonably limited as to time, geographic area, and scope of activities to be restricted and that such promises do not impose a greater restraint on Executive than is necessary to protect the goodwill, Confidential Information and other legitimate business interests of Conn's. Executive agrees that any breach of this Section G cannot be remedied solely by money damages, and that in addition to any other remedies Conn's may have, Conn's is entitled to obtain injunctive relief against Executive without the requirement of posting bond or other security. Nothing herein, however, shall be construed as limiting Conn's right to pursue any other available remedy at law or in equity, including recovery of damages and termination of this Agreement.

6. Executive acknowledges that all writings, records, and other documents and things comprising, containing, describing, discussing, explaining, or evidencing any Confidential Information, Work Product, and/or Copyright Works of Conn's, any Affiliate of Conn's, or any third party with which Conn's has a confidential

relationship, is the property of Conn's or such Affiliate. All property belonging to Conn's in Executive's custody or possession that has been obtained or prepared in the course of Executive's employment with Conn's shall be the exclusive property of Conn's, shall not be copied and/or removed from the premises of Conn's, except in pursuit of the business of Conn's, and shall be delivered to Conn's, along with all copies or reproductions of same, upon notification of the termination of Executive's employment or at any other time requested by Conn's. Conn's shall have the right to retain, access, and inspect all property of any kind in Executive's office, work area, and on the premises of Conn's upon termination of Executive's employment and at any time during Executive's employment, to ensure compliance with the terms of this Agreement.

7. The terms of this Section G are continuing in nature and shall survive the termination or expiration of this Agreement.

H. Notices. All notices and other communications under this Agreement shall be in writing and shall be delivered personally or by facsimile or electronic delivery, given by hand delivery to the other party, sent by overnight courier or sent by registered or certified mail, return receipt requested, postage prepaid, to:

If to Executive: ____

____

\ ____

Fax No.: ____________________________________

If to Company: Conn's, Inc.
3295 College Street
Beaumont, Texas 77701
Attn: C. William Frank
Fax No.: (409) 212-9521

with a copy to: Winstead Sechrest & Minick P.C.
1201 Elm Street, Suite 5400
Dallas, Texas 75214
Attn: Thomas W. Hughes
Fax No.: (214) 745-5163

I. Assignment. Conn's shall require any successors (whether direct or indirect, by purchase, merger, consolidation or otherwise) to a controlling interest in the business, assets or equity of Conn's to assume and agree to perform this Agreement in the same manner and to the same extent that Conn's would be required to perform if no such succession had taken place. This Agreement is a personal employment contract and the rights, obligations and interests of Executive under this Agreement may not be sold, assigned, transferred, pledged or hypothecated by Executive.

J. Binding Agreement. Executive understands that his obligations under this Agreement are binding upon Executive's heirs, successors, personal representatives and legal representatives.

K. Arbitration. Except for any controversy or claim relating to Section G of this Agreement, any controversy or claim arising out of or relating to this Agreement or the breach of any provision of this Agreement, including the arbitrability of any controversy or claim, shall be settled by arbitration administered by the American Arbitration Association ("AAA") under its National Rules for the Resolution of Employment Disputes and the Optional Rules for Emergency Measures of Protection of the AAA, and judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Any provisional remedy which would be available from a court of law, shall be available from the arbitrator to the parties to this Agreement pending arbitration. Arbitration of disputes is mandatory and in lieu of any and all civil causes of action and lawsuits either party may have against the other arising out of Executive's employment with Conn's. Civil discovery shall be permitted for the production of documents and taking of depositions. The arbitrator(s) shall be guided by the Texas Rules of Civil Procedure in allowing discovery and all issues regarding compliance with discovery requests shall be decided by the arbitrator(s). The Federal Arbitration Act shall govern this Section K. This Agreement shall in all other respects be governed and interpreted by the laws of the State of Texas, excluding any conflicts or choice of law rule or principles that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The arbitration shall be conducted in Beaumont, Texas by one neutral arbitrator chosen by AAA according to its National Rules for the Resolution of Employment Disputes if the amount of the claim is one million dollars ($1,000,000.00) or less and by three neutral arbitrators chosen by AAA in the same manner if the amount of the claim is more than one million dollars ($1,000,000.00). Neither party nor the arbitrator(s) may disclose the existence, content, or results of any arbitration hereunder without the prior written consent of both parties unless compelled to do so either by judicial process or in order to enforce an arbitration award rendered pursuant to this Section K. All fees and expenses of the arbitration shall be borne by the parties equally. However, each party shall bear the expense of its own counsel, experts, witnesses, and preparation and presentation of proofs. The prevailing party, according to the arbitrator(s), shall be entitled to an award of its reasonable attorneys' fees.

L. Waiver. No waiver by either party to this Agreement of any right to enforce any term or condition of this Agreement, or of any breach of this Agreement, shall be deemed a waiver of such right in the future or of any other right or remedy available under this Agreement.

M. Severability. If any provision of this Agreement as applied to either party or to any circumstances shall be adjudged by a court of competent jurisdiction or arbitrator to be void or unenforceable the same shall in now way affect any other provision of this Agreement or the validity or enforceability of this Agreement. If any court or arbitrator construes any of the provisions of Section G of this Agreement, or any part thereof, to be unreasonable because of the duration of such provision or the geographic or other scope thereof, such court or arbitrator shall reduce the duration or restrict the geographic or other scope of such provision or enforce such provision to the maximum extent possible as so reduced or restricted.

N. Entire Agreement; Amendment. This Agreement, the Indemnification Agreement entered into by Conn's and Executive and any agreements evidencing any stock options granted to Executive pursuant to Section C.4 of this Agreement shall constitute the entire agreement between the parties with respect to Executive's employment with Conn's during the Employment Period. This Agreement replaces and supersedes any and all existing agreements entered into between Executive and Conn's, whether oral or written, regarding the subject matter of this

Agreement. This Agreement may not be amended or modified other than by a written agreement executed by the parties to this Agreement or their respective successors and legal representatives.

O. Understand Agreement. Executive represents and warrants that he has (i) read and understood each and every provision of this Agreement, (ii) been given the opportunity to obtain advice from legal counsel of choice, if necessary and desired, in order to interpret any and all provisions of this Agreement and (iii) freely and voluntarily entered into this Agreement.

P. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas and is performable in Beaumont, Texas.

Q. Professional/Personal. Membership by Executive on corporate and civic boards should be accepted only after consideration of conflict of interest and consultation with the CEO of Conn's. Conn's requires Executive to have a comprehensive annual medical physical examination.

R. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same instrument.

S. Titles; Pronouns and Plurals. The titles to the sections of this Agreement are inserted for convenience of reference only and should not be deemed a part hereof or affect the construction or interpretation of any provision hereof. Whenever the context may require, any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns, and verbs shall include the plural and vice versa.

T. Survival. Sections E through P of this Agreement shall survive the termination of Executive's employment or expiration of this Agreement.

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

EXECUTIVE	CONN'S, INC.
______________________________	By: ____
[Name of Executive]	Thomas J. Frank, Sr. Chairman of the Board and Chief Executive Officer

Exhibit 23.1

Consent of Independent Auditors

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated September 12, 2003, in Amendment No. 1 to the Registration Statement (Form S-1 No. 333-57554) and related Prospectus of Conn's, Inc dated October 29, 2003.

ERNST & YOUNG LLP

Houston, Texas
October 26, 2003