

CONNS INC
Form 10-Q
September 05, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 31, 2013

Commission File Number 1-34956

CONN'S, INC.
(Exact name of registrant as specified in its charter)

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

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

4055 Technology Forest Blvd, Suite 210
The Woodlands, Texas 77381
(936) 230-5899
(Address, including zip code, and telephone
number, including area code, of registrant's
principal executive offices)

None
(Former name, former address and former
fiscal year, if changed since last report)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 30, 2013:

Class	Outstanding
Common stock, \$.01 par value per share	35,945,895

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CONN'S INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except share data)

	July 31, 2013	January 31, 2013
Assets		
Current assets		
Cash and cash equivalents	\$3,799	\$3,849
Customer accounts receivable, net of allowance of \$34,486 and \$27,617, respectively (includes balance of VIE of \$28,553 at January 31, 2013)	428,083	378,050
Other accounts receivable, net of allowance of \$55 and \$55, respectively	38,573	45,759
Inventories	90,561	73,685
Deferred income taxes	16,910	15,302
Prepaid expenses and other assets (includes balance of VIE of \$4,717 at January 31, 2013)	13,101	11,599
Total current assets	591,027	528,244
Long-term portion of customer accounts receivable, net of allowance of \$28,368 and \$22,866, respectively (includes balance of VIE of \$23,641 at January 31, 2013)	352,134	313,011
Property and equipment	160,490	141,449
Less accumulated depreciation	(99,805)	(94,455)
Property and equipment, net	60,685	46,994
Deferred income taxes	10,976	11,579
Other assets	8,638	10,029
Total assets	\$1,023,460	\$909,857
Liabilities and Stockholders' Equity		
Current Liabilities		
Current portion of long-term debt (includes balance of VIE of \$32,307 at January 31, 2013)	\$385	\$32,526
Accounts payable	81,249	69,608
Accrued compensation and related expenses	9,056	8,780
Accrued expenses	24,890	20,716
Income taxes payable	2,187	4,618
Deferred revenues and allowances	15,663	14,915
Total current liabilities	133,430	151,163
Long-term debt	334,298	262,531
Other long-term liabilities	23,512	21,713
Commitments and contingencies		
Stockholders' equity		
Preferred stock (\$0.01 par value, 1,000,000 shares authorized; none issued or outstanding)	—	—
Common stock (\$0.01 par value, 50,000,000 shares authorized; 35,918,695 and 35,192,070 shares issued at July 31, 2013 and January 31, 2013, respectively)	359	352
Additional paid-in capital	220,739	204,372
Accumulated other comprehensive loss	(165)	(223)

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Retained earnings	311,287	269,949
Total stockholders' equity	532,220	474,450
Total liabilities and stockholders' equity	\$1,023,460	\$909,857

See notes to consolidated financial statements.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2013	2012	2013	2012
Revenues				
Product sales	\$203,463	\$156,026	\$394,323	\$308,141
Repair service agreement commissions	17,166	12,355	33,155	23,747
Service revenues	3,083	3,274	5,682	6,704
Total net sales	223,712	171,655	433,160	338,592
Finance charges and other	46,977	35,781	88,592	69,695
Total revenues	270,689	207,436	521,752	408,287
Cost and expenses				
Cost of goods sold, including warehousing and occupancy costs	136,040	110,910	259,497	219,353
Cost of service parts sold, including warehousing and occupancy costs	1,318	1,441	2,724	2,991
Selling, general and administrative expense	78,757	59,381	152,012	119,037
Provision for bad debts	21,382	12,204	35,319	21,389
Charges and credits	—	346	—	509
Total cost and expenses	237,497	184,282	449,552	363,279
Operating income	33,192	23,154	72,200	45,008
Interest expense	3,135	4,874	7,006	8,633
Other income, net	(32	) (6	) (38	) (102
Income before income taxes	30,089	18,286	65,232	36,477
Provision for income taxes	10,927	6,680	23,894	13,315
Net income	\$19,162	\$11,606	\$41,338	\$23,162
Earnings per share:				
Basic	\$0.54	\$0.36	\$1.16	\$0.72
Diluted	\$0.52	\$0.35	\$1.13	\$0.70
Average common shares outstanding:				
Basic	35,777	32,404	35,549	32,304
Diluted	36,849	33,119	36,688	33,017

See notes to consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	July 31,		July 31,	
	2013	2012	2013	2012
Net income	\$19,162	\$11,606	\$41,338	\$23,162
Change in fair value of hedges	61	(31	) 90	12
Impact of provision for income taxes on comprehensive income	(22	) 11	(32	) (4
Comprehensive income	\$19,201	\$11,586	\$41,396	\$23,170

See notes to consolidated financial statements.

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CONN'S INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Six Months Ended July 31, 2013 and 2012
(unaudited)
(in thousands)

	Common Stock		Additional	Accumulated	Retained	Total
	Shares	Amount	Paid-in	Other	Earnings	
			Capital	Comprehensive		
				Loss		
Balance at January 31, 2013	35,191	\$352	\$204,372	\$(223	) \$269,949	\$474,450
Exercise of stock options, net of tax	657	7	14,089	—	—	14,096
Issuance of common stock under Employee Stock Purchase Plan	15	—	406	—	—	406
Vesting of restricted stock units	55	—	—	—	—	—
Stock-based compensation	—	—	1,872	—	—	1,872
Net income	—	—	—	—	41,338	41,338
Change in fair value of hedges, net of tax of \$32	—	—	—	58	—	58
Balance at July 31, 2013	35,918	\$359	\$220,739	\$(165	) \$311,287	\$532,220

	Common Stock		Additional	Accumulated	Retained	Total
	Shares	Amount	Paid-in	Other	Earnings	
			Capital	Comprehensive		
				Loss		
Balance at January 31, 2012	32,140	\$321	\$136,006	\$(293	) \$217,337	\$353,371
Exercise of stock options, net of tax	326	3	4,274	—	—	4,277
Issuance of common stock under Employee Stock Purchase Plan	14	—	163	—	—	163
Vesting of restricted stock units	103	1	—	—	—	1
Stock-based compensation	—	—	1,285	—	—	1,285
Net income	—	—	—	—	23,162	23,162
Change in fair value of hedges, net of tax of \$4	—	—	—	8	—	8
Balance at July 31, 2012	32,583	\$325	\$141,728	\$(285) \$240,499	\$382,267

See notes to consolidated financial statements.

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

	Six Months Ended July 31,	
	2013	2012
Cash flows from operating activities		
Net income	\$41,338	\$23,162
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,675	4,596
Amortization	2,237	2,329
Provision for bad debts and uncollectible interest	39,856	25,907
Stock-based compensation	1,872	1,285
Excess tax benefits from stock-based compensation	(4,548)	(472)
Store closing costs	—	163
Provision for deferred income taxes	(1,005)	2,692
Gain on sale of property and equipment	(38)	(104)
Discounts and accretion on promotional credit	—	(162)
Change in operating assets and liabilities:		
Customer accounts receivable	(129,012)	(47,776)
Other accounts receivable	7,164	3,165
Inventories	(16,876)	(7,624)
Prepaid expenses and other assets	170	112
Accounts payable	11,640	20,597
Accrued expenses	6,392	(5,997)
Income taxes payable	(4,329)	1,359
Deferred revenues and allowances	276	(766)
Net cash (used in) provided by operating activities	(39,188)	22,466
Cash flows from investing activities		
Purchase of property and equipment	(19,310)	(11,217)
Proceeds from sale of property and equipment	47	350
Net cash used in investing activities	(19,263)	(10,867)
Cash flows from financing activities		
Borrowings under lines of credit	181,306	94,745
Payments on lines of credit	(109,737)	(176,495)
Proceeds from issuance of asset-backed notes, net of original issue discount	—	103,025
Payments on asset-backed notes	(32,513)	(27,444)
Change in restricted cash	4,717	(8,292)
Net proceeds from stock issued under employee benefit plans	9,954	3,968
Excess tax benefits from stock-based compensation	4,548	472
Other	126	(2,648)
Net cash provided by (used in) financing activities	58,401	(12,669)
Net decrease in cash and cash equivalents	(50)	(1,070)
Cash and cash equivalents		
Beginning of period	3,849	6,265
End of period	\$3,799	\$5,195
See notes to consolidated financial statements.		

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

1. Summary of Significant Accounting Policies

Basis of Presentation. The accompanying unaudited, condensed consolidated financial statements of Conn's, Inc. and all of its wholly-owned subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The accompanying financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature, except as otherwise described herein. The Company's business is moderately seasonal, with a higher portion of sales and operating profit realized during the quarter that ends January 31, due primarily to the holiday selling season. Operating results for the three-month period ended July 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2014. The financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended January 31, 2013, filed with the Securities and Exchange Commission on April 4, 2013.

The Company's balance sheet at January 31, 2013, has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for a complete financial presentation. Please see the Company's Annual Report on Form 10-K for a complete presentation of the audited financial statements for the fiscal year ended January 31, 2013, together with all required footnotes, and for a complete presentation and explanation of the components and presentations of the financial statements.

Principles of Consolidation. The consolidated financial statements include the accounts of Conn's, Inc. and its wholly-owned subsidiaries. Conn's, Inc. is a holding company with no independent assets or operations other than its investments in its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

In April 2012, the Company transferred certain customer receivables to a bankruptcy-remote, variable-interest entity ("VIE") in connection with a securitization. The VIE, which is consolidated within the accompanying financial statements, issued debt secured by the customer receivables that were transferred to it, which were included in customer accounts receivable and long-term portion of customer accounts receivable on the consolidated balance sheet as of January 31, 2013. On April 15, 2013, the VIE redeemed the then outstanding asset-backed notes and the remaining customer receivables were transferred back to the Company.

The Company determined that the VIE should be consolidated within its financial statements due to the fact that it qualified as the primary beneficiary of the VIE based on the following considerations:

- The Company directed the activities that generated the customer receivables that were transferred to the VIE;
- The Company directed the servicing activities related to the collection of the customer receivables transferred to the VIE;
- The Company absorbed losses incurred by the VIE to the extent of its interest in the VIE before any other investors incurred losses; and
-

The Company had the right to receive benefits generated by the VIE after paying the contractual amounts due to the other investors.

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.

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

	Three Months Ended	
	July 31,	
(in thousands)	2013	2012
Weighted average common shares outstanding - Basic	35,777	32,404
Assumed exercise of stock options	859	611
Unvested restricted stock units	213	104
Weighted average common shares outstanding - Diluted	36,849	33,119
	Six Months Ended	
	July 31,	
(in thousands)	2013	2012
Weighted average common shares outstanding - Basic	35,549	32,304
Assumed exercise of stock options	926	596
Unvested restricted stock units	213	117
Weighted average common shares outstanding - Diluted	36,688	33,017

There were no anti-dilutive stock options nor restricted stock units for the three and six months ended July 31, 2013.

The weighted average number of stock options and restricted stock units not included in the calculation due to their anti-dilutive effect was 1.0 million and 1.2 million for the three and six months ended July 31, 2012, respectively.

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