AMERICAS CARMART INC
Form 10-Q
September 02, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 31, 2011

Or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________

Commission file number: 0-14939

AMERICA'S CAR-MART, INC.
(Exact name of registrant as specified in its charter)

Texas	63-0851141
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

802 Southeast Plaza Ave., Suite 200, Bentonville, Arkansas 72712
(Address of principal executive offices) (zip code)

(479) 464-9944
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 [x] 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 [x]
Non-accelerated filer [ ]	Smaller reporting company [ ]

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of Each Class	Outstanding at August 30, 2011
Common stock, par value $.01 per share	9,803,985

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements America’s Car-Mart, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(Dollars in thousands except per share amounts)

	July 31, 2011	April 30, 2011
Assets:		
Cash and cash equivalents	$ 219	$ 223
Accrued interest on finance receivables	1,375	1,133
Finance receivables, net	231,651	222,305
Inventory	26,564	23,595
Prepaid expenses and other assets	2,138	2,046
Income taxes receivable, net	-	1,220
Goodwill	355	355
Property and equipment, net	25,728	25,532
Total Assets	$ 288,030	$ 276,409
Liabilities, mezzanine equity and equity:		
Liabilities:		
Accounts payable	$ 6,790	$ 7,742
Deferred payment protection plan revenue	9,264	8,963
Accrued liabilities	11,185	11,349
Income taxes payable, net	4,290	-
Deferred tax liabilities, net	13,652	13,405
Revolving credit facilities and note payable	57,477	47,539
Total liabilities	102,658	88,998
Commitments and contingencies		
Mezzanine equity:		
Mandatorily redeemable preferred stock	400	400
Equity:		
Preferred stock, par value $.01 per share, 1,000,000 shares authorized; none issued or outstanding	-	-
Common stock, par value $.01 per share, 50,000,000 shares authorized; 12,278,716 and 12,276,658 issued at July 31, 2011 and April 30, 2011, respectively, of which 10,110,166 and 10,496,628 were outstanding at July 31, 2011 and April 30, 2011, respectively	123	123
Additional paid-in capital	47,261	46,476
Retained earnings	186,459	178,187
Less: Treasury stock, at cost, 2,168,550 shares (1,780,030 at April 30, 2011)	(48,971)	(37,875)
Total stockholders' equity	184,872	186,911
Non-controlling interest	100	100
Total equity	184,972	187,011

Total Liabilities, mezzanine equity and equity	$	288,030	$	276,409

The accompanying notes are an integral part of these consolidated financial statements.

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Condensed Consolidated Statements of Operations America’s Car-Mart, Inc.
(Unaudited)
(Dollars in thousands except per share amounts)

	Three Months Ended July 31,	
	2011	2010
Revenues:		
Sales	$90,324	$82,602
Interest income	10,200	8,858
Total revenue	100,524	91,460
Costs and expenses:		
Cost of sales, excluding depreciation shown below	51,562	46,433
Selling, general and administrative	16,198	14,790
Provision for credit losses	18,534	16,138
Interest expense	442	967
Depreciation and amortization	538	456
Total costs and expenses	87,274	78,784
Income before taxes	13,250	12,676
Provision for income taxes	4,968	4,711
Net income	$8,282	$7,965
Less: Dividends on mandatorily redeemable preferred stock	(10)	(10)
Net income attributable to common stockholders	$8,272	$7,955
Earnings per share:		
Basic	$0.81	$0.71
Diluted	$0.78	$0.70
Weighted average number of shares outstanding:		
Basic	10,271,359	11,223,777
Diluted	10,579,824	11,436,613

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows America's Car-Mart, Inc.
(Unaudited)
(In thousands)

	Three Months Ended July 31,	
Operating activities:	2011	2010
Net income	$8,282	$7,965
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Provision for credit losses	18,534	16,138
Losses on claims for payment protection plan	1,336	1,007
Depreciation and amortization	538	456
Amortization of debt issuance costs	44	-
Stock based compensation	731	909
Unrealized loss for change in fair value of interest rate swap	-	233
Deferred income taxes	247	938
Change in operating assets and liabilities:		
Finance receivable originations	(82,903)	(75,914)
Finance receivable collections	45,815	43,556
Accrued interest on finance receivables	(242)	(96)
Inventory	4,903	5,819
Prepaid expenses and other assets	(136)	(528)
Accounts payable and accrued liabilities	(1,717)	(1,416)
Deferred payment protection plan revenue	301	317
Income taxes, net	5,510	3,656
Net cash provided by operating activities	1,243	3,040
Investing Activities:		
Purchase of property and equipment	(734)	(1,135)
Net cash used in investing activities	(734)	(1,135)
Financing Activities:		
Exercise of stock options and warrants	1	-
Issuance of common stock	53	48
Purchase of common stock	(11,096)	(7,260)
Dividend payments	(10)	(10)
Change in cash overdrafts	601	(235)
Principal payments on note payable	-	(228)
Proceeds from revolving credit facilities	37,307	28,487
Payments on revolving credit facilities	(27,369)	(22,697)
Net cash used in financing activities	(513)	(1,895)
Increase (decrease) in cash and cash equivalents	(4)	10
Cash and cash equivalents, beginning of period	223	268
Cash and cash equivalents, end of period	$219	$278

The accompanying notes are an integral part of these consolidated financial statements

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Notes to Consolidated Financial Statements (Unaudited) America's Car-Mart, Inc.

A – Organization and Business

America's Car-Mart, Inc., a Texas corporation (the "Company"), is the largest publicly held automotive retailer in the United States focused exclusively on the "Integrated Auto Sales and Finance" segment of the used car market. References to the Company typically include the Company's consolidated subsidiaries. The Company's operations are principally conducted through its two operating subsidiaries, America's Car-Mart, Inc., an Arkansas corporation ("Car-Mart of Arkansas"), and Colonial Auto Finance, Inc., an Arkansas corporation ("Colonial"). Collectively, Car-Mart of Arkansas and Colonial are referred to herein as "Car-Mart." The Company primarily sells older model used vehicles and provides financing for substantially all of its customers. Many of the Company's customers have limited financial resources and would not qualify for conventional financing as a result of limited credit histories or past credit problems. As of July 31, 2011, the Company operated 107 dealerships located primarily in small cities throughout the South-Central United States.

B – Summary of Significant Accounting Policies

General

The accompanying condensed consolidated balance sheet as of April 30, 2011, which has been derived from audited financial statements, and the unaudited interim condensed financial statements as of July 31, 2011, have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q in 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 of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended July 31, 2011 are not necessarily indicative of the results that may be expected for the year ending April 30, 2012. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended April 30, 2011.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated.

Segment Information

Each dealership is an operating segment with its results regularly reviewed by the Company's chief operating decision maker in an effort to make decisions about resources to be allocated to the segment and to assess its performance. Individual dealerships meet the aggregation criteria under the current accounting guidance. The Company operates in the Integrated Auto Sales and Finance segment of the used car market. In this industry, the nature of the sale and the financing of the transaction, financing processes, the type of customer and the methods used to distribute the Company's products and services, including the actual servicing of the contracts as well as the regulatory environment in which the Company operates, all have similar characteristics. Each of our individual dealerships is similar in nature and only engages in the selling and financing of used vehicles. All individual dealerships have similar operating characteristics. As such, individual dealerships have been aggregated into one reportable segment.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Concentration of Risk

The Company provides financing in connection with the sale of substantially all of its vehicles. These sales are made primarily to customers residing in Alabama, Arkansas, Oklahoma, Tennessee, Texas, Kentucky and Missouri, with approximately 44% of revenues resulting from sales to Arkansas customers. Periodically, the Company maintains cash in financial institutions in excess of the amounts insured by the federal government.

Restrictions on Distributions/Dividends

The Company's revolving credit facilities generally limit distributions by the Company to its shareholders in order to repurchase the Company's common stock, to 75% of consolidated net income measured on a trailing twelve month basis as well as the maintenance of certain financial ratios, as defined. Thus, the Company is limited in the amount of dividends or other distributions it can make to its shareholders without the consent of the Company's lenders.

Cash Equivalents

The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

Finance Receivables, Repossessions and Charge-offs and Allowance for Credit Losses

The Company originates installment sale contracts from the sale of used vehicles at its dealerships. These installment sale contracts carry interest rates ranging from 5.5% to 19% using the simple effective interest method including any deferred fees. Contract origination costs are not significant. The installment sale contracts are not pre-computed contracts whereby buyers are obligated to pay back principal plus the full amount of interest that will accrue over the entire term of the contract. Finance receivables are collateralized by vehicles sold and consist of contractually scheduled payments from installment contracts net of unearned finance charges and an allowance for credit losses. Unearned finance charges represent the balance of interest receivable to be earned over the entire term of the related installment contract, less the earned amount ($1.4 million at July 31, 2011 and $1.1 million at April 30, 2011), and as such, has been reflected as a reduction to the gross contract amount in arriving at the principal balance in finance receivables. An account is considered delinquent when a contractually scheduled payment has not been received by the scheduled payment date. While the Company does not formally place contracts on nonaccrual status, the immaterial amount of interest that may accrue after an account becomes delinquent up until the point of resolution via repossession or write-off, is reserved for against the accrued interest on the Consolidated Balance Sheets. Delinquent contracts are addressed and either made current by the customer, which is the case in most situations, or the vehicle is repossessed or written off, if the collateral cannot be recovered quickly. Customer payments are set to match their pay-day with over 80% of payments due on either a weekly or bi-weekly basis. The frequency of the payment due dates combined with the declining value of collateral lead to prompt resolutions on problem accounts. Accounts are delinquent when the customer is one day or more behind on their contractual payments. At July 31, 2011 and 2010, respectively, 4.0% and 3.6% of the Company's finance receivable balances were 30 days or more past due.

Substantially all of the Company's automobile contracts involve contracts made to individuals with impaired or limited credit histories, or higher debt-to-income ratios than permitted by traditional lenders. Contracts made with buyers who are restricted in their ability to obtain financing from traditional lenders generally entail a higher risk of delinquency, default and repossession, and higher losses than contracts made with buyers with better credit.

The Company works very hard to keep its delinquency percentages low, and not to repossess vehicles. Accounts one day late are sent a notice in the mail. Accounts three days late are contacted by telephone. Notes from each telephone contact are electronically maintained in the Company's computer system. If a customer becomes severely delinquent in his or her payments, and management determines that timely collection of future payments is not probable, the Company will take steps to repossess the vehicle. The Company attempts to resolve payment delinquencies amicably prior to repossessing a vehicle. Periodically, the Company enters into contract modifications with its customers to extend the payment terms. The Company only enters into a contract modification or extension if it believes such action will increase the amount of monies the Company will ultimately realize on the customer's account. At the time of modification, the Company expects to collect amounts due including accrued interest at the contractual interest rate for the period of delay. Other than the extension of additional time, concessions are not granted to customers at the time of modifications. Modifications are minor and are made for pay-day changes, minor vehicle repairs and other reasons. For those vehicles that are repossessed, the majority are returned or surrendered by the customer on a voluntary basis. Other repossessions are performed by Company personnel or third party repossession agents. Depending on the condition of a repossessed vehicle, it is either resold on a retail basis through a Company dealership, or sold for cash on a wholesale basis primarily through physical and/or on-line auctions.

The Company takes steps to repossess a vehicle when the customer becomes delinquent in his or her payments, and management determines that timely collection of future payments is not probable. Accounts are charged-off after the expiration of a statutory notice period for repossessed accounts, or when management determines that the timely collection of future payments is not probable for accounts where the Company has been unable to repossess the vehicle. For accounts with respect to which the vehicle was repossessed, the fair value of the repossessed vehicle is charged as a reduction of the gross finance receivable balance charged-off. On average, accounts are approximately 60 days past due at the time of charge-off. For previously charged-off accounts that are subsequently recovered, the amount of such recovery is credited to the allowance for credit losses.

The Company maintains an allowance for credit losses on an aggregate basis, as opposed to a contract-by-contract basis, at an amount it considers sufficient to cover estimated losses in the collection of its finance receivables. The Company accrues an estimated loss as it is probable that the entire amount will not be collected and the amount of the loss can be reasonably estimated in the aggregate. The allowance for credit losses is based primarily upon historical credit loss experience, with consideration given to recent credit loss trends and changes in contract characteristics (i.e., average amount financed and term), delinquency levels, collateral values, economic conditions and underwriting and collection practices. The allowance for credit losses is reviewed at least quarterly by management with any changes reflected in current operations. The calculation of the allowance for credit losses uses the following primary factors:

- The number of units repossessed or charged-off as a percentage of total units financed over specific historical periods of time.

- The average net repossession and charge-off loss per unit during the last eighteen months, segregated by the number of months since the contract origination date, and adjusted for the expected future average net charge-off loss per unit. About 50% of the charge-offs that will ultimately occur in the portfolio are expected to occur within 10-11 months following the balance sheet date. The average age of an account at charge-off date is 11.3 months.

- The timing of repossession and charge-off losses relative to the date of sale (i.e., how long it takes for a repossession or charge-off to occur) for repossessions and charge-offs occurring during the last eighteen months.

A point estimate is produced by this analysis which is then supplemented by any positive or negative subjective factors to arrive at an overall reserve amount that management considers to be a reasonable estimate of incurred losses that will be realized via actual charge-offs in the future. Although it is at least reasonably possible that events or circumstances could occur in the future that are not presently foreseen which could cause actual credit losses to be materially different from the recorded allowance for credit losses, the Company believes that it has given appropriate consideration to all relevant factors and has made reasonable assumptions in determining the allowance for credit losses. Periods of economic downturn do not necessarily lead to increased credit losses because the Company provides basic affordable transportation to customers that, for the most part, do not have access to public transportation. The effectiveness of the execution of internal policies and procedures within the collections area has historically had a more significant effect on collection results than macro-economic issues.

The Company offers retail customers in most states the option of purchasing a payment protection plan product as an add-on to the installment sale contract. This product contractually obligates the Company to cancel the remaining principal outstanding for any contract where the retail customer has totaled the vehicle, as defined, or the vehicle has been stolen. The Company periodically evaluates anticipated losses to ensure that if anticipated losses exceed deferred payment protection plan revenues, an additional liability is recorded for such difference. No such liability was required at July 31, 2011 or April 30, 2011.

Inventory

Inventory consists of used vehicles and is valued at the lower of cost or market on a specific identification basis. Vehicle reconditioning costs are capitalized as a component of inventory. Repossessed vehicles are recorded at fair value, which approximates wholesale value. The cost of used vehicles sold is determined using the specific identification method.

Goodwill

Goodwill reflects the excess of purchase price over the fair value of specifically identified net assets purchased. Goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to annual impairment tests at the Company's year end. The impairment tests are based on the comparison of the fair value of the reporting unit to the carrying value of such unit. If the fair value of the reporting unit falls below its carrying value, the Company performs the second step of the two-step goodwill impairment process to determine the amount, if any, that the goodwill is impaired. The second step involves determining the fair value of the identifiable assets and liabilities and the implied goodwill. The implied goodwill is compared to the carrying value of the goodwill to determine the impairment, if any. There was no impairment of goodwill during fiscal 2011, and to date, there has been none in fiscal 2012.

Property and Equipment

Property and equipment are stated at cost. Expenditures for additions, renewals and improvements are capitalized. Costs of repairs and maintenance are expensed as incurred. Leasehold improvements are amortized over the shorter of the estimated life of the improvement or the lease term. The lease term includes the primary lease term plus any extensions that are reasonably assured. Depreciation is computed principally using the straight-line method generally over the following estimated useful lives:

Furniture, fixtures and equipment	3 to 7 years
Leasehold improvements	5 to 15 years
Buildings and improvements	18 to 39 years

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying values of the impaired assets exceed the fair value of such assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Cash Overdraft

The Company’s primary disbursement bank account is set up to operate with a fixed $50,000 cash balance. As checks are presented for payment, monies are automatically drawn against cash collections for the day and, if necessary, are drawn against one of its revolving credit facilities. The cash overdraft balance principally represents outstanding checks, net of any deposits in transit that as of the balance sheet date had not yet been presented for payment.

Deferred Sales Tax

Deferred sales tax represents a sales tax liability of the Company for vehicles sold on an installment basis in the State of Texas. Under Texas law, for vehicles sold on an installment basis, the related sales tax is due as the payments are collected from the customer, rather than at the time of sale.

Income Taxes

Income taxes are accounted for under the liability method. 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 expected to apply in the years in which these temporary differences are expected to be recovered or settled. The quarterly provision for income taxes is determined using an estimated annual effective tax rate, which is based on expected annual taxable income, statutory tax rates and the Company’s best estimate of nontaxable and nondeductible items of income and expense.

Occasionally, the Company is audited by taxing authorities. These audits could result in proposed assessments of additional taxes. The Company believes that its tax positions comply in all material respects with applicable tax law. However, tax law is subject to interpretation, and interpretations by taxing authorities could be different from those of the Company, which could result in the imposition of additional taxes.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The

Company applies this methodology to all tax positions for which the statute of limitations remains open.

The Company is subject to income taxes in the U.S. federal jurisdiction and various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply.

With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for the years before fiscal 2008.

In fiscal 2010, the Internal Revenue Service ("IRS") completed the examinations of the Company's income tax returns for fiscal years 2008 and 2009. As a result of the examinations, the IRS has questioned whether deferred payment protection plan ("PPP") revenue associated with the sale of certain receivables are subject to the acceleration of advance payments provision of the IRS code and whether the Company may deduct losses on the sale of the PPP receivables in excess of the income recognized on the underlying contracts. The issue is timing in nature and does not affect the overall tax provision, but affects the timing of required tax payments.

By letter dated April 2, 2010, the IRS delivered to the Company a revenue agent's report, which proposes an adjustment for the items discussed above as well as interest. The Company intends to vigorously defend its position, and on April 23, 2010, the Company filed an administrative protest with the Appeals Office of the IRS. The protest disputes the income tax changes proposed by the IRS and requests a conference with a representative of the Appeals Office. The Company has not yet been notified by the Appeals Office of a date for the conference. If the matter is not resolved in the Appeals Office, and if the IRS intends to pursue its position, the Company fully intends to ask an appropriate court to consider the issue.

The Company's policy is to recognize accrued interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company had no accrued penalties and/or interest as of July 31, 2011 or April 30, 2011.

Revenue Recognition

Revenues are generated principally from the sale of used vehicles, which in most cases includes a service contract and a payment protection plan product, interest income and late fees earned on finance receivables. Revenues are net of taxes collected from customers and remitted to government agencies. Cost of vehicle sales include costs incurred by the Company to prepare the vehicle for sale including license and title costs, gasoline, transport services and repairs.

Revenues from the sale of used vehicles are recognized when the sales contract is signed, the customer has taken possession of the vehicle and, if applicable, financing has been approved. Revenues from the sale of service contracts are recognized ratably over the five-month service contract period. Service contract revenues are included in sales and the related expenses are included in cost of sales. Payment protection plan revenues are initially deferred and then recognized to income using the "Rule of 78's" interest method over the life of the contract so that revenues are recognized in proportion to the amount of cancellation protection provided. Payment protection plan revenues are included in sales and related losses are included in cost of sales. Interest income is recognized on all active finance receivable accounts using the simple effective interest method. Active accounts include all accounts except those that have been paid-off or charged-off.

Sales consist of the following:

	Three Months Ended: July 31,	
(In thousands)	2011	2010
Sales – used autos	$79,574	$72,991
Wholesales – third party	4,894	4,219
Service contract sales	3,192	2,946
Payment protection plan revenue	2,664	2,446

Total	$ 90,324	$ 82,602

Late fee revenues were approximately $394,000 and $467,000 for the three months ended July 31, 2011 and 2010, respectively. Late fees are recognized when collected and are reflected in interest income. Finance receivables more than 90 days past due were approximately $361,000 and $274,000 at July 31, 2011 and 2010, respectively.

Earnings per Share

Basic earnings per share are computed by dividing net income by the average number of common shares outstanding during the period. The calculation of diluted earnings per share takes into consideration the potentially dilutive effect of common stock equivalents, such as outstanding stock options, which if exercised or converted into common stock would then share in the earnings of the Company. In computing diluted earnings per share, the Company utilizes the treasury stock method and anti-dilutive securities are excluded.

Stock-based compensation

The Company recognizes the cost of employee services received in exchange for awards of equity instruments, such as stock options and restricted stock, based on the fair value of those awards at the date of grant over the requisite service period. The Company uses the Black Scholes option pricing model to determine the fair value of stock option awards. The Company may issue either new shares or treasury shares upon exercise of these awards. Stock-based compensation plans, related expenses and assumptions used in the Black Scholes option pricing model are more fully described in Note I.

Treasury Stock

The Company purchased 388,520 shares of its common stock during the first three months of fiscal 2012 for a total cost of $11.1 million and 317,686 shares for a total cost of $7.3 million during the first three months of fiscal 2011. Treasury stock may be used for issuances under the Company's stock-based compensation plans or for other general corporate purposes.

Recent Accounting Pronouncements

Occasionally, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or other standard setting bodies which the Company adopts as of the specified effective date. Unless otherwise discussed, the Company believes the impact of recently issued standards which are not yet effective will not have a material impact on its consolidated financial statements upon adoption.

C – Finance Receivables

The Company originates installment sale contracts from the sale of used vehicles at its dealerships. These installment sale contracts typically include interest rates ranging from 5.5% to 19% per annum, are collateralized by the vehicle sold and provide for payments over periods ranging from 12 to 36 months. The Company's finance receivables are defined as one segment and one class of loans, which is sub-prime consumer automobile contracts. The level of risks inherent in our financing receivable are managed as one homogeneous pool. The components of finance receivables are as follows:

(In thousands)	July 31, 2011	April 30, 2011
Gross contract amount	$ 331,795	$ 317,956
Less unearned finance charges	(37,420)	(35,478)
Principal balance	294,375	282,478
Less allowance for credit losses	(62,724)	(60,173)
Finance receivables, net	$ 231,651	$ 222,305

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Changes in the finance receivables, net for the three months ended July 31, 2011 and 2010 are as follows:

(In thousands)	Three Months Ended July 31, 2011	2010
Balance at beginning of period	$ 222,305	$ 205,423
Finance receivable originations	82,903	75,914
Finance receivable collections	(45,815)	(43,556)
Provision for credit losses	(18,534)	(16,138)
Losses on claims for payment protection plan	(1,336)	(1,007)
Inventory acquired in repossession and payment protection plan claims	(7,872)	(6,144)
Balance at end of period	$ 231,651	$ 214,492

Changes in the finance receivables allowance for credit losses for the three months ended July 31, 2011 and 2010 are as follows:

(In thousands)	Three Months Ended July 31, 2011	2010
Balance at beginning of period	$ 60,173	$ 55,628
Provision for credit losses	18,534	16,138
Charge-offs, net of recovered collateral	(15,983)	(13,703)
Balance at end of period	$ 62,724	$ 58,063

The factors which influenced management's judgment in determining the amount of the additions to the allowance charged to provision for credit losses were:

The level of actual charge-offs, net of recovered collateral is the most important factor in determining the charges to the provision for credit losses. This is due to the fact that once a contract becomes delinquent the account is either made current by the customer, the vehicle is repossessed or the account is written off, if the collateral cannot be recovered. Net charge-offs for the first three months of fiscal 2012 were higher than the prior year period, partially due to higher sales volumes. Net charge-offs as a percentage of average finance receivables increased 0.5% to 5.6% for the first three months ended July 31, 2011 compared to 5.1% for the same period in the prior year. Higher sales volumes also had the effect of higher additions to the allowance charged to the provision for the first three months of fiscal 2012.

Collections and delinquency levels have a significant effect on additions to the allowance and are reviewed frequently in determining the additions to the allowance charged to the provision. For the first three months of fiscal 2012, collections as a percentage of average finance receivables decreased to 15.9% compared to 16.3% for the same period of fiscal 2011.

Macro-economic factors as well as proper execution of operational policies and procedures can have an effect on additions charged to the provision. Higher unemployment levels, higher gasoline prices and higher prices for staple items can potentially have a significant effect. While overall macro-economic factors were still unfavorable during the first quarter of 2012, the Company is focused on continuing operational improvements within the collections area as well as market share gains and specific stimulus funds directly benefitting most the Company's customers were positive as related to credit results.

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Credit quality information for finance receivables is as follows:

(Dollars in thousands)	July 31, 2011		April 30, 2011		July 31, 2010	
	Principal Balance	Percent of Portfolio	Principal Balance	Percent of Portfolio	Principal Balance	Percent of Portfolio
Current	$245,280	83.32 %	$243,266	86.12 %	$231,648	84.99 %
3 - 29 days past due	37,230	12.65 %	30,975	10.97 %	31,136	11.42 %
30 - 60 days past due	9,265	3.15 %	6,003	2.13 %	7,423	2.72 %
61 - 90 days past due	2,239	0.76 %	2,036	0.72 %	2,074	0.76 %
> 90 days past due	361	0.12 %	198	0.07 %	274	0.10 %
Total	$294,375	100.00 %	$282,478	100.00 %	$272,555	100.00 %

Accounts one and two days past due are considered current for this analysis, due to the varying payment dates and variation in the day of the week at each period end. Delinquencies may vary from period to period based on the average age of the portfolio, seasonality within the calendar year, the day of the week and overall economic factors. The above categories are consistent with internal operational measures used by the Company to monitor credit results.

Substantially all of the Company’s automobile contracts involve contracts made to individuals with impaired or limited credit histories, or higher debt-to-income ratios than permitted by traditional lenders. Contracts made with buyers who are restricted in their ability to obtain financing from traditional lenders generally entail a higher risk of delinquency, default and repossession, and higher losses than contracts made with buyers with better credit. The Company monitors contract term length, down payment percentages, and collections for credit quality indicators.

	Three Months Ended July 31,	
	2011	2010
Collections as a percent of average Finance Receivables	15.9 %	16.3 %
Average down-payment percentage	7.3 %	7.2 %
Average originating contract term (in months)	26.4	26.3
Portfolio weighted average contract term, including modifications (in months)	27.4	27.7

D – Property and Equipment

A summary of property and equipment is as follows:

(In thousands)	July 31, 2011	April 30, 2011
Land	$6,079	$6,079
Buildings and improvements	10,046	9,947
Furniture, fixtures and equipment	7,936	7,618
Leasehold improvements	10,730	10,063
Construction in progress	382	732
Less accumulated depreciation and amortization	(9,445)	(8,907)
	$25,728	$25,532

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E – Accrued Liabilities

A summary of accrued liabilities is as follows:

(In thousands)	July 31, 2011	April 30, 2011
Compensation	$3,275	$4,203
Cash overdraft	601	-
Deferred service contract revenue	3,073	2,970
Deferred sales tax	1,699	1,684
Interest	144	117
Other	2,393	2,375
	$11,185	$11,349

F – Debt Facilities

A summary of revolving credit facilities is as follows:

Aggregate Amount	Interest Rate	Maturity	Balance at July 31, 2011	Balance at April 30, 2011
$90.0 million	Prime +/- (3.0% at July 31, 2011 and April 30, 2011)	November 2013	$ 57,477	$ 47,539

On November 4, 2010, the Company entered into a new loan and security agreement ("Credit Facilities") with a group of lenders providing revolving credit facilities totaling $90 million. The Credit Facilities expire in November 2013. The revolving credit facilities are collateralized primarily by finance receivables and inventory of Car-Mart, are cross collateralized and contain a guarantee by the Company. Interest is payable monthly under the revolving credit facilities with tiered pricing at Libor + 2.75% or the bank's prime rate less .25% with no floor. The Credit Facilities contain various reporting and performance covenants including (i) maintenance of certain financial ratios and tests, (ii) limitations on borrowings from other sources, (iii) restrictions on certain operating activities, and (iv) limitations on the payment of dividends or distributions. The Company was in compliance with the covenants at July 31, 2011. The amount available to be drawn under the credit facilities is a function of eligible finance receivables and inventory. Based upon eligible finance receivables and inventory at July 31, 2011, the Company had additional availability of $33 million under the new revolving credit facilities.

The Company recognized $44,000 of amortization in the first quarter of fiscal 2012 related to debt issuance costs. The amortization is reflected as interest expense in the Company's Condensed Consolidated Statement of Operations.

Interest Rate Swap Agreement

On May 16, 2008, the Company entered into an interest rate swap agreement ("Agreement") with its primary lender for a notional principal amount of $20 million. The effective date of the Agreement was May 20, 2008. The Agreement was set to mature on May 31, 2013 and provided that the Company would pay monthly interest on the notional amount at a fixed rate of 6.68% and receive monthly interest on the notional amount at a floating rate based on the bank's prime lending rate, an initial rate of 5.00% (effective rate of 3.25% at July 31, 2010). The Company entered into this Agreement to manage a portion of its interest rate exposure by effectively converting a portion of its variable rate debt into fixed rate debt; however, due to unfavorable interest rate movements, the Company terminated the interest rate swap agreement in April 2011 for $1.3 million. The interest rate swap agreement was not designated as a hedge by Company management; therefore, the gain (loss) of the Agreement is reported in earnings. The net loss for the Agreement reported in earnings as interest expense was $233,000 for the quarter ended July 31, 2010. The interest on the credit facilities, the net settlements under the interest rate swap, and the changes in the fair value of the agreement, were all reflected in interest expense.

G – Fair Value Measurements

The table below summarizes information about the fair value of financial instruments included in the Company's financial statements at July 31, 2011 and April 30, 2011:

	July 31, 2011		April 30, 2011	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	$ 219	$ 219	$ 223	$ 223
Finance receivables, net	231,651	183,984	222,305	176,549
Accounts payable	6,790	6,790	7,742	7,742
Revolving credit facilities	57,477	57,477	47,539	47,539

Because no market exists for certain of the Company's financial instruments, fair value estimates are based on judgments and estimates regarding yield expectations of investors, credit risk and other risk characteristics, including interest rate and prepayment risk. These estimates are subjective in nature and involve uncertainties and matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The methodology and assumptions utilized to estimate the fair value of the Company's financial instruments are as follows:

Financial Instrument	Valuation Methodology
Cash	The carrying amount is considered to be a reasonable estimate of fair value due to the short-term nature of the financial instrument.
Finance receivables, net	The Company estimated the fair value of its receivables at what a third party purchaser might be willing to pay. The Company has had discussions with third parties and has recently bought and sold portfolios, and has had a recent third party appraisal that indicates a 37.5% discount to face would be a reasonable fair value in a negotiated third party transaction. The sale of finance receivables from Car-Mart of Arkansas to Colonial is at a 37.5% discount. For financial reporting purposes these sale transactions are eliminated. Since the Company does not intend to offer the receivables for sale to an outside third party, the expectation is that the book value at July 31, 2011, will be ultimately collected. By collecting the accounts internally the Company expects to realize more than a third party purchaser would expect to collect with a servicing requirement and a profit margin included.

Accounts payable	The carrying amount is considered to be a reasonable estimate of fair value due to the short-term nature of the financial instrument.
Revolving credit facilities	The fair value approximates carrying value due to the variable interest rates charged on the borrowings, which reprice frequently.

H – Weighted Average Shares Outstanding

Weighted average shares of common stock outstanding, which are used in the calculation of basic and diluted earnings per share, are as follows:

	Three Months Ended: July 31,	
	2011	2010
Weighted average shares outstanding-basic	10,271,359	11,223,777
Dilutive options, warrants and restricted stock	308,465	212,836
Weighted average shares outstanding-diluted	10,579,824	11,436,613
Antidilutive securities not included:		
Options and warrants	25,000	580,000

I – Stock Based Compensation

The Company has stock based compensation plans available to grant non-qualified stock options, incentive stock options and restricted stock to employees, directors and certain advisors of the Company. The stock based compensation plans currently being utilized are the 2007 Stock Option Plan ("2007 Plan") and the Stock Incentive Plan ("Incentive Plan"). The Company recorded total stock based compensation expense for all plans of $731,000 ($457,000 after tax effects) and $909,000 ($573,000 after tax effects) for the three months ended July 31, 2011 and 2010, respectively. Tax benefits were recognized for these costs at the Company's overall effective tax rate.

Stock Options

The Company has options outstanding under two stock option plans approved by the shareholders, the 1997 Stock Option Plan ("1997 Plan") and the 2007 Plan. While previously granted options remain outstanding, no additional option grants may be made under the 1997 Plan. The shareholders of the Company approved an amendment to the Company's 2007 Plan on October 13, 2010. The amendment increased from 1,000,000 to 1,500,000 the number of options to purchase our common stock that may be issued under the 2007 Plan. The 2007 Plan provides for the grant of options to purchase shares of the Company's common stock to employees, directors and certain advisors of the Company at a price not less than the fair market value of the stock on the date of grant and for periods not to exceed ten years. Options granted under the Company's stock option plans expire in the calendar years 2012 through 2021.

	1997 Plan	2007 Plan
Minimum exercise price as a percentage of fair market value at date of grant	100 %	100 %
Last expiration date for outstanding options	July 2, 2017	June 13, 2021
Shares available for grant at July 31, 2011	-	457,500

The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model based on the assumptions in the table below.

	July 31, 2011	July 31, 2010
Expected term (years)	5.0	5.0
Risk-free interest rate	1.77 %	1.80 %
Volatility	50 %	50 %
Dividend yield	—	—

The expected term of the options is based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at the grant date. Volatility is based on historical volatility of the Company's common stock. The Company has not historically issued any dividends and does not expect to do so in the foreseeable future.

The grant-date fair value of options granted during the three months ended July 31, 2011 and 2010 was $579,000 and $244,000, respectively. The options were granted at fair market value on date of grant.

Stock option compensation expense on a pre-tax basis was $687,000 ($429,000 after tax effects) and $853,000 ($537,000 after tax effects) for the three months ended July 31, 2011 and 2010, respectively.

The aggregate intrinsic value of outstanding options at July 31, 2011 and 2010 was $16.8 million and $5.1 million.

As of July 31, 2011, the Company has $3.2 million of total unrecognized compensation cost related to unvested options. These unvested outstanding options have a weighted-average remaining vesting period of 1.73 years.

The Company received cash from options exercised during the first quarter of fiscal 2012 of $1,100. The impact of these cash receipts is included in financing activities in the accompanying Consolidated Statements of Cash Flows. The intrinsic value for options exercised was $5,000. There were no options exercised during the first three months of fiscal 2011.

Stock Incentive Plan

The shareholders of the Company approved an amendment to the Company's Stock Incentive Plan on October 14, 2009. The amendment increased from 150,000 to 350,000 the number of shares of common stock that may be issued under the Stock Incentive Plan. For shares issued under the Stock Incentive Plan, the associated compensation expense is generally recognized equally over the vesting periods established at the award date and is subject to the employee's continued employment by the Company.

There were no restricted shares granted during the first quarter of 2011 or 2010. A total of 187,027 shares remained available for award at July 31, 2011. The following is a summary of the activity in the Company's Stock Incentive Plan during the quarter ended July 31, 2011:

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	Number of Shares	Weighted Average Grant Date Fair Value
Unvested shares at April 30, 2011	29,000	$ 22.79
Shares granted	-	-
Shares vested	-	-
Unvested shares at July 31, 2011	29,000	$ 22.79

The Company recorded a compensation cost of $34,000 ($21,000 after tax effects) and $47,000 ($27,000 after tax effects) related to the Stock Incentive Plan during the three months ended July 31, 2011 and 2010, respectively.

As of July 31, 2011, the Company has $420,000 of total unrecognized compensation cost related to unvested awards granted under the Stock Incentive Plan, which the Company expects to recognize over a weighted-average remaining period of 3.11 years.

There were no modifications to any of the Company's outstanding share-based payment awards during fiscal 2011 or during the first three months of fiscal 2012.

J - Supplemental Cash Flow Information

Supplemental cash flow disclosures are as follows:

	Three Months Ended July 31,	
(in thousands)	2011	2010
Supplemental disclosures:		
Interest paid	$ 415	$ 943
Income taxes paid (received), net	(788)	117
Non-cash transactions:		
Inventory acquired in repossession and payment protection plan claims	7,872	6,144

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

The following discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto appearing elsewhere in this report.

Forward-Looking Information

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address the Company's future objectives, plans and goals, as well as the Company's intent, beliefs and current expectations regarding future operating performance, and can generally be identified by words such as "may", "will", "should", "could", "believe", "expect", "anticipate", "intend", "pla and other similar words or phrases. Specific events addressed by these forward-looking statements include, but are not limited to:

- new dealership openings;

- performance of new dealerships;
- same store revenue growth;
- future revenue growth;
- future credit losses;
- investment in development of workforce;
- gross margin percentages;
- financing the majority of growth from profits;
- seasonality;

- compliance with tax regulations; and
- the Company's business and growth strategies.

These forward-looking statements are based on the Company's current estimates and assumptions and involve various risks and uncertainties. As a result, you are cautioned that these forward-looking statements are not guarantees of future performance, and that actual results could differ materially from those projected in these forward-looking statements. Factors that may cause actual results to differ materially from the Company's projections include, but are not limited to:

- the availability of credit facilities to support the Company's business;
- the Company's ability to underwrite and collect its contracts effectively;
- competition;
- dependence on existing management;
- availability of quality vehicles at prices that will be affordable to customers;
- changes in financing laws or regulations;
- the outcome of pending tax audits; and
- general economic conditions in the markets in which the Company operates, including but not limited to fluctuations in gas prices, grocery prices and employment levels.