

AMERICAS CARMART INC  
Form 10-Q  
December 08, 2009

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

FORM 10-Q

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

For the quarterly period ended October 31, 2009

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

802 Southeast Plaza Ave., Suite 200, Bentonville, Arkansas 72712  
(Address of principal executive offices, including 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  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 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 Exchange Act). Yes  No

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 December 8, 2009
Common stock, par value \$.01 per share	11,732,153

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## Part I. FINANCIAL INFORMATION

Item 1. Financial Statements  
 Condensed Consolidated Balance Sheets  
 (Dollars in thousands except per share amounts)

America's Car-Mart, Inc.

	October 31, 2009  (unaudited)	April 30, 2009
<b>Assets:</b>		
Cash and cash equivalents	\$ 229	\$ 168
Accrued interest on finance receivables	854	778
Finance receivables, net	199,664	182,041
Inventory	17,746	15,476
Prepaid expenses and other assets	949	1,460
Goodwill	355	355
Property and equipment, net	20,681	19,346
	\$ 240,478	\$ 219,624
<b>Liabilities, mezzanine equity and equity:</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 4,126	\$ 3,928
Deferred payment protection plan revenue	8,014	7,353
Accrued liabilities	11,386	12,342
Income taxes payable, net	666	308
Deferred tax liabilities, net	10,331	8,377
Revolving credit facilities and notes payable	34,201	29,839
Total liabilities	68,724	62,147
<b>Commitments and contingencies</b>		
<b>Mezzanine equity:</b>		
Mandatorily redeemable preferred stock	400	400
<b>Equity:</b>		
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; 12,231,437 issued (12,228,465 at April 30, 2009)	122	122
Additional paid-in capital	41,270	40,313
Retained earnings	136,533	123,213
Less: Treasury stock, at cost, 499,284 shares	(6,671 )	(6,671 )
Total stockholders' equity	171,254	156,977
Non-controlling interest	100	100
Total equity	171,354	157,077
	\$ 240,478	\$ 219,624

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



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Condensed Consolidated Statements of Operations  
(Unaudited)

America's Car-Mart, Inc.

(Dollars in thousands except per share amounts)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2009	2008	2009	2008
<b>Revenues:</b>				
Sales	\$75,242	\$65,413	\$152,254	\$134,639
Interest income	7,319	6,570	14,062	13,005
	82,561	71,983	166,316	147,644
<b>Costs and expenses:</b>				
Cost of sales, excluding depreciation shown below	42,318	37,437	85,400	76,463
Selling, general and administrative	13,964	12,500	27,887	25,309
Provision for credit losses	15,152	14,421	30,203	28,912
Interest expense	776	1,110	1,023	1,802
Depreciation and amortization	412	338	804	657
	72,622	65,806	145,317	133,143
Income before taxes	9,939	6,177	20,999	14,501
Provision for income taxes	3,627	2,296	7,659	5,329
Net income	\$6,312	\$3,881	\$13,340	\$9,172
Less: Dividends on subsidiary preferred stock	(10 )	(10 )	(20 )	(20 )
Net income attributable to common stockholders	\$6,302	\$3,871	\$13,320	\$9,152
<b>Earnings per share:</b>				
Basic	\$.54	\$.33	\$1.14	\$.78
Diluted	\$.53	\$.33	\$1.13	\$.78
<b>Weighted average number of shares outstanding:</b>				
Basic	11,732,151	11,760,421	11,731,100	11,733,571
Diluted	11,862,679	11,825,806	11,827,588	11,807,141

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

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Consolidated Statements of Cash Flows  
(Unaudited)  
(In thousands)

America's Car-Mart, Inc.

	Six Months Ended October 31,	
	2009	2008
Operating activities:		
Net income	\$ 13,340	\$ 9,172
Adjustments to reconcile net income from operations to net cash provided by (used in) operating activities:		
Provision for credit losses	30,203	28,912
Losses on claims for payment protection plan	2,161	1,804
Depreciation and amortization	804	657
(Gain) loss on sale of property and equipment	113	(10 )
Stock based compensation	902	1,156
Unrealized (gain) loss for change in fair value of interest rate swap	(226 )	494
Deferred income taxes	1,954	3,636
Changes in operating assets and liabilities:		
Finance receivable originations	(140,749 )	(125,447 )
Finance receivable collections	80,054	71,430
Accrued interest on finance receivables	(76 )	(74 )
Inventory	8,469	8,098
Prepaid expenses and other assets	511	(317 )
Accounts payable and accrued liabilities	1,123	71
Deferred payment protection plan revenue	661	2,215
Income taxes payable	358	3,605
Excess tax benefit from stock-based compensation	-	(453 )
Net cash provided by (used in) operating activities	(398 )	4,949
Investing activities:		
Purchase of property and equipment	(2,373 )	(1,460 )
Proceeds from sale of property and equipment	92	47
Net cash used in investing activities	(2,281 )	(1,413 )
Financing activities:		
Exercise of stock options and warrants	-	301
Excess tax benefit from stock-based compensation	-	453
Issuance of common stock	54	88
Dividend payments	(20 )	(20 )
Change in cash overdrafts	(1,656 )	(1,783 )
Proceeds from notes payable	-	15
Principal payments on notes payable	(473 )	(409 )
Proceeds from revolving credit facilities	48,830	43,630
Payments on revolving credit facilities	(43,995 )	(45,753 )
Net cash provided by (used in) financing activities	2,740	(3,478 )
Increase in cash and cash equivalents	61	58

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Cash and cash equivalents at:	Beginning of period	168	153
End of period		\$229	\$211

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 "Buy Here/Pay Here" 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 October 31, 2009, the Company operated 96 stores 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, 2009, which has been derived from audited financial statements and the unaudited interim condensed consolidated financial statements as of October 31, 2009 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 and six months ended October 31, 2009 are not necessarily indicative of the results that may be expected for the year ending April 30, 2010. 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, 2009.

### 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 lots meet the aggregation criteria under the Accounting Standards Codification ("ASC") Topic 280, "Segment Reporting" ("ASC 280"). The Company operates in the Buy Here/Pay Here segment of the used car market, also referred to as the Integrated Auto Sales and Finance Industry. 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 loans as well as the regulatory environment in which the Company operates, all have similar characteristics. Each of our individual lots is similar in nature and only engages in the selling and financing of used vehicles. All individual lots have similar operating characteristics. As such, individual lots 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 Arkansas, Alabama, Oklahoma, Texas, Kentucky and Missouri, with approximately 49% of revenues from customers residing in Arkansas. The Company maintains a security interest in the vehicles sold. Periodically, the Company maintains cash in financial institutions in excess of the amounts insured by the federal government. Car-Mart's revolving credit

facilities mature in April 2010. The Company expects that these credit facilities will be renewed or refinanced on or before the scheduled maturity date.

#### Restrictions on Subsidiary Distributions/Dividends

Car-Mart of Arkansas' revolving credit facilities limit distributions from Car-Mart of Arkansas to the Company beyond (i) the repayment of an intercompany loan (\$10.0 million at October 31, 2009), and (ii) dividends equal to 75% of Car-Mart of Arkansas' net income. At October 31, 2009, the Company's assets (excluding its \$158 million equity investment in Car-Mart) consisted of \$1,900 in cash, \$3.8 million in other net assets and a \$10.0 million receivable from Car-Mart of Arkansas. Thus, the Company is limited in the amount of dividends or other distributions it can make to its shareholders without the consent of Car-Mart of Arkansas' lender.

#### Cash Equivalents

The Company considers all highly liquid debt instruments purchased with 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 in compliance with ASC Subtopic 310-20, "Receivables – Nonrefundable Fees and Other Costs" ("ASC 310"), including any deferred fees. Loan origination costs are not significant. The installment sale contracts are not pre-computed loans whereby borrowers are obligated to pay back principal plus the full amount of interest that will accrue over the entire term of the loan. 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 (\$854,000 at October 31, 2009), 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 loans 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 loans 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 October 31, 2009 and 2008, respectively, 3.4% and 3.8% of the Company's finance receivable balances were 30 days or more past due.

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. The majority of vehicles that are repossessed 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 store, 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 56 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 loan-by-loan basis, at a level it considers sufficient to cover estimated losses in the collection of its finance receivables. In accordance with ASC Topic 450, "Contingencies" ("ASC 450"), 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 loan 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 periodically reviewed by management with any changes reflected in current operations. 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.

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 loan 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 October 31, 2009.

#### 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. In accordance with ASC Subtopic 350-20, "Intangibles – Goodwill" ("ASC 350"), goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to annual impairment tests. 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, goodwill is deemed to be impaired and a write-down of goodwill would be recognized. There was no impairment of goodwill during fiscal 2009, and to date, there has been none in fiscal 2010.

#### 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
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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.

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 Internal Revenue Service is currently auditing the 2008 and 2009 income tax returns for Car-Mart of Arkansas.

The Company applies the provisions of ASC Topic 740, "Income Taxes" ("ASC 740"). As required by ASC 740, 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 ASC 740 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 2006.

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 October 31, 2009.

#### 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 loan 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.

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Sales consist of the following:

(In thousands)	Three Months Ended October 31,		Six Months Ended October 31,	
	2009	2008	2009	2008
Sales – used autos	\$66,706	\$57,440	\$135,752	\$118,953
Wholesales – third party	3,367	3,393	6,405	6,794
Service contract sales	2,903	2,598	5,623	5,180
Payment protection plan revenue	2,266	1,982	4,474	3,712
<b>Total</b>	<b>\$75,242</b>	<b>\$65,413</b>	<b>\$152,254</b>	<b>\$134,639</b>

Late fee revenues were approximately \$872,000 and \$691,000 for the six months ended October 31, 2009 and 2008, respectively. Late fees are recognized when collected and are reflected in interest income. Finance receivables more than 90 days past due were approximately \$389,000 and \$632,000 at October 31, 2009 and 2008, 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. Diluted earnings per share are computed by dividing net income attributable to common stockholders by the average number of common shares outstanding during the period plus common stock equivalents. The calculation of diluted earnings per share takes into consideration the potentially dilutive effect of common stock equivalents, such as outstanding stock options and warrants, 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 applies the provisions of ASC Topic 718, “Compensation – Stock Compensation” (“ASC 718”). ASC 718 requires the Company to recognize expense as services are received related to the fair value of stock-based compensation awards, including employee stock options.

The Company recorded compensation cost for stock-based employee awards of \$902,000 (\$573,000 after tax effects) during the six months ended October 31, 2009. The pretax amounts include \$20,000 for restricted shares issued on May 1, 2006, \$51,000 for restricted shares issued on December 18, 2007, \$13,000 for restricted shares issued on August 14, 2009, \$146,000 for stock options granted in July 2009, \$635,000 for options granted on October 16, 2007, \$31,000 for options granted October 1, 2009, and \$6,000 related to stock issued under the 2006 Employee Stock Purchase Plan. The Company recorded compensation cost for stock-based employee awards of \$1,156,000 (\$731,000 after tax effects) during the six months ended October 31, 2008. The pretax amounts include \$179,000 for restricted shares issued on May 1, 2006, \$134,000 for restricted shares issued on December 18, 2007, \$201,000 for stock options granted during the six months ended October 31, 2008, \$635,000 for options granted on October 16, 2007, and \$7,000 related to stock issued under the 2006 Employee Stock Purchase Plan. Tax benefits were recognized for these costs at the Company’s overall effective tax rate.

### Stock Options

On October 16, 2007, the shareholders of the Company approved the 2007 Stock Option Plan (the “2007 Plan”). The 2007 Plan provides for the grant of options to purchase up to an aggregate of 1,000,000 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. The shares of common stock available for issuance under the 2007 Plan may, at the election of the Company's board of directors, be unissued shares or treasury shares, or shares purchased in the open market or by private purchase. 360,000 options were granted to executive officers on October 16, 2007 upon the approval of the stockholders of the 2007 Plan, vest in one third increments and are subject to the attainment of certain profitability goals over the three fiscal years ending April 30, 2010. 100,000 options were granted to certain non-executive employees on October 1, 2009 upon the approval of the Company's board of directors. These options vest on September 30, 2012.

The shareholders of the Company have previously approved the 1997 Stock Option Plan ("1997 Plan") and the 2007 Stock Option Plan ("2007 Plan"). No additional option grants may be made under the 1997 plan. Outstanding options granted under the Company's stock option plans expire in the calendar years 2009 through 2017.

## Plan

	1997	2007
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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	October 1, 2019
Shares available for grant at October 31, 2009	0	510,000

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.

	October 31, 2009	October 31, 2008
Expected term (years)	5.0	5.0
Risk-free interest rate	2.24%	3.33%
Volatility	52.6%	90%
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 six months ended October 31, 2009 and 2008 was \$1,260,000 and \$201,000, respectively. The options were granted at fair market value on date of grant. The aggregate intrinsic value of outstanding options at October, 2009 and 2008 was \$3,958,000 and \$2,047,000.

As of October 31, 2009, the Company has \$1,718,000 of total unrecognized compensation cost related to unvested options, of which \$635,000 relates to options that have performance criteria granted under the 2007 Plan. At each period end, the Company will evaluate and estimate the likelihood of attaining underlying performance goals and recognize compensation cost accordingly. Unvested outstanding options have a weighted-average remaining vesting period of 1.03 years.

There were 82,000 options exercised during the first six months of fiscal year 2009 with an intrinsic value of \$1,342,000. The Company received cash from options exercised during the first six months of fiscal year 2009 of \$301,000. There were no options exercised during the first six months of fiscal 2010. The impact of these cash receipts is included in financing activities in the accompanying Consolidated Statements of Cash Flows.

#### Warrants

As of October 31, 2009, the Company had no remaining outstanding stock purchase warrants. Warrants for 18,750 shares were exercised during the six months ended October 31, 2008 with an intrinsic value of \$60,000.

#### 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. During the six months ended October 31, 2009, 10,000 restricted shares were granted with a fair value of \$19.06 per share, the market price of the Company's stock on the grant date. During fiscal 2008 and fiscal 2007, 65,000 restricted shares were granted with a fair value of \$11.90 per share and 57,500 restricted shares were granted with a fair value of \$20.07 per share, the market prices of the Company's stock on the grant dates, respectively. A total of 207,361 shares remained available for award at October 31, 2009. The following is a summary of the activity in the Company's stock incentive plans during the six months ended October 31, 2009:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested shares at April 30, 2009	25,669	\$ 13.18
Shares granted	10,000	19.06
Shares vested	-	-
Unvested shares at October 31, 2009	35,669	\$ 14.81

The Company recorded compensation cost of \$84,000 and \$313,000 related to the Stock Incentive Plan during the six months ended October 31, 2009 and 2008, respectively.

As of October 31, 2009, the Company has \$288,000 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 1.4 years.

#### Treasury Stock

The Company did not purchase any shares of its common stock during the first six months of fiscal 2010 and fiscal 2009. Treasury stock may be used for issuances under the Company's stock-based compensation plans or for other general corporate purposes.

#### Recent Accounting Pronouncements

Effective July 1, 2009, the Company adopted the Accounting Standards Codification™ (the "Codification"). The Codification is the source of authoritative U.S. Generally Accepted Accounting Principles ("GAAP") to be applied by nongovernmental entities. The Codification does not change current U.S. GAAP but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature in one place. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Adoption of the Codification did not have a material impact on the Company's financial statements.

The Company adopted the amendments to ASC Topic 810 – "Consolidation" ("ASC 810") May 1, 2009. The objective of this amendment is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. Accordingly this amendment requires the ownership interests in subsidiaries held by other parties other than the parent be clearly identified, labeled, and presented in the Consolidated Balance Sheet within equity but separate from the parent's and entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. Upon the adoption, \$100,000 of preferred stock was classified as non-controlling interest within equity and the remaining \$400,000 of preferred stock with a put provision was classified in the mezzanine section. The dividends associated with the entire preferred stock were reflected as a reduction to net income to arrive at net income attributable to the common stockholders. The presentation of the preferred stock has been applied retroactively for all periods.

The Company adopted the amendments to ASC Topic 815 "Derivatives and Hedging" ("ASC 815") May 1, 2009. Due to the use and complexity of derivative instruments, there were concerns regarding the existing disclosure requirements around derivative instruments. Accordingly, this amendment requires enhanced disclosures about an entity's derivative and hedging activities. Entities will be required to provide enhanced disclosures about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedging items are accounted for under

ASC 815 and its related interpretations, and (iii) how derivative instruments and related hedging items affect an entity's financial position, financial performance and cash flows. This amendment did not have a material impact on the Company's financial statements.

The Company also adopted amendments to ASC Topic 855 "Subsequent Events" ("ASC 855") May 1, 2009. This amendment was issued to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. It sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that occur for a potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The amendment also introduces the concept of financial statements "available to be issued." Adoption of this amendment did not

have a material impact on the Company's financial statements.

In August 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-05, "Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value." This ASU clarifies the fair market value measurement of liabilities. In circumstances where a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: a technique that uses quoted price of the identical or a similar liability or liabilities when traded as an asset or assets, or another valuation technique that is consistent with the principles of Topic 820 such as an income or market approach. ASU No. 2009-05 was effective upon issuance and it did not have a material impact on the Company's financial statements.

#### Reclassifications

Certain prior year amounts in the accompanying financial statements have been reclassified to conform to the second quarter of fiscal 2010 presentation. Upon adoption of the amendments to ASC 810 during the first quarter of fiscal 2010, \$100,000 of the Company's subsidiary's mandatorily redeemable preferred stock was reclassified as a noncontrolling interest within equity and \$400,000 of the mandatorily redeemable preferred stock with a put was reclassified in the mezzanine section. The dividends associated with the preferred stock are reflected as a reduction to net income to arrive at net income attributable to common stockholders.

#### 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 components of finance receivables are as follows:

(In thousands)	October 31, 2009	April 30, 2009
Gross contract amount	\$ 281,723	\$254,372
Less unearned finance charges	(28,004 )	(23,021 )
Principal balance	253,719	231,351
Less allowance for credit losses	(54,055 )	(49,310 )
Finance receivables, net	\$ 199,664	\$ 182,041

Changes in the finance receivables, net balance for the six months ended October 31, 2009 and 2008 are as follows:

(In thousands)	Six Months Ended October 31,	
	2009	2008
Balance at beginning of period	\$ 182,041	\$ 163,344
Finance receivable originations	140,749	125,447
Finance receivables from acquisition of business	31	-
Finance receivable collections	(80,054 )	(71,430 )
Provision for credit losses	(30,203 )	(28,912 )
Losses on claims for payment protection plan	(2,161 )	(1,804 )
Inventory acquired in repossession and payment protection plan claims	(10,739 )	(10,799 )
Balance at end of period	\$ 199,664	\$ 175,846



Changes in the finance receivables allowance for credit losses for the six months ended October 31, 2009 and 2008 are as follows:

(In thousands)	Six Months Ended October 31,	
	2009	2008
Balance at beginning of period	\$ 49,310	\$ 44,809
Provision for credit losses	30,203	28,912
Allowance related to acquisition of business, net change	(31 )	-
Charge-offs, net of recovered collateral	(25,427 )	(26,028 )
Balance at end of period	\$ 54,055	\$ 47,693

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 loan 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 second quarter of fiscal 2010 were slightly lower than the prior year period even though average finance receivables outstanding were approximately \$27.6 million higher. Higher sales volumes had the effect of increasing required additions to the allowance charged to the provision for the first six months of 2010 tempered, to an extent, by the lower relative charge-off amount.

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 six months of 2010, collections as a percentage of average finance receivables were slightly higher and delinquencies were lower which served to offset the higher additions which resulted from increased sales volumes.

Macro-economic factors as well as proper execution of operational policies and procedures can have a significant effect on additions to the allowance charged to the provision. Higher unemployment levels, higher gasoline prices and higher prices for staple items can have a significant effect. While overall macro-economic factors were somewhat less favorable during the first six months of 2010, 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 when compared to the prior year period. Additionally, gasoline prices were lower during the first six months of 2010 when compared to the prior year period which had a positive effect on credit results.

#### D – Property and Equipment

A summary of property and equipment is as follows:

(In thousands)	October 31, 2009	April 30, 2009
Land	\$ 6,002	\$ 5,740
Buildings and improvements	7,883	7,443
Furniture, fixtures and equipment	5,371	4,816
Leasehold improvements	7,962	6,558
Less accumulated depreciation and amortization	(6,537 )	(5,211 )
	\$ 20,681	\$ 19,346





## E – Accrued Liabilities

A summary of accrued liabilities is as follows:

(In thousands)	October 31, 2009	April 30, 2009
Compensation	\$ 3,840	\$3,703
Cash overdraft	-	1,656
Deferred service contract revenue	2,516	2,465
Deferred sales tax	1,450	1,224
Interest rate swap	1,296	1,522
Deferred rent	849	644
Interest	139	121
Other	1,296	1,007
	\$ 11,386	\$12,342

## F – Debt Facilities

A summary of revolving credit facilities is as follows:

Revolving Credit Facilities				(in thousands)	
Primary Lender	Aggregate Amount	Interest Rate	Maturity	Balance at October 31, 2009	April 30, 2009
Bank of Oklahoma	\$51.5 million	Prime +/-	April 2010	\$ 25,796	\$ 20,911

On December 12, 2008, the Company amended its revolving credit facilities. The amendments had the effect of increasing the total commitment by \$1.5 million (to \$51.5 million), extending the due date to April 30, 2010 and establishing an interest rate floor of 4.25%. In addition to the revolving credit facilities, the Company has a \$10 million term loan. The term loan was funded in May 2006 and called for 120 consecutive and substantially equal installments beginning June 1, 2006. The interest rate on the term loan is fixed at 7.33%. The principal balance on the term loan was \$7.4 million at October 31, 2009. The combined total for the Company's revolving credit facilities and term loan is \$61.5 million.

The facilities are collateralized by substantially all the assets of Car-Mart, including finance receivables and inventory. Interest is payable monthly under the revolving credit facilities at the bank's prime lending rate less .25%, provided that interest shall not at any time be less than 4.25% per annum. The effective rate at October 31, 2009 and April 30, 2009 was 4.25%. The 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 to the Company. The Company was in compliance with the covenants at October 31, 2009. The amount available to be drawn under the facilities is a function of eligible finance receivables and inventory. Based upon eligible finance receivables and inventory at October 31, 2009, Car-Mart could have drawn an additional \$25.7 million under its facilities.

The Company also has a \$1.0 million term loan secured by the corporate aircraft. The term loan is payable over 15 years and has a fixed interest rate of 5.79% at October 31, 2009.

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 matures on May 31, 2013 and provides that the Company will 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 October 31, 2009). 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. The interest rate swap agreement is 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 is \$93,000 for the quarter ended October 31, 2009. The fair value of the Agreement is included in other liabilities on the consolidated balance sheet at October 31, 2009 at \$1.3 million. The interest on the credit facilities, the net settlements under the interest rate swap, and the changes in the fair value of the agreement, is all reflected in interest expense.

#### G – Fair Value Measurements

The Company applies ASC Topic 820, “Fair Value Measurements and Disclosures,” (“ASC 820”) to all financial and non-financial assets and liabilities. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). ASC 820 requires fair value measurements be classified and disclosed in one of the following categories:

**Level 1:** Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. We consider active markets as those in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

**Level 2:** Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability. This category includes those derivative instruments that we value using observable market data. Substantially all of these inputs are observable in the marketplace throughout the full term of the derivative instrument, can be derived from observable data, or supported by observable levels at which transactions are executed in the marketplace. Level 2 instruments primarily include non-exchange traded derivatives such as over-the-counter commodity price swaps, investments and interest rate swaps. Our valuation models are primarily industry-standard models that consider various inputs including: (a) quoted forward prices for commodities, (b) time value and (c) current market and contractual prices for the underlying instruments, as well as other relevant economic measures. We utilize our counterparties’ valuations to assess the reasonableness of our prices and valuation techniques.

**Level 3:** Measured based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable from objective sources (i.e., supported by little or no market activity). Level 3 instruments primarily include derivative instruments, such as basis swaps, commodity price collars and floors, as well as investments. Our valuation models are primarily industry-standard models that consider various inputs including: (a) quoted forward prices for commodities, (b) time value, (c) volatility factors and (d) current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Although we utilize our counterparties’ valuations to assess the reasonableness of our prices and valuation techniques, we do not have sufficient corroborating market evidence to support classifying these assets and liabilities as Level 2.

As required by ASC 820, financial and non-financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels. The following table summarizes the valuation of the Company’s financial instruments by ASC 820 pricing levels as of October 31, 2009:

#### Fair Value Measurements Using

(in thousands)	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
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Interest Rate Swap	-	\$	(1,296)	-
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## H – Weighted Average Shares Outstanding

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

	Three Months Ended		Six Months Ended	
	2009	October 31, 2008	2009	October 31, 2008
Weighted average shares outstanding-basic	11,732,151	11,760,421	11,731,100	11,733,571
Dilutive options and warrants	130,528	65,385	96,488	73,570
Weighted average shares outstanding-diluted	11,862,679	11,825,806	11,827,588	11,807,141
Antidilutive securities not included:				
Options and warrants	166,000	459,750	135,350	463,407

## I – Supplemental Cash Flow Information

Supplemental cash flow disclosures are as follows:

(in thousands)	Six Months Ended:	
	2009	October 31, 2008
Supplemental disclosures:		
Interest paid	\$1,005	\$1,329
Income taxes paid, net	(5,347 )	(1,912 )
Non-cash transactions:		
Inventory acquired in repossession and payment protection plan claims	10,739	10,799

## J – Subsequent Events

On November 13, 2009, the Company entered into amendments to its employment agreements with its three executive officers. The amendments to the employment agreements include 1) extensions of the terms of the agreements to April 30, 2015 (from April 30, 2010), 2) the granting, in the aggregate, of options to purchase 480,000 shares of common stock of the Company at the closing price on November 27, 2009, which vest in 20% annual increments beginning April 30, 2011 and expire on November 26, 2019, and 3) the granting, in the aggregate, of 20,000 shares of restricted stock that will vest on April 30, 2015 if the Company attains at least 70% of its projected earnings for the five year period then ended.

## 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

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements. Certain information included in this Quarterly Report on Form 10-Q contains, and other materials filed or to be filed by the Company with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Company or its management) contain or will contain, forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. The words "believe," "expect," "anticipate," "estimate," "project" and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. The Company undertakes no obligation to publicly update or revise any forward-looking statements. Such forward-looking statements are based upon management's current plans or expectations and are subject to a number of uncertainties and risks that could significantly affect current plans, anticipated actions and the Company's future financial condition and results. As a consequence, actual results may differ materially from those expressed in any forward-looking statements made by or on behalf of the Company as a result of various factors. Uncertainties and risks related to such forward-looking statements include, but are not limited to, those relating to the continued availability of lines of credit for the Company's business, the Company's ability to underwrite and collect its finance receivables effectively, assumptions relating to unit sales and gross margins, changes in interest rates, competition, dependence on existing management, adverse economic conditions (particularly in the State of Arkansas), changes in tax laws or the administration of such laws and changes in lending laws or regulations. Any forward-looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made.

### Overview

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 "Buy Here/Pay Here" 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 October 31, 2009, the Company operated 96 stores located primarily in small cities throughout the South-Central United States.

Car-Mart has been operating since 1981. Car-Mart has grown its revenues between 3% and 21% per year over the last ten full fiscal years (average 15%). Growth results from same store revenue growth and the addition of new stores. Revenue increased 12.6% for the first six months of fiscal 2010 when compared to the same period in fiscal 2009 due to a 12.8% increase in retail units sold, a 1.1% increase in average retail sales price and an 8.1% increase in interest income, offset by a \$389,000 decrease in wholesale sales.

The Company's primary focus is on collections. Each store is responsible for its own collections with supervisory involvement of the corporate office. Over the last five full fiscal years, the Company's credit losses as a percentage of sales have ranged between approximately 20.1% in 2005 and 29.1% in 2007 (average of 22.8%). Credit losses in fiscal 2007 (29.1%) were higher than the Company's average over the last five years. Credit losses in fiscal 2007 were

negatively affected by higher losses experienced during the Company's second through fourth quarters (31.4%). The 2007 credit losses included an approximate \$5 million pre-tax charge (2.3%) to increase the allowance for credit losses to 22% of the finance receivables principal balance from 19.2%. Credit losses were higher due to several factors and included higher losses experienced in most of the dealerships, including mature dealerships, as the Company saw weakness in the performance of its portfolio as customers had difficulty making payments under the terms of their loans. Additionally, the Company's rapid growth put stress on its infrastructure leading to operational difficulties resulting in higher losses. Credit losses in fiscal 2008 returned to a more historical level at 22% of sales as the Company continued to focus on its operational initiatives, including credit and collections efforts. In fiscal 2009, the Company saw the benefit of continuing operational improvements despite negative macro-economic factors and experienced a reduction in credit losses to 21.5% of sales. Improvements in credit losses have again continued into fiscal 2010 as the provision for credit losses was 19.8% of sales for the six months ended October 31, 2009 compared to 21.5% for the same period in fiscal 2009.

The primary reason for the improvement in credit losses in recent periods relates to improvements the Company has made to its



business practices, including better underwriting and better collection procedures. These improvements in business practices have led to better collection results. Negative macro-economic issues do not always lead to higher credit loss results for the Company because the Company provides basic affordable transportation which in many cases is not a discretionary expenditure for customers. The Company has installed a proprietary credit scoring system which enables the Company to monitor the quality of loans on the front end. Corporate office personnel monitor scores and work with stores when the distribution of scores fall outside of prescribed thresholds. Additionally, the Company has increased its investment in the corporate infrastructure within the collections area, including the hiring of a Director of Collection Practices and Review, which is also having a positive effect on results by providing more and more timely oversight and providing for more accountability on a consistent basis. In addition, turnover at the store level for collection positions is down between years, which is having a positive effect on results. The Company believes that the proper execution of its business practices is the single most important determinate of credit loss experience.

The Company's gross margins as a percentage of sales have been fairly consistent from year to year. Over the last five full fiscal years, the Company's gross margins as a percentage of sales have ranged between approximately 42% and 46%. Gross margin as a percentage of sales for fiscal 2009 was 43.0% and 43.9% for the first six months of fiscal 2010. The Company's gross margins are based upon the cost of the vehicle purchased, with lower-priced vehicles typically having higher gross margin percentages. In recent years, the Company's gross margins have been negatively affected by the increase in the average retail sales price (a function of a higher purchase price) and higher operating costs, mostly related to increased vehicle repair costs and higher fuel costs. Additionally, the percentage of wholesale sales to retail sales, which relate for the most part to repossessed vehicles sold at or near cost, was higher in fiscal 2007 and during the first quarter of fiscal 2008 due to the increased level of repossession activity coupled with relatively flat retail sales levels. The Company expects that its gross margin percentage will not change significantly in the near term from its current level.

Hiring, training and retaining qualified associates are critical to the Company's success. The rate at which the Company adds new stores and is able to implement operating initiatives is limited by the number of trained managers and support personnel the Company has at its disposal. Excessive turnover, particularly at the store manager level, could impact the Company's ability to add new stores and to meet operational initiatives. The Company has added resources to recruit, train and develop personnel, especially personnel targeted to fill store manager positions. The Company expects to continue to invest in the development of its workforce in fiscal 2010 and beyond.

Consolidated Operations  
(Operating Statement Dollars in Thousands)

	Three Months Ended October 31,		%	As a % of Sales	
				Three Months Ended	
	2009	2008	2009 vs. 2008	2009	2008
<b>Revenues:</b>					
Sales	\$75,242	\$65,413	15.0 %	100.0 %	100.0 %
Interest income	7,319	6,570	11.4	9.7	10.0
Total	82,561	71,983	14.7	109.7	110.0
<b>Costs and expenses:</b>					
Cost of sales, excluding depreciation shown below	42,318	37,437	13.0	56.2	57.2
Selling, general and administrative	13,964	12,500	11.7	18.6	19.1
Provision for credit losses	15,152	14,421	5.1	20.1	22.0
Interest expense	776	1,110	(30.1 )	1.0	1.7

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Depreciation and amortization	412	338	21.9	.5	.5
Total	72,622	65,806	10.4	96.5	100.6
Pretax income	\$9,939	\$6,177	60.1	% 13.2	% 9.4

Operating Data:

Retail units sold	7,965	6,958	
Average stores in operation	96	91	
Average units sold per store per month	27.7	25.5	
Average retail sales price	\$9,024	\$8,913	
Same store revenue growth	11.4	% 5.3	%

Period End Data:

Stores open	96	91	
Accounts over 30 days past due	3.4	% 3.8	%

Three Months Ended October 31, 2009 vs. Three Months Ended October 31, 2008

Revenues increased by \$10.6 million, or 14.7%, for the three months ended October 31, 2009 as compared to the same period in the prior fiscal year. The increase was principally the result of (i) revenue growth from stores that operated a full three months in both periods (\$8.0 million, or 11.4%), (ii) revenue growth from stores opened during the three months ended October 31, 2008 or stores that opened or closed a satellite location after October 31, 2008 (\$.5 million), and (iii) revenue growth from stores opened after October 31, 2008 (\$2.1 million).

Cost of sales as a percentage of sales decreased 1.0% to 56.2% for the three months ended October 31, 2009 from 57.2% in the same period of the prior fiscal year. The improvement from the prior year period relates primarily to retail pricing efficiencies and to higher retail sales volumes together with lower wholesale volumes and lower operating expenses, namely gasoline. Wholesale sales are generally sales of repossessed vehicles or trade-ins at break-even. The Company will continue to focus efforts on holding down purchase costs and expects to see gross margin percentages in the 43% range on a going-forward basis. Higher top line sales and lower wholesale volumes, resulting from improvements in the Company's credit loss experience, could have a positive effect on gross margin percentages in future quarters.

Selling, general and administrative expense as a percentage of sales was 18.6% for the three months ended October 31, 2009, a decrease of 0.5% from the same period of the prior fiscal year. The overall dollar increase of \$1.5 million for the three months ended October 31, 2009 compared to the same period of the prior fiscal year for selling, general, and administrative expense related primarily to higher payroll costs and to incremental costs related to new locations opened after October 31, 2008. At the corporate level, the higher payroll costs are concentrated in our Human Resources, Information Technology and Credit and Collections areas. Within Human Resources is the Manager in Training Program where the Company has significantly increased its investment in recent quarters to have a sufficient level of qualified associates in this program to support growth and cover attrition needs. At the store level, market-based pay adjustments for certain positions have been made to reduce turnover and to attract qualified associates. Additionally, many of the Company's compensation arrangements are tied to financial performance and as such, more payroll costs are incurred during periods of improved financial results.

Provision for credit losses as a percentage of sales decreased 1.9% to 20.1% for the three months ended October 31, 2009 from 22.0% in the same period of the prior fiscal year. The decrease is largely attributable to lower losses experienced for most of the store locations during the quarter. The Company intends to continue to focus store management on credit quality and collections, particularly at those stores under six years of age. Several factors are contributing to the improved credit loss results as seen in the second quarter of fiscal 2010. The Company believes that its competitive position in its markets has improved in recent months, which has had a positive effect on collection results. Credit constrictions are affecting vehicle consumers and competitors as evidenced by significantly lower in-direct loan volumes in the sub-prime asset-backed securities (ABS) market as well as credit tightening related to inventory lines of credit for many, if not all, of the Company's competitors. The Company's low leverage ratios (total debt to finance receivables of 13.5% and total debt to equity of 19.96%) give it flexibility to continue to improve vehicle selection, quantity, quality and service levels and to pick up market share which has had a direct positive effect on collection results. In addition, even though unemployment levels in the Company's markets have increased recently, the rates, for the most part, are below national levels. Most existing customers are receiving new Federal income tax credits as well as benefitting from lower withholding rates when compared to the same period in the prior fiscal year. Additionally, gasoline prices during the quarter were below levels seen during the same period in the prior fiscal year which is resulting in more take home pay for customers, which in turn has had a positive effect on collection results. Furthermore, the Company continues to make significant investments in operational improvements within the collections area. The Company has installed a proprietary credit scoring system which enables the Company to monitor the quality of loans on the front end. Corporate office personnel monitor scores and work with stores when the distribution of scores falls outside of prescribed thresholds. Additionally, the Company has increased its investment in the corporate infrastructure within the collections area, including the hiring of a Director of

Collection Practices and Review, which is also having a positive effect on results by providing more and more timely oversight and providing for more accountability on a consistent basis. In addition, turnover at the store level for collection positions is down between years, which is having a positive effect on collection results. The Company believes that the proper execution of its business practices is the single most important determinate of credit loss experience. Negative macro-economic issues do not always lead to higher credit loss results for the Company, because the Company provides basic affordable transportation which in many cases is not a discretionary expenditure for customers.

Historically, credit losses, on a percentage basis, tend to be higher at new and developing stores than at mature stores. Generally, this is the case because the store management at new and developing stores tends to be less experienced (in making credit decisions and collecting customer accounts) and the customer base is less seasoned. Normally, older stores have more repeat customers and on average, repeat customers are a better credit risk than non-repeat customers. The Company does

believe that higher energy and fuel costs, general inflation and potentially lower personal discretionary spending levels affecting customers can have a negative impact on collection results.

Interest expense (excluding the non-cash charge related to the change in fair value of the Company's interest rate swap agreement) as a percentage of sales decreased 0.1% to 0.9% for the three months ended October 31, 2009 from 1.0% for the same period of the prior fiscal year. The decrease was attributable to lower average borrowings during the three months ended October 31, 2009 (\$33.6 million compared to \$39.4 million in the prior year), offset by an increase in the average interest rate.

The Company has an interest rate swap agreement (the "Agreement") which is not designated as a hedge by Company management; therefore, the gain (loss) of the Agreement is reported as a component of interest expense in earnings. The non-cash charge related to the Agreement was caused by a number of factors, including changes in interest rates, amount of notional debt outstanding, and number of months until maturity. Since the Company intends to hold the interest rate swap until maturity (May 2013), the cumulative charge, which resulted from changes in fair value, will reverse by the maturity date.

The net loss for the Agreement reported in earnings as interest expense was \$93,000 for the three months ended October 31, 2009. The fair value of the Agreement is included in Accrued liabilities on the Company's Condensed Consolidated Balance Sheet at October 31, 2009 at \$1.3 million. The interest on the credit facilities, the net settlements under the interest rate swap, and the changes in the fair value of the Agreement, are all reflected in Interest expense on the Company's Condensed Consolidated Statement of Operations. Notwithstanding the Company's intention to hold the swap until maturity, pursuant to ASC Topic 815, "Derivatives and Hedging," ("ASC 815") changes in fair value will continue to be recognized quarterly as non-cash charges or gains, as the case may be.

Consolidated Operations  
(Operating Statement Dollars in Thousands)

	Six Months Ended October 31,		%	As a % of Sales		
	2009	2008	Change 2009 vs 2008	Six Months Ended October 31,		
				2009	2008	
<b>Revenues:</b>						
Sales	\$152,254	\$134,639	13.1	%	100.0	%
Interest income	14,062	13,005	8.1		9.2	9.7
Total	166,316	147,644	12.6		109.2	109.7
<b>Costs and expenses:</b>						
Cost of sales, excluding depreciation shown below	85,400	76,463	11.7		56.1	56.8
Selling, general and administrative	27,887	25,319	10.2		18.3	18.8
Provision for credit losses	30,203	28,912	4.5		19.8	21.5
Interest expense	1,023	1,802	(43.2 )		.7	1.3
Depreciation and amortization	804	657	22.4		.5	.5
Total	145,317	133,153	9.1		95.4	98.9
Pretax income	\$20,999	\$14,491	44.9	%	13.8	%
<b>Operating Data:</b>						
Retail units sold	16,147	14,311				
Average stores in operation	95	91				

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Average units sold per store per month	28.3		26.2	
Average retail sales price	\$9,033		\$8,933	
Same store revenue growth	9.9	%	16.0	%

Period End Data:

Stores open	96		91	
Accounts over 30 days past due	3.4	%	3.8	%

Six Months Ended October 31, 2009 vs. Six Months Ended October 31, 2008

Revenues increased by \$18.7 million, or 12.6%, for the six months ended October 31, 2009 as compared to the same period in the prior fiscal year. The increase was principally the result of (i) revenue growth from stores that operated a full six months in both periods (\$14.2 million, or 9.9%), (ii) revenue growth from stores opened during the six months ended October 31, 2008 or stores that opened or closed a satellite location after October 31, 2008 (\$.9 million), and (iii) revenue growth

from stores opened after October 31, 2008 (\$3.6 million).

Cost of sales as a percentage of sales decreased 0.7% to 56.1% for the six months ended October 31, 2009 from 56.8% in the same period of the prior fiscal year. The Company's cost of sales as a percentage of sales were positively affected by a lower volume and percentage of wholesale sales as well as improvements in retail pricing efficiencies when compared to the prior year period. Wholesale sales, for the most part, relate to cash sales of repossessed vehicles at break-even. The Company's selling prices are based upon the cost of the vehicle purchased, with lower-priced vehicles generally having higher gross margin percentages. Discretionary adjustments to the retail pricing guide, within a range, can and are routinely made by store managers.

Selling, general and administrative expense as a percentage of sales was 18.3% for the six months ended October 31, 2009, a decrease of 0.5% from the same period of the prior fiscal year. Selling, general and administrative expenses are, for the most part, more fixed in nature. The overall dollar increase related primarily to higher payroll costs and to incremental costs related to new locations opened after October 31, 2008. At the corporate level, the higher payroll costs are concentrated in our Human Resources, Information Technology and Credit and Collections areas. Within Human Resources is the Manager in Training Program where the Company has significantly increased its investment in recent quarters to have a sufficient level of qualified associates in this program to support growth and cover attrition needs. At the lot level, market-based pay adjustments for certain positions have been made to reduce turn-over and to attract qualified associates. Additionally, many of the Company's compensation arrangements are tied to financial performance and as such, more payroll costs are incurred during periods of improved financial results.

Provision for credit losses as a percentage of sales decreased 1.7% to 19.8% for the six months ended October 31, 2009 from 21.5% in the same period of the prior fiscal year. Credit losses were lower for the six month period for basically the same reasons described above for the three months ended October 31, 2009 and, again, were due to several factors and included lower losses experienced in most of the stores as the Company saw general improvements in the performance of its portfolio during the six months ended October 31, 2009.

Interest expense (excluding the non-cash charge related to the change in fair value of the Agreement) as a percentage of sales decreased 0.2% to 0.8% for the six months ended October 31, 2009 from 1.0% for the same period of the prior fiscal year. The decrease was attributable to lower average borrowings during the six months ended October 31, 2009 as compared to the same period in the prior fiscal year (\$31.8 million compared to \$41.4 million), offset by an increase in average interest rates.

The net gain for the Agreement reported as a credit to earnings in interest expense is \$226,000 for the six months ended October 31, 2009. The fair value of the Agreement is included in Accrued liabilities on the Condensed Consolidated Balance Sheet at October 31, 2009 at \$1.3 million. The interest on the credit facilities, the net settlements under the interest rate swap, and the changes in the fair value of the agreement, are all reflected in interest expense. Notwithstanding the Company's intention to hold the swap until maturity, pursuant to ASC Topic 815, "Derivatives and Hedging," ("ASC 815") changes in fair value will continue to be recognized quarterly as non-cash charges or gains, as the case may be.

#### Financial Condition

The following table sets forth the major balance sheet accounts of the Company as of the dates specified (in thousands):

	October 31, 2009	April 30, 2009
Assets:		
Finance receivables, net	\$ 199,664	\$ 182,041

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Inventory	17,746	15,476
Property and equipment, net	20,681	19,346
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	15,512	16,270
Deferred payment protection plan revenue	8,014	7,353
Income taxes payable, net	666	308
Deferred tax liabilities, net	10,331	8,377
Debt facilities	34,201	29,839

Historically, finance receivables have tended to grow slightly faster than revenue growth. This has historically been due, to a large extent, to an increasing weighted average term necessitated by increases in the average retail sales price. In fiscal 2007, revenues increased 2.6% while finance receivables decreased 3.6% due to higher charge offs experienced during that



year. In fiscal 2008, revenues increased 14.3% and finance receivables increased 16.6%. After subtracting deferred revenue associated with the payment protection plan product, finance receivables increased 14% during fiscal 2008. In fiscal 2009, revenues increased 8.9% and finance receivables increased 11.1%. After subtracting deferred revenue associated with the payment protection plan product, finance receivables increased 9.8% during fiscal 2009. The difference for 2009 relates to lower net charge-offs and a slightly longer weighted average loan term due mostly to an increase in the average retail sales price. The average term for installment sales contracts at October 31, 2009 was relatively flat as compared to October 31, 2008 (27.6 for both periods). Revenue growth results from same store revenue growth and the addition of new stores. Going forward, it is anticipated that the historical experience of finance receivables growing slightly faster than revenues will continue.

During the six months ended October 31, 2009, inventory increased 14.7% (\$2.3 million) as compared to revenue growth of 12.6%. The increase resulted from increased sales volume and an expected increase in demand for the type of vehicle the Company purchases for resale as well as the Company's desire to offer a broad mix and sufficient quantities of vehicles to adequately serve its expanding customer base. The Company will continue to manage inventory levels in the future to ensure adequate supply, in volume and mix, and to meet sales demand.

Property and equipment, net increased \$1.3 million during the six months ended October 31, 2009 as the Company incurred expenditures related to new stores as well as to refurbish and expand existing locations.

Accounts payable and accrued liabilities decreased \$758,000 during the six months ended October 31, 2009. The decrease was due primarily to a decrease in cash overdrafts based on the timing of expenditures and a decrease in the fair value of the interest rate swap agreement, offset by increases in other components primarily tied to sales volume increases. Also, the unearned portion of the payment protection plan product, which was introduced in the first quarter of fiscal 2008, was \$8.0 million at October 31, 2009, up from \$7.4 million at April 30, 2009. Deferred tax liabilities, net increased during the quarter by \$2.0 million due primarily to the increase in finance receivables. The Company made \$5.3 million in income tax payments during the six months ended October 31, 2009.

Borrowings on the Company's revolving credit facilities fluctuate primarily based upon a number of factors including (i) net income, (ii) finance receivables changes, (iii) income taxes, (iv) capital expenditures and (v) common stock repurchases. Historically, income from continuing operations, as well as borrowings on the revolving credit facilities, have funded the Company's finance receivables growth and capital asset purchases.

#### Liquidity and Capital Resources

The following table sets forth certain summarized historical information with respect to the Company's statements of cash flows (in thousands):

	Six Months Ended October 31,	
	2009	2008
Operating activities:		
Net income	\$ 13,340	\$ 9,172
Provision for credit losses	30,203	28,912
Losses on claims for payment protection plan	2,161	1,733
Unrealized (gain) loss for change in fair value of interest rate swap	(226 )	494
Depreciation and amortization	804	657
Stock based compensation	902	1,156
Finance receivable originations	(140,749 )	(125,447 )
Finance receivable collections	80,054	71,430
Inventory	8,469	8,169
Accounts payable and accrued liabilities	1,123	71

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Deferred payment protection plan revenue	661	2,215
Income taxes payable	358	3,605
Deferred income taxes	1,954	3,636
Accrued interest on finance receivables	(76 )	(74 )
Other	624	(780 )
Total	(398 )	4,949

Investing activities:

Purchase of property and equipment	(2,373 )	(1,460 )
Proceeds from sale of property and equipment	92	47
Total	(2,281 )	(1,413 )

Financing activities:

Debt facilities	4,362	(2,517 )
Change in cash overdrafts	(1,656 )	(1,783 )
Dividend payments	(20 )	(20 )
Issuance of common stock	54	88
Exercise of stock options and warrants	-	301
Excess tax benefit from share-based compensation	-	453
Total	2,740	(3,478 )
Increase in Cash	\$ 61	\$ 58

The primary drivers of operating profits and cash flows include (i) top line sales, (ii) interest rates on finance receivables, (iii) gross margin percentages on vehicle sales, and (iv) credit performance including collections and actual losses. The Company generates cash flow from income from operations. Historically, most or all of this cash is used to fund finance receivables growth and capital expenditures. To the extent finance receivables growth and capital expenditures exceeds income from operations, generally the Company increases its borrowings under its revolving credit facilities. The majority of the Company's growth has been self-funded.

Cash flows from operations for the six months ended October 31, 2009 compared to the same period in the prior fiscal year period were positively impacted by (i) higher sales volumes and higher gross margin percentages on those sales and, (ii) lower credit losses as a percentage of sales, offset by (iii) a lower positive impact from current and deferred income taxes and (iv) the net effect of other components of the change in finance receivables including originations, collections, inventory acquired in both repossessions and payment protection plan claims as well as the actual payment protection plan claims. Finance receivables, net, increased by \$17.6 million during the first six months of fiscal 2010 compared to \$12.5 million for the prior year period.

The purchase price the Company pays for a vehicle has a significant effect on liquidity and capital resources. Several external factors can negatively affect the purchase cost of vehicles. Decreases in the overall volume of new car sales, particularly domestic brands, lead to decreased supply in the used car market. Also, the expansion of the customer base due in part to constrictions in consumer credit, as well as general economic conditions, can have an overall effect on the demand for the type of vehicle the Company purchases for resale. Because the Company bases its selling price on the purchase cost for the vehicle, increases in purchase costs result in increased selling prices. As the selling price increases, it becomes more difficult to keep the gross profit percentage and loan term in line with historical results, because the Company's customers have limited incomes and their car payment must remain affordable within their individual budgets. The Company has seen increases in the purchase cost of vehicles and resulting increases in selling prices and terms over the last few years. Management does expect some continuing increases in vehicle purchase costs on a going-forward basis. The Company did see slight sequential quarter decreases in the average purchase cost during the first and second quarters of fiscal 2010 which can be attributed to operational improvements as well as what management believes to be market share increases in the Company's service areas. Management expects the availability of consumer credit within the automotive industry to continue to be constricted when compared to recent history and that this will continue to result in overall increases in demand for most, if not all, of the vehicles the Company purchases for resale. The Company has devoted significant efforts to improve its purchasing processes to ensure adequate supply at appropriate prices. This is expected to result in gross margin percentages and overall loan terms remaining fairly consistent with recent experience but terms possibly increasing somewhat into the future. In an effort to ensure an adequate supply of vehicles at appropriate prices, the Company has increased the level of accountability for its purchasing agents including the establishment of sourcing and pricing guidelines. Additionally, the Company is expanding its efforts to purchase vehicles from individuals at the dealership level as well as via the internet.

Macro-economic factors can have a significant effect on credit losses and resulting liquidity. General inflation, particularly within staple items such as groceries and gasoline, as well as overall unemployment levels can have a significant effect on collection results and ultimately credit losses. The Company has made improvements to its business processes within the last few years to strengthen controls and provide stronger infrastructure to support its collection efforts. With these improvements, the Company anticipates that credit losses on a going-forward basis will be in the range of 21-23% of sales. However, significant negative macro-economic effects could cause actual results to differ from the anticipated range.



The Company believes it will have adequate liquidity to continue to grow its revenues and to satisfy its capital needs for the foreseeable future.

The Company has generally leased the majority of the properties where its stores are located. As of October 31, 2009, the Company leased approximately 70% of its store properties. The Company expects to continue to lease the majority of the properties where its stores are located.

Car-Mart of Arkansas' revolving credit facilities limit distributions from Car-Mart of Arkansas to the Company beyond (i) the repayment of an intercompany loan (\$10.0 million at October 31, 2009), and (ii) dividends equal to 75% of Car-Mart of Arkansas' net income. At October 31, 2009, the Company's assets (excluding its \$158 million equity investment in Car-Mart) consisted of \$1,900 in cash, \$3.8 million in other net assets and a \$10.0 million receivable from Car-Mart of Arkansas. Thus, the Company is limited in the amount of dividends or other distributions it can make to its shareholders without the consent of Car-Mart of Arkansas' lender.

At October 31, 2009, the Company had \$229,000 of cash on hand and an additional \$25.7 million of availability under its revolving credit facilities (see Note F to the Consolidated Financial Statements). On a short-term basis, the Company's principal sources of liquidity include income from operations and borrowings under its revolving credit facilities. On a longer-term basis, the Company expects its principal sources of liquidity to consist of income from operations and borrowings under revolving credit facilities and/or fixed interest term loans. Furthermore, while the Company has no specific plans to issue debt or equity securities, the Company believes, if necessary, it could raise additional capital through the issuance of such securities.

The Company expects to use cash to (i) grow its finance receivables portfolio by a percentage that is slightly larger than the percentage that its revenues grow, (ii) purchase property and equipment of approximately \$3 million in the next 12 months in connection with refurbishing existing stores and adding new stores, and (iii) reduce debt to the extent excess cash is available. In addition, occasionally the Company may use cash to repurchase its common stock.

The Company's revolving credit facilities mature in April 2010. The Company expects that it will be able to renew or refinance its revolving credit facilities on or before the date they mature. The Company believes it will have adequate liquidity to satisfy its capital needs for the foreseeable future.

#### Contractual Payment Obligations

There have been no material changes outside of the ordinary course of business in the Company's contractual payment obligations from those reported at April 30, 2009 in the Company's Annual Report on Form 10-K.

#### Off-Balance Sheet Arrangements

The Company has entered into operating leases for approximately 70% of its store and office facilities. Generally these leases are for periods of three to five years and usually contain multiple renewal options. The Company uses leasing arrangements to maintain flexibility in its store locations and to preserve capital. The Company expects to continue to lease the majority of its store and office facilities under arrangements substantially consistent with the past.

Other than its operating leases, the Company is not a party to any off-balance sheet arrangement that management believes is reasonably likely to have a current or future effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

#### Related Finance Company Contingency

Car-Mart of Arkansas and Colonial do not meet the affiliation standard for filing consolidated income tax returns, and as such they file separate federal and state income tax returns. Car-Mart of Arkansas routinely sells its finance receivables to Colonial at what the Company believes to be fair market value and is able to take a tax deduction at the time of sale for the difference between the tax basis of the receivables sold and the sales price. These types of transactions, based upon facts and circumstances, have been permissible under the provisions of the Internal Revenue Code (“IRC”) as described in the Treasury Regulations. For financial accounting purposes, these transactions are eliminated in consolidation and a deferred tax liability has been recorded for this timing difference. The sale of finance receivables from Car-Mart of Arkansas to Colonial provides certain legal protection for the Company’s finance receivables and, principally because of certain state apportionment characteristics of Colonial, also has the effect of reducing the Company’s overall effective state income tax rate by approximately 240 basis points. The actual

interpretation of the Treasury Regulations is in part a facts and circumstances matter. The Company believes it satisfies the material provisions of the Treasury Regulations. Failure to satisfy those provisions could result in the loss of a tax deduction at the time the receivables are sold and have the effect of increasing the Company's overall effective income tax rate as well as the timing of required tax payments.

The Internal Revenue Service is currently auditing the 2008 and 2009 income tax returns for Car-Mart of Arkansas.

#### Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires the Company to make estimates and assumptions in determining 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 reporting period. Actual results could differ from the Company's estimates. The Company believes the most significant estimate made in the preparation of the accompanying Condensed Consolidated Financial Statements relates to the determination of its allowance for credit losses, which is discussed below. The Company's accounting policies are discussed in Note B to the accompanying Condensed Consolidated Financial Statements.

The Company maintains an allowance for credit losses on an aggregate basis at a level it considers sufficient to cover estimated losses in the collection of its finance receivables. At October 31, 2009, the weighted average total loan term was 27.6 months with 19.6 months remaining. The reserve amount in the allowance for credit losses at October 31, 2009, \$54 million, was 22% of the principal balance in Finance receivables of \$253.7 million, less unearned payment protection plan revenue of \$8.0 million. The estimated reserve amount is the Company's anticipated future net charge-offs for losses incurred through the balance sheet date. The allowance takes into account historical credit loss experience (both timing and severity of losses), with consideration given to recent credit loss trends and changes in loan characteristics (i.e., average amount financed, months outstanding at loss date, term and age of portfolio), 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 loan 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 11.5 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. A 1% change, as a percentage of Finance receivables, in the allowance for credit losses would equate to an approximate pre-tax charge of \$2.4 million.

At October 31, 2006 (the end of the Company's 2007 second quarter), management increased the allowance for credit loss percentage from 19.2% to 22% due to higher credit loss experience and trends. A change in accounting estimate was recognized to reflect the decision to increase the allowance for credit losses, resulting in a pretax, non-cash charge of \$5,271,000 for the Company's second quarter of fiscal 2007.



## Recent Accounting Pronouncements

Effective July 1, 2009, the Company adopted the Accounting Standards Codification™ (the “Codification”). The Codification is the source of authoritative U.S. Generally Accepted Accounting Principles (“GAAP”) to be applied by nongovernmental entities. The Codification does not change current U.S. GAAP but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature in one place. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Adoption of the Codification did not have a material impact on the Company’s financial statements.

The Company adopted the amendments to ASC Topic 810 – “Consolidation” (“ASC 810”) May 1, 2009. The objective of this amendment is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. Accordingly this amendment requires the ownership interests in subsidiaries held by other parties other than the parent be clearly identified, labeled, and presented in the Consolidated Balance Sheet within equity but separate from the parent’s and entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. Upon the adoption, \$100,000 of preferred stock was classified as non-controlling interest within equity and the remaining \$400,000 of preferred stock with a put provision was classified in the mezzanine section. The dividends associated with the entire preferred stock were reflected as a reduction to net income to arrive at net income attributable to the common stockholders. The presentation of the preferred stock has been applied retroactively for all periods.

The Company adopted the amendments to ASC Topic 815 “Derivatives and Hedging” (“ASC 815”) May 1, 2009. Due to the use and complexity of derivative instruments, there were concerns regarding the existing disclosure requirements around derivative instruments. Accordingly, this amendment requires enhanced disclosures about an entity’s derivative and hedging activities. Entities will be required to provide enhanced disclosures about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedging items are accounted for under ASC 815 and its related interpretations, and (iii) how derivative instruments and related hedging items affect an entity’s financial position, financial performance and cash flows. This amendment did not have a material impact on the Company’s financial statements.

The Company also adopted amendments to ASC Topic 855 “Subsequent Events” (“ASC 855”) May 1, 2009. This amendment was issued to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. It sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that occur for a potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The amendment also introduces the concept of financial statements “available to be issued.” Adoption of this amendment did not have a material impact on the Company’s financial statements.

In August 2009, the FASB issued Accounting Standards Update (“ASU”) No. 2009-05, “Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value.” This ASU clarifies the fair market value measurement of liabilities. In circumstances where a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: a technique that uses quoted price of the identical or a similar liability or liabilities when traded as an asset or assets, or another valuation technique that is consistent with the principles of Topic 820 such as an income or market approach. ASU No. 2009-05 was effective upon issuance and it did not have a material impact on the Company’s financial statements.

## Seasonality

The Company's third fiscal quarter (November through January) has historically been the slowest period for car and truck sales. Conversely, the Company's first and fourth fiscal quarters (May through July and February through April) have historically been the busiest times for car and truck sales. Therefore, the Company generally realizes a higher proportion of its revenue and operating profit during the first and fourth fiscal quarters. However, in fiscal 2008 and 2009, tax refund anticipation sales began in early November and continued through January (the Company's third fiscal quarter). The success of the tax refund anticipation sales effort led to higher sales levels during the third quarters of fiscal 2008 and 2009. The Company expects this trend to continue in future periods. If conditions arise that impair vehicle sales during the first, third or fourth fiscal quarters, the adverse effect on the Company's revenues and operating profit for the year could be disproportionately large.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to market risk on its financial instruments from changes in interest rates. In particular, the Company has historically had exposure to changes in the federal primary credit rate and has exposure to changes in the prime interest rate of its lender. The Company does not use financial instruments for trading purposes but has entered into an interest rate swap agreement to manage interest rate risk.

Interest rate risk. The Company's exposure to changes in interest rates relates primarily to its debt obligations. The Company is exposed to changes in interest rates as a result of its revolving credit facilities, and the interest rates charged to the Company under its credit facilities fluctuate based on its primary lender's prime rate of interest. To reduce its exposure to changes in interest rates the Company has entered into an interest rate swap agreement. The agreement was entered into generally to provide the Company with a fixed interest rate for a portion of its variable rate debt. The notional amount of this swap agreement is \$20 million and it expires in May 2013. The Company may in the future enter into additional interest rate risk management arrangements for a portion of its outstanding debt.

At October 31, 2009, the Company's interest rate swap on \$20 million of notional principal provides that the Company will 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 (3.25% at October 31, 2009). An average decrease in future interest rates of 100 basis points from the future rate at October 31, 2009, would have resulted in an additional expense, reflected within Interest expense on the Condensed Consolidated Statement of Operations, of approximately \$590,000 resulting from a change in fair value of the instrument. Also, the liability for the fair value of the swap agreement reflected within Accrued liabilities on the Condensed Consolidated Balance Sheet at October 31, 2009 would have increased by approximately \$590,000 to approximately \$1.9 million.

The Company had total indebtedness of \$34.2 million outstanding at October 31, 2009. Of this amount, \$5.8 million (excluding the \$20 million notional amount for the interest rate swap agreement) was variable rate debt under the credit facilities. The impact of a 1% increase in interest rates on this amount of debt would result in increased annual interest expense of approximately \$58,000 and a corresponding decrease in net income before income tax.

The fair value of the interest rate swap agreement is based on quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability. Substantially all of these inputs are observable in the marketplace throughout the full term of the derivative instrument, can be derived from observable data, or supported by observable levels at which transactions are executed in the marketplace. The Company's valuation models are primarily industry-standard models that consider various inputs including (i) quoted forward prices for commodities, (ii) time value and (iii) current market and contractual prices for the underlying instruments, as well as other relevant economic measures. The Company utilizes its counterparties' valuations to assess the reasonableness of its prices and valuation techniques.

The Company's earnings are impacted by its net interest income, which is the difference between the income earned on interest-bearing assets and the interest paid on interest-bearing notes payable. The Company's finance receivables generally bear interest at fixed rates ranging from 5.5% to 19%, while its revolving notes payable contain variable interest rates that fluctuate with market interest rates. Effective June 26, 2009, the Company began charging 12% on loans originated in Arkansas. This was due to the passage by the U.S. Congress of the Supplemental Appropriations Act of 2009 which was signed into law on June 24, 2009. Within this legislation is a provision which allows the Company to charge up to 17% on loans to customers in Arkansas. The legislation has a sunset clause and will expire on December 31, 2010. The sunset exists because Arkansas voters will be voting in November 2010 on a state constitutional amendment which will effectively replace the federal legislation. Should the Arkansas voters not approve the state constitutional amendment, the Company will again be subject to a maximum rate of the federal primary credit rate plus 5% effective January 1, 2011 for loans originated in Arkansas. Prior to June 2009, interest rates charged on finance receivables originated in the State of Arkansas were limited to the federal primary credit rate

(currently .5%) plus 5%. As a point of reference, the rate charged to Arkansas customers was 11.25% in August 2007. Typically, the Company has charged interest on its loans originated in Arkansas at or near the maximum rate allowed by law. Thus, while the interest rates charged on the Company's loans do not fluctuate once established, new loans originated in Arkansas were set at a spread above the federal primary credit rate which does fluctuate. At October 31, 2009, approximately 49% of the Company's finance receivables were originated in Arkansas. The long-term effect of decreases in the federal primary credit rate generally had a negative effect on the profitability of the Company because the amount of interest income lost on Arkansas originated loans would likely exceed the amount of interest expense saved on the Company's variable rate borrowings. The Company's prior disclosures regarding interest rate risk have included calculations of hypothetical increases or decreases in interest income resulting from changes in the federal primary discount rate due to the fact that interest rates charged on finance receivables originated in the State of Arkansas, until June 26, 2009,

were limited to the federal primary credit rate plus 5.0%. Since rates charged in Arkansas are no longer tied to the federal primary credit rate the presentation of this information is no longer meaningful.

## Item 4. Controls and Procedures

## a) Evaluation of Disclosure Controls and Procedures

Based on management's evaluation (with the participation of the Company's Chief Executive Officer and Chief Financial Officer), as of October 31, 2009, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), to allow timely decisions regarding required disclosure.

## b) Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Item 4T. Controls and Procedures

Not applicable

## PART II

## Item 4. Submission of Matters to a Vote of Security Holders

The Company's 2009 annual meeting of stockholders was held on October 14, 2009. The record date for such meeting was August 28, 2009 on which date there were a total of 11,732,153 shares of common stock outstanding and entitled to vote. At the meeting the Company's stockholders approved the election of directors as follows:

Director	Votes For	Votes Withheld
William H. Henderson	11,045,112	31,410
Tilman J. Falgout, III	11,045,112	31,410
William M. Sams	10,950,832	125,690
John David Simmons	10,400,240	676,282
Daniel J. Englander	11,076,088	434
William A. Swanston	10,678,960	397,562

Also, at the Company's 2009 annual meeting of stockholders, the stockholders approved an amendment to the Company's Stock Incentive Plan to increase the number of shares authorized for issuance thereunder as follows:

Votes For	Votes Against	Votes Abstained	Broker Non-Votes
7,933,116	578,378	591,849	2,266,677



Item 6. Exhibits

Exhibit  
Number

Description of Exhibit

- |      |  |
|------|--|
| 3.1  | Articles of Incorporation of the Company, as amended. (Incorporated by reference to Exhibits 4.1-4.8 to the Company's Registration Statement on Form S-8 filed with the SEC on November 16, 2005 (File No. 333-129727))                    |
| 3.2  | Amended and Restated Bylaws of the Company dated December 4, 2007. (Incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 31, 2007 filed with the SEC on December 7, 2007) |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").   |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.   |
| 32.1 | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                  |



SIGNATURES

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

America's Car-Mart, Inc.

By: \s\ William H. Henderson  
William H. Henderson  
Chief Executive Officer  
(Principal Executive Officer)

By: \s\ Jeffrey A. Williams  
Jeffrey A. Williams  
Chief Financial Officer and Secretary  
(Principal Financial and Accounting Officer)

Dated: December 8, 2009

Exhibit Index

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.
- 32.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.