AMERICAS CARMART INC
Form 10-Q
December 08, 2009

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

FORM 10-Q

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

For the quarterly period ended 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	63-0851141
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

802 Southeast Plaza Ave., Suite 200, Bentonville, Arkansas 72712
(Address of principal executive offices, 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 ý No o

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 o No o

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 o	Accelerated filer ý
Non-accelerated filer o	Smaller reporting company o

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

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

Part I. FINANCIAL INFORMATION

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

	October 31, 2009 (unaudited)	April 30, 2009
Assets:		
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
Liabilities, mezzanine equity and equity:		
Liabilities:		
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
Commitments and contingencies		
Mezzanine equity:		
Mandatorily redeemable preferred stock	400	400
Equity:		
Preferred stock, par value $.01 per share, 1,000,000 shares authorized; none issued or outstanding	-	-
Common stock, par value $.01 per share, 50,000,000 shares authorized; 12,231,437 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.

1

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

	Three Months Ended October 31,		Six Months Ended October 31,	
	2009	2008	2009	2008
Revenues:				
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
Costs and expenses:				
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
Earnings per share:				
Basic	$.54	$.33	$1.14	$.78
Diluted	$.53	$.33	$1.13	$.78
Weighted average number of shares outstanding:				
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.

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

	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

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

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.