

AMERICAS CARMART INC  
Form 10-K  
July 13, 2007

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

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FORM 10-K

(Mark One)

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

For the fiscal year ended April 30, 2007

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

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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

(IRS Employer Identification Number)

802 Southeast Plaza Avenue, Suite 200

Bentonville, Arkansas

(Address of principal executive offices)

72712

(Zip Code)

(479) 464-9944

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

NONE

Securities registered pursuant to section 12(g) of the Act:

Common Stock, \$.01 par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer  Non-accelerated filer     

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No

The aggregate market value of the registrant's common stock held by non-affiliates on October 31, 2006 was \$154,068,451 (10,312,480 shares), based on the closing price of the registrant's common stock of \$14.94.

There were 11,878,110 shares of the registrant's common stock outstanding as of July 13, 2007.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement to be furnished to stockholders in connection with its 2007 Annual Meeting of Stockholders are incorporated by reference in response to Part III of this report.

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## PART I

### Forward-Looking Statements

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

- new store openings;
- same store revenue growth;
- future revenue growth;
- receivables growth greater than revenue growth;
- future credit losses;
- the Company’s business and growth strategies;
- financing the majority of growth from profits; and
- having adequate liquidity to satisfy its capital needs.

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

- the availability of credit facilities to support the Company’s business;
- the Company’s ability to underwrite and collect its loans effectively;
- competition;
- dependence on existing management;
- changes in lending laws or regulations; and

• general economic conditions in the markets in which the Company operates, including fluctuations in employment levels.

The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the dates on which they are made.



## Item 1. Business

### Business and Organization

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 April 30, 2007, the Company operated 92 stores located primarily in small cities throughout the South-Central United States.

In October 2001, the Company made the decision to sell all of its operating subsidiaries except Car-Mart, and relocate its corporate headquarters to Bentonville, Arkansas where Car-Mart is based. As a result of this decision, all of the Company's other operating subsidiaries were sold. The Company sold its last remaining discontinued operation in July 2002.

### Business Strategy

In general, it is the Company's objective to continue to expand its Buy Here/Pay Here used car operation using the same business model that has been developed by Car-Mart over the last 26 years. This business strategy focuses on:

- **Collecting Customer Accounts.** Collecting customer accounts is perhaps the single most important aspect of operating a Buy Here/Pay Here used car business and is a focal point for store level and corporate office personnel on a daily basis. Periodically, the Company measures and monitors the collection results of its stores using internally developed delinquency and account loss standards. Substantially all associate incentive compensation is tied directly or indirectly to collection results. Over the last five years, Car-Mart's annual credit losses as a percentage of sales have ranged from a low of 18.5% in 2003 to a high of 29.1% in 2007 (average of 22.1%). The Company believes that it can continue to be successful provided it maintains its credit losses within or below its historical credit loss range.
- **Maintaining a Decentralized Operation.** The Company's dealerships will continue to operate on a decentralized basis. Each store is responsible for buying (with the assistance of a corporate office purchasing agent) and selling its own vehicles, making credit decisions and collecting the loans it originates in accordance with established policies and procedures. Most customers make their payments in person at one of the Company's dealerships. This decentralized structure is complemented by the oversight and involvement of corporate office management and the maintenance of centralized financial controls, including establishing standards for down-payments and contract terms as well as an internal compliance function.

- **Expanding Through Controlled Organic Growth.** The Company plans to continue to expand its operations by increasing revenues at existing dealerships and opening new dealerships. The Company has decided to curtail its new store openings until operational initiatives have shown positive results. The focus will be on improving performance of existing dealerships prior to opening significant numbers of new stores. The Company acquired one existing Buy Here/Pay Here dealership in March 2006 and another in May 2006 and may consider acquiring additional existing dealerships if conditions and terms are favorable. However, the Company will continue to view organic growth as its primary source for growth.
- **Selling Basic Transportation.** The Company will continue to focus on selling basic and affordable transportation to its customers. The Company generally does not sell luxury cars or sports cars. The average retail sales price was \$8,125 in fiscal 2007. By selling vehicles at this price point, the Company is able to keep the terms of its installment sales contracts relatively short (overall portfolio average of 27.1 months), while requiring relatively low payments.
- **Operating in Smaller Communities.** The majority of the Company's dealerships are located in cities and towns with a population of 50,000 or less. The Company believes that by operating in smaller communities it experiences better collection results. Further, the Company believes that operating costs, such as salaries, rent and advertising, are lower in smaller communities than in major metropolitan areas.
- **Enhance Management including Promoting from Within.** It has been the Company's practice to try to hire honest and hardworking individuals to fill entry level positions, nurture and develop these associates, and attempt to fill the vast majority of its managerial positions from within the Company. By promoting from within, the Company believes it is better able to train its associates in the Car-Mart way of doing business, maintain the Company's unique culture and develop the loyalty of its associates. Additionally, the Company looks outside for associates possessing requisite skills who share the values and appreciate the Company's unique culture developed over the years.
- **Cultivating Customer Relationships.** The Company believes that developing and maintaining a relationship with its customers are critical to the success of the Company. A large percentage of sales at mature stores are made to repeat customers, and the Company estimates an additional 10% to 15% of sales result from customer referrals. By developing a personal relationship with its customers, the Company believes it is in a better position to assist a customer, and the customer is more likely to cooperate with the Company, should the customer experience financial difficulty during the term of his or her installment loan with the Company. The Company is able to cultivate these relationships as the majority of its customers make their payments in person at one of the Company's dealerships on a weekly or bi-weekly basis.

### **Business Strengths**

The Company believes it possesses a number of strengths or advantages that distinguish it from most of its competitors. These business strengths include:

- **Experienced and Motivated Management.** The Company's executive operating officers have an average tenure of approximately 17 years. Several of Car-Mart's store managers have been with the Company for more than 10 years. Each store manager is compensated, at least in part (some entirely), based upon the net income of his or her store. A significant portion of the compensation of Car-Mart senior management is incentive based.

- **Proven Business Practices.** The Company's operations are highly structured. While stores are operated on a decentralized basis, the Company has established policies, procedures and business practices for virtually every aspect of a store's operations. Detailed operating manuals are available to assist the store manager and office, sales and collections personnel in performing their daily tasks. As a result, each store is operated in a uniform manner. Further, corporate office personnel monitor the stores' operations through weekly visits and a number of daily, weekly and monthly communications and reports.
- **Low Cost Operator.** The Company has structured its store and corporate office operations to minimize operating costs. The number of associates employed at the store level is dictated by the number of active customer accounts each store services. Associate compensation is standardized for each store position. Other operating costs are closely monitored and scrutinized. Technology is utilized to maximize efficiency. The Company believes its operating costs as a percentage of revenues, or per unit sold, are among the lowest in the industry.
- **Well Capitalized / Limited External Capital Required for Growth.** As of April 30, 2007, the Company's debt to equity ratio was 0.33 to 1.0, which the Company believes is lower than the majority of its competitors. Further, the Company believes it can fund a significant amount of its planned growth from net income generated from operations. Of the external capital that will be needed to fund growth, the Company plans to draw on its existing credit facilities, or renewals or replacements of those facilities.
- **Significant Expansion Opportunities.** The Company generally targets smaller communities to locate its dealerships (i.e., populations from 20,000 to 50,000), but has had success in larger cities such as Tulsa, Oklahoma and Little Rock, Arkansas. The Company believes there are numerous suitable communities within the nine states and other contiguous states in which the Company currently operates to satisfy any anticipated store growth for the next several years. However, the Company does not currently plan to add locations in fiscal 2008 until the operational initiatives which are underway have proven successful. Additionally, existing lots will be analyzed to ensure that they are producing desired results and have potential to provide adequate returns on invested capital.

## Operations

- **Store Organization.** Stores are operated on a decentralized basis. Each store is responsible for buying (with the assistance of a corporate office buyer) and selling vehicles, making credit decisions, and servicing and collecting the installment loans it originates. Stores also maintain their own records and make daily deposits. Store-level financial statements are prepared by the corporate office on a monthly basis. Depending on the number of active customer accounts, a store may have as few as two or as many as 25 full-time associates employed at that location. Associate positions at a large store may include a store manager, assistant store manager, manager trainee, office manager, assistant office manager, service manager, buyer, collections personnel, salesmen and lot attendants. Stores are open Monday through Saturday from 9:00 a.m. to 6:00 p.m. The Company has both regular and satellite stores. Satellite stores are similar to regular stores, except that they tend to be smaller, sell fewer vehicles and their financial performance is not captured in a stand alone financial statement, but rather is included in the financial results of the sponsoring regular store.

**·Store Locations and Facilities.** Below is a summary of stores opened during the fiscal years ended April 30, 2007, 2006 and 2005:

	Years Ended April 30,		
	2007	2006	2005
Stores at beginning of year	85	76	70
New stores opened/acquired	7	10	6
Stores closed	-	(1)	-
Stores at end of year	92	85	76

Below is a summary of store locations by state as of April 30, 2007, 2006 and 2005:

Stores by State	As of April 30,		
	2007	2006	2005
Arkansas	34	34	34
Oklahoma	17	15	13
Texas	16	16	14
Kentucky	9	8	7
Missouri	10	9	6
Kansas	1	1	1
Indiana	1	1	1
Tennessee	1	1	-
Alabama	3	-	-
Total	92	85	76

Stores are typically located in smaller communities. As of April 30, 2007, approximately 74% of the Company's stores were located in cities with populations of less than 50,000. Stores are located on leased or owned property between one and three acres in size. When opening a new store the Company will typically use an existing structure on the property to conduct business, or purchase a modular facility while business at the new location develops. Store facilities typically range in size from 1,500 to 5,000 square feet.

**·Purchasing.** The Company purchases vehicles primarily through wholesalers, new car dealers and from auctions. The majority of vehicle purchasing is performed by the Company's buyers, although certain store managers are authorized to purchase vehicles. On average, a buyer will purchase vehicles for three stores. Buyers report to the store manager, or managers, for whom they make purchases, and to a regional purchasing director. The regional purchasing directors monitor the quantity and quality of vehicles purchased and compare the cost of similar vehicles purchased among different buyers.

Generally, the Company's buyers purchase vehicles between three and 10 years of age with 80,000 to 120,000 miles, and pay between \$3,000 and \$6,000 per vehicle. The Company focuses on providing basic transportation to its customers. The Company generally does not purchase sports cars or luxury cars. Some of the more popular vehicles the Company sells include the Ford Taurus and Escort, Chevrolet Lumina and Cavalier, Dodge Neon, Pontiac Grand Am and Oldsmobile Cutlass. The Company also sells a number of trucks and sport utility vehicles. Buyers inspect and test-drive almost every vehicle they purchase. Buyers attempt to purchase vehicles that require little or no repair as the Company has limited facilities to repair or recondition vehicles.



**Selling, Marketing and Advertising.** Stores generally maintain an inventory of 15 to 75 vehicles depending on the maturity of the dealership. Inventory turns over approximately 10 to 12 times each year. Selling is done principally by the store manager, assistant manager, manager trainee or sales associate. Sales associates are paid a commission for sales that they make in addition to an hourly wage. Sales are made on an “as is” basis; however, customers are given an option to purchase a five month or 5,500 mile service contract for \$395 which covers certain vehicle components and assemblies. For covered components and assemblies, the Company coordinates service with third party service centers with which the Company typically has previously negotiated labor rates and mark-up percentages on parts. The majority of the Company’s customers elect to purchase a service contract when purchasing a vehicle.

The Company's objective is to offer its customers basic transportation at a fair price and treat each customer in such a manner as to earn his or her repeat business. The Company attempts to build a positive reputation in each community where it operates and generate new business from such reputation as well as from customer referrals. The Company estimates that approximately 10% to 15% of the Company's sales result from customer referrals. The Company recognizes repeat customers with silver, gold and platinum plaques representing the purchase of 5, 10 and 15 vehicles, respectively. These plaques are prominently displayed at the dealership where the vehicles were purchased. For mature dealerships, a large percentage of sales are to repeat customers.

The Company primarily advertises in local newspapers, on the radio and on television. In addition, periodically the Company conducts promotional sales campaigns in order to increase sales.

· **Underwriting and Finance.** The Company provides financing to substantially all of its customers who purchase a vehicle at one of its stores. The Company only provides financing to its customers for the purchase of its vehicles, and the Company does not provide any type of financing to non-customers. The Company's installment sales contracts typically include down payments ranging from 0% to 17% (average of 7%), terms ranging from 12 months to 36 months (average of 27.1 months), and annual interest charges ranging from 6% to 19% (average of 13.6 % at April 30, 2007). The Company requires that payments be made on a weekly, bi-weekly, semi-monthly or monthly basis to coincide with the day the customer is paid by his or her employer. Upon the customer and the Company reaching a preliminary agreement as to financing terms, the Company obtains a credit application from the customer which includes information regarding employment, residence and credit history, personal references and a detailed budget itemizing the customer's monthly income and expenses. Certain information is then verified by Company personnel. After the verification process, the store manager makes the decision to accept, reject or modify (perhaps obtain a greater down payment or require an acceptable co-buyer or suggest a lower priced vehicle) the proposed transaction. In general, the store manager attempts to assess the stability and character of the applicant. The store manager who makes the credit decision is ultimately responsible for collecting the loan, and his or her compensation is directly related to the collection results of his or her store.

· **Collections.** All of the Company's retail installment contracts are serviced by Company personnel at the store level. The majority of the Company's customers make their payments in person at the store where they purchased their vehicle, although some customers send their payments through the mail. Each store closely monitors its customer accounts using the Company's proprietary receivables and collections software that stratifies past due accounts by the number of days past due. The Company believes that the timely response to past due accounts is critical to its collections success.

The Company has established standards with respect to the percentage of accounts one and two weeks past due, the percentage of accounts three or more weeks past due, and for larger stores, one and two weeks past due, 15 to 44 days past due and 45-plus days past due (delinquency standards), and the percentage of accounts where the vehicle was repossessed or the account was charged off that month (account loss standard).

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. For those vehicles that are repossessed, the majority are returned or surrendered by the customer on a voluntary basis. Other repossessions are performed by Company personnel or third party repossession agents. Depending on the condition of a repossessed vehicle, it is either resold on a retail basis through a Company store, or sold for cash on a wholesale basis primarily through physical and/or on-line auctions.

**New Store Openings.** The Company plans to curtail new store openings until operational initiatives have shown positive results. Senior management, with the assistance of the corporate office staff, will make decisions with respect to the communities in which to locate a new store and the specific sites within those communities. New stores have historically been located in the general proximity of existing stores to facilitate the corporate office's oversight of the Company's stores.

The Company's approach with respect to new store openings has been one of gradual development. The manager in charge of a new store is normally a recently promoted associate who was an assistant manager at a larger store or a manager trainee. The corporate office provides significant resources and support with pre-opening and initial operations of new dealerships. The facility may be of a modular nature or an existing structure. New stores operate with a low level of inventory and personnel. As a result of the modest staffing level, the new store manager performs a variety of duties (i.e., selling, collecting and administrative tasks) during the early stages of his or her store's operations. As the store develops and the customer base grows, additional staff is hired.

Typically, monthly sales levels at new stores are substantially less than sales levels at mature stores. Over time new stores gain recognition in their communities, and a combination of customer referrals and repeat business generally facilitate sales growth. Sales growth at new stores can exceed 20% per year for a number of years. Historically, mature stores typically experience annual sales growth, but at a lower percentage than new stores. However, in 2007 the Company experienced a decrease in sales at mature stores as it focused on improving the quality of sales in the face of increased credit losses.

New stores are generally provided with approximately \$500,000 to \$750,000 in capital from the corporate office during the first 12 to 24 months of operation. These funds are used principally to fund receivables growth. After this 12 to 24 month start-up period, new stores typically become cash flow positive. That is, receivables growth is funded from store profits rather than additional capital from the corporate office. This limitation of capital to new, as well as existing, stores serves as an important operating discipline. Essentially, stores must be profitable in order to grow. Typically, new stores are profitable within the first year of opening.

**Corporate Office Oversight and Management.** The corporate office, based in Bentonville, Arkansas, consists of area operations managers, regional vice presidents, regional purchasing directors, a vice president of purchasing, compliance auditors, associate and management development personnel, accounting and management information systems personnel, administrative personnel and senior management. The corporate office monitors and oversees store operations. The Company's stores transmit and submit operating and financial information and reports to the corporate office on a daily, weekly and monthly basis. This information includes cash receipts and disbursements, inventory and receivables levels, receivables agings and sales and account loss data. The corporate office uses this information to compile Company-wide reports, plan store visits and prepare monthly financial statements.



Periodically, area operations managers, regional vice presidents, compliance auditors and senior management visit the Company's stores to inspect, review and comment on operations. Often, the corporate office assists in training new managers and other store level associates. Compliance auditors visit lots quarterly to ensure policies and procedures are being followed and that the Company's assets are being safe-guarded. In addition to financial results, the corporate office uses delinquency and account loss standards and a point system to evaluate a store's performance. Also, bankrupt and legal action accounts and other accounts that have been written off at dealerships are handled corporately in an effort to allow store personnel time to focus on more current accounts.

The Company's store managers meet monthly on an area, regional or Company-wide basis. At these meetings, corporate office personnel provide training and recognize achievements of store managers. Near the end of every fiscal year, the respective area operations manager, regional vice president and senior management conduct "projection" meetings with each store manager. At these meetings, the year's results are reviewed and ranked relative to other stores, and both quantitative and qualitative goals are established for the upcoming year. The qualitative goals may focus on staff development, effective delegation, and leadership and organization skills. Quantitatively, the Company establishes unit sales goals and, depending on the circumstances, may establish delinquency, account loss or expense goals.

The corporate office is also responsible for establishing policy, maintaining the Company's management information systems, conducting compliance audits, orchestrating new store openings and setting the strategic direction for the Company.

## Industry

·**Used Car Sales.** The market for used car sales in the United States is significant. Used car retail sales typically occur through franchised new car dealerships that sell used cars or independent used car dealerships. The Company operates in the Buy Here/Pay Here segment of the independent used car sales and finance market. Buy Here/Pay Here dealers sell and finance used cars to individuals with limited credit histories or past credit problems. Buy Here/Pay Here dealers typically offer their customers certain advantages over more traditional financing sources, such as broader and more flexible underwriting guidelines, flexible payment terms (including scheduling payments on a weekly or bi-weekly basis to coincide with a customer's payday), and the ability to make payments in person, an important feature to individuals who may not have a checking account.

·**Used Car Financing.** The used automobile financing industry is served by traditional lending sources such as banks, savings and loans, and captive finance subsidiaries of automobile manufacturers, as well as by independent finance companies and Buy Here/Pay Here dealers. Despite significant opportunities, many of the traditional lending sources do not consistently provide financing to individuals with limited credit histories or past credit problems. Management believes traditional lenders avoid this market because of its high credit risk and the associated collections efforts.

## **Competition**

The used automotive retail industry is highly competitive and fragmented. The Company competes principally with other independent Buy Here/Pay Here dealers, and to a lesser degree with (i) the used vehicle retail operations of franchised automobile dealerships, (ii) independent used vehicle dealers, and (iii) individuals who sell used vehicles in private transactions. The Company competes for both the purchase and resale of used vehicles.

Management believes the principal competitive factors in the sale of its used vehicles include (i) the availability of financing to consumers with limited credit histories or past credit problems, (ii) the breadth and quality of vehicle selection, (iii) pricing, (iv) the convenience of a dealership's location, (v) the option to purchase a service contract, and (vi) customer service. Management believes that its dealerships are competitive in each of these areas.

## **Regulation and Licensing**

The Company's operations are subject to various federal, state and local laws, ordinances and regulations pertaining to the sale and financing of vehicles. Under various state laws, the Company's dealerships must obtain a license in order to operate or relocate. These laws also regulate advertising and sales practices. The Company's financing activities are subject to federal truth-in-lending and equal credit opportunity regulations as well as state and local motor vehicle finance laws, installment finance laws, usury laws and other installment sales laws. Among other things, these laws require that the Company limit or prescribe terms of the contracts it originates, require specified disclosures to customers, restrict collections practices, limit the Company's right to repossess and sell collateral, and prohibit discrimination against customers on the basis of certain characteristics including age, race, gender and marital status.

The states in which the Company operates impose limits on interest rates the Company can charge on its loans. These limits are generally based on either (i) a specified margin above the federal primary credit rate, (ii) the age of the vehicle, or (iii) a fixed rate. Management believes the Company is in compliance in all material respects with all applicable federal, state and local laws, ordinances and regulations. However, the adoption of additional laws, changes in the interpretation of existing laws, or the Company's entrance into jurisdictions with more stringent regulatory requirements could have a material adverse effect on the Company's used vehicle sales and finance business.

## **Employees**

As of April 30, 2007, the Company, including its consolidated subsidiaries, employed approximately 800 persons full time. None of the Company's employees are covered by a collective bargaining agreement and the Company believes that its relations with its employees are good.

## **Available Information**

The Company's website is located at [www.car-mart.com](http://www.car-mart.com). The Company makes available on this website, free of charge, access to the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, as well as proxy statements and other information the Company files with, or furnishes to, the Securities and Exchange Commission ("SEC") as soon as reasonably practicable after the Company electronically submits this material to the SEC. The information contained on the website or available by hyperlink from the website is not incorporated into this Annual Report on Form 10-K or other documents the Company files with, or furnish to, the SEC.

**Executive Officers**

The executive officers of the Company are as follows:

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
Tilman J. Falgout, III	58	Chairman of the Board, Chief Executive Officer, General Counsel and Director
William H. Henderson	43	Vice Chairman of the Board, President and Director
Eddie L. Hight	44	Chief Operating Officer
Jeffrey A. Williams	44	Chief Financial Officer, Vice President Finance and Secretary

**Tilman J. Falgout, III** has served as Chairman of the Board since May 2004, Chief Executive Officer of the Company since May 2002, General Counsel since 1995 and a director of the Company since 1992. From 1995 until May 2002, Mr. Falgout also served as Executive Vice President of the Company. From 1978 through June 1995, Mr. Falgout was a partner in the law firm of Stumpf & Falgout, Houston, Texas.

**William H. Henderson** has served as Vice Chairman of the Board since May 2004 and as President of the Company since May 2002. From 1999 until May 2002, Mr. Henderson served as Chief Operating Officer of Car-Mart. From 1992 through 1998, Mr. Henderson served as General Manager of Car-Mart. From 1987 to 1992, Mr. Henderson primarily held the positions of District Manager and Regional Manager at Car-Mart.

**Eddie L. Hight** has served as Chief Operating Officer of the Company since May 2002. From 1984 until May 2002, Mr. Hight held a number of positions at Car-Mart including Store Manager and Regional Manager.

**Jeffrey A. Williams** has served as Chief Financial Officer, Vice President Finance and Secretary of the Company since October 1, 2005. From October 2004 until his employment by the Company, he served as the Chief Financial Officer of Budgettext Corporation, a distributor of new and used textbooks. From February 2004 to October 2004, Mr. Williams was the President and founder of Clearview Enterprises, LLC, a regional distributor of animal health products. From January 1999 to January 2004, Mr. Williams was Chief Financial Officer and Vice President of Operations of Wynco, LLC, a nationwide distributor of animal health products.

**Item 1A. Risk Factors**

Car-Mart is subject to various risks, including the risks described below. Car-Mart's business, operating results, and financial condition could be materially and adversely affected by any of these risks. Additional risks not presently known to the Company or that Car-Mart currently deems immaterial may also impair its business and operations.

## **Risks Related to the Used Automotive Retail and Finance Industry**

*The Company may have a higher risk of delinquency and default than traditional lenders because it loans money to credit-impaired borrowers.*

Substantially all of Car-Mart's automobile contracts involve loans made to individuals with impaired or limited credit histories, or higher debt-to-income ratios than permitted by traditional lenders. Loans made to borrowers who are restricted in their ability to obtain financing from traditional lenders generally entail a higher risk of delinquency, default and repossession, and higher losses than loans made to borrowers with better credit. Delinquency interrupts the flow of projected interest income and repayment of principal from a loan, and a default can ultimately lead to a loss if the net realizable value of the automobile securing the loan is insufficient to cover the principal and interest due on the loan or the vehicle cannot be recovered. Car-Mart's profitability depends, in part, upon its ability to properly evaluate the creditworthiness of non-prime borrowers and efficiently service such loans. Although the Company believes that its underwriting criteria and collection methods enable it to manage the higher risks inherent in loans made to non-prime borrowers, no assurance can be given that such criteria or methods will afford adequate protection against such risks. If the Company experiences higher losses than anticipated, its financial condition, results of operations and business prospects could be materially and adversely affected.

*A decrease in market interest rates would likely have an adverse effect on the Company's profitability.*

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 6% to 19%, while its revolving notes payable contain variable interest rates that fluctuate with market interest rates. However, interest rates charged on finance receivables originated in the State of Arkansas are limited to the federal primary credit rate plus 5%. Typically, the Company charges interest on its Arkansas loans 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 are set at a spread above the federal primary credit rate which does fluctuate. At April 30, 2007, approximately 57% of the Company's finance receivables were originated in Arkansas. Assuming that this percentage is held constant for future loan originations, the long-term effect of decreases in the federal primary credit rate would generally have 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 allowance for credit losses may not be sufficient to cover actual credit losses, which could adversely affect its financial condition and operating results.*

From time to time, the Company has to recognize losses resulting from the inability of certain borrowers to repay loans and the insufficient realizable value of the collateral securing loans. The Company maintains an allowance for credit losses in an attempt to cover credit losses inherent in its loan portfolio. Additional credit losses will likely occur in the future and may occur at a rate greater than the Company has experienced to date. The allowance for credit losses is based primarily upon historical credit loss experience, with consideration given to delinquency levels, collateral values, economic conditions and underwriting and collections practices. This evaluation is inherently subjective as it requires estimates of material factors that may be susceptible to significant change. If the Company's assumptions and judgments prove to be incorrect, its current allowance may not be sufficient and adjustments may be necessary to allow for different economic conditions or adverse developments in its loan portfolio.



*A reduction in the availability or access to sources of inventory would adversely affect the Company's business by increasing the costs of vehicles purchased.*

Car-Mart acquires vehicles primarily through wholesalers, new car dealers and from auctions. There can be no assurance that sufficient inventory will continue to be available to the Company or will be available at comparable costs. Any reduction in the availability of inventory or increases in the cost of vehicles would adversely affect gross profit percentages as the Company focuses on keeping payments affordable to its customer base. The Company could have to absorb cost increases.

*The used automotive retail industry is highly competitive and fragmented, which could result in increased costs to the Company for vehicles and adverse price competition.*

The Company competes principally with other independent Buy Here/Pay Here dealers, and to a lesser degree with (i) the used vehicle retail operations of franchised automobile dealerships, (ii) independent used vehicle dealers, and (iii) individuals who sell used vehicles in private transactions. The Company competes for both the purchase and resale of used vehicles. The Company's competitors may sell the same or similar makes of vehicles that Car-Mart offers in the same or similar markets at competitive prices. Increased competition in the market, including new entrants to the market, could result in increased wholesale costs for used vehicles and lower-than-expected vehicle sales and margins. Further, if any of Car-Mart's competitors seek to gain or retain market share by reducing prices for used vehicles, the Company would likely reduce its prices in order to remain competitive, which may result in a decrease in its sales and profitability and require a change in its operating strategies.

*An economic slowdown will have adverse consequences for the used automotive industry and may have greater consequences for the non-prime segment of the industry.*

In the normal course of business, the used automotive retail industry is subject to changes in regional U.S. economic conditions, including, but not limited to, interest rates, gasoline prices, inflation, personal discretionary spending levels, and consumer sentiment about the economy in general. Any significant changes in economic conditions could adversely affect consumer demand and/or increase costs, resulting in lower profitability for the Company. Due to the Company's focus on non-prime borrowers, its actual rate of delinquencies, repossessions and credit losses on loans could be higher under adverse economic conditions than those experienced in the automotive retail finance industry in general.

*The used automotive industry operates in a highly regulated environment with significant attendant compliance costs and penalties for non-compliance.*

The used automotive industry is subject to a wide range of federal, state, and local laws and regulations, such as local licensing requirements and laws regarding advertising, vehicle sales, financing, and employment practices. Facilities and operations are also subject to federal, state, and local laws and regulations relating to environmental protection and human health and safety. The violation of these laws and regulations could result in administrative, civil, or criminal penalties against the Company, or in a cease and desist order. As a result, the Company has incurred, and will continue to incur, capital and operating expenditures, and other costs in complying with these laws and regulations. Further, over the past several years, private plaintiffs and federal, state, and local regulatory and law enforcement authorities have increased their scrutiny of advertising, sales, and finance and insurance activities in the sale of motor vehicles.

*Inclement weather can adversely impact the Company's operating results.*

The occurrence of weather events, such as rain, snow, wind, storms, hurricanes, or other natural disasters, adversely affecting consumer traffic at Car-Mart's automotive dealerships, could negatively impact the Company's operating results.

### **Risks Related to the Company**

*The Company's business is geographically concentrated; therefore, the Company's results of operations may be adversely affected by unfavorable conditions in its local markets.*

The Company's performance is subject to local economic, competitive, and other conditions prevailing in the nine states where Car-Mart operates. 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, Oklahoma, Texas, Kentucky and Missouri, with approximately 54% of revenues resulting from sales to Arkansas customers. The Company's current results of operations depend substantially on general economic conditions and consumer spending habits in these local markets.

*Car-Mart's success depends upon the continued contributions of its management teams.*

The Company is dependent upon the continued contributions of its management teams and other key employees. Since the Company maintains a decentralized operation in which each store is responsible for buying and selling its own vehicles, making credit decisions and collecting loans it originates, the key employees at each store are important factors in the Company's ability to implement its business strategy. Consequently, the loss of the services of key employees could have a material adverse effect on the Company's results of operations. In addition, when Car-Mart decides to open new lots, the Company will need to hire additional personnel. The market for qualified employees in the industry and in the regions in which Car-Mart operates is highly competitive and may subject the Company to increased labor costs during periods of low unemployment.

*The Company's business is dependent upon the efficient operation of its information systems.*

Car-Mart relies on its information systems to manage its sales, inventory, consumer financing, and customer information effectively. The failure of the Company's information systems to perform as designed, or the failure to maintain and continually enhance or protect the integrity of these systems, could disrupt the Company's business, impact sales and profitability, or expose the Company to customer or third-party claims.

*Changes in the availability or cost of capital and working capital financing could adversely affect the Company's growth and business strategies.*

The Company generates cash from income from continuing operations. The cash is primarily used to fund finance receivables growth, which have historically grown slightly faster than revenues. To the extent finance receivables growth exceeds income from continuing operations, generally the Company increases its borrowings under its revolving credit facilities to provide the cash necessary to make loans. On a long-term basis, the Company expects its principal sources of liquidity to consist of income from continuing operations and borrowings under revolving credit facilities and/or fixed interest term loans. Any adverse changes in the Company's ability to borrow under revolving credit facilities or fixed interest term loans, or any increase in the cost of such borrowings, would likely have a negative impact on the Company's ability to finance receivables growth which would adversely affect the Company's growth and business strategies.

Further, Car-Mart's current credit facilities contain various reporting and performance covenants. Any failure by the Company to comply with these covenants could have a material adverse effect on the Company's ability to implement its business strategy.

*The Company's growth is dependent upon the availability of suitable lot sites.*

The Company leases a majority of the properties where its stores are located. If and when the Company decides to open new stores, the inability to acquire suitable real estate, either through lease or purchase, at favorable terms could limit the expansion of the Company's lot base and could have a material adverse effect on the Company's expansion strategy and future operating results.

*Car-Mart's business is subject to seasonal fluctuations.*

The Company's third fiscal quarter (November through January) is historically the slowest period for car and truck sales. Conversely, the Company's first and fourth fiscal quarters (May through July and February through April) are historically the busiest times for car and truck sales. Therefore, Car-Mart generally realizes a higher proportion of its revenue and operating profit during the first and fourth fiscal quarters. If conditions arise that impair vehicle sales during the first or fourth fiscal quarters, the adverse effect on the Company's revenues and operating profit for the year could be disproportionately large.

#### **Item 1B. Unresolved Staff Comments**

Not applicable.

#### **Item 2. Properties**

As of April 30, 2007, the Company leased approximately 78% of its facilities, including dealerships and the Company's corporate offices. These facilities are located principally in the states of Arkansas, Oklahoma, Texas, Kentucky and Missouri. The Company's corporate offices are located in approximately 12,000 square feet of leased space in Bentonville, Arkansas. For additional information regarding the Company's properties, see "Contractual Payment Obligations" and "Off-Balance Sheet Arrangements" under Item 7 of Part II.

#### **Item 3. Legal Proceedings**

In the ordinary course of business, the Company has become a defendant in various types of legal proceedings. The Company does not expect the final outcome of any of these actions, individually or in the aggregate, to have a material adverse effect on the Company's financial position, annual results of operations or cash flows. However, the results of legal proceedings cannot be predicted with certainty, and an unfavorable resolution of one or more of these legal proceedings could have a material adverse effect on the Company's financial position, annual results of operations or cash flows.

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

No matters were submitted to a vote of security holders of the Company during the fourth quarter ended April 30, 2007.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### General

The Company's common stock is traded on the NASDAQ National Market under the symbol CRMT. The following table sets forth, by fiscal quarter, the high and low closing sales prices reported by NASDAQ for the Company's common stock for the periods indicated.

	Fiscal 2007		Fiscal 2006	
	High	Low	High	Low
First quarter	\$ 20.58	\$ 15.04	\$ 23.37	\$ 19.96
Second quarter	17.01	13.90	21.72	15.94
Third quarter	15.08	10.41	18.65	14.29
Fourth quarter	13.84	10.56	22.06	17.45

As of July 13, 2007, there were approximately 1,054 stockholders of record. This number excludes stockholders holding stock under nominee security position listings.

#### Stockholder Return Performance Graph

Set forth below is a line graph comparing the fiscal year end percentage change in the cumulative total stockholder return on the Company's common stock to (i) the cumulative total return of the NASDAQ Market Index (U.S. companies), and (ii) the Hemscoff Group 744 Index – Auto Dealerships (“Automobile Index”), for the period of five fiscal years commencing on May 1, 2002 and ending on April 30, 2007. The graph assumes that the value of the investment in the Company's common stock and each index was \$100 on May 1, 2002.

The dollar value at April 30, 2007 of \$100 invested in the Company's common stock on May 1, 2002 was \$143.44, compared to \$137.22 for the Automobile Index described above and \$159.29 for the NASDAQ Market Index (U.S. Companies ).

### **Dividend Policy**

Since its inception the Company has paid no cash dividends on its common stock. The Company currently intends to follow a policy of retaining earnings to finance future growth. Payment of cash dividends in the future will be determined by the Company's Board of Directors and will depend upon, among other things, the Company's future earnings, operations, capital requirements and surplus, general financial condition, contractual restrictions that may exist, and such other factors as the Board of Directors may deem relevant. Colonial's revolving credit facility prohibits dividends to the Company and Car-Mart of Arkansas's revolving credit facility limits dividends to the Company to 75% of Car-Mart of Arkansas's net income. Thus, the Company is limited in the amount of cash dividends or other distributions it can make to its shareholders.

### **Stock Split**

In March 2005, the Company's Board of Directors declared a three-for-two common stock split, effected in the form of a 50% stock dividend, that was paid in April 2005. All share and per share numbers and amounts in this Form 10-K have been adjusted to reflect this three-for-two common stock split.

**Equity Compensation Plan Information**

The following table provides information as of April 30, 2007 with respect to the Company's equity compensation plans:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans
Equity compensation plans:			
Approved by security holders	274,545	\$ 10.59	28,558
Not approved by security holders (1)	18,750	13.11	-
Total	293,295	\$ 10.75	28,558

(1) For a description of equity compensation plans not approved by security holders, see "Warrants" in Note J to the Company's financial statements included elsewhere herein.

**Issuer Purchases of Equity Securities**

The Company is authorized to repurchase up to 1 million shares of its common stock under the common stock repurchase program last amended and approved by the Board of Directors and announced on December 2, 2005. During the quarter ended April 30, 2007, the Company did not repurchase any shares of the common stock under the stock repurchase program. As of April 30, 2007, the remaining number of shares that may be purchased under the plan was 888,750.

**Item 6. Selected Financial Data**

The financial data set forth below was derived from the audited consolidated financial statements of the Company and should be read in conjunction with the consolidated financial statements and related notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations contained elsewhere herein.

	Years Ended April 30,				
	2007	2006	2005	2004	2003
	(In thousands)				
Revenues	\$ 240,334	\$ 234,207	\$ 204,788	\$ 176,184	\$ 154,885
Income from operations	\$ 4,232	\$ 16,705	\$ 17,976	\$ 15,639	\$ 13,569
Net income	\$ 4,232	\$ 16,705	\$ 17,976	\$ 15,804	\$ 14,075
Diluted earnings per share	\$ 0.35	\$ 1.39	\$ 1.49	\$ 1.31	\$ 1.16
Total assets	\$ 173,598	\$ 177,613	\$ 143,668	\$ 117,241	\$ 101,841
Total debt	\$ 40,829	\$ 43,588	\$ 29,145	\$ 22,534	\$ 25,968
Stockholders' equity	\$ 123,728	\$ 119,251	\$ 103,265	\$ 84,577	\$ 65,961
Shares outstanding	11,875	11,848	11,844	11,637	10,812

**Item 7. 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 appearing elsewhere in this annual report.

**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 April 30, 2007, the Company operated 92 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 approximately 3% and 21% per year over the last ten years. Historically, finance receivables have tended to grow slightly faster than revenues. In fiscal 2007, revenues increased 2.6% while finance receivables decreased 3.6% due to higher charge offs experienced for the year. In fiscal 2006, finance receivables grew 21.6% compared to revenue growth of 14.4%. The increase in 2006 primarily related to 1) an increase in the average term for installment sales contracts (to 27.25 months), 2) the timing of customer payments, particularly at year-end, 3) the purchase of finance receivables from Dan's Auto Sales in Lexington, KY in March 2006, 4) the increase in the percentage of 30-day plus past due amounts at year-end (to

3.7%), and 5) an increase in the average interest rate charged resulting in a higher percentage of customer payments going to interest as opposed to principal reduction. 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 again be the trend.



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 fiscal years, Car-Mart's credit losses as a percentage of sales have ranged between approximately 18.5% in 2003 and 29.1% in 2007 (average of 22.1%). For the last two fiscal years, credit losses as a percentage of sales have averaged 25.2%. 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, significant negative external economic issues, including higher fuel prices, were prevalent throughout fiscal 2007.

The Company's gross margins as a percentage of sales have been fairly consistent from year to year. Over the last ten fiscal years, Car-Mart's gross margins as a percentage of sales have ranged between approximately 42% and 48%. Gross margins as a percentage of sales for fiscal 2007 were 42.3% (41.5% for the fourth quarter). This is down from 44.3% for fiscal 2006 (43.2% for the fourth quarter). The Company's gross margins are set based upon the cost of the vehicle purchased, with lower-priced vehicles having higher gross margin percentages. 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 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 future 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 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. In fiscal 2005 through 2007, the Company added resources to recruit, train and develop personnel. The Company expects to continue to invest in the development of its workforce in fiscal 2008 and beyond.

**Consolidated Operations**  
(Operating Statement Dollars in Thousands)

	Years Ended April 30,			% Change		As a % of Sales		
				2007 vs.	2006 vs.			
<b>Operating Statement:</b>	2007	2006	2005	2006	2005	2007	2006	2005
Revenues:								
Sales	\$ 216,898	\$ 214,482	\$ 189,343	1.1%	13.3%	100.0%	100.0%	100.0%
Interest income and other	23,436	19,725	15,445	18.8	27.7	10.8	9.2	8.2
Total	240,334	234,207	204,788	2.6	14.4	110.8	109.2	108.2
Costs and expenses:								
Cost of sales	125,073	119,433	101,769	4.7	17.4	57.7	55.7	53.7
Selling, gen and admin	41,778	39,261	34,788	6.4	12.9	19.3	18.3	18.4
Provision for credit loss	63,077	45,810	38,094	37.7	20.3	29.1	21.4	20.1
Interest expense	3,728	2,458	1,227	51.7	100.3	1.7	1.1	.6
Depreciation and amort	994	724	426	37.3	70.0	.5	.3	.2
Total	234,650	207,686	176,304	13.0	17.8	108.2	96.8	93.1
Pretax income	\$ 5,684	\$ 26,521	\$ 28,484	(78.6)	(6.9)	2.6	12.4	15.0
<b>Operating Data:</b>								
Retail units sold	25,199	27,415	25,399	(8.1%)	7.9%			
Average stores in operation	89.7	81.5	74.5	10.1	9.4			
Average units sold per store	281	336	341	(16.4)	(1.5)			
Average retail sales price	\$ 8,125	\$ 7,494	\$ 7,163	8.4	4.6			
Same store revenue growth	(3.2%)	9.8%	11.8%					
Receivables average yield	12.5%	11.6%	10.8%					

**2007 Compared to 2006**

Revenues increased \$6.1 million, or 2.6%, in fiscal 2007 as compared to fiscal 2006, principally as a result of (i) revenue growth from stores opened during fiscal 2006 or stores that opened or closed a satellite location during fiscal 2007 or fiscal 2006 (\$7.4 million), (ii) revenues from stores opened during fiscal 2007 (\$5.9 million), (iii) offset by a \$7.2 million decrease in revenues for stores that operated a full 12 months in both periods.

Revenues increased 2.6% in fiscal 2007 as compared to revenue growth of 14.4% in fiscal 2006. The decrease in revenue growth year over year is attributable to (i) a decrease in retail unit volumes in 2007 offset by an 8.4% increase in the average unit sales price, (ii) a lower growth rate for interest and other income, offset by (iii) increased wholesale sales during 2007. Presently, the Company expects that its average retail sales price will increase in fiscal 2008, but at a rate slightly lower than its historical average annual price increase of 3% to 5%.

Cost of sales, as a percentage of sales, increased 2.0% to 57.7% in fiscal 2007 from 55.7% in fiscal 2006. The Company's gross margins are set based upon the cost of the vehicle purchased, with lower-priced vehicles having higher gross margin percentages. 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 was higher in 2007 versus 2006 which had a negative effect on gross margins. Consumer demand for the primary vehicles the Company acquires for its stores remains high and has been exacerbated by the slow down in domestic new car sales, resulting in higher purchase costs for vehicles.

Selling, general and administrative expense, as a percentage of sales, increased 1.0% to 19.3% in fiscal 2007 from 18.3% in fiscal 2006. The percentage increase was principally the result of an increase in advertising and payroll costs and additional lot level expenditures associated with the opening of new dealerships. Included in payroll costs for 2007 is approximately \$533,000 in stock based compensation associated with the adoption of SFAS 123R on May 1, 2006. Also, the percentage was negatively affected by the lower sales level increase. Had sales levels been at planned volumes, selling, general and administrative expense, as a percentage of sales, would have been lower. Additionally, the Company incurred increased costs associated with strengthening controls and enhancing the corporate infrastructure to improve efficiencies and allow for future growth.

Provision for credit losses, as a percentage of sales, increased 7.7% to 29.1% in fiscal 2007 from 21.4% in fiscal 2006. 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 receivable 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, significant negative external economic issues, including higher fuel prices, were prevalent throughout fiscal year 2007.

Interest expense, as a percentage of sales, increased .6% to 1.7% in fiscal 2007 from 1.1% in fiscal 2006. The increase was principally the result of higher average borrowing levels and higher average interest rates on the credit facility during fiscal 2007.

The effective income tax rate in 2007 was 26%. This lower tax rate resulted primarily from the elimination of tax reserves established in prior years related to Internal Revenue Service ("IRS") examinations of the Company's 2002 tax returns and certain items in subsequent years. The reserves were eliminated based on notification received from the IRS that the Company would not be assessed any additional taxes, penalties or interest related to the examinations. Going forward, the Company expects its effective tax rate to be closer to historical rates.

## **2006 Compared to 2005**

Revenues increased \$29.4 million, or 14.4%, in fiscal 2006 as compared to fiscal 2005, principally as a result of (i) revenue growth from stores that operated a full 12 months in both periods (\$19.5 million, or 9.8%), (ii) revenue growth from stores opened during fiscal 2005 or stores that opened or closed a satellite location during fiscal 2006 or fiscal 2005 (\$2.5 million), and (iii) revenues from stores opened during fiscal 2006 (\$7.4 million).

Revenues increased 14.4% in fiscal 2006 as compared to revenue growth of 16.2% in fiscal 2005. The decrease in revenue growth year over year is attributable to a larger increase in the average retail sales price in fiscal 2005 (10.1%) as compared to fiscal 2006 (4.6%) offset by an increase in retail units sold and an increase in interest income and other. In February 2004, the Company made the decision to substantially reduce its purchase and sale of lower-priced vehicles and began purchasing and selling slightly higher-priced vehicles.

Cost of sales, as a percentage of sales, increased 2.0% to 55.7% in fiscal 2006 from 53.7% in fiscal 2005. The Company's gross margins are set based upon the cost of the vehicle purchased, with lower-priced vehicles having higher gross margin percentages. 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 to a lesser extent by higher operating costs, mostly related to increased vehicle repair costs and higher fuel and transport costs. Additionally, the percentage of wholesale sales was higher in 2006 versus 2005 which had a negative effect on gross margins. Short-term supply issues during fiscal 2006, most prevalent during the final three quarters brought on by Hurricanes Katrina and Rita and by the slow down in domestic new car sales, resulted in higher purchase costs for vehicles.



Selling, general and administrative expense, as a percentage of sales, decreased .1% to 18.3% in fiscal 2006 from 18.4% in fiscal 2005. The percentage decrease was principally the result of a decrease, as a percentage of sales, in compensation expense. The decrease in compensation expense, as a percentage of sales, is partially the result of selling higher-priced vehicles. Selling higher-priced vehicles increases sales without necessarily increasing compensation expense. The decrease in compensation expense was offset, to an extent, by other expense increases including 1) utility and travel costs which increased as a result of the increase in fuel prices during the year, 2) charges associated with the legal settlement with Astoria Entertainment, Inc., and 3) increased costs in the Information Technology Department and other corporate infrastructure areas to strengthen controls, improve efficiencies and allow for continued growth.

Provision for credit losses, as a percentage of sales, increased 1.3% to 21.4% in fiscal 2006 from 20.1% in fiscal 2005. Credit losses in fiscal 2006 were negatively affected by higher losses experienced during the Company's second quarter (24.6%). Significant negative external economic issues, including higher fuel prices, were prevalent during fiscal 2006, concentrated to a large extent in the second quarter. Also during the second quarter, significant efforts were made by store management to identify, clean-up and write off uncollectible accounts. Credit losses were 20.9%, 20.6% and 19.6% for the first, third and fourth quarters of fiscal 2006.

Interest expense, as a percentage of sales, increased .5% to 1.1% in fiscal 2006 from .6% in fiscal 2005. The increase was principally the result of higher average borrowing levels and higher average interest rates on the credit facility during fiscal 2006.

### Financial Condition

The following table sets forth the major balance sheet accounts of the Company at April 30, 2007, 2006 and 2005 (in thousands):

	2007	April 30, 2006	2005
<b>Assets:</b>			
Finance receivables, net	\$ 139,194	\$ 149,379	\$ 123,099
Inventory	13,682	10,923	7,985
Property and equipment, net	16,883	15,436	11,305
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	8,706	11,838	8,819
Revolving credit facilities	40,829	43,588	29,145

Historically, finance receivables have tended to grow slightly faster than revenue growth. This has historically been due, to a large extent, to an increasing 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 for the year. In fiscal 2006, finance receivables grew 21.6% compared to revenue growth of 14.4%. The increase in 2006 primarily related to 1) an increase in the average term for installment sales contracts (to 27.25 months), 2) the timing of customer payments, particularly at year-end, 3) the purchase of finance receivables from Dan's Auto Sales in Lexington, KY in March 2006, 4) the increase in the percentage of 30-day plus past due amounts at year-end (to 3.7%), and 5) an increase in the average interest rate charged resulting in a higher percentage of customer payments going to interest as opposed to principal reduction. It is anticipated that the historical experience of finance receivables growing slightly faster than revenues will again be the trend into the future.

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In fiscal 2007, inventory grew by 25% (\$2.8 million) as compared to revenue growth of 2.6%. Inventory grew at a faster pace than revenues as a result of (i) an increase in the level of inventory at many stores to provide an adequate mix of vehicles and to facilitate sales growth, (ii) an increase in the average inventory cost per unit and (iii) lower sales levels, particularly toward fiscal year end resulting in additional vehicles at dealerships. In fiscal 2007, the average retail sales price increased 8.4% over fiscal 2006.

Property and equipment, net increased \$1.4 million in fiscal 2007 as the Company purchased real estate for stores and incurred expenditures to refurbish and expand a number of existing locations.

Accounts payable and accrued liabilities decreased in fiscal 2007 due to the significantly lower sales volume, most pronounced toward the end of fiscal 2007. Unit sales were 17% lower in the fourth quarter of 2007 versus the fourth quarter of 2006.

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) capital expenditures, and (iv) common stock repurchases. Historically, income from continuing operations, as well as borrowings on the revolving credit facilities, have funded the finance receivables growth and capital asset purchases.

### Liquidity and Capital Resources

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

	Years Ended April 30,		
	2007	2006	2005
Operating activities:			
Net income	\$ 4,232	\$ 16,705	\$ 17,976
Provision for credit losses	63,077	45,810	38,094
Finance receivable originations	(196,200)	(196,190)	(173,446)
Finance receivable collections	124,092	111,315	105,973
Inventory	16,811	10,692	7,954
Income Taxes	(3,695)	1,509	(89)
Other receivables	124	(294)	(14)
Accounts payable and accrued liabilities	(692)	1,389	1,482
Other	560	(440)	584
Total	8,309	(9,504)	(1,486)
Investing activities:			
Purchase of property and equipment	(2,716)	(5,011)	(6,174)
Proceeds from sale of property and equipment	357	157	-
Payment for business acquired	(460)	(1,200)	-
Total	(2,819)	(6,054)	(6,174)
Financing activities:			
Debt facilities, net	(2,759)	14,444	6,610
Change in cash overdrafts	(2,441)	1,629	(331)
Purchase of common stock	(454)	(1,312)	(531)
Exercise of stock options and warrants, including tax benefits	166	593	1,243
Total	(5,488)	15,354	6,991

Cash provided by (used in) continuing operations	\$	2	\$	(204)	\$	(669)
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The Company generates cash flow from income from operations. Historically, most or all of this cash is used to fund finance receivables growth. To the extent finance receivables growth 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.

The Company has had a tendency to lease the majority of the properties where its stores are located. As of April 30, 2007, the Company leased approximately 78% of its store properties. The Company expects to continue to lease the majority of the properties where its stores are located.

Car-Mart's revolving credit facilities limit distributions from Car-Mart to the Company beyond (i) the repayment of an intercompany loan (\$10.0 million at April 30, 2007), and (ii) dividends equal to 75% of Car-Mart of Arkansas' net income. At April 30, 2007, the Company's assets (excluding its \$110 million equity investment in Car-Mart) consisted of \$25,000 in cash, \$3.0 million in other assets and a \$10.0 million receivable from Car-Mart. 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's lender. Beginning in February 2003, Car-Mart assumed substantially all of the operating costs of the Company.

At April 30, 2007, the Company had \$.3 million of cash on hand and an additional \$10.2 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. Further, 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 larger than the percentage that its revenues grow, (ii) purchase property and equipment of approximately \$2 million in the next 12 months in connection with refurbishing existing stores, and (iii) reduce debt, to the extent excess cash is available, if any. In addition, from time to time the Company may use cash to repurchase its common stock.

The Company's revolving credit facilities mature in April 2009. 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

The following is a summary of the Company's contractual obligations as of April 30, 2007, including renewal periods under operating leases that are reasonably assured (in thousands):

Contractual Obligations	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Revolving line of credit	\$ 30,311	\$ -	\$ 30,311	\$ -	\$ -
Notes payable	10,518	751	1,693	1,986	6,088
Interest payments	4,598	809	1,427	1,135	1,227
Operating leases	27,151	2,685	5,224	4,779	14,463
Total	\$ 72,578	\$ 4,245	\$ 38,655	\$ 7,900	\$ 21,778



We calculated estimated interest payments for the long term debt using the applicable rates and payment dates. We typically expect to settle such interest payments with cash flows from operations and short-term borrowings.

The above excludes estimated interest payments on the Company's revolving line of credit. The Company paid \$2.9 million in interest payments on the revolving line of credit debt in fiscal 2007.

The \$27.2 million of lease commitments includes \$6.7 million of non-cancelable lease commitments under the primary lease terms, and \$20.5 million of lease commitments for renewal periods at the Company's option that are reasonably assured.

### **Off-Balance Sheet Arrangements**

The Company has entered into operating leases for approximately 78% 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. For the years ended April 30, 2007, 2006 and 2005, rent expense for all operating leases amounted to approximately \$2.8 million, \$2.4 million and \$2.1 million, respectively.

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 is 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 Regulations is in part a facts and circumstances matter. The Company believes it satisfies the material provisions of the 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 ("IRS") has not yet formally concluded the previously disclosed examinations of the Company's tax returns for fiscal 2002 and certain items in subsequent years. However, on May 8, 2007, the Company received notification from the IRS that the Company would not be assessed any additional taxes, penalties or interest related to the examinations. The formal notification of the examination results are expected in the near future. The examinations focused on whether or not the Company satisfied the provisions of the Treasury Regulations which would entitle Car-Mart of Arkansas to a tax deduction at the time it sells its finance receivables to Colonial. Based upon the favorable notification, the Company recognized \$500,000 of net income in the fourth quarter of fiscal 2007 for the elimination of associated tax reserves.

## **Critical Accounting Policies**

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 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 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. 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.

At October 31, 2006 (the end of the Company's second quarter), management increased the allowance for credit loss percentage from 19.2% to 22% due to recent 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. No such charge was required in the third or fourth quarters of fiscal 2007.

## **Recent Accounting Pronouncements**

On May 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards 123R, "Share Based Payment" ("SFAS 123R"), which revises Statement 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion 25, "Accounting for Stock Issued to Employees." SFAS 123R requires the Company to recognize expense related to the fair value of stock-based compensation awards, including employee stock options.

Prior to the adoption of SFAS 123R, the Company accounted for stock-based compensation awards using the intrinsic value method of Opinion 25. Accordingly, the Company did not recognize compensation expense in the statement of operations for options granted that had an exercise price equal to the market value of the underlying common stock on the date of grant. As required by Statement 123, the Company also provided certain pro forma disclosures for stock-based awards as if the fair-value-based approach of Statement 123 had been applied.

The Company has elected to use the modified prospective transition method as permitted by SFAS 123R and therefore has not restated financial results for prior periods. Under this transition method, the Company will apply the provisions of SFAS 123R to new awards and to awards modified, repurchased, or cancelled after May 1, 2006. All stock options and warrants outstanding at May 1, 2006 were fully vested.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which will require companies to assess each income tax position taken using a two-step process. A determination is first made as to whether it is more likely than not that the position will be sustained, based upon the technical merits, upon examination by the taxing authorities. If the tax position is expected to meet the more likely than not criteria, the benefit recorded for the tax position equals the largest amount that is greater than 50% likely to be realized upon ultimate settlement of the respective tax position. The interpretation applies to income tax expense as well as any related interest and penalty expense.

FIN 48 requires that changes in tax positions recorded in a company's financial statements prior to the adoption of this interpretation be recorded as an adjustment to the opening balance of retained earnings for the period of adoption. FIN 48 will generally be effective for public companies for the first fiscal year beginning after December 15, 2006. The Company will adopt the provisions of this interpretation during the first quarter of fiscal 2008. No determination has yet been made regarding the materiality of the potential impact of this interpretation on the Company's financial statement.

FASB Statement No. 154, "Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS No. 154") was issued in May 2005. SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this new pronouncement in fiscal 2007 did not impact the Company's financial condition, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The Company will be required to adopt this standard in the first quarter of the fiscal year ending April 30, 2009. The Company is in the process of evaluating the anticipated effect of SFAS 157 on its consolidated financial statements and is not currently in a position to determine such effects.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) 108, "Financial Statements - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 requires quantification of the impact of all prior year misstatements from both an income statement and a balance sheet perspective to determine if the misstatements are material. SAB 108 is effective for the Company's fiscal year ending April 30, 2007. The adoption of this new pronouncement in fiscal 2007 did not impact the Company's financial condition, results of operations or cash flows.

In February 2007, the FASB issued Statement 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement 115". The statement permits entities to choose to measure certain financial instruments and other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Unrealized gains and losses on any items for which Car-Mart elects the fair value measurement option would be reported in earnings. Statement 159 is effective for fiscal years beginning after November 15, 2007. However, early adoption is permitted for fiscal years beginning on or before November 15, 2007, provided Car-Mart also elects to apply the provisions of Statement 157, "Fair Value Measurements", at the same time. Car-Mart is currently assessing the effect, if any, the adoption of Statement 159 will have on its financial statements and related disclosures.



## Seasonality

The Company's automobile sales and finance business is seasonal in nature. The Company's third fiscal quarter (November through January) is historically the slowest period for car and truck sales. Many of the Company's operating expenses such as administrative personnel, rent and insurance are fixed and cannot be reduced during periods of decreased sales. Conversely, the Company's fourth fiscal quarter (February through April) is historically the busiest time for car and truck sales, as many of the Company's customers use income tax refunds as a down payment on the purchase of a vehicle.

## Impact of Inflation

Inflation has not historically been a significant factor impacting the Company's results. Recent purchase price increases for vehicles coupled with higher interest rates on finance receivables, however, have had a negative effect on the Company's gross profit percentages as the Company focuses on keeping payments affordable to its customer base.

## Item 7A. 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 exposure to changes in the federal primary credit rate and the prime interest rate of its lender. The Company does not use financial instruments for trading purposes or to manage interest rate risk. 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. As described below, a decrease in market interest rates would generally have an adverse effect on the Company's profitability.

The Company's financial instruments consist of fixed rate finance receivables, variable rate revolving notes payable and a \$10 million fixed rate term loan (funded in May 2006 – see note F to the consolidated financial statements). The Company's finance receivables generally bear interest at fixed rates ranging from 6% to 19%. These finance receivables generally have remaining maturities from one to 36 months. The Company's revolving notes payable contain variable interest rates that fluctuate with market interest rates (i.e., the rate charged on the Company's revolving credit facility fluctuates with the prime interest rate of its lender). However, interest rates charged on finance receivables originated in the State of Arkansas are limited to the federal primary credit rate (6.25% at April 30, 2007) plus 5.0%. Typically, the Company charges interest on its Arkansas loans 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 are set at a spread above the federal primary credit rate which does fluctuate. At April 30, 2007, approximately 57% of the Company's finance receivables were originated in Arkansas. The remaining loan portfolio carries interest rates approximating 17%. Assuming that these percentages are held constant for future loan originations, the long-term effect of decreases in the federal primary credit rate would generally have a negative effect on the profitability of the Company. This is the case 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 (assuming the prime interest rate of its lender decreases by the same percentage as the decrease in the federal primary credit rate). The initial impact within the first few months on profitability resulting from a decrease in the federal primary credit rate and the rate charged on its variable interest rate borrowings would be positive, as the immediate interest expense savings would outweigh the loss of interest income on new loan originations. However, as the amount of new loans originated at the lower interest rate increases to an amount in excess of the amount of variable interest rate borrowings, the effect on profitability would become negative.

The table below illustrates the estimated impact that hypothetical changes in the federal primary credit rate would have on the Company's continuing pretax earnings. The calculations assume (i) the increase or decrease in the federal primary credit rate remains in effect for two years, (ii) the increase or decrease in the federal primary credit rate results in a like increase or decrease in the rate charged on the Company's variable rate borrowings, (iii) the principal amount of finance receivables (\$178.5 million) and variable interest rate borrowings (\$30.3 million), and the percentage of Arkansas originated finance receivables (57%), remain constant during the periods, and (iv) the Company's historical collection and charge-off experience continues throughout the periods.

Increase (Decrease) in Interest Rates	Year 1	Year 2
	Increase (Decrease) in Pretax Earnings (in thousands)	Increase (Decrease) in Pretax Earnings (in thousands)
+200 basis points	\$ 187	\$ 1,177
+100 basis points	93	589
-100 basis points	(93)	(589)
-200 basis points	(187)	(1,177)

### Item 8. Financial Statements and Supplementary Data

The following financial statements and accountant's report are included in Item 8 of this report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of April 30, 2007 and 2006

Consolidated Statements of Operations for the years ended April 30, 2007, 2006 and 2005

Consolidated Statements of Cash Flows for the years ended April 30, 2007, 2006 and 2005

Consolidated Statements of Stockholders' Equity for the years ended April 30, 2007, 2006 and 2005

Notes to Consolidated Financial Statements



**Report of Independent Registered Public Accounting Firm**

Stockholders and Board of Directors  
America's Car-Mart, Inc.

We have audited the accompanying consolidated balance sheets of America's Car-Mart, Inc. (a Texas Corporation) and subsidiaries as of April 30, 2007 and 2006, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended April 30, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of America's Car-Mart, Inc. and subsidiaries as of April 30, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 2007 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* effective May 1, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of America's Car-Mart, Inc. and subsidiaries' internal control over financial reporting as of April 30, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 13, 2007 (included in item 9 A) expressed unqualified opinions on the effectiveness of internal control over financial reporting and management's evaluation thereof.

Tulsa, Oklahoma  
July 13, 2007

**Consolidated Balance Sheets**  
**America's Car-Mart, Inc.**  
(Dollars in thousands)

	April 30, 2007	April 30, 2006
Assets:		
Cash and cash equivalents	\$ 257	\$ 255
Accrued interest on finance receivables	694	818
Finance receivables, net	139,194	149,379
Inventory	13,682	10,923
Prepaid expenses and other assets	600	447
Income tax receivable	1,933	-
Goodwill	355	355
Property and equipment, net	16,883	15,436
	\$ 173,598	\$ 177,613
Liabilities and stockholders' equity:		
Accounts payable	\$ 2,473	\$ 3,095
Accrued liabilities	6,233	8,743
Income taxes payable	-	1,847
Deferred tax liabilities, net	335	1,089
Revolving credit facilities and notes payable	40,829	43,588
Total liabilities	49,870	58,362
Commitments and contingencies		
Stockholders' 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; 11,985,958 issued (11,929,274 at April 30, 2006)	120	119
Additional paid-in capital	35,286	34,588
Retained earnings	90,274	86,042
Treasury stock, at cost (111,250 and 81,250 shares at April 30, 2007 and 2006)	(1,952)	(1,498)
Total stockholders' equity	123,728	119,251
	\$ 173,598	\$ 177,613

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

**Consolidated Statements of Operations**  
**America's Car-Mart, Inc.**  
(Dollars in thousands)

	Years Ended April 30,		
	2007	2006	2005
Revenues:			
Sales	\$ 216,898	\$ 214,482	\$ 189,343
Interest and other income	23,436	19,725	15,445
	240,334	234,207	204,788
Costs and expenses:			
Cost of sales	125,073	119,433	101,769
Selling, general and administrative	41,778	39,261	34,788
Provision for credit losses	63,077	45,810	38,094
Interest expense	3,728	2,458	1,227
Depreciation and amortization	994	724	426
	234,650	207,686	176,304
Income before taxes	5,684	26,521	28,484
Provision for income taxes	1,452	9,816	10,508
Net income	\$ 4,232	\$ 16,705	\$ 17,976
Earnings per share:			
Basic	\$ .36	\$ 1.41	\$ 1.53
Diluted	\$ .35	\$ 1.39	\$ 1.49
Weighted average number of shares outstanding:			
Basic	11,850,247	11,852,804	11,737,398
Diluted	11,953,987	12,018,541	12,026,745

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

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

	Years Ended April 30,		
	2007	2006	2005
Operating activities:			
Net income	\$ 4,232	\$ 16,705	\$ 17,976
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities:			
Provision for credit losses	63,077	45,810	38,094
Depreciation and amortization	994	709	426
Loss (gain) on sale of property and equipment	(82)	15	-
Share based compensation	533	-	-
Deferred income taxes	(754)	(898)	370
Changes in operating assets and liabilities:			
Finance receivable originations	(196,200)	(196,190)	(173,446)
Finance receivable collections	124,092	111,315	105,973
Accrued interest on finance receivables	124	(294)	(14)
Inventory	16,811	10,692	7,954
Prepaid expenses and other assets	(46)	(152)	92
Accounts payable and accrued liabilities	(692)	1,389	1,482
Income taxes payable	(3,695)	1,509	(89)
Excess tax benefit from share-based payments	(85)	(114)	(304)
Net cash provided by (used in) operating activities	8,309	(9,504)	(1,486)
Investing activities:			
Purchase of property and equipment	(2,716)	(5,011)	(6,174)
Proceeds from sale of property and equipment	357	157	-
Payment for business acquired	(460)	(1,200)	-
Net cash used in investing activities	(2,819)	(6,054)	(6,174)
Financing activities:			
Exercise of stock options and warrants	81	479	939
Excess tax benefits from share based compensation	85	114	304
Purchase of common stock	(454)	(1,312)	(531)
Change in cash overdrafts	(2,441)	1,629	(331)
Proceeds from notes payable	11,200	-	-
Principal payments on notes payable	(682)	-	-
Proceeds from revolving credit facilities	68,456	121,025	65,796
Payments on revolving credit facilities	(81,733)	(106,581)	(59,186)
Net cash provided by (used in) financing activities	(5,488)	15,354	6,991
Increase (decrease) in cash and cash equivalents	2	(204)	(669)
Cash and cash equivalents at: Beginning of period	255	459	1,128
End of period	\$ 257	\$ 255	\$ 459

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



**Consolidated Statements of Stockholders' Equity**  
**America's Car-Mart, Inc.**  
(Dollars in thousands)

For the Years Ended April 30, 2007, 2006 and 2005

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance at April 30, 2004	11,636,762	\$ 116	\$ 33,100	\$ 51,361	\$ 0	\$ 84,577
Stock options/warrants exercised	233,199	2	937			939
Purchase of common stock	(17,773)	-	(345)			(345)
Purchase of 8,450 treasury shares					(186)	(186)
Tax benefit of options exercised			304			304
Net income				17,976		17,976
Balance at April 30, 2005	11,852,188	118	33,996	69,337	(186)	103,265
Stock options/warrants exercised	77,086	1	478			479
Purchase of 72,800 treasury shares					(1,312)	(1,312)
Tax benefit of options exercised			114			114
Net income				16,705		16,705
Balance at April 30, 2006	11,929,274	\$ 119	\$ 34,588	\$ 86,042	\$ (1,498)	\$ 119,251
Stock options/warrants exercised	13,750	-	81			81
Purchase of 30,000 treasury shares					(454)	(454)
Tax benefit of options exercised	22,329	-	85			85
Stock based compensation	20,605	1	532			533
Net income				4,232		4,232
Balance at April 30, 2007	11,985,958	\$ 120	\$ 35,286	\$ 90,274	\$ (1,952)	\$ 123,728

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

**Notes to Consolidated Financial Statements**  
**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 April 30, 2007, the Company operated 92 stores located primarily in small cities throughout the South-Central United States.

In October 2001, the Company made the decision to sell all of its operating subsidiaries except Car-Mart, and relocate its corporate headquarters to Bentonville, Arkansas where Car-Mart is based. As a result of this decision, all of the Company's other operating subsidiaries were sold. The Company sold its last remaining discontinued operation in July 2002.

**B - Summary of Significant Accounting Policies**

*Principles of Consolidation*

The consolidated financial statements include the accounts of America's Car-Mart, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated.

*Adjustments to Reflect Stock Split*

All references to the number of shares of common stock, stock options and warrants, earnings per share amounts, exercise prices of stock options and warrants, common stock prices, and other share and per share data or amounts have been adjusted, as necessary, to retroactively reflect the three-for-two common stock split effected in the form of a 50% stock dividend in April 2005.

*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 amount 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, Oklahoma, Texas, Kentucky and Missouri, with approximately 54% of revenues resulting from sales to Arkansas customers. Periodically, the Company maintains cash in financial institutions in excess of the amounts insured by the federal government. Car-Mart's revolving credit facilities mature in April 2009. The Company expects that these credit facilities will be renewed or refinanced on or before the

scheduled maturity dates.

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*Restrictions on Subsidiary Distributions/Dividends*

Car-Mart's revolving credit facilities limit distributions from Car-Mart to the Company beyond (i) the repayment of an intercompany loan (\$10.0 million at April 30, 2007), and (ii) dividends equal to 75% of Car-Mart of Arkansas' net income. At April 30, 2007, the Company's assets (excluding its \$110 million equity investment in Car-Mart) consisted of \$25,000 in cash, \$3.0 million in other assets and a \$10.0 million receivable from Car-Mart. 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's lender. Beginning in February 2003, Car-Mart assumed substantially all of the operating costs of the Company.

*Cash Equivalents*

The Company considers all highly liquid 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. 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 income remaining from the total interest to be earned over the term of the related installment contract. An account is considered delinquent when a contractually scheduled payment has not been received by the scheduled payment date. At April 30, 2007 and 2006, respectively, 3.4% and 3.7% of the Company's finance receivable balances were 30 days or more past due.

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 52 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 at a level it considers sufficient to cover estimated losses in the collection of its finance receivables. 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.

At October 31, 2006 (the end of the Company's second quarter), management increased the allowance for credit loss percentage from 19.2% to 22% due to recent 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. No such charge was required in the third or fourth quarters of fiscal 2007.

*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 Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangibles" ("SFAS 142"), 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 2007 and 2006.

*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 period. The lease period includes the primary lease term plus any extensions that are reasonably assured. Depreciation is computed principally using the straight-line method generally over the following estimated useful lives:

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

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

*Cash Overdraft*

The Company's primary disbursement bank account is set up to operate with a fixed \$100,000 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.

From time to time, 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.

### *Revenue Recognition*

Revenues are generated principally from the sale of used vehicles, which in most cases includes a service contract, and interest income and late fees earned on finance receivables. Revenues are net of taxes collected from customers and remitted to government agencies.

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. Interest income is recognized on all active finance receivable accounts using the interest method. Active accounts include all accounts except those that have been paid-off or charged-off. At April 30, 2007 and 2006, finance receivables more than 90 days past due were approximately \$115,000 and \$178,000, respectively. Late fees are recognized when collected and are included in interest income.

### *Advertising Costs*

Advertising costs are expensed as incurred and consist principally of radio, television and print media marketing costs. Advertising costs amounted to \$2,912,000, \$2,326,000 and \$2,006,000 for the years ended April 30, 2007, 2006 and 2005, respectively.

### *Employee Benefit Plans*

The Company has 401(k) plans for all of its employees meeting certain eligibility requirements. The plans provide for voluntary employee contributions and the Company matches 50% of employee contributions up to a maximum of 2% of each employee's compensation. The Company contributed approximately \$156,000, \$155,000, and \$103,000 to the plans for the years ended April 30, 2007, 2006 and 2005, respectively.

Effective February 1, 2007, the Company began offering employees the right to purchase common shares at a 15% discount from market price under the 2006 Employee Stock Purchase Plan which was approved by shareholders in October 2006. The Company will take a charge to earnings for the 15% discount. Amounts for fiscal 2007 were not material. A total of 200,000 shares have been registered and are available for issuance at April 30, 2007.



*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 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*

On May 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards 123R, "Share Based Payment" ("SFAS 123R"), which revises Statement 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion 25, "Accounting for Stock Issued to Employees." SFAS 123R requires the Company to recognize expense related to the fair value of stock-based compensation awards, including employee stock options.

Prior to the adoption of SFAS 123R, the Company accounted for stock-based compensation awards using the intrinsic value method of Opinion 25. Accordingly, the Company did not recognize compensation expense in the statement of operations for options granted that had an exercise price equal to the market value of the underlying common stock on the date of grant. As required by Statement 123, the Company also provided certain pro forma disclosures for stock-based awards as if the fair-value-based approach of Statement 123 had been applied.

The Company has elected to use the modified prospective transition method as permitted by SFAS 123R and therefore has not restated financial results for prior periods. Under this transition method, the Company applied the provisions of SFAS 123R to new awards and to awards modified, repurchased, or cancelled after May 1, 2006. All stock options and warrants outstanding at May 1, 2006 were fully vested.

The Company recorded compensation cost for stock-based employee awards of \$533,000 (\$336,000 after tax effects) during the year ended April 30, 2007. The pretax amount includes \$397,000 for restricted shares issued on May 1, 2006 and \$136,000 for stock options granted in fiscal 2007. The Company had not previously issued restricted shares. Tax benefits were recognized for these costs at the Company's overall expected effective tax rate.

As a result of the adoption of SFAS 123R, earnings were lower than under the previous accounting method for share-based compensation by the following amounts:

<i>(Dollars in thousands)</i>	Year Ended April 30, 2007
Income before taxes	\$136
Net income	\$ 85
Basic and diluted net earnings per common share	\$ .01

Prior to the adoption of SFAS 123R, the Company presented all tax benefits resulting from the exercise of non-qualified stock options and any disqualifying disposition of vested stock options as operating cash flows in the Consolidated Statement of Cash Flows. During the years ended April 30, 2006 and 2005, tax benefits relating to stock options exercised in the amounts of \$114,000 and \$304,000, respectively, were included in operating cash flows. SFAS 123R requires that cash flows from the exercise of stock options resulting from tax benefits in excess of recognized cumulative compensation cost (excess tax benefits) be classified as financing cash flows. For the year ended April 30, 2007, excess tax benefits relating to option and warrant exercises in the amount of \$85,000 were included in financing cash flows. The 2006 and 2005 excess tax benefits have been reclassified as a financing cash flow to conform to the 2007 presentation.

The following table illustrates the effect on net income after tax and net income per common share as if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based compensation for the years ended April 30, 2006 and 2005:

<i>(Dollars in thousands)</i>		Years Ended April 30,	
		2006	2005
Net income, as reported		\$ 16,705	\$ 17,976
Deduct:	Stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	(100)	(624)
Pro forma net income		\$ 16,605	\$ 17,352
Basic earnings per common share:			
	As reported	\$ 1.41	\$ 1.53
	Pro forma	\$ 1.40	\$ 1.48
Diluted earnings per common share:			
	As reported	\$ 1.39	\$ 1.49
	Pro forma	\$ 1.38	\$ 1.44

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

	April 30, 2007	April 30, 2006	April 30, 2005
Expected term (years)			