AMERICAS CARMART INC
Form 10-Q
December 07, 2007

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

FORM 10-Q

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

For the fiscal quarter ended: **October 31, 2007**	Commission file number: **0-14939**

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

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

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

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

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

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.

Large accelerated filer o Accelerated filer ý Non-accelerated filer o

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

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

Title of Each Class	Outstanding at December 7, 2007
Common stock, par value $.01 per share	11,878,463

Part I. FINANCIAL INFORMATION

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

	October 31, 2007 (unaudited)	April 30, 2007
Assets:		
Cash and cash equivalents	$ 375	$ 257
Accrued interest on finance receivables	820	694
Finance receivables, net	148,896	139,194
Inventory	13,553	13,682
Prepaid expenses and other assets	721	600
Income taxes receivable	2,783	1,933
Goodwill	355	355
Property and equipment, net	17,792	16,883
	$ 185,295	$ 173,598
Liabilities and stockholders' equity:		
Accounts payable	$ 2,771	$ 2,473
Deferred payment protection plan revenue	3,595	-
Accrued liabilities	8,942	6,233
Deferred tax liabilities	2,866	335
Revolving credit facilities and notes payable	37,334	40,829
Total liabilities	55,508	49,870
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; 11,989,713 issued (11,985,958 at April 30, 2007)	120	120
Additional paid-in capital	35,738	35,286
Retained earnings	95,881	90,274
Treasury stock, at cost (111,250 shares at October 31, 2007 and April 30, 2007)	(1,952)	(1,952)
Total stockholders' equity	129,787	123,728
	$ 185,295	$ 173,598

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

2

Consolidated Statements of Operations (Unaudited)

America's Car-Mart, Inc.

(Dollars in thousands except per share amounts)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2007	2006	2007	2006
Revenues:				
Sales	$ 62,228	$ 53,669	$ 115,091	$ 110,007
Interest and other income	6,015	5,870	11,859	11,723
	68,243	59,539	126,950	121,730
Costs and expenses:				
Cost of sales	36,028	31,140	67,566	62,476
Selling, general and administrative	11,630	10,446	22,825	20,916
Provision for credit losses	14,232	19,848	25,751	32,504
Interest expense	820	927	1,630	1,829
Depreciation and amortization	278	239	552	470
	62,988	62,600	118,324	118,195
Income (loss) before taxes	5,255	(3,061)	8,626	3,535
Provision for income taxes	1,789	(1,133)	3,019	1,308
Net income (loss)	$ 3,466	$ (1,928)	$ 5,607	$ 2,227
Earnings (loss) per share:				
Basic	$ .29	$ (.16)	$ .47	$ .19
Diluted	$ .29	$ (.16)	$ .47	$ .19
Weighted average number of shares outstanding:				
Basic	11,878,273	11,844,101	11,877,027	11,847,449
Diluted	11,961,639	11,844,101	11,964,665	11,969,592

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

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

America's Car-Mart, Inc.

	Six Months Ended October 31, 2007	Six Months Ended October 31, 2006
Operating activities:		
Net income	$ 5,607	$ 2,227
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities:		
Provision for credit losses	25,751	32,504
Depreciation and amortization	552	470
Loss on sale of property and equipment	(2)	-
Share based compensation	408	343
Deferred income taxes	2,531	(1,358)
Changes in operating assets and liabilities:		
Finance receivable originations	(106,192)	(100,846)
Finance receivable collections	61,498	60,735
Accrued interest on finance receivables	(126)	(62)
Inventory	9,372	6,038
Prepaid expenses and other assets	(121)	(152)
Change in deferred payment protection plan revenue	3,595	-
Accounts payable and accrued liabilities	1,125	(1,562)
Income taxes receivable	(850)	(1,876)
Net cash provided by (used in) operating activities	3,148	(3,539)
Investing activities:		
Purchase of property and equipment	(1,518)	(1,299)
Proceeds from sale of property and equipment	59	31
Payment for businesses acquired	-	(460)
Net cash used in investing activities	(1,459)	(1,728)
Financing activities:		
Exercise of stock options and warrants	-	164
Issuance of common stock	43	-
Purchase of common stock	-	(454)
Change in cash overdrafts	1,881	(5)
Proceeds from notes payable	-	11,200
Principal payments on notes payable	(361)	(308)
Proceeds from revolving credit facilities	31,889	26,104
Payments on revolving credit facilities	(35,023)	(31,651)
Net cash provided by (used in) financing activities	(1,571)	5,050
Increase (decrease) in cash and cash equivalents	118	(217)
Cash and cash equivalents at: Beginning of period	257	255

End of period	$	375	$	38

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

A – Organization and Business

America's Car-Mart, Inc., a Texas corporation (the "Company"), is the largest publicly held automotive retailer in the United States focused exclusively on the "Buy Here/Pay Here" segment of the used car market. References to the Company typically include the Company's consolidated subsidiaries. The Company's operations are principally conducted through its two operating subsidiaries, America's Car-Mart, Inc., an Arkansas corporation ("Car-Mart of Arkansas"), and Colonial Auto Finance, Inc., an Arkansas corporation ("Colonial"). Collectively, Car-Mart of Arkansas and Colonial are referred to herein as "Car-Mart." The Company primarily sells older model used vehicles and provides financing for substantially all of its customers. Many of the Company's customers have limited financial resources and would not qualify for conventional financing as a result of limited credit histories or past credit problems. As of October 31, 2007, the Company operated 93 stores located primarily in small cities throughout the South-Central United States.

B – Summary of Significant Accounting Policies

General

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended October 31, 2007 are not necessarily indicative of the results that may be expected for the year ending April 30, 2008. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended April 30, 2007.

Use of Estimates

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

Concentration of Risk

The Company provides financing in connection with the sale of substantially all of its vehicles. These sales are made primarily to customers residing in Arkansas, 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.

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 October 31, 2007), and (ii) dividends equal to 75% of Car-Mart of Arkansas' net income. At October 31, 2007, the Company's assets (excluding its $116 million equity investment in Car-Mart) consisted of $56,000 in cash, $3.1 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.

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 October 31, 2007 and 2006, 3.8% and 5.4%, respectively, of the Company's finance receivable balance 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 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 has been repossessed, the fair value of the repossessed vehicle is a reduction of the gross finance receivable balance charged-off. On average, accounts are approximately 56 days past due at the time of charge-off. For previously charged-off accounts that are subsequently recovered, the amount of such recovery is credited to the allowance for credit losses.

The Company maintains an allowance for credit losses on an aggregate basis 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 and recent 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.

Beginning May 1, 2007, the Company began offering retail customers in certain states the option of purchasing a payment protection plan product as an add-on to the installment sale contract. This product contractually obligates the Company to cancel the remaining principal outstanding for any loan where the retail customer has totaled the vehicle, as defined, or the vehicle has been stolen. The Company periodically evaluates anticipated losses to ensure that if anticipated losses exceed deferred payment protection plan revenue, an additional liability is recorded for such difference. No such additional liability is required at October 31, 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 to date, there has been none in fiscal 2008.

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, interest income and late fees earned on finance receivables, and revenues generated from the payment protection plan product, sold in certain states.

Revenues from the sale of used vehicles are recognized when the sales contract is signed, the customer has taken possession of the vehicle and, if applicable, financing has been approved. Revenues from the sale of service contracts are recognized ratably over the five-month service contract period. Service contract revenues are included in sales and the related expenses are included in cost of sales. Payment protection plan revenue is initially deferred and then recognized to income using the “Rule of 78’s” interest method over the life of the loan so that revenues are recognized in proportion to the amount of cancellation protection provided. Payment protection plan revenues are included in sales and related losses are included in cost of sales. Interest income is recognized on all active finance receivable accounts using the interest method. Late fees are recognized when collected and are included in interest income. Active accounts include all accounts except those that have been paid-off or charged-off. At October 31, 2007 and 2006, finance receivables more than 90 days past due were approximately $632,000 and $955,000, respectively.

Earnings per Share

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

Stock-based compensation

The Company recorded compensation cost for stock-based employee awards of $408,000 ($259,000 after tax) and $308,000 ($194,000 after tax) during the six months ended October 31, 2007 and 2006, respectively. The pretax amounts include $217,000 and $179,000 for restricted shares for the periods ended October 31, 2007 and 2006, respectively. The Company had not previously issued restricted shares. Tax benefits were recognized for these costs at the Company's overall effective tax rate.

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

	October 31, 2007	October 31, 2006
Expected term (years)	6.9	5.0
Risk-free interest rate	4.40%	5.11%
Volatility	80%	60%
Dividend yield	—	—

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

Stock Options

On October 16, 2007, the shareholders of the Company approved the 2007 Stock Option Plan (the “2007 Plan”). The 2007 Plan provides for the grant of options to purchase up to an aggregate 1,000,000 shares of the Company’s common stock for grants to employees, directors and certain advisors of the Company at a price not less than the fair market value of the stock on the date of grant and for periods not to exceed ten years. The shares of common stock available for issuance under the 2007 Plan may, at the election of the Company’s board of directors, be unissued shares or treasury shares, or shares purchased in the open market or by private purchase.

The stockholders of the Company previously approved three stock option plans, including the 1986 Incentive Stock Option Plan ("1986 Plan"), the 1991 Non-Qualified Stock Option Plan ("1991 Plan") and the 1997 Stock Option Plan (“1997 Plan”). No additional option grants may be made under the 1986 and 1991 Plans. The 1997 Plan set aside 1,500,000 shares of the Company’s common stock for grants to employees, directors and certain advisors of the Company at a price not less than the fair market value of the stock on the date of grant and for periods not to exceed ten years. The options vest upon issuance. At April 30, 2007 there were 28,558, shares of common stock available for grant under the 1997 Plan. Options for 15,000 of these shares were granted to the Company’s outside directors on July 2, 2007. The 1997 Plan expired in July 2007. Outstanding options granted under the Company’s stock option plans expire in the calendar years 2008 through 2017.

	Plan	
	1997	2007
Minimum exercise price as a percentage of fair market value at date of grant	100%	100%
Last expiration date for outstanding options	July 2, 2017	October 16, 2017
Shares available for grant at October 31, 2007	0	640,000

The following is a summary of the changes in outstanding options for the three months ended October 31, 2007:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at beginning of period	274,545	$10.59	50.3 Months
Granted	375,000	$11.96	119.5 Months
Exercised	-	-	--
Outstanding at end of period	649,545	$11.38	87.7 Months

The grant-date fair value of options granted during the first six months of fiscal 2008 and 2007 was $3,360,000 and $130,000, respectively. The aggregate intrinsic value of outstanding options at October 31, 2007 is $1,379,000. Of the 375,000 options granted during the six months ended October 31, 2007, 360,000 were granted to executive officers on October 16, 2007 upon the approval by shareholders of the 2007 Plan. The options were granted at fair market value on date of grant. These options vest in one third increments on April 30, 2008, April 30, 2009 and April 30, 2010 and are subject to the attainment of certain profitability goals over the entire vesting period. As of October 31, 2007, the Company has $3,177,000 of total unrecognized compensation cost related to unvested options granted under the 2007 Plan. At each period end, the Company will evaluate and estimate the likelihood of attaining the underlying performance goals and recognize compensation cost accordingly. These outstanding options have a weighted-average remaining vesting period of 2.5 years.

There were no options exercised during the first six months of fiscal year 2008. The Company received cash from options exercised during the first six months of fiscal year 2007 of $36,667. The impact of these cash receipts is included in financing activities in the accompanying Consolidated Statements of Cash Flows.

Warrants

As of October 31, 2007, the Company had outstanding stock purchase warrants to purchase 18,750 shares at prices ranging from $11.83 to $18.23 per share (weighted average exercise price of $13.11). All of the warrants are presently exercisable and expire between 2008 and 2009. The warrants have a weighted average remaining contractual life of 9.8 months at October 31, 2007. There were no exercises of warrants during the six months ended October 31, 2007. There were 22,329 shares of stock purchased as the result of warrants exercised during the six months ended October 31, 2006. The aggregate intrinsic value of all outstanding warrants at October 31, 2007 is $2,800.

Stock Incentive Plan

The shareholders of the Company approved an amendment to the Stock Incentive Plan on October 16, 2007. The amendment increased from 100,000 to 150,000 the number of shares of common stock that may be issued under the Stock Incentive Plan. For shares issued under the Stock Incentive Plan, the associated compensation expense is generally spread equally over the vesting periods established at the award date and is subject to the employee's continued employment by the Company. During the first six months of fiscal 2008, 65,000 restricted shares were granted with a fair value of $11.90 per share, the market price of the Company's stock on the grant date. During the first six months of fiscal 2007, 57,500 restricted shares were granted with a fair value of $20.07 per share, the market price of the Company's stock on the grant date. Restricted shares issued under the Stock Incentive Plan had an initial weighted average vesting period of 2.6 years and began vesting on April 30, 2007. A total of 24,380 shares remained available for award at October 31, 2007.

The Company recorded a pre-tax expense of $217,000 and $179,000 related to the Stock Incentive Plan during the six months ended October 31, 2007 and 2006, respectively.

As of October 31, 2007, the Company has $1,353,000 of total unrecognized compensation cost related to unvested awards granted under the Stock Incentive Plan, which the Company expects to recognize over a weighted-average remaining period of 1.7 years.

There were no modifications to any of the Company's outstanding share-based payment awards during the first six months of fiscal 2008.

Treasury Stock

The Company did not purchase any of its shares of common stock for the first six months of fiscal 2008. For the six-month period ended October 31, 2006, the Company purchased 30,000 shares of its common stock to be held as treasury stock for a total cost of $454,029. Treasury stock may be used for issuances under the Company's stock-based compensation plans or for other general corporate purposes.

Recent Accounting Pronouncements

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

The Company adopted the provisions of FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes,* on May 1, 2007. Previously, the Company had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards 5, *Accounting for Contingencies.* As required by Interpretation 48, which clarifies Statement 109, *Accounting for Income Taxes,* the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied Interpretation 48 to all tax positions for which the statute of limitations remained open. The Company had no adjustments or unrecognized tax benefits as a result of the implementation of Interpretation 48.

The Company is subject to income taxes in the U.S. federal jurisdiction and various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for the years before 2004.

The Company's policy is to recognize accrued interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company had no accrued penalties and/or interest as of October 31, 2007 or 2006.

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 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.

Reclassifications

Certain prior year amounts in the accompanying financial statements have been reclassified to conform to the fiscal 2008 presentation. Cash overdrafts have been classified as financing cash flows. Proceeds from and repayments of the revolving credit facility have been presented on a gross basis in the financing activities section of the statements of cash flows.

C – Finance Receivables

The Company originates installment sale contracts from the sale of used vehicles at its dealerships. These installment sale contracts typically include interest rates ranging from 8% to 19% per annum, are collateralized by the vehicle sold and provide for payments over periods generally ranging from 12 to 36 months. The components of finance receivables are as follows:

(In thousands)		October 31, 2007		April 30, 2007
Gross contract amount	$	212,043	$	199,677
Unearned finance charges		(22,096)		(21,158)
Principal balance		189,947		178,519
Less allowance for credit losses		(41,051)		(39,325)
	$	148,896	$	139,194

Changes in the finance receivables, net balance for the six months ended October 31, 2007 and 2006 are as follows:

	Six Months Ended October 31,			
((In thousands)		2007		2006
Balance at beginning of period	$	139,194	$	149,379
Finance receivable originations		106,192		100,846
Finance receivables from acquisition of business		-		353
Finance receivable collections		(61,498)		(60,735)
Provision for credit losses		(25,751)		(32,504)
Inventory acquired in repossession		(9,241)		(9,827)
Balance at end of period	$	148,896	$	147,512

Changes in the finance receivables allowance for credit losses for the six months ended October 31, 2007 and 2006 are as follows:

	Six Months Ended October 31,	
(In thousands)	2007	2006

Balance at beginning of period	$ 39,325	$ 35,864
Provision for credit losses	25,751	32,504
Net charge-offs	(23,983)	(26,403)
Allowance related to business acquisition, net change	(42)	143
Balance at end of period	$ 41,051	$ 42,108

D – Property and Equipment

A summary of property and equipment is as follows:

(In thousands)	October 31, 2007	April 30, 2007
Land	$ 5,740	$ 5,221
Buildings and improvements	6,106	5,890
Furniture, fixtures and equipment	4,130	4,000
Leasehold improvements	5,169	4,588
Less accumulated depreciation and amortization	(3,353)	(2,816)
	$ 17,792	$ 16,883

10

E – Accrued Liabilities

A summary of accrued liabilities is as follows:

(In thousands)		October 31, 2007		April 30, 2007
Compensation	$	2,563	$	1,970
Deferred service contract revenue		2,039		1,812
Cash Overdraft		1,881		-
Deferred sales tax		911		928
Subsidiary redeemable preferred stock		500		500
Interest		263		286
Other		785		737
	$	8,942	$	6,233

F – Debt Facilities

The Company's debt consists of two revolving credit facilities totaling $50 million and two term loans as follows:

Revolving Credit Facilities

Lender	Total Facility Amount	Interest Rate	Maturity	Balance at October 31, 2007	Balance at April 30, 2007
Bank of Oklahoma	$50.0 million	Prime +/-	April 2009	$27,177,026	$30,311,142

On April 28, 2006, Car-Mart and its lenders amended the credit facilities. The amended facilities set total borrowings allowed on the revolving credit facilities at $50 million and established a new $10 million term loan. The term loan was funded in May 2006 and called for 120 consecutive and substantially equal installments beginning June 1, 2006. The interest rate on the term loan is fixed at 8.08%. The principal balance on the term loan was $9.1 million at October 31, 2007. The interest rate on the term loan could decrease to as low as 7.33% in the future if funded debt to EBITDA, as defined, is below 2.25 to 1.00. The combined total for the Company's credit facility is $60 million. On March 12, 2007 (effective December 31, 2006) Car-Mart and its lenders again amended the credit facilities. The March 12, 2007 amendments served to change the Company's financial covenant requirements and to adjust the Company's interest rate pricing grid on its revolving credit facilities. The pricing grid is based on funded debt to EBITDA, as defined, and the interest rate on the revolving credit facilities can range from prime minus .25 or LIBOR plus 2.75 to prime plus 1.00 or LIBOR plus 4.00.

The facilities are collateralized by substantially all the assets of Car-Mart, including finance receivables and inventory. Interest is payable monthly under the revolving credit facilities at the bank's prime lending rate plus .50% per annum at October 31, 2007 (8.0%) and at the bank's prime lending rate per annum at October 31, 2006 (8.25%). The facilities contain various reporting and performance covenants including (i) maintenance of certain financial ratios and tests, (ii) limitations on borrowings from other sources, (iii) restrictions on certain operating activities, and (iv) limitations on the payment of dividends or distributions to the Company. The Company was in compliance with the covenants at October 31, 2007. The amount available to be drawn under the facilities is a function of eligible finance receivables and inventory. Based upon eligible finance receivables and inventory at October 31, 2007, Car-Mart could have drawn an additional $18.7 million under its facilities.

The Company also has a $1.2 million term loan secured by the corporate aircraft. The term loan is payable over ten years and has a fixed interest rate of 6.87%. The principal balance on this loan was $1.1 million at October 31, 2007.

G – Weighted Average Shares Outstanding

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

	Three Months Ended October 31,		Six Months Ended October 31,	
	2007	2006	2007	2006
Weighted average shares outstanding-basic	11,878,273	11,844,101	11,877,027	11,847,449
Dilutive options and warrants	83,366	-	87,638	122,143
Weighted average shares outstanding-diluted	11,961,639	11,844,101	11,964,665	11,969,592
Antidilutive securities not included:				
Options and warrants	185,859	99,750	139,543	97,875
Restricted stock	50,971	57,500	45,319	57,500

Common stock equivalent shares of 111,554 for options and warrants were excluded in the earnings per share calculation due to the loss in the quarter ended October 31, 2006.

11

I – Supplemental Cash Flow Information

Supplemental cash flow disclosures are as follows:

	Six Months Ended October 31,	
(In thousands)	2007	2006
Supplemental disclosures:		
Interest paid	$ 1,652	$ 1,831
Income taxes paid, net	1,339	3,377
Non-cash transactions:		
Inventory acquired in repossession	9,241	9,827

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

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

Forward-Looking Information

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

Overview

America’s Car-Mart, Inc., a Texas corporation (the “Company”), is the largest publicly held automotive retailer in the United States focused exclusively on the “Buy Here/Pay Here” segment of the used car market. References to the Company typically include the Company’s consolidated subsidiaries. The Company’s operations are principally conducted through its two operating subsidiaries, America’s Car-Mart, Inc., an Arkansas corporation (“Car-Mart of Arkansas”), and Colonial Auto Finance, Inc. (“Colonial”). Collectively, Car-Mart of Arkansas and Colonial are referred to herein as “Car-Mart.” The Company primarily sells older model used vehicles and provides financing for substantially all of its customers. Many of the Company’s customers have limited financial resources and would not qualify for conventional financing as a result of limited credit histories or past credit problems. As of October 31, 2007, the Company operated 93 stores located primarily in small cities throughout the South-Central United States.

Car-Mart has been operating since 1981. Car-Mart has grown its revenues between 3% and 21% per year over the last ten fiscal years. Growth results from same store revenue growth and the addition of new stores. Revenue growth in the first six months of fiscal 2008, as compared to the same period in the prior fiscal year, was assisted by a 6.6% increase in the average retail sales price and a 1.2% increase in interest income, offset by a 3.9% decrease in the number of retail units sold.

The Company’s primary focus is on collections. Each store handles its own collections with supervisory involvement of the corporate office. Over the last six full fiscal years, Car-Mart’s credit losses as a percentage of sales have ranged between approximately 19% and 29% (average of 21.6%). Credit losses as a percentage of sales were 29.1% for fiscal year 2007. Credit losses in the first six months of fiscal 2008 were 22.4% of sales compared to 29.5% for the first six months of fiscal 2007 (24.7% when excluding the effect of a $5.3 million increase in the allowance for loan losses at October 31, 2006). Management invested considerable time and effort on improving underwriting and collections during the latter part of fiscal 2007 and throughout the first six months of fiscal 2008 which resulted in the decrease in credit losses when compared to the credit loss results for fiscal 2007. The 2007 credit losses were higher due to several factors and included higher losses experienced in most of the dealerships as the Company saw weakness in the performance of its portfolio as customers had difficulty making payments under the terms of their notes. The largest percentage increase was concentrated in the Texas dealerships. While overall credit loss percentages are much lower in mature stores (stores in existence for 10 years or more), the losses for these locations during 2007 were higher than historical averages. Credit losses, on a percentage basis, tend to be higher at new and developing stores than at mature stores. Generally, this is the case because the store management at new and developing stores tends to be less experienced (in making credit decisions and collecting customer accounts) and the customer base is less seasoned. Generally, older stores have more repeat customers. On average, repeat customers are a better credit risk than non-repeat customers. Due to the rate of the Company’s growth, the percentage of new and developing stores as a percentage of total stores has been increasing over the last few years. The Company continues to believe that the most significant factor affecting credit losses is the proper execution (or lack thereof) of its business practices. The Company also believes that higher energy and fuel costs, increasing interest rates, general inflation and personal discretionary spending levels affecting its customers have had a negative impact on collection results. At October 31, 2007, 3.8% of the Company’s finance receivable balances were over 30 days past due, compared to 5.4% at October 31, 2006.

The Company’s gross margins as a percentage of sales have been fairly consistent from year to year. Over the last ten full 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 in the first six months of fiscal 2008 were 41.3%, down from 43.2% in the same period of the prior fiscal year. The Company’s gross margins are set based upon the cost of the vehicle purchased, with lower-priced vehicles generally having higher gross margin percentages. Discretionary adjustments to the retail pricing guide, within a range, can and are routinely made by lot managers. The Company’s gross margins for the six months ended October 31, 2007 were negatively affected by slightly higher operating costs, mostly related to increased vehicle repair costs and higher fuel costs, a higher volume and percentage of wholesale sales, which for the most part relate to cash sales of repossessed vehicles at break-even, and to the increase in the average retail sales price (a function of a higher purchase price), offset to an extent by margins earned from the payment protection plan product.

Hiring, training and retaining qualified associates are critical to the Company's success. The rate at which the Company adds new stores is sometimes limited by the number of trained managers the Company has at its disposal. Over the last two fiscal years, the Company has added resources to train and develop personnel. In fiscal 2008 and for the foreseeable future, the Company expects to continue to invest in the development of its workforce.

Consolidated Operations
(Operating Statement Dollars in Thousands)

	Three Months Ended October 31, 2007	Three Months Ended October 31, 2006	% Change 2007 vs. 2006	As a % of Sales Three Months Ended October 31, 2007	As a % of Sales Three Months Ended October 31, 2006
Revenues:					
Sales	62,228	$ 53,669	15.9%	100.0%	100.0%
Interest income	6,015	5,870	2.5	9.7	10.9
Total	68,243	59,539	14.6	109.7	110.9
Costs and expenses:					
Cost of sales	36,028	31,140	15.7	57.9	58.0
Selling, general and administrative	11,630	10,446	11.3	18.7	19.5
Provision for credit losses	14,232	19,848	(28.3)	22.9	37.0
Interest expense	820	927	(11.5)	1.3	1.7
Depreciation and amortization	278	239	16.3	.4	.4
Total	62,988	62,600	0.6	101.2	116.6
Pretax (loss) income	5,255	$ (3,061)		8.4	(5.7)
Operating Data:					
Retail units sold	6,914	6,413			
Average stores in operation	93.0	89.0			
Average units sold per store/month	24.8	24.0			
Average retail sales price	$ 8,496	$ 7,957			
Same store revenue growth	12.3%	1.4%			
Period End Data:					
Stores open	93	90			
Accounts over 30 days past due	3.8%	5.4%			

Three Months Ended October 31, 2007 vs. Three Months Ended October 31, 2006

Revenues increased $8.7 million, or 14.6%, for the three months ended October 31, 2007 as compared to the same period in the prior fiscal year. The increase was principally the result of (i) revenue growth from stores that operated a full three months in both periods ($7.1 million, or 11.9%) (ii) revenues from stores opened during the prior period or lots having a satellite lot opened or closed after April 30, 2006 ($1.1 million, or 1.9%) and (ii) revenues from stores opened after October 31, 2006 ($.5 million, or .8%).

Cost of sales as a percentage of sales decreased .1% to 57.9% for the three months ended October 31, 2007 from 58.0% in the same period of the prior fiscal year. The Company's gross margins were positively affected by lower operating costs, mostly related to decreased vehicle repair costs and lower transport costs, the positive affect of the payment protection plan product which was introduced during the fist quarter of 2008, offset by the affect of the higher cost of purchases of vehicles the Company sells. The Company's selling prices are based upon the cost of the vehicle purchased, with lower-priced vehicles generally having higher gross margin percentages. Discretionary adjustments to the retail pricing guide, within a range, can and are routinely made by lot managers.

Selling, general and administrative expense as a percentage of sales was 18.7% for the three months ended October 31, 2007, a decrease of .8% from the same period of the prior fiscal year. Selling, general and administrative expenses are, for the most part, more fixed in nature. The overall dollar increase related primarily to increased advertising, higher insurance costs and additional payroll costs during the quarter. Additionally, the overall dollar increase was due, in part, to increased costs incurred to strengthen controls and improve efficiencies in the corporate infrastructure as well as incremental costs associated with new lot openings. Also, approximately $176,000 of non-cash stock-based compensation expense was recorded during the current quarter compared to $89,000 in the same quarter of the prior year.

Provision for credit losses as a percentage of sales decreased 14.1% to 22.9% for the three months ended October 31, 2007 from 37.0% in the same period of the prior fiscal year. A significant portion of the decrease related to a $5.3 million charge to increase the allowance for credit losses at October 31, 2006. Excluding the effect of the increase in the allowance for credit losses, the provision for credit losses was 27.2% for the three months ended October 31, 2006. Credit losses were lower due to several factors and included lower losses experienced in most of the dealerships as the Company saw improvements across most lots. Credit losses, on a percentage basis, tend to be higher at new and developing stores than at mature stores. Generally, this is the case because the store management at new and developing stores tends to be less experienced (in making credit decisions and collecting customer accounts) and the customer base is less seasoned. Generally, older stores have more repeat customers. On average, repeat customers are a better credit risk than non-repeat customers. Due to the rate of the Company's growth, the percentage of new and developing stores as a percentage of total stores has been increasing over the last few years. The Company believes the most significant factor affecting credit losses is the proper execution (or lack thereof) of its business practices. The Company also believes that higher energy and fuel costs, increasing interest rates, general inflation and personal discretionary spending levels affecting customers have had a negative impact on recent collection results when compared to prior years.   The Company intends to continue to increase the focus of store management on credit quality and collections, particularly at those stores under six years of age. At October 31, 2007, 3.8% of the Company's finance receivable balances were over 30 days past due, compared to 5.4% at October 31, 2006.

Interest expense as a percentage of sales decreased .4% to 1.3% for the three months ended October 31, 2007 from 1.7% for the same period of the prior fiscal year. The decrease was attributable to lower average borrowings during the three months ended October 31, 2007 (approximately $38 million) as compared to the same period in the prior fiscal year (approximately $49 million), offset by an increase in the rate charged during the three months ended October 31, 2007 (average rate of 8.7% per annum) as compared to the same period in the prior fiscal year (average rate of 7.6% per annum). The decrease in our average borrowings resulted from the decrease in accounts receivable and other components of net cash provided by operations during the quarter. The increase in interest rates is attributable to increases in the prime interest rate of the Company's lender as the Company's revolving credit facilities fluctuate with the prime interest rate of its lender.

Consolidated Operations
(Operating Statement Dollars in Thousands)

	Six Months Ended October 31,		% Change 2007 vs. 2006	As a % of Sales Six Months Ended October 31,	
	2007	2006	2006	2007	2006
Revenues:					
Sales	115,091	$ 110,007	4.6%	100.0%	100.0%
Interest income	11,859	11,723	1.2	10.3	10.7