

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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 31, 2023

Or

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

Commission file number: 0-14939

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

Texas
(State or other jurisdiction of incorporation or organization)

63-0851141
(I.R.S. Employer Identification No.)

1805 North 2nd Street, Suite 401, **Rogers, Arkansas 72756**
(Address of principal executive offices) (zip code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	CRMT	NASDAQ Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒
Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

Title of Each Class

Common stock, par value \$.01 per share

Outstanding at
December 8, 2023
6,392,838

AMERICA'S CAR-MART, INC.

TABLE OF CONTENTS

	<u>Page No.</u>
<u>PART I.</u>	
<u>FINANCIAL INFORMATION</u>	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets (Unaudited) – October 31, 2023 and April 30, 2023	<u>3</u>
Condensed Consolidated Statements of Operations (Unaudited) – Three and Six Months Ended October 31, 2023 and 2022	<u>4</u>
Condensed Consolidated Statements of Cash Flows (Unaudited) – Six Months Ended October 31, 2023 and 2022	<u>5</u>
Condensed Consolidated Statements of Equity (Unaudited) – Three and Six Months Ended October 31, 2023	<u>6</u>
Condensed Consolidated Statements of Equity (Unaudited) – Three and Six Months Ended October 31, 2022	<u>7</u>
Notes to Consolidated Financial Statements (Unaudited)	<u>8</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>24</u>
Item 3. Quantitative and Qualitative Disclosures about Market Risk	<u>36</u>
Item 4. Controls and Procedures	<u>36</u>
<u>PART II.</u>	
<u>OTHER INFORMATION</u>	
Item 1. Legal Proceedings	<u>37</u>
Item 1A. Risk Factors	<u>37</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>37</u>
Item 3. Defaults Upon Senior Securities	<u>37</u>
Item 4. Mine Safety Disclosure	<u>37</u>
Item 5. Other Information	<u>37</u>
Item 6. Exhibits	<u>38</u>
<u>SIGNATURES</u>	<u>39</u>

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

America's Car-Mart, Inc.

Condensed Consolidated Balance Sheets (Unaudited) October 31, 2023 and April 30, 2023

(Dollars in thousands except share and per share amounts)	October 31, 2023	April 30, 2023
Assets:	(Unaudited)	
Cash and cash equivalents	\$ 4,313	\$ 9,796
Restricted cash	90,180	58,238
Accrued interest on finance receivables	7,363	6,115
Finance receivables, net	1,105,236	1,063,460
Inventory	113,846	109,290
Income tax receivable, net	3,402	9,259
Prepaid expenses and other assets	30,488	26,039
Right-of-use asset	60,964	59,142
Goodwill	11,622	11,716
Property and equipment, net	59,735	61,682
Total Assets	\$ 1,487,149	\$ 1,414,737
Liabilities, mezzanine equity and equity:		
Liabilities:		
Accounts payable	\$ 22,400	\$ 27,196
Deferred accident protection plan revenue	54,371	53,065
Deferred service contract revenue	71,446	67,404
Accrued liabilities	28,199	27,912
Deferred income tax liabilities, net	25,066	39,315
Lease liability	64,119	62,300
Non-recourse notes payable, net	579,030	471,367
Revolving line of credit, net	165,509	167,231
Total liabilities	1,010,140	915,790
Commitments and contingencies (Note J)		
Mezzanine equity:		
Mandatorily redeemable preferred stock	400	400
Equity:		
Preferred stock, par value \$.01 per share, 1,000,000 shares authorized; none issued or outstanding	-	-
Common stock, par value \$.01 per share, 50,000,000 shares authorized; 13,711,731 and 13,701,468 issued at October 31, 2023 and April 30, 2023, respectively, of which 6,382,803 and 6,373,404 were outstanding at		
October 31, 2023 and April 30, 2023, respectively	137	137
Additional paid-in capital	111,356	109,929
Retained earnings	662,505	685,802
Less: Treasury stock, at cost, 7,328,928 and 7,328,064 shares at October 31, 2023 and April 30, 2023, respectively	(297,489)	(297,421)
Total stockholders' equity	476,509	498,447
Non-controlling interest	100	100
Total equity	476,609	498,547
Total Liabilities, Mezzanine Equity and Equity	\$ 1,487,149	\$ 1,414,737

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

Condensed Consolidated Statements of Operations (Unaudited)
Three and Six Months Ended October 31, 2023 and 2022

America's Car-Mart, Inc.

	Three Months Ended October 31,		Six Months Ended October 31,	
(Dollars in thousands except share and per share amounts)	2023	2022	2023	2022
Revenues:	(Unaudited)		(Unaudited)	
Sales	\$ 302,200	\$ 303,554	\$ 613,769	\$ 598,031
Interest and other income	59,382	48,286	115,838	92,627
Total revenues	361,582	351,840	729,607	690,658
Costs and expenses:				
Cost of sales	198,563	206,142	402,442	399,257
Selling, general and administrative	44,863	42,911	91,333	86,145
Provision for credit losses	135,395	88,828	231,718	165,068
Interest expense	16,582	8,350	30,856	15,695
Depreciation and amortization	1,696	1,309	3,389	2,460
Loss on disposal of property and equipment	74	242	240	251
Total costs and expenses	397,173	347,782	759,978	668,876
(Loss) Income before taxes	(35,591)	4,058	(30,371)	21,782
Provision for income taxes	(8,128)	919	(7,094)	4,946
Net (loss) income	\$ (27,463)	\$ 3,139	\$ (23,277)	\$ 16,836
Less: Dividends on mandatorily redeemable preferred stock	(10)	(10)	(20)	(20)
Net (loss) income attributable to common stockholders	\$ (27,473)	\$ 3,129	\$ (23,297)	\$ 16,816
Earnings per share:				
Basic	\$ (4.30)	\$ 0.49	\$ (3.65)	\$ 2.64
Diluted	\$ (4.30)	\$ 0.48	\$ (3.65)	\$ 2.56
Weighted average number of shares used in calculation:				
Basic	6,386,208	6,368,840	6,383,956	6,371,083
Diluted	6,386,208	6,548,271	6,383,956	6,574,928

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

Condensed Consolidated Statements of Cash Flows (Unaudited)
Six Months Ended October 31, 2023 and 2022

America's Car-Mart, Inc.

(In thousands)	Six Months Ended October 31,	
	2023	2022
	(Unaudited)	
Operating Activities:		
Net (loss) income	\$ (23,277)	\$ 16,836
Adjustments to reconcile net (loss) income to net cash		
Provision for credit losses	231,718	165,068
Losses on claims for accident protection plan	15,173	11,232
Depreciation and amortization	3,389	2,460
Amortization of debt issuance costs	2,780	3,335
Loss on disposal of property and equipment	146	251
Impairment of goodwill	94	-
Stock based compensation	1,739	2,798
Deferred income taxes	(14,249)	5,171
Excess tax benefit from share based compensation	213	206
Change in operating assets and liabilities:		
Finance receivable originations	(580,082)	(580,838)
Loan origination costs	(10)	(36)
Finance receivable collections	218,208	206,358
Accrued interest on finance receivables	(1,248)	(456)
Inventory	65,123	46,226
Prepaid expenses and other assets	(2,522)	(2,811)
Accounts payable and accrued liabilities	(4,317)	5,660
Deferred accident protection plan revenue	1,306	13,328
Deferred service contract revenue	4,042	14,402
Income taxes, net	5,644	(4,321)
Net cash used in operating activities	(76,130)	(95,131)
Investing Activities:		
Purchase of investments	-	(225)
Purchase of property and equipment	(2,149)	(14,050)
Proceeds from sale of property and equipment	561	10
Net cash used in investing activities	(1,588)	(14,265)
Financing Activities:		
Exercise of stock options	(455)	1,216
Issuance of common stock	143	149
Purchase of common stock	(68)	(5,196)
Dividend payments	(20)	(20)
Change in cash overdrafts	1,416	-
Debt issuance costs	(4,091)	(39)
Issuances of non-recourse notes payable	360,340	-
Payments on non-recourse notes payable	(250,935)	(149,184)
Proceeds from revolving line of credit	276,266	271,177
Payments on revolving line of credit	(278,419)	(14,200)
Net cash provided by financing activities	104,177	103,903
Increase (decrease) in cash, cash equivalents, and restricted cash	26,459	(5,493)
Cash, cash equivalents, and restricted cash beginning of period	68,034	42,587
Cash, cash equivalents, and restricted cash end of period	\$ 94,493	\$ 37,094

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

Condensed Consolidated Statements of Equity (Unaudited)
Three and Six Months Ended October 31, 2023

America's Car-Mart, Inc.

(In thousands, except share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Non- Controlling Interest	Total Equity
Balance at April 30, 2023	13,701,468	\$ 137	\$ 109,929	\$ 685,802	\$ (297,421)	\$ 100	\$ 498,547
Issuance of common stock	2,921	-	78	-	-	-	78
Stock options exercised	6,493	-	(455)	-	-	-	(455)
Purchase of treasury shares	-	-	-	-	(68)	-	(68)
Stock based compensation	-	-	2,451	-	-	-	2,451
Dividends on subsidiary preferred stock	-	-	-	(10)	-	-	(10)
Net income	-	-	-	4,186	-	-	4,186
Balance at July 31, 2023 (Unaudited)	13,710,882	\$ 137	\$ 112,003	\$ 689,978	\$ (297,489)	\$ 100	\$ 504,729
Issuance of common stock	849	-	65	-	-	-	65
Stock based compensation	-	-	(712)	-	-	-	(712)
Dividends on subsidiary preferred stock	-	-	-	(10)	-	-	(10)
Net (loss)	-	-	-	(27,463)	-	-	(27,463)
Balance at October 31, 2023 (Unaudited)	<u>13,711,731</u>	<u>\$ 137</u>	<u>\$ 111,356</u>	<u>\$ 662,505</u>	<u>\$ (297,489)</u>	<u>\$ 100</u>	<u>\$ 476,609</u>

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

Condensed Consolidated Statements of Equity (Unaudited)
Three and Six Months Ended October 31, 2022

America's Car-Mart, Inc.

(In thousands, except share data)	Common Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Non- Controlling Interest	Total Equity
Balance at April 30, 2022	13,642,185	\$ 136	\$ 103,113	\$ 665,410	\$ (292,225)	\$ 100	\$ 476,534
Issuance of common stock	30,484	1	84	-	-	-	85
Stock options exercised	23,000	-	1,216	-	-	-	1,216
Purchase of 57,856 treasury shares	-	-	-	-	(5,196)	-	(5,196)
Stock based compensation	-	-	1,978	-	-	-	1,978
Dividends on subsidiary preferred stock	-	-	-	(10)	-	-	(10)
Net income	-	-	-	13,697	-	-	13,697
Balance at July 31, 2022 (Unaudited)	13,695,669	\$ 137	\$ 106,391	\$ 679,097	\$ (297,421)	\$ 100	\$ 488,304
Issuance of common stock	1,235	-	64	-	-	-	64
Stock based compensation	-	-	820	-	-	-	820
Dividends on subsidiary preferred stock	-	-	-	(10)	-	-	(10)
Net income	-	-	-	3,139	-	-	3,139
Balance at October 31, 2022 (Unaudited)	<u>13,696,904</u>	<u>\$ 137</u>	<u>\$ 107,275</u>	<u>\$ 682,226</u>	<u>\$ (297,421)</u>	<u>\$ 100</u>	<u>\$ 492,317</u>

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

A – Organization and Business

America's Car-Mart, Inc., a Texas corporation (the "Company"), is one of the largest publicly held automotive retailers in the United States focused exclusively on the "Integrated Auto Sales and Finance" segment of the used car market. References to the Company typically include the Company's consolidated subsidiaries. The Company's operations are principally conducted through its two operating subsidiaries, America's Car Mart, Inc., an Arkansas corporation ("Car-Mart of Arkansas"), and Colonial Auto Finance, Inc., an Arkansas corporation ("Colonial"). 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 difficulties. As of October 31, 2023, the Company operated 153 dealerships located primarily in small cities throughout the South-Central United States.

B – Summary of Significant Accounting Policies*General*

The accompanying condensed consolidated balance sheet as of April 30, 2023, which has been derived from audited financial statements, and the unaudited interim condensed financial statements as of October 31, 2023 and 2022, have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance 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 months ended October 31, 2023 are not necessarily indicative of the results that may be expected for the year ending April 30, 2024. 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, 2023.

Principles of Consolidation

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

Segment Information

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

Reclassifications

Accident protection plan ("APP") claims in the amount of approximately \$11.0 million in the prior year financial statements were reclassified to conform with the current year presentation. For the year ended April 30, 2023, APP reserves of \$5.7 million were reclassified out of accrued liabilities to reserve against finance receivables and \$5.3 million of estimated APP insurance receivables were reclassified out of finance receivables to prepaid expenses and other assets. The reclassification had no effect on the prior year net income or shareholder's equity.

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. Significant estimates include, but are not limited to, the Company's allowance for credit losses.

Concentration of Risk

The Company provides financing in connection with the sale of substantially all of its vehicles. These sales are made primarily to customers residing in Alabama, Arkansas, Georgia, Illinois, Kentucky, Mississippi, Missouri, Oklahoma, Tennessee, and Texas, with approximately 27% of current period revenues resulting from sales to Arkansas customers.

As of October 31, 2023, and periodically throughout the period, the Company maintained cash in financial institutions in excess of the amounts insured by the federal government. The cash is held in several highly rated banking institutions. The Company regularly monitors its counterparty credit risk and mitigates exposure by limiting the amount it invests in one institution.

Restrictions on Distributions / Dividends

The Company's revolving credit facilities generally restrict distributions by the Company to its shareholders. The distribution limitations under the credit facilities allow the Company to repurchase the Company's stock so long as either: (a) the aggregate amount of such repurchases after September 30, 2021 does not exceed \$50 million, net of proceeds received from the exercise of stock options, and the total availability under the credit facilities is equal to or greater than 20% of the sum of the borrowing bases, in each case after giving effect to such repurchases (repurchases under this item are excluded from fixed charges for covenant calculations), or (b) the aggregate amount of such repurchases does not exceed 75% of the consolidated net income of the Company measured on a trailing twelve month basis; provided that immediately before and after giving effect to the Company's stock repurchases, at least 12.5% of the aggregate funds committed under the credit facilities remain available. Thus, although the Company does routinely repurchase stock, the Company is limited in its ability to pay dividends or make other distributions to its shareholders without the consent of the Company's lenders.

Cash Equivalents

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

Restricted Cash

Restricted cash is related to the financing and securitization transaction discussed below and is held by the securitization trust.

Restricted cash from collections on auto finance receivables includes collections of principal, interest, and fee payments on auto finance receivables that are restricted for payment to holders of non-recourse notes payable pursuant to the applicable agreements.

The restricted cash on deposit in reserve accounts is for the benefit of holders of non-recourse notes payable, and these funds are not expected to be available to the Company or its creditors. If the cash generated by the related receivables in a given period was insufficient to pay the interest, principal, and other required payments, the balances on deposit in the reserve accounts would be used to pay those amounts.

Restricted cash consisted of the following at October 31, 2023 and April 30, 2023:

<i>(In thousands)</i>	October 31, 2023	April 30, 2023
Restricted cash from collections on auto finance receivables	\$ 54,563	\$ 34,442
Restricted cash on deposit in reserve accounts	35,617	23,796
Restricted Cash	<u>\$ 90,180</u>	<u>\$ 58,238</u>

Financing and Securitization Transactions

The Company utilizes term securitizations to provide long-term funding for a portion of the auto finance receivables initially funded through the debt facilities. In these transactions, a pool of auto finance receivables is sold to a special purpose entity that, in turn, transfers the receivables to a special purpose securitization trust. The securitization trust issues asset-backed securities, secured or otherwise supported by the transferred receivables, and the proceeds from the sale of the asset-backed securities are used to finance the securitized receivables.

The Company is required to evaluate term securitization trusts for consolidation. In the Company's role as servicer for each securitization, it possesses non-substantive voting rights and has the power to direct the activities of the trust that most significantly impact the economic performance of the trust. In addition, the obligation to absorb losses (subject to limitations) and the rights to receive any returns of the trust, remain with the Company. Accordingly, the Company is the primary beneficiary of the trust and is required to consolidate it.

The Company recognizes transfers of auto finance receivables into the term securitization as secured borrowings, which result in recording the auto finance receivables and the related non-recourse notes payable on our consolidated balance sheet. These auto finance receivables can only be used as collateral to settle obligations of the related non-recourse notes payable. The term securitization investors have no recourse to the Company's assets beyond the related auto finance receivables, the amounts on deposit in the reserve account, and the restricted cash from collections on auto finance receivables. See Notes C and F for additional information on auto finance receivables and non-recourse notes payable.

The Company originates installment sale contracts from the sale of used vehicles at its dealerships. These installment sale contracts carry a weighted average interest rate of approximately 16.9% using the simple effective interest method including any deferred fees. In December 2022, the Company changed the interest rate on new originations of installment sale contracts to 18% (from 16.5%) in all states in which it operates, except for Arkansas (remains at 16.5%), Illinois (remains at 19.5 – 21.5%) and Smart Auto dealerships in Tennessee (which originate at up to 23.0%). Contract origination costs are not significant. The installment sale contracts are not pre-computed contracts whereby borrowers are obligated to pay back principal plus the full amount of interest that will accrue over the entire term of the contract. Finance receivables are collateralized by vehicles sold and consist of contractually scheduled payments from installment contracts net of unearned finance charges and an allowance for credit losses. Unearned finance charges represent the balance of interest receivable to be earned over the entire term of the related installment contract, less the earned amount (\$7.4 million at October 31, 2023 and \$6.1 million at April 30, 2023 on the Condensed Consolidated Balance Sheets), and as such, have been reflected as a reduction to the gross contract amount in arriving at the principal balance in finance receivables.

An account is considered delinquent when the customer is three days or more behind on their contractual payments. While the Company does not formally place contracts on nonaccrual status, the immaterial amount of interest that may accrue after an account becomes delinquent up until the point of resolution via repossession or write-off is reserved for against the accrued interest on the Condensed Consolidated Balance Sheets. Delinquent contracts are addressed and either made current by the customer, which is the case in most situations, or the vehicle is repossessed or written off if the collateral cannot be recovered after 90 days. Customer payments are set to match their payday with approximately 78% of payments due on either a weekly or bi-weekly basis. The frequency of the payment due dates combined with the declining value of collateral lead to prompt resolutions on problem accounts. On October 31, 2023, 3.6% of the Company's finance receivable balances were 30 days or more past due, consistent with 3.6% at April 30, 2023.

Substantially all of the Company's installment sale contracts involve contracts made to individuals with impaired or limited credit histories, or higher debt-to-income ratios than permitted by traditional lenders. Contracts made with buyers who are restricted in their ability to obtain financing from traditional lenders generally entail a higher risk of delinquency, default and repossession, and higher losses than contracts made with buyers with better credit. At the time of originating an installment sale contract, the Company requires customers to meet certain criteria that demonstrate their intent and ability to pay for the financed principal and interest on the vehicle they are purchasing. However, the Company recognizes that their customer base is at a higher risk of default given their impaired or limited credit histories.

The Company strives to keep its delinquency percentages low, and not to repossess vehicles. Accounts one to three days late are contacted by telephone or text messaging notifications. Notes from each contact are electronically maintained in the Company's computer system. The Company also utilizes text messaging notifications that allow customers the option to receive due date reminders and late notifications, if applicable. The Company attempts to resolve payment delinquencies amicably prior to repossessing a vehicle. 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.

Periodically, the Company enters into contract modifications with its customers to extend or modify the payment terms. The Company only enters into a contract modification or extension if it believes such action will increase the amount of money the Company will ultimately realize on the customer's account and will increase the likelihood of the customer being able to pay off the installment sale contract. At the time of modification, the Company expects to collect amounts due including accrued interest at the contractual interest rate for the period of delay. No other concessions are granted to customers, beyond the extension of additional time, at the time of modifications. Modifications are minor and are made for payday changes, minor vehicle repairs and other reasons. For those vehicles that are repossessed, the majority are returned or surrendered by the customer on a voluntary basis. Other repossessions are performed by Company personnel or third-party repossession agents. Depending on the condition of a repossessed vehicle, it is either resold on a retail basis through a Company dealership or sold for cash on a wholesale basis primarily through physical or online auctions.

The Company takes steps to repossess a vehicle when the customer becomes delinquent in his or her payments and management determines that timely collection of future payments is not probable. Accounts are charged-off after the expiration of a statutory notice period for repossessed accounts, or when management determines that the timely collection of future payments is not probable for accounts where the Company has been unable to repossess the vehicle. For accounts with respect to which the vehicle was repossessed, the fair value of the repossessed vehicle is charged as a reduction of the gross finance receivables balance charged-off. On average, accounts are approximately 76 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 amount of the net repossession and charge-off loss is also reduced by any deferred service contract and accident protection plan revenue at the time of charge-off.

During the quarter ended October 31, 2023, the Company implemented third-party software to assist in calculating the Company's allowance for credit losses. After implementing, the Company's quantitative portion of the allowance for credit losses was measured using an undiscounted cash flow ("CF") model. Whereby the undiscounted CF are adjusted by a prepayment rate and then the loss rate is applied and compared to the amortized cost basis of finance receivables to reflect management's estimate of expected credit losses. The CF model is based on installment sale contract level characteristics of the Company's finance receivables, such as the contractual payment structure, maturity date, payment frequency for recurring payments, and interest rates, as well as the following assumptions:

- a historical loss period, which represents a full economic credit cycle utilizing loss experience, to calculate the historical loss rate; and
- static annualized historical rate based on average time of charge-off; and
- expected prepayment rates based on our historical experience, which also incorporates non-standard contractual payments such as down payments made during the first ninety-days or annual seasonal payments.

The Company's allowance for credit losses also considers qualitative factors not captured within the CF modeled results such as changes in underwriting and collection practices, economic trends, changes in volume and terms of installment sales contracts, credit quality trends, installment sale contract review results, collateral trends, and concentrations of credit. The Company's qualitative factors incorporate a macroeconomic variable forecast of inflation over a reasonable and supportable forecast period of one year that affects its customers' non-discretionary income and ability to repay. The reasonable and supportable forecast period of one year is based on management's current review of the reliability of extended forecasts and is applied as an adjustment to the historical loss rate.

As a result of this update to our methodology and the recent performance of our loan portfolio, the Company increased the provision for credit losses by \$28.0 million and decreased net income by \$21.8 million, or basic earnings per share loss of \$3.40 per share, upon implementation of the third-party software on our condensed consolidated statement of operations during the three months ended October 31, 2023. This change in estimate took place during the quarter ended October 31, 2023 and had no effect on past periods.

The Company maintains an allowance for credit losses on an aggregate basis at an amount it considers sufficient to cover net credit losses expected over the remaining life of the installment sales contracts in the portfolio at the measurement date. At October 31, 2023, the weighted average total contract term was 47.3 months with 36.5 months remaining. The allowance for credit losses at October 31, 2023, \$344 million, was 26.04% of the principal balance in finance receivables of \$1.5 billion, less deferred APP revenue of \$54.4 million and deferred service contract revenue of \$71.4 million, less pending APP claims of \$15.3 million. The allowance for credit losses is periodically reviewed by management with any changes reflected in current operations.

In most states, the Company offers retail customers who finance their vehicle the option of purchasing an accident protection plan product as an add-on to the installment sale contract. This product contractually obligates the Company to cancel the remaining principal outstanding for any contract where the retail customer has totaled the vehicle, as defined by the product, or the vehicle has been stolen. The Company periodically evaluates anticipated losses to ensure that if anticipated losses exceed deferred accident protection plan revenues, an additional liability is recorded for such difference. At October 31, 2023, anticipated losses did not exceed deferred accident protection plan revenues. No such liability was required at October 31, 2023 or April 30, 2023.

Inventory

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

Goodwill

Goodwill reflects the excess of purchase price over the fair value of specifically identified net assets purchased. Goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to qualitative annual impairment tests at the Company's year-end. The impairment tests are based on the comparison of the fair value of the reporting unit to the carrying value of such unit. The implied goodwill is compared to the carrying value of the goodwill to determine the impairment, if any. There was no impairment of goodwill during the 2023 fiscal year. At October 31, 2023, the Company evaluated goodwill and noted there was an immaterial impairment due to a closed dealership during the first quarter of 2024.

Goodwill totaled \$11.6 million at October 31, 2023 and \$11.7 million at April 30, 2023.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Expenditures for additions, remodels 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

Long-Lived Assets

Long-lived assets, such as property and equipment, capitalized internal-use software and operating lease right-of-use assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares the undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, such assets are considered to be impaired, and the impairment is recognized to the extent that the carrying value exceeds its fair value. There were no impairment charges recognized during any of the periods presented.

Cloud Computing Implementation Costs

The Company enters into cloud computing service contracts to support its sales, inventory management, and administrative activities. The Company capitalizes certain implementation costs for cloud computing arrangements that meet the definition of a service contract. The Company includes these capitalized implementation costs within prepaid expenses and other assets on the Condensed Consolidated Balance Sheets. Once placed in service, the Company amortizes these costs over the remaining subscription term to the same caption on the Condensed Consolidated Statement of Operations as the related cloud subscription.

Cash Overdraft

As checks are presented for payment from the Company's primary disbursement bank account, monies are automatically drawn against cash collections for the day and, if necessary, are drawn against one of the revolving credit facilities. Any cash overdraft balance principally represents outstanding checks that as of the balance sheet date had not yet been presented for payment, net of any deposits in transit. Any cash overdraft balance is reflected in accrued liabilities on the Company's Condensed Consolidated Balance Sheets.

Deferred Sales Tax

Deferred sales tax represents a sales tax liability of the Company for vehicles sold on an installment basis in the states of Alabama and Texas. Under Alabama and 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. Deferred sales tax liabilities are reflected in accrued liabilities on the Company's Condensed Consolidated Balance Sheets.

Income Taxes

Income taxes are accounted for under the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates expected to apply in the years in which these differences are expected to be recovered or settled. The quarterly provision for income taxes is determined using an estimated annual effective tax rate, which is based on expected annual taxable income, statutory tax rates and the Company's best estimate of nontaxable and nondeductible items of income and expense. The effective income tax rates were 23.4% and 22.7% for the six months ended October 31, 2023 and October 31, 2022, respectively. Total income tax expense for the six months ended October 31, 2023 differed from amounts computed by applying the United States federal statutory tax rates to pre-tax income primarily due to state income taxes and the impact of permanent differences between book and taxable income. The Company recorded a discrete income tax benefit of approximately \$213,000 and \$206,000 for the six months ended October 31, 2023 and 2022, respectively, related to excess tax benefits on share based compensation.

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

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

The Company is subject to income taxes in the U.S. federal jurisdiction and various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for the years before fiscal 2019.

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 or interest as of October 31, 2023 or April 30, 2023.

Revenue Recognition

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

Revenues from the sale of used vehicles are recognized when the sales contract is signed, the customer has taken possession of the vehicle and, if applicable, financing has been approved. Revenues from the sale of vehicles sold at wholesale are recognized at the time the proceeds are received. Revenues from the sale of service contracts are recognized ratably over the expected duration of the product. Service contract revenues are included in sales and the related expenses are included in cost of sales. Accident protection plan revenues are initially deferred and then recognized to income using the "Rule of 78's" interest method over the life of the contract so that revenues are recognized in proportion to the amount of cancellation protection provided. Accident protection plan revenues are included in sales and related losses are included in cost of sales as incurred. Any unearned revenue from ancillary products is charged-off at the time of repossession. Interest income is recognized on all active finance receivables accounts using the simple effective interest method. Active accounts include all accounts except those that have been paid-off or charged-off.

Sales for the three and six months ended October 31, 2023 and 2022 consisted of the following:

<i>(In thousands)</i>	Three Months Ended October 31,		Six Months Ended October 31,	
	2023	2022	2023	2022
Sales – used autos	\$ 261,336	\$ 263,743	\$ 534,804	\$ 522,795
Wholesales – third party	13,587	17,223	26,024	31,042
Service contract revenue	17,649	14,002	33,996	27,188
Accident protection plan revenue	9,629	8,586	18,946	17,006
Total	<u>\$ 302,200</u>	<u>\$ 303,554</u>	<u>\$ 613,769</u>	<u>\$ 598,031</u>

At October 31, 2023 and 2022, finance receivables more than 90 days past due were approximately \$7.4 million and \$3.5 million, respectively. Late fee revenues totaled approximately \$2.4 million and \$2.0 million for the six months ended October 31, 2023 and 2022, respectively. Late fees are recognized when collected and are reflected in interest and other income on the Condensed Consolidated Statements of Operations. The amount of revenue recognized for the six months ended October 31, 2023 that was included in the April 30, 2023 deferred service contract revenue was \$22.1 million.

Earnings per Share

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

Stock-Based Compensation

The Company recognizes the cost of employee services received in exchange for awards of equity instruments, such as stock options and restricted stock, based on the fair value of those awards at the date of grant over the requisite service period. The Company uses the Black-Scholes option pricing model to determine the fair value of stock option awards. The Company may issue either new shares or treasury shares upon exercise of these awards. Stock-based compensation plans, related expenses, and assumptions used in the Black-Scholes option pricing model are more fully described in Note I. If an award contains a performance condition, expense is recognized only for those shares for which it is considered reasonably probable as of the current period end that the performance condition will be met. The Company accounts for forfeitures as they occur and records any excess tax benefits or deficiencies from its equity awards in its Consolidated Statements of Operations in the reporting period in which the exercise occurs. The Company recorded a discrete income tax benefit of approximately \$213,000 and \$206,000 for the six months ended October 31, 2023 and 2022, respectively. As a result, the Company's income tax expenses and associated effective tax rate will be impacted by fluctuations in stock price between the grant dates and exercise dates of equity awards.

Treasury Stock

Treasury stock may be used for issuances under the Company's stock-based compensation plans or for other general corporate purposes. The Company has a reserve account of 10,000 shares of treasury stock to secure outstanding service contracts issued in Iowa in accordance with the regulatory requirements of that state and another reserve account of 14,000 shares of treasury stock for its subsidiary, ACM Insurance Company, in accordance with the requirements of the Arkansas Department of Insurance.

Recent Accounting Pronouncements

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

Adopted in the Current Period

In March 2022, the FASB issued an accounting pronouncement (ASU 2022-02) related to troubled debt restructurings ("TDRs") and vintage disclosures for financing receivables. The amendments in this update eliminate the accounting guidance for TDRs by creditors while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors made to borrowers experiencing financial difficulty. The amendments also require disclosure of current period gross write-offs by year of origination for financing receivables. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company adopted this standard on May 1, 2023 under a prospective basis. In regard to installment sale contract modifications, management notes that the Company primarily modifies a customer's installment sale contract to allow for insignificant payment delays. This type of modification is generally done to account for payday changes for the customer and minor vehicle repairs.

C – Finance Receivables, Net

The Company originates installment sale contracts from the sale of used vehicles at its dealerships. These installment sale contracts, which carry a fixed interest rate of 18.0% for all states except Arkansas (remains at 16.5%), Illinois (remains at 19.5% – 21.5%) and Smart Auto dealerships in Tennessee (which originate at up to 23.0%), are collateralized by the vehicle sold and typically provide for payments over periods ranging from 18 to 69 months. The Company's finance receivables are defined as one segment and one class of contracts, which is sub-prime consumer automobile contracts. The level of risks in the Company's finance receivables is managed as one homogeneous pool.

The components of finance receivables are as follows:

<i>(In thousands)</i>	October 31, 2023	April 30, 2023
Gross contract amount	\$ 1,872,863	\$ 1,752,149
Less: unearned finance charges	(409,465)	(378,777)
Principal balance	1,463,398	1,373,372
Less: estimated insurance receivables for APP claims	(7,237)	(5,694)
Less: allowance for APP claims	(7,305)	(5,310)
Less: allowance for credit losses	(344,330)	(299,608)
Finance receivables, net	1,104,526	1,062,760
Loan origination costs	710	700
Finance receivables, net, including loan origination costs	<u>1,105,236</u>	<u>1,063,460</u>

Changes in the finance receivables, net are as follows:

<i>(In thousands)</i>	Six Months Ended October 31, 2023	2022
Balance at beginning of period	\$ 1,062,760	\$ 855,423
Finance receivable originations	580,082	580,838
Finance receivable collections	(218,208)	(206,358)
Provision for credit losses	(231,718)	(165,068)
Losses on claims for accident protection plan	(15,173)	(11,232)
Inventory acquired in repossession and accident protection plan claims	(73,217)	(76,042)
Balance at end of period	<u>\$ 1,104,526</u>	<u>\$ 977,561</u>

Changes in the finance receivables allowance for credit losses are as follows:

<i>(In thousands)</i>	Six Months Ended October 31, 2023	2022
Balance at beginning of period	\$ 299,608	\$ 237,823
Provision for credit losses	231,718	165,068
Charge-offs	(255,685)	(190,609)
Recovered collateral	68,689	60,448
Balance at end of period	<u>\$ 344,330</u>	<u>\$ 272,730</u>

Amounts recovered from previously written-off accounts were approximately \$1.4 million and \$1.2 million for the six months ended October 31, 2023 and 2022, respectively. These amounts are netted against recovered collateral in the table above.

Our allowance for credit losses increased during the first six months of fiscal year 2024 by \$44.7 million or 14.9%, which majority of the increase relates to the \$28 million increase in second quarter. Structural changes to our portfolio continue to drive an increase in the provision for credit losses. The charge-offs net of recovered collateral were impacted by a higher frequency of losses compared to the prior year as well as a higher severity of losses driven by lower recovery values and longer contract terms.

Credit quality information for finance receivables is as follows:

<i>(Dollars in thousands)</i>	October 31, 2023		April 30, 2023		October 31, 2022	
	Principal Balance	Percent of Portfolio	Principal Balance	Percent of Portfolio	Principal Balance	Percent of Portfolio
Current	\$ 1,121,215	76.62%	\$ 1,166,860	84.96%	\$ 1,028,291	81.63%
3 - 29 days past due	290,123	19.83%	156,943	11.43%	185,434	14.72%
30 - 60 days past due	37,602	2.57%	37,214	2.71%	35,258	2.80%
61 - 90 days past due	7,068	0.48%	8,407	0.61%	7,151	0.57%
> 90 days past due	7,390	0.51%	3,948	0.29%	3,515	0.28%
Total	\$ 1,463,398	100.00%	\$ 1,373,372	100.00%	\$ 1,259,649	100.00%

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

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

	Six Months Ended October 31,	
	2023	2022
Average total collected per active customer per month	\$ 534	\$ 515
Principal collected as a percent of average finance receivables	15.2%	17.4%
Average down-payment percentage	4.9%	5.2%
Average originating contract term <i>(in months)</i>	44.1	42.7

	As of	
	October 31, 2023	October 31, 2022
Portfolio weighted average contract term, including modifications <i>(in months)</i>	47.3	44.8

Although total dollars collected per active customer increased 3.7% year over year, principal collections as a percentage of average finance receivables were lower in the current year quarter compared to the prior year quarter primarily due to the average term increases. Overall collections have also been negatively impacted by the current inflationary environment. The portfolio weighted average contract term increased primarily due to the increased average selling price, up \$869 or 4.8%, from the prior year period.

When customers apply for financing, the Company's proprietary scoring model relies on the customers' credit histories and certain application information to evaluate and rank their risk. The Company obtains credit histories and other credit data that includes information such as number of different addresses, age of oldest record, high risk credit activity, job time, time at residence and other factors. The application information that is used includes income, collateral value and down payment. The scoring models yield credit grades that represent the relative likelihood of repayment. Customers with the highest probability of repayment are 6 rated customers. Customers assigned a lower grade are determined to have a lower probability of repayment. For installment sales contracts that are approved, the credit grade influences the terms of the agreement, such as the maximum amount financed, term length and minimum down payment. After origination, credit grades are generally not updated.

The Company uses a combination of the initial credit grades and historical performance to monitor the credit quality of the finance receivables on an ongoing basis, and the accuracy of the scoring model is validated periodically. Installment sale contract performance is reviewed on a recurring basis to identify whether the assigned grades adequately reflect the customers' likelihood of repayment.

The following table presents a summary of finance receivables by credit quality indicator, as of October 31, 2023, segregated by customer score.

As of October 31, 2023

(Dollars in thousands) Customer Rating	Fiscal Year of Origination					Prior to		Total	%
	2024	2023	2022	2021	2020	2020			
1-2	\$ 26,044	\$ 23,346	\$ 7,271	\$ 1,127	\$ 150	\$ 13		\$ 57,951	4.0%
3-4	\$ 189,850	\$ 190,995	\$ 64,672	\$ 11,479	\$ 643	\$ 246		\$ 457,885	31.3%
5-6	\$ 317,130	\$ 411,515	\$ 178,564	\$ 37,177	\$ 2,485	\$ 691		\$ 947,562	64.8%
Total	\$ 533,024	\$ 625,856	\$ 250,507	\$ 49,783	\$ 3,278	\$ 950		\$ 1,463,398	100.0%
Gross charge-offs	\$ 36,228	\$ 153,765	\$ 54,307	\$ 10,301	\$ 791	\$ 293		\$ 255,685	

The following table presents a summary of finance receivables by credit quality indicator, as of October 31, 2022, segregated by customer score.

As of October 31, 2022

(Dollars in thousands) Customer Rating	Fiscal Year of Origination					Prior to		Total	%
	2023	2022	2021	2020	2019	2019			
1-2	\$ 23,888	\$ 22,264	\$ 5,838	\$ 741	\$ 12	\$ -		\$ 52,743	4.2%
3-4	\$ 174,553	\$ 167,298	\$ 48,272	\$ 4,422	\$ 157	\$ 9		\$ 394,711	31.3%
5-6	\$ 329,882	\$ 359,342	\$ 110,775	\$ 11,677	\$ 505	\$ 14		\$ 812,195	64.5%
Total	\$ 528,323	\$ 548,904	\$ 164,885	\$ 16,840	\$ 674	\$ 23		\$ 1,259,649	100.0%

D – Property and Equipment, Net

A summary of property and equipment is as follows:

(In thousands)	October 31, 2023	April 30, 2023
Land	\$ 11,998	\$ 12,386
Buildings and improvements	23,439	20,894
Furniture, fixtures and equipment	19,559	18,989
Leasehold improvements	49,533	47,315
Construction in progress	2,226	7,176
Less: accumulated depreciation and amortization	(47,020)	(45,078)
Total	\$ 59,735	\$ 61,682

E – Accrued Liabilities

A summary of accrued liabilities is as follows:

(In thousands)	October 31, 2023	April 30, 2023
Employee compensation	\$ 10,139	\$ 11,197
Deferred sales tax (see Note B)	8,571	8,543
Fair value of contingent consideration	1,943	1,943
Other	7,546	6,229
Total	\$ 28,199	\$ 27,912

F – Debt Facilities

A summary of debt facilities is as follows:

<i>(In thousands)</i>	October 31, 2023	April 30, 2023
Revolving line of credit	\$ 166,364	\$ 168,516
Debt issuance costs	(855)	(1,285)
Revolving line of credit, net	\$ 165,509	\$ 167,231
Non-recourse notes payable - 2022 Issuance	\$ 52,668	\$ 134,137
Non-recourse notes payable - 2023-1 Issuance	235,672	338,777
Non-recourse notes payable - 2023-2 Issuance	293,979	-
Debt issuance costs	(3,289)	(1,547)
Non-recourse notes payable, net	\$ 579,030	\$ 471,367
Total debt	\$ 744,539	\$ 638,598

Revolving Line of Credit

At October 31, 2023, the Company and its subsidiaries have \$600.0 million of permitted borrowings under a revolving line of credit. The revolving credit facilities are collateralized primarily by finance receivables and inventory, are cross collateralized and contain a guarantee by the Company. Interest is payable monthly under the revolving credit facilities with a scheduled maturity date of September 29, 2024. The credit facilities provide for four pricing tiers for determining the applicable interest rate, based on the Company's consolidated leverage ratio for the preceding fiscal quarter. The current applicable interest rate under the credit facilities is generally SOFR plus 2.75%, with a minimum of 2.25% or for non-SOFR amounts the base rate of 8.50% at October 31, 2023 and 8.25% at April 30, 2023. The credit facilities contain various reporting and performance covenants including (i) maintenance of certain financial ratios and tests, (ii) limitations on borrowings from other sources, (iii) restrictions on certain operating activities and (iv) restrictions on the payment of dividends or distributions (see note B).

The Company was in compliance with the covenants at October 31, 2023. The amount available to be drawn under the credit facilities is a function of eligible finance receivables and inventory; based upon eligible finance receivables and inventory at October 31, 2023, the Company had additional availability of approximately \$86.3 million under the revolving credit facilities.

Non-Recourse Notes Payable

The Company has issued three separate series of asset-backed non-recourse notes (known as the "2022 Issuance", "2023-1 Issuance" and "2023-2 Issuance"). The 2022 Issuance consists of \$400.0 million in principal amount of non-recourse asset-back notes issued in four classes with a weighted average fixed coupon rate of 5.14% per annum. The 2023-1 Issuance consists of \$400.2 million in principal amount of non-recourse asset-back notes issued in four classes with a weighted average fixed coupon rate of 8.68% per annum, and the 2023-2 Issuance consists of \$360.3 million in principal amount of non-recourse asset-back notes issued in two classes with a weighted averaged fixed coupon rate of 8.80% per annum. All three issuances are collateralized by installment sale contracts directly originated by the Company. Credit enhancement for the non-recourse notes payable consists of overcollateralization, a reserve account funded with an initial amount of not less than 2.0% of the pool balance, excess interest on the auto finance receivables, and in some cases, the subordination of certain payments to noteholders of less senior classes of notes. The timing of principal payments on the non-recourse notes payable is based on the timing of principal collections and defaults on the related auto finance receivables. Notes payable related to the term securitization transactions accrue interest predominately at fixed rates and have scheduled maturities through April 20, 2029, January 22, 2030, and June 20, 2030, respectively, but may mature earlier, depending upon repayment rate of the underlying auto finance receivables.

G – Fair Value Measurements

Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurements defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance also establishes a fair value hierarchy that requires the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Topic 820 describes three levels of inputs that may be used to measure fair value:

- *Level 1 Inputs* – Quoted prices in active markets for identical assets or liabilities.
- *Level 2 Inputs* – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices for similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- *Level 3 Inputs* – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

The methodology and assumptions utilized to estimate the fair value of the Company's financial instruments are as follows:

<u>Financial Instrument</u>	<u>Valuation Methodology</u>
Cash, cash equivalents, and restricted cash	The carrying amount is considered to be a reasonable estimate of fair value due to the short-term nature of the financial instruments (Level 1).
Finance receivables, net	The Company estimated the fair value of its receivables at what a third-party purchaser might be willing to pay. The Company has had discussions with third parties and has bought and sold portfolios and has had a third-party appraisal in October 2022 that indicates a range of 34% to 39% discount to face would be a reasonable fair value in a negotiated third-party transaction. The sale of finance receivables from Car-Mart of Arkansas to Colonial is made at a 38.5% discount. For financial reporting purposes these sale transactions are eliminated (Level 2).
Accounts payable	The carrying amount is considered to be a reasonable estimate of fair value due to the short-term nature of the financial instrument (Level 2).
Revolving line of credit	The fair value approximates carrying value due to the variable interest rates charged on the borrowings, which reprice frequently (Level 2).
Non-recourse notes payable	The fair value was based upon inputs derived from prices for similar instruments at period end (Level 2).

The estimated fair values, and related carrying amounts, of the financial instruments included in the Company's financial statements at October 31, 2023 and April 30, 2023 are as follows:

(In thousands)	October 31, 2023		April 30, 2023	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 4,313	\$ 4,313	\$ 9,796	\$ 9,796
Restricted cash	90,180	90,180	58,238	58,238
Finance receivables, net	1,105,236	679,720	1,063,460	654,028
Accounts payable	22,400	22,400	27,196	27,196
Revolving line of credit, net	165,509	165,509	167,231	167,231
Non-recourse notes payable	579,030	579,085	471,367	470,209

H – Weighted Average Shares Outstanding

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

	Three Months Ended October 31,		Six Months Ended October 31,	
	2023	2022	2023	2022
Weighted average shares outstanding-basic	6,386,208	6,368,840	6,383,956	6,371,083
Dilutive options and restricted stock	-	179,431	-	203,845
Weighted average shares outstanding-diluted	<u>6,386,208</u>	<u>6,548,271</u>	<u>6,383,956</u>	<u>6,574,928</u>
Antidilutive securities not included:				
Options	207,500	357,500	447,500	577,500
Restricted stock	5,033	31,227	5,033	36,359

I – Stock-Based Compensation

The Company has stock-based compensation plans available to grant non-qualified stock options, incentive stock options and restricted stock to employees, directors and certain advisors of the Company. The stock-based compensation plans being utilized at October 31, 2023 are the Amended and Restated Stock Option Plan and the Amended and Restated Stock Incentive Plan. The Company recorded total stock-based compensation expense for all plans of approximately \$1.7 million (\$1.3 million after tax effects) and \$2.8 million (\$2.1 million after tax effects) for the six months ended October 31, 2023 and 2022, respectively. Tax benefits were recognized for these costs at the Company's overall effective tax rate, excluding discrete income tax benefits related to excess benefits on share-based compensation.

Stock Option Plan

The Company has options outstanding under a stock option plan approved by the shareholders, the Amended and Restated Stock Option Plan. The shareholders of the Company approved the Amended and Restated Stock Option Plan (the "Restated Option Plan") on August 5, 2015, which extended the term of the Stock Option Plan to June 10, 2025 and increased the number of shares of common stock reserved for issuance under the plan by an additional 300,000 shares to 1,800,000 shares. On August 29, 2018, August 26, 2020, and August 30, 2022, the shareholders of the Company approved amendments to the Restated Option Plan increasing the number of shares of common stock reserved for issuance under the plan by an additional 200,000, 200,000 and 185,000 shares, respectively. Currently, a total of 2,385,000 shares of common stock are reserved for issuance under the plan. The Restated Option Plan provides for the grant of options to purchase shares of the Company's common stock to employees, directors and certain advisors of the Company at a price not less than the fair market value of the stock on the date of grant and for periods not to exceed ten years. Options outstanding under the Company's stock option plans expire in the calendar years 2023 through 2033.

	Restated Option Plan
Minimum exercise price as a percentage of fair market value at date of grant	100%
Last expiration date for outstanding options	May 1, 2033
Shares available for grant at October 31, 2023	265,000

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

	Six Months Ended October 31,	
	2023	2022
Expected terms (years)	5.5	5.5
Risk-free interest rate	3.66%	3.59%
Volatility	58%	55%
Dividend yield	-	-

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

There were 35,000 and 137,500 options granted during the six months ended October 31, 2023 and 2022, respectively. The grant-date fair value of options granted during the six months ended October 31, 2023 and 2022 was \$1.5 million and \$5.0 million, respectively. The options were granted at fair market value on the date of grant.

Stock option compensation expense was \$947,000 (\$727,000 after tax effects) and \$2.2 million (\$1.7 million after tax effects) for the six months ended October 31, 2023 and 2022, respectively. As of October 31, 2023, the Company had approximately \$2.9 million of total unrecognized compensation cost related to unvested options that are expected to vest. These unvested outstanding options have a weighted-average remaining vesting period of 1.5 years.

The Company had the following options exercised for the periods indicated. The impact of these cash receipts is included in financing activities in the accompanying Condensed Consolidated Statements of Cash Flows.

	Six Months Ended October 31,	
(Dollars in thousands)	2023	2022
Options exercised	30,000	23,000
Cash received from option exercises	\$ -	\$ 1,216
Intrinsic value of options exercised	\$ 1,036	\$ 1,204

During the six months ended October 31, 2023, there were 30,000 options exercised through net settlements in accordance with plan provisions, wherein the shares issued were reduced by 23,507 shares to satisfy the exercise price and applicable withholding taxes to acquire 6,493 shares. There were no options exercised through net settlements during the six months ended October 31, 2022.

The aggregate intrinsic value of outstanding options at October 31, 2023 and 2022 was \$4.1 million and \$5.1 million, respectively. As of October 31, 2023, there were 420,900 vested and exercisable stock options outstanding with an aggregate intrinsic value of \$3.8 million, a weighted average remaining contractual life of 1.9 years, and a weighted average exercise price of \$75.56.

Stock Incentive Plan

On August 5, 2015, the shareholders of the Company approved the Amended and Restated Stock Incentive Plan (the “Restated Incentive Plan”), which extended the term of the Company’s Stock Incentive Plan to June 10, 2025. On August 29, 2018, the shareholders of the Company approved an amendment to the Restated Stock Incentive Plan that increased the number of shares of common stock that may be issued under the Restated Incentive Plan by 100,000 shares to 450,000. For shares issued under the Stock Incentive Plan, the associated compensation expense is generally recognized equally over the vesting periods established at the award date and is subject to the employee’s continued employment by the Company.

There were 5,033 restricted shares granted during the six months ended October 31, 2023 and 27,132 restricted shares granted during the six months ended October 31, 2022. A total of 70,026 shares remained available for award at October 31, 2023. There were 161,001 unvested restricted shares outstanding as of October 31, 2023 with a weighted average grant date fair value of \$63.81.

As of October 31, 2023, the Company had approximately \$5.0 million of total unrecognized compensation cost related to unvested awards granted under the Restated Incentive Plan, which the Company expects to recognize over a weighted-average remaining period of 3.6 years. The Company recorded compensation cost of approximately \$767,000 (\$589,000 after tax effects) and \$548,000 (\$418,000 after tax effects) related to the Restated Incentive Plan during the six months ended October 31, 2023 and 2022, respectively.

There were no modifications to any of the Company’s outstanding share-based payment awards during fiscal 2023 or during the first six months of fiscal 2024.

J – Commitments and Contingencies

The Company has entered into operating leases for approximately 86% of its dealership 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 dealership locations and to preserve capital. The Company expects to continue to lease the majority of its dealership and office facilities under arrangements substantially consistent with the past. Rent expense for all operating leases amounted to approximately \$4.5 million and \$4.4 million for the six-month periods ended October 31, 2023 and 2022, respectively.

Scheduled amounts and timing of cash flows arising from operating lease payments as of October 31, 2023, discounted at the weighted average interest rate in effect as of October 31, 2023 of approximately 4.4%, are as follows:

Maturity of lease liabilities	
2024 (remaining)	\$ 4,416
2025	8,710
2026	8,275
2027	7,813
2028	7,156
Thereafter	45,230
Total undiscounted operating lease payments	81,600
Less: imputed interest	(17,481)
Present value of operating lease liabilities	<u>\$ 64,119</u>

The Company has two standby letters of credit relating to insurance policies totaling \$2.9 million and \$750,000 at October 31, 2023 and 2022, respectively

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 as described in the Treasury Regulations. For financial accounting purposes, these transactions are eliminated in consolidation, and a deferred income 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. 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.

K - Supplemental Cash Flow Information

Supplemental cash flow disclosures are as follows:

<i>(In thousands)</i>	Six Months Ended October 31,	
	2023	2022
Supplemental disclosures:		
Interest paid	\$ 30,467	\$ 15,023
Income taxes paid, net	1,299	3,888
Non-cash transactions:		
Inventory acquired in repossession and accident protection plan claims	69,679	61,222
Reduction in net receivables for deferred ancillary product revenue at time of charge-off	19,326	13,714
Net settlement option exercises	1,646	-
Right-of-use assets obtained in exchange for operating lease liabilities	-	25
Right-of-use assets obtained in exchange for operating lease liabilities through acquisitions	-	-

M – Subsequent Events

On December 1, 2023, the Company entered into a definitive agreement to purchase the ongoing dealership assets of Allied Union Group, Inc., an Arkansas corporation doing business as Central Auto Sales located in Hot Springs, Arkansas. The acquisition of Central Auto Sales will enhance the Company's presence in Hot Springs and expand its reconditioning capabilities.

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 Condensed Consolidated Financial Statements and notes thereto appearing elsewhere in this report.

Forward-Looking Information

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

- operational infrastructure investments;
- same dealership sales and revenue growth;
- customer growth;
- gross profit margin percentages;
- gross profit per retail unit sold;
- business acquisitions;
- technological investments and initiatives;
- future revenue growth;
- receivables growth as related to revenue growth;
- new dealership openings;
- performance of new dealerships;
- interest rates;
- future credit losses;
- the Company’s collection results, including but not limited to collections during income tax refund periods;
- future supply, demand and affordability of used vehicles;
- availability of used vehicle financing;
- seasonality; and
- the Company’s business, operating and growth strategies and expectations.

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 and in the Company’s Annual Report on Form 10-K for the fiscal year ended April 30, 2023, as well as:

- general economic conditions in the markets in which the Company operates, including but not limited to fluctuations in gas prices, grocery prices and employment levels and inflationary pressure on operating costs;
- the availability of quality used vehicles at prices that will be affordable to our customers, including the impacts of changes in new vehicle production and sales;
- the availability of credit facilities and access to capital through securitization financings or other sources on terms acceptable to us to support the Company’s business;
- the Company’s ability to underwrite and collect its contracts effectively;
- competition;
- dependence on existing management;
- ability to attract, develop, and retain qualified general managers;
- changes in consumer finance laws or regulations, including but not limited to rules and regulations that have recently been enacted or could be enacted by federal and state governments;
- the ability to keep pace with technological advances and changes in consumer behavior affecting our business;
- security breaches, cyber-attacks, or fraudulent activity;
- the ability to identify and obtain favorable locations for new or relocated dealerships at reasonable cost;
- the ability to successfully identify, complete and integrate new acquisitions; and
- potential business and economic disruptions and uncertainty that may result from any future public health crises and any efforts to mitigate the financial impact and health risks associated with such developments.

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.

Overview

America's Car-Mart, Inc., a Texas corporation initially formed in 1981 (the "Company"), is one of the largest publicly held automotive retailers in the United States focused exclusively on the "Integrated Auto Sales and Finance" segment of the used car market. 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"). References to the Company include the Company's consolidated subsidiaries. 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 difficulties. As of October 31, 2023, the Company operated 153 dealerships located primarily in small cities throughout the South-Central United States.

The Company has grown its revenues between approximately 4% and 32% per year over the last ten fiscal years (average 12%). Growth results from same dealership revenue growth and the addition of new dealerships. Revenue increased 5.6% for the first six months of fiscal 2024 compared to the same period of fiscal 2023, due to a 25.1% increase in interest income and a 4.8% increase in the average retail sales price, partially offset by a 1.1% decrease in retail units sold. Our dealership volume productivity averaged 33.4 sales per month for the first six months of fiscal 2024, down from 34.0 during the same period last year.

The Company has been able to improve vehicle quality by bringing lower mileage and higher average model-year vehicles to our consumers. This will aid in driving down repair costs of the vehicles for our customers, as well as reduce service contract repair costs, and better recovery values in the event of repossession. These are material changes that will contribute to better gross margins. When combined with the inventory procurement and remarketing management processes implemented last year, the Company is delivering operating improvement for our customers.

Over the last five fiscal years, the Company's provision for credit losses as a percentage of sales averaged 23.74%, with a pre-pandemic rate of 23.71% in fiscal 2019. During fiscal 2023, credit losses exceeded pre-pandemic levels, partially due to the inflationary pressure on customers and increasing interest rates from federal monetary policy. For the first six months of fiscal 2024, the provision for credit losses as a percentage of sales increased to 37.8% of which 4.6% was due to the \$28 million increase in provision for credit losses during the three months ended October 31, 2023. Based on the Company's current analysis of credit losses, the allowance for credit losses as a percentage of finance receivables, net of deferred revenue and pending APP claims, increased from 23.91% at April 30, 2023 to 26.04% at October 31, 2023.

Historically, credit losses, on a percentage basis, tend to be higher at new and developing dealerships than at mature dealerships. Generally, this is because the management at new and developing dealerships tends to be less experienced in making credit decisions and collecting customer accounts and the customer base is less seasoned. Normally more mature dealerships have more repeat customers and, on average, repeat customers are a better credit risk than non-repeat customers. Credit losses and charge-offs are impacted more by market and economic factors, including macro-economic conditions such as inflation in the price of gasoline, groceries and other staple items and overall unemployment levels, as well as the personal income levels of the Company's customers.

The Company continuously looks for ways to operate more efficiently, improve its business practices and adjust underwriting and collection procedures. The Company has a proprietary credit scoring system which enables the Company to monitor the quality of contracts. Corporate office personnel monitor proprietary credit scores and work with dealerships when the distribution of scores falls outside of prescribed thresholds. Additionally, the Company has placed significant focus on the collection area as the Company's training department continues to spend significant time and effort on collections improvements. The Company's vice president of collections oversees the collections area and provides timely oversight and additional accountability on a consistent basis. The Company believes that the proper execution of its business practices is the single most important determinant of its long-term credit loss experience.

The Company's gross profit dollars per retail unit sold increased by \$475, or 7.5%, during the first six months of fiscal 2024 compared to the first six months of fiscal 2023, and gross margin as a percentage of sales for the first six months of fiscal 2024 increased to 34.4% of sales from 33.2% in the prior year period. The increase in gross profit dollars per retail unit sold was primarily related to the increase in average retail sales price of the vehicles sold during the respective periods. The Company's gross margin is based upon the cost of the vehicle purchased, with higher-priced vehicles typically having higher gross margin dollars but lower gross margin percentages. Gross margin is also affected by the percentage of wholesale sales to retail sales, which relates, for the most part, to repossessed vehicles sold at or near cost. The initiatives around inventory life cycle efficiencies and the decrease in wholesale losses also contributed to the increase in gross profit dollars. The Company plans to continue to focus on managing gross margin dollars in the near term, as demonstrated by the increases during fiscal 2024 as well as continuing to focus on improving wholesale results, cost controls, and operational improvement around the acquisition and disposal of vehicles.

The Company consistently focuses on collections. Each dealership is responsible for its own collections with supervisory involvement of the corporate office. Total collections of principal, interest, and late fees for the first six months of fiscal 2024 increased by \$35.0 million, or 11.7%, over the prior year. Principal collections, as a percentage of average finance receivables, were in line with expectations at 15.2%, compared to 17.4% for the same period in prior year, reflecting an increase in the weighted average contract term compared to the prior year period.

Hiring, training and retaining qualified associates is critical to the Company's success. The rate at which the Company adds new dealerships and is able to implement operating initiatives is limited by the number of trained managers and support personnel the Company has at its disposal. Excessive turnover, particularly at the dealership manager level, could impact the Company's ability to add new dealerships and to meet operational initiatives. The landscape for hiring remains very competitive as the business activity and workforce participation continue to adjust post-pandemic. The Company has continued to add resources to recruit, train, and develop personnel, especially personnel targeted to fill dealership manager positions. The Company expects to continue to invest in the development of its workforce.

The Company will continue to prioritize its investments in areas that will allow it to improve its product and service, while operating more efficiently to support a larger, more profitable business over time.

Three months ended October 31, 2023 vs. Three months ended October 31, 2022

Consolidated Operations (Operating Statement Dollars in Thousands)

	Three Months Ended October 31,		% Change	As a % of Sales	
	2023	2022	2023 vs. 2022	Three Months Ended October 31, 2023	2022
Revenues:					
Sales	\$ 302,200	\$ 303,554	(0.4)%	100.0%	100.0%
Interest income	59,382	48,286	23.0	19.6	15.9
Total	361,582	351,840	2.8		
Costs and expenses:					
Cost of sales, excluding depreciation shown below	198,563	206,142	(3.7)	65.7	67.9
Selling, general and administrative	44,863	42,911	4.5	14.8	14.1
Provision for credit losses	135,395	88,828	52.4	44.8	29.3
Interest expense	16,582	8,350	98.6	5.5	2.8
Depreciation and amortization	1,696	1,309	29.6	0.6	0.4
Loss on disposal of property and equipment	74	242	(69.4)	-	0.1
Total	397,173	347,782	14.2%		
Pretax (loss) income	\$ (35,591)	\$ 4,058		(11.8)%	1.3%
Operating Data:					
Retail units sold	15,162	15,885			
Average dealerships in operation	154	154			
Average units sold per dealership per month	32.8	34.4			
Average retail sales price	\$ 19,035	\$ 18,025			
Gross profit per retail unit sold	\$ 6,835	\$ 6,132			
Same store revenue growth	2.7%	22.2%			
Period End Data:					
Dealerships open	153	154			
Accounts over 30 days past due	3.6%	3.6%			

Revenues increased by approximately \$9.7 million, or 2.8%, for the three months ended October 31, 2023 as compared to the same period in the prior fiscal year. The increase resulted from revenue growth at dealerships that operated a full three months in both the current and prior year quarter (\$7.1 million) and revenue from dealerships opened after the prior year quarter (\$2.6 million). Revenue growth was related to a 23.0% increase in interest income and a 5.6% increase in the average retail sales price, partially offset by a 4.6% decrease in retail units sold. Interest income increased approximately \$11.1 million for the three months ended October 31, 2023, as compared to the same period in the prior fiscal year, due to the \$239.2 million increase in average finance receivables.

Cost of sales, as a percentage of sales, decreased to 65.7% for the three months ended October 31, 2023 compared to 67.9% for the same period of the prior fiscal year, resulting in a gross margin as a percentage of sales of 34.3% for the current year period compared to 32.1% for the prior year period. The improvement in gross margin results from our continued focus on inventory efficiencies in procurement, remarketing, and repairs.

Gross margin as a percentage of sales is significantly impacted by the average retail sales price of the vehicles the Company sells, which is largely a function of the Company's purchase cost. The average retail sales price for the second quarter of fiscal 2024 was \$19,035, a \$1,010 increase over the prior year quarter. Approximately 40% of this increase was related to the vehicle selling price and 60% related to the ancillary products. As purchase costs increase, the margin between the purchase cost and the sales price of the vehicles we sell generally narrows on a percentage basis because the Company must offer affordable prices to its customers. We have implemented initiatives around reconditioning efforts and scaling that are expected to provide a better volume of affordable units.

Selling, general and administrative expenses, as a percentage of sales, were 14.8% for the three months ended October 31, 2023, an increase of 0.7% from the same period of the prior fiscal year, but was down sequentially by 3.4%, primarily due to a \$3.2 million reduction in stock-based compensation, partially offset by increased costs in collection expenses and professional fees related to the implementation of our new technologies. Selling, general and administrative expenses are, for the most part, more fixed in nature. In dollar terms, overall selling, general and administrative expenses increased approximately \$1.9 million in the second quarter of fiscal 2024 compared to the same period of the prior fiscal year. Increased collections costs due primarily to the higher frequency of repossessions and professional fees related to the implementation of our new technologies contributed to the increase.

Provision for credit losses as a percentage of sales was 44.8%, which includes 9.3% due to \$28 million increase in provision for the three months ended October 31, 2023 compared to 29.3% for the prior year period. The provision for credit losses as a percentage of sales was higher during the current year period primarily due to the growth in the balance of finance receivables, net of deferred revenue of \$169.3 million, coupled with a decrease in sales of \$1.4 million over the prior year period. An increase in net charge-offs also contributed to the higher provision. Net charge-offs as a percentage of average finance receivables increased to 7.2% for the three months ended October 31, 2023 compared to the prior year period of 5.8%. The Company experienced an increase in both the frequency and severity of losses. Structural changes to our portfolio driven by higher vehicle costs, longer contract terms, lower average down payments, and lower recovery values continue to drive an increase in the provision for credit losses. The Company increased the allowance for credit losses from 23.91% at April 30, 2023 to 26.04% in the second quarter of fiscal 2024, resulting in a \$28 million increase to the provision for credit losses.

Interest expense as a percentage of sales increased to 5.5% for the three months ended October 31, 2023, compared to 2.8% for the prior year period. In dollar terms, interest expense increased \$8.2 million due to increasing interest rates and an increase in the average borrowings of approximately \$201.8 million during the three-month period ended October 31, 2023.

Six months ended October 31, 2023 vs. Six months ended October 31, 2022

Consolidated Operations (Operating Statement Dollars in Thousands)

	Six Months Ended October 31,		% Change 2023 vs. 2022	As a % of Sales Six Months Ended October 31,	
	2023	2022		2023	2022
Revenues:					
Sales	\$ 613,769	\$ 598,031	2.6%	100.0%	100.0%
Interest income	115,838	92,627	25.1	18.9	15.5
Total	729,607	690,658	5.6		
Costs and expenses:					
Cost of sales, excluding depreciation shown below	402,442	399,257	0.8	65.6	66.8
Selling, general and administrative	91,333	86,145	6.0	14.9	14.4
Provision for credit losses	231,718	165,068	40.4	37.8	27.6
Interest expense	30,856	15,695	96.6	5.0	2.6
Depreciation and amortization	3,389	2,460	37.8	0.6	0.4
Loss on disposal of property and equipment	240	251	(4.4)	-	-
Total	759,978	668,876	13.6%		
Pretax (loss) income	\$ (30,371)	\$ 21,782		(4.9)%	3.6%
Operating Data:					
Retail units sold	31,074	31,421			
Average stores in operation	155	154			
Average units sold per store per month	33.4	34.0			
Average retail sales price	\$ 18,914	\$ 18,045			
Gross profit per retail unit	\$ 6,801	\$ 6,326			
Same store revenue change	5.4%	21.4%			
Period End Data:					
Stores open	153	154			
Accounts over 30 days past due	3.6%	3.6%			

Revenues increased by approximately \$38.9 million, or 5.6%, for the six months ended October 31, 2023 as compared to the same period in the prior fiscal year. The increase resulted from revenue growth at dealerships that operated a full six months in both the current and prior year period (\$33.9 million) and revenue growth from dealerships opened during or after the prior year quarter (\$5.0 million). Revenue growth was primarily related to a 25.1% increase in interest income and a 4.8% increase in the average retail sales price, partially offset by a 1.1% decrease in retail units sold. Interest income increased approximately \$23.2 million for the six months ended October 31, 2023, as compared to the same period in the prior fiscal year, due to the \$249.2 million increase in average finance receivables.

Cost of sales, as a percentage of sales, decreased to 65.6% for the six months ended October 31, 2023 compared to 66.8% for the same period of the prior fiscal year, resulting in a gross margin as a percentage of sales of 34.4% for the current year period compared to 33.2% for the prior year period. The primary driver of this decrease was a decrease in wholesale losses and our continued focus on inventory efficiencies in procurement, remarketing, and repairs. The average retail sales price for the six months ended October 31, 2023 was \$18,914, an increase of \$869 or 4.8% over the prior year period.

Selling, general and administrative expenses, as a percentage of sales, were 14.9% for the six months ended October 31, 2023, an increase of 0.5% from the same period of the prior fiscal year. In dollar terms, overall selling, general and administrative expenses increased approximately \$5.2 million in the six months ended October 31, 2023, compared to the same period of the prior fiscal year. The Company has made increasing investments in several areas including senior management, inventory procurement and management, customer experience and digital efforts. Increased collections costs due primarily to the higher frequency of repossessions, the addition of new dealerships through acquisitions since last year and the continuing impact of general inflation contributed to the remaining increase. The Company continues to focus on controlling costs, while at the same time ensuring a solid infrastructure to support a growing customer base with a high level of support for its customers.

Provision for credit losses as a percentage of sales was 37.8% for the six months ended October 31, 2023 compared to 27.6% for the six months ended October 31, 2022. Net charge-offs as a percentage of average finance receivables were 13.1% for the six months ended October 31, 2022 and 11.0% for the prior year period. The frequency of losses accounted for over two-thirds of the credit loss increase. Severity was also higher than usual caused by the rapid vehicle depreciation exhibited last year that made some of the originations in the calendar year of 2021 and 2022 pools experience higher frequency and severity of loss. The Company increased the allowance for credit losses rate from 23.91% to 26.04%, sequentially, resulting in a \$28.0 million charge to the provision for credit losses.

Interest expense as a percentage of sales increased to 5.0% for the six months ended October 31, 2023, compared to 2.6% for the prior year period. In dollar terms, interest expense increased \$15.2 million due to increasing interest rates and an increase in the average borrowings of approximately \$194.5 million during the six-month period ended October 31, 2023. Approximately 60% of the increase in interest expense was related to the increase in rates over the same period of the prior fiscal year.

Financial Condition

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

	October 31, 2023	April 30, 2023
Assets:		
Finance receivables, net	\$ 1,105,236	\$ 1,063,460
Inventory	113,846	109,290
Income tax receivable, net	3,402	9,259
Property and equipment, net	59,735	61,682
Liabilities:		
Accounts payable and accrued liabilities	50,599	55,108
Deferred revenue	125,817	120,469
Deferred tax liabilities, net	25,066	39,315
Non-recourse notes payable	579,030	471,367
Revolving line of credit	165,509	167,231

Finance receivables, net, have increased 3.9% and 13.0% since April 30, 2023 and October 31, 2022, respectively, while revenues have grown 5.6% compared to the prior year period. Historically, the growth in finance receivables has been slightly higher than overall revenue growth on an annual basis due to overall term length increases partially offset by improvements in underwriting and collection procedures in an effort to reduce credit losses. The Company's percentage growth in finance receivables, net, since October 31, 2022, as compared to percentage growth in revenue has exceeded the norm due to higher used car prices, longer terms, and higher rate of past due balances. The growth rate of finance receivables, net has started to normalize and Management expects it to continue to normalize as the economic environment improves.

During the first six months of fiscal 2024, inventory increased by \$4.6 million compared to inventory at April 30, 2023. The increase in inventory is due to the Company increasing its investment in inventory quantities to accommodate generally higher sales volumes and provide customers a quality mix of vehicles. Annualized inventory turns improved for the second quarter at 7.1 vs. the prior year's second quarter turns of 6.7.

Property and equipment, net, decreased by \$1.9 million at October 31, 2023 as compared to property and equipment, net, at April 30, 2023. The Company incurred \$2.1 million in expenditures during the first six months of fiscal 2024 primarily related to remodeling or relocating existing locations in order to support growth. The Company incurred \$3.4 million in depreciation expense during the first six months of fiscal 2024.

Accounts payable and accrued liabilities decreased by \$4.5 million during the first six months of fiscal 2024 as compared to accounts payable and accrued liabilities at April 30, 2023, related primarily to the accident protection plan claims reserve reclass and reduction in accrued payables.

Income taxes receivable, net, was \$3.4 million at October 31, 2023 compared to income taxes receivable, net, of \$9.3 million at April 30, 2023, primarily due to the \$8.6 million of net operating loss (Q1 2024 balance of \$2.3 million and current year Q2 2024 of \$6.3) reclass to deferred tax, offset by \$3.6 million current tax liability.

Deferred revenue increased \$5.3 million at October 31, 2023 as compared to April 30, 2023, primarily resulting from increased sales of the accident protection plan product and service contracts

Deferred income tax liabilities, net, decreased approximately \$14.2 million at October 31, 2023 as compared to April 30, 2023, due primarily to a current year net operating loss.

On July 6, 2023, the Company completed an asset-backed securitization offering through which an indirect subsidiary of the Company issued two classes of non-recourse notes payable in an aggregate principal amount of \$360.3 million, with a weighted average fixed coupon rate of 8.8% per annum and scheduled maturities through June 20, 2030. The notes are collateralized by installment sale contracts directly originated by the Company's operating subsidiaries. Net proceeds from the offering (after deducting original issue discounts, the underwriting discount payable to the initial purchasers and other expenses) were approximately \$356.4 million and were used to pay outstanding debt under the Company's revolving credit facilities, provide additional operating liquidity, and make the initial deposits into collection and reserve accounts for the benefit of noteholders. See Note F for further details on these non-recourse notes payable.

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) funds available from asset-backed securitization offerings, (iv) income taxes, (v) capital expenditures, and (vi) common stock repurchases. Historically, income from operations, as well as borrowings on the revolving credit facilities, have funded the Company's finance receivables growth, capital asset purchases and common stock repurchases. However, the Company has begun accessing the securitization market to increase its borrowing capacities, with issuances of asset-backed non-recourse notes in April 2022, January 2023 and July 2023. The increased borrowings during the second quarter of fiscal 2024 are primarily due to the Company's July 2023 issuance of asset-backed non-recourse notes to support an increase in finance receivables, with longer terms, and a growing customer base. In the first six months of fiscal 2024, the Company funded finance receivables growth of \$90 million, inventory growth of \$4.6 million, and capital expenditures of \$2.1 million with income from operations and a \$79.5 million increase in total debt, net of cash. These investments reflect the Company's commitment to providing the necessary inventory and facilities to support a growing customer base.

Liquidity and Capital Resources

The following table sets forth certain summarized historical information with respect to the Company's Condensed Consolidated Statements of Cash Flows (in thousands):

	Six Months Ended October 31,	
	2023	2022
Operating activities:		
Net (loss) income	\$ (23,277)	\$ 16,836
Provision for credit losses	231,718	165,068
Losses on claims for accident protection plan	15,173	11,232
Depreciation and amortization	3,389	2,460
Stock based compensation	1,739	2,798
Finance receivable originations	(580,082)	(580,838)
Finance receivable collections	218,208	206,358
Inventory	65,123	46,226
Accounts payable and accrued liabilities	(4,317)	5,660
Deferred accident protection plan revenue	1,306	13,328
Deferred service contract revenue	4,042	14,402
Income taxes, net	5,644	(4,321)
Deferred income taxes	(14,249)	5,171
Accrued interest on finance receivables	(1,248)	(456)
Other	701	945
Total	(76,130)	(95,131)
Investing activities:		
Purchase of property and equipment	(2,149)	(14,050)
Other	561	(215)
Total	(1,588)	(14,265)
Financing activities:		
Revolving credit facilities, net	(2,153)	256,977
Notes payable, net	109,405	(149,184)
Change in cash overdrafts	1,416	-
Debt issuance costs	(4,091)	(39)
Purchase of common stock	(68)	(5,196)
Dividend payments	(20)	(20)
Exercise of stock options and issuance of common stock	(312)	1,365
Total	104,177	103,903
Increase (Decrease) in cash, cash equivalents, and restricted cash	\$ 26,459	\$ (5,493)

The primary drivers of cash flows include (i) top line sales, (ii) interest income on finance receivables, (iii) gross margin percentages on vehicle sales, and (iv) credit losses, a significant portion of which relates to the collection of principal on finance receivables. Historically, most or all of the cash generated from operations has been used to fund finance receivables growth, capital expenditures, and common stock repurchases. To the extent finance receivables grow, capital expenditures and common stock repurchases exceed income from operations, we have historically increased our borrowings under our revolving credit facilities and more recently through the securitization market.

Cash flows used in operating activities for the six months ended October 31, 2023 compared to the same period in the prior fiscal year decreased primarily as a result of an increase in the provision for credit losses, an increase in finance receivable collections and an increase in inventory acquired in repossessions, partially offset by a decrease in deferred income taxes and a net loss. Finance receivables, net, increased by \$41.8 million from April 30, 2023 to October 31, 2023.

The purchase price the Company pays for a vehicle has a significant effect on liquidity and capital resources. Because the Company bases its selling price on the purchase cost for the vehicle, increases in purchase costs result in increased selling prices. As the selling price increases, it generally becomes more difficult to keep the gross margin percentage and contract term in line with historical results because the Company's customers have limited incomes and their car payments must remain affordable within their individual budgets. Several external factors can negatively affect the purchase cost of vehicles. Decreases in the overall volume of new car sales, particularly domestic brands, lead to decreased supply in the used car market. Also, constrictions in consumer credit, as well as general economic conditions, can increase overall demand for the types of vehicles the Company purchases for resale as used vehicles become more attractive than new vehicles in times of economic instability. A negative shift in used vehicle supply, combined with strong demand, results in increased used vehicle prices and thus higher purchase costs for the Company.

Sustained macro-economic pressures affecting our customers have helped keep demand high in recent years for the types of vehicles we purchase. This strong demand, coupled with modest levels of new vehicle sales in recent years, have led to a generally ongoing tight supply of used vehicles available to the Company in both quality and quantity. Wholesale prices have begun to soften but remain high by historical standards. The Company expects the tight used vehicle supply and strong demand for the types of vehicles we purchase to continue to keep purchase costs and resulting sales prices elevated for the short-term but anticipates that continuing strong wage increases for our customers will cause affordability to improve gradually over the next couple of years.

The Company has devoted significant efforts to improving its purchasing processes to ensure adequate supply at appropriate prices, including expanding its purchasing territories to larger cities in close proximity to its dealerships and forming relationships with reconditioning partners to reduce purchasing costs. The Company has also increased the level of accountability for its purchasing agents including updates to sourcing and pricing guidelines. The Company continues to build relationships with national vendors that can supply a large quantity of high-quality vehicles. Even with these efforts, the Company expects gross margin percentages to remain under pressure over the near term.

The Company's liquidity is also impacted by our credit losses. Macro-economic factors such as unemployment levels and general inflation can significantly affect our collection results and ultimately credit losses. The recent inflationary environment, with rising costs of non-discretionary items, such as groceries and gasoline, has negatively impacted our customers' ability to make payments on their vehicles and resulted in increased charge-offs in recent periods and may continue to impact customers' ability to make their car payments in the near term. The Company has made improvements to its business processes within the last few years to strengthen controls and provide stronger infrastructure to support its collections efforts. The Company continues to strive to reduce credit losses in spite of the current economic challenges and continued competitive pressures by improving deal structures. Management continues to focus on improved execution at the dealership level, specifically as related to working individually with customers concerning collection issues.

The Company has generally leased the majority of the properties where its dealerships are located. As of October 31, 2023, the Company leased approximately 86% of its dealership properties. The Company expects to continue to lease the majority of the properties where its dealerships are located.

The Company's revolving credit facilities generally restrict distributions by the Company to its shareholders. The distribution limitations under the credit facilities allow the Company to repurchase shares of its common stock so long as either: (a) the aggregate amount of repurchases after September 30, 2021 does not exceed \$50 million, net of proceeds received from the exercise of stock options and the total availability under the credit facilities is equal to or greater than 20% of the sum of the borrowing bases, in each case after giving effect to such repurchases (repurchases under this item are excluded from fixed charges for covenant calculations), or (b) the aggregate amount of such repurchases does not exceed 75% of the consolidated net income of the Company measured on a trailing twelve month basis; provided that immediately before and after giving effect to the Company's stock repurchases, at least 12.5% of the aggregate funds committed under the credit facilities remains available. Thus, although the Company does routinely repurchase stock, the Company is limited in its ability to pay dividends or make other distributions to its shareholders without the consent of the Company's lenders.

At October 31, 2023, the Company had approximately \$4.3 million of cash on hand and approximately an additional \$86.3 million of availability under its revolving credit facilities (see Note F to the Condensed 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 long-term basis, the Company expects its principal sources of liquidity to consist of income from operations, borrowings under revolving credit facilities or fixed interest term loans and proceeds from the issuance of non-recourse asset-backed notes. The Company's revolving credit facilities mature in September 2024 and 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 has recently accessed the securitization market with issuances of \$400.0 million, \$400.2 million and \$360.3 million in aggregate principal amounts of non-recourse asset-backed notes in April 2022, January 2023 and July 2023, respectively. The Company expects that it will continue to access this market in diversifying and growing the business. Furthermore, while the Company has no other specific plans to issue further 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 from operations and borrowings to (i) grow its finance receivables portfolio, (ii) purchase fixed assets of approximately \$12 million in the next 12 months as we complete facility updates and general fixed asset requirements, (iii) repurchase shares of common stock when favorable conditions exist and (iv) reduce debt to the extent excess cash is available.

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

Off-Balance Sheet Arrangements

The Company has two standby letters of credit relating to insurance policies totaling \$2.9 million at October 31, 2023.

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

Related Finance Company Contingency

Car-Mart of Arkansas and Colonial do not meet the affiliation standard for filing consolidated income tax returns, and as such they file separate federal and state income tax returns. Car-Mart of Arkansas routinely sells its finance receivables to Colonial at what the Company believes to be fair market value and is able to take a tax deduction at the time of sale for the difference between the tax basis of the receivables sold and the sales price. These types of transactions, based upon facts and circumstances, have been permissible under the provisions of the Internal Revenue Code as described in the Treasury Regulations. For financial accounting purposes, these transactions are eliminated in consolidation and a deferred income 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 250 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 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 or interest as of October 31, 2023.

Critical Accounting Estimates

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

During the quarter ended October 31, 2023, the Company implemented third-party software to assist in calculating the Company's allowance for credit losses. After implementing, the Company's quantitative portion of the allowance for credit losses was measured using an undiscounted cash flow ("CF") model. Whereby the undiscounted CF are adjusted by a prepayment rate and then the loss rate is applied and compared to the amortized cost basis of finance receivables to reflect management's estimated of expected credit losses. The CF model is based on relevant installment sale contract level characteristics of the Company's finance receivables, such as contract terms and interest rates, as well as the following assumptions:

- a historical loss period, which represents a full economic credit cycle utilizing loss experience, to calculate the historical loss rate; and
- expected prepayment rates based on our historical experience.

The Company's allowance for credit losses also considers qualitative factors not captured within the CF modeled results such as changes in underwriting and collection practices, economic trends, changes in volume and terms of installment sales contracts, credit quality trends, installment sale contract review results, collateral trends, and concentrations of credit. The Company's qualitative factors incorporate a macroeconomic variable forecast of inflation over a reasonable and supportable forecast period of one year that affects its customers' non-discretionary income and ability to repay. The reasonable and supportable forecast period of one year is based on management's current review of the reliability of extended forecasts and is applied as an adjustment to the historical loss rate.

The Company maintains an allowance for credit losses on an aggregate basis at a level it considers sufficient to cover estimated losses expected to be incurred on the portfolio at the measurement date in the collection of its finance receivables currently outstanding. At October 31, 2023, the weighted average contract term was 47.3 months with 36.5 months remaining. The allowance for credit losses at October 31, 2023 of \$344.3 million, was 26.04% of the principal balance in finance receivables of \$1.5 billion, less unearned accident protection plan revenue of \$54.4 million and unearned service contract revenue of \$71.4 million, less APP claims of \$15.3 million.

Recent Accounting Pronouncements

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

Adopted in Current Period

In March 2022, the FASB issued an accounting pronouncement (ASU 2022-02) related to troubled debt restructurings ("TDRs") and vintage disclosures for financing receivables. The amendments in this update eliminate the accounting guidance for TDRs by creditors while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors made to borrowers experiencing financial difficulty. The amendments also require disclosure of current period gross write-offs by year of origination for financing receivables. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. In regard to loan modifications, management notes that the Company primarily modifies a customer's installment sale contract to allow for insignificant payment delays. This type of modification is generally done to account for payday changes for the customer and minor vehicle repairs.

Seasonality

Historically, the Company's third fiscal quarter (November through January) has been the slowest period for vehicle sales. Conversely, the Company's first and fourth fiscal quarters (May through July and February through April) have historically been the busiest times for vehicle sales. Therefore, the Company generally realizes a higher proportion of its revenue and operating profit during the first and fourth fiscal quarters. The Company expects this pattern to continue in future years.

If conditions arise that impair vehicle sales during the first or fourth fiscal quarters, the adverse effect on the Company's revenues and operating results for the year could be disproportionately large.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest rate risk. The Company's exposure to changes in interest rates relates primarily to its debt obligations. The Company is exposed to changes in interest rates as a result of its revolving credit facilities, and the interest rates charged to the Company under its credit facilities fluctuate based on its primary lender's base rate of interest. The Company had an outstanding balance on its revolving line of credit of \$165.5 million at October 31, 2023. The impact of a 1% increase in interest rates on this amount of debt would result in increased annual interest expense of approximately \$1.7 million and a corresponding decrease in net income before income tax.

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 carry a fixed annual interest rate of 16.5% (prior to December 2022) to 18.0% (effective December 2022) for all states except Arkansas (which is subject to a usury cap of 17.0%) and Illinois (remains at 19.5% – 21.5%), and Smart Auto dealerships in Tennessee (which originate at up to 23.0%), based on the Company's contract interest rate as of the contract origination date, while its revolving credit facilities contain variable interest rates that fluctuate with market interest rates.

Item 4. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures

Management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of October 31, 2023. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that as of October 31, 2023, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), to allow timely decisions regarding required disclosure.

b) Changes of Disclosure Controls and Procedures

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

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, the Company has become a defendant in various types of legal proceedings. While the outcome of these proceedings cannot be predicted with certainty, the Company does not expect the final outcome of any of these proceedings, individually or in the aggregate, to have a material adverse effect on the Company's financial position, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors as previously disclosed in Item 1A to Part I of the Company's Form 10-K for the fiscal year ended April 30, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company is authorized to repurchase shares of its common stock under its common stock repurchase program. On December 14, 2020, the Board of Directors authorized the repurchase of up to an additional one million shares along with the balance remaining under its previous authorization approved and announced on November 16, 2017. No shares were repurchased under the Company's stock repurchase program during the second quarter of fiscal 2024.

The Company has not historically issued any dividends and does not expect to do so in the foreseeable future. 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. The Company is also limited in its ability to pay dividends or make other distributions to its shareholders without the consent of its lender. Please see "Liquidity and Capital Resources" under Item 2 of Part I for more information regarding this limitation.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information

During the three months ended October 31, 2023, none of the Company's directors or officers adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
<u>3.1</u>	<u>Articles of Incorporation of the Company, as amended. (Incorporated by reference to Exhibits 4.1-4.8 to the Company's Registration Statement on Form S-8 filed with the SEC on November 16, 2005 (File No. 333-129727)).</u>
<u>3.2</u>	<u>Amended and Restated Bylaws of the Company dated December 4, 2007. (Incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 31, 2007 filed with the SEC on December 7, 2007).</u>
<u>3.3</u>	<u>Amendment No. 1 to the Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.1 to the Company's Report on Form 8-K filed with the SEC on February 19, 2014).</u>
<u>10.1</u>	<u>Separation Agreement, dated October 30, 2023, by and between America's Car Mart, Inc. and Leon Walthall (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on November 3, 2023).</u>
<u>31.1</u>	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").</u>
<u>31.2</u>	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.</u>
<u>32.1</u>	<u>Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL Document and included in Exhibit 101)

SIGNATURES

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

America's Car-Mart, Inc.

By: /s/ Douglas Campbell
Douglas Campbell
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Vickie D. Judy
Vickie D. Judy
Chief Financial Officer
(Principal Financial Officer)

Dated: December 8, 2023

Certification

I, Douglas Campbell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of America's Car-Mart, Inc. for the period ended October 31, 2023;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

December 8, 2023

/s/ Douglas Campbell
Douglas Campbell
President and Chief Executive Officer

Certification

I, Vickie D. Judy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of America's Car-Mart, Inc. for the period ended October 31, 2023;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

December 8, 2023

/s/ Vickie D. Judy

Vickie D. Judy
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of America's Car-Mart, Inc. (the "Company") on Form 10-Q for the period ended October 31, 2023 filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Douglas Campbell, President and Chief Executive Officer of the Company, and Vickie D. Judy, Chief Financial Officer of the Company, certify in our capacities as officers of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Douglas Campbell
Douglas Campbell
President and Chief Executive
Officer
December 8, 2023

By: /s/ Vickie D. Judy
Vickie D. Judy
Chief Financial Officer
December 8, 2023