



2016 Annual Report



# To Our Fellow Shareholders:

We would like to thank you, our fellow shareholders, for your continued support. For 35 years, your Company has been dedicated to our Mission, Vision and Values with the ultimate goal of maximizing customer success. Car-Mart is a great company currently operating in a tough environment. We are optimistic that our model can continue to generate outstanding returns on capital over the long term with an intense focus on execution and blocking and tackling.

**Our Mission**—We strive to earn the repeat business of our customers by providing quality vehicles, affordable payment terms, and excellent service.

**Our Vision**—to be the most respected Integrated Auto Sales and Finance organization in the country.

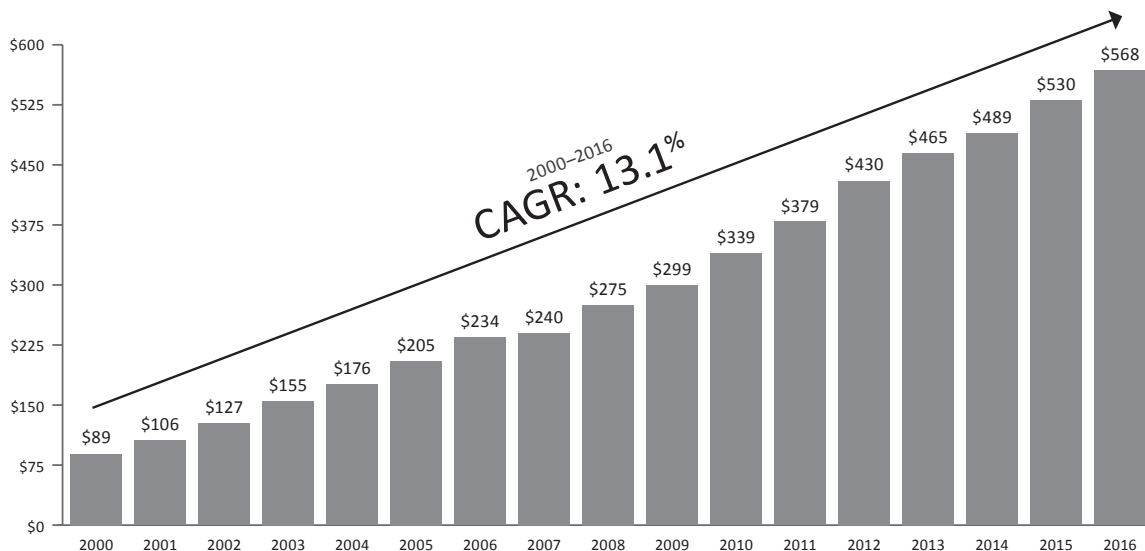
**Our Values**—Integrity, Respect, Compassion and Excellence.

We fell short of our financial goals in 2016 because we missed the mark in the area of Excellence: excellence in how we buy the very best vehicles for our customers, excellence in how we set our customers up for success on the front end and excellence in how we serve our customers after the sale, which is so very important in our industry. Excellence in the field is driven by our Area Operations Managers (AOM's) who are making solid strides with their individual dealerships. Our

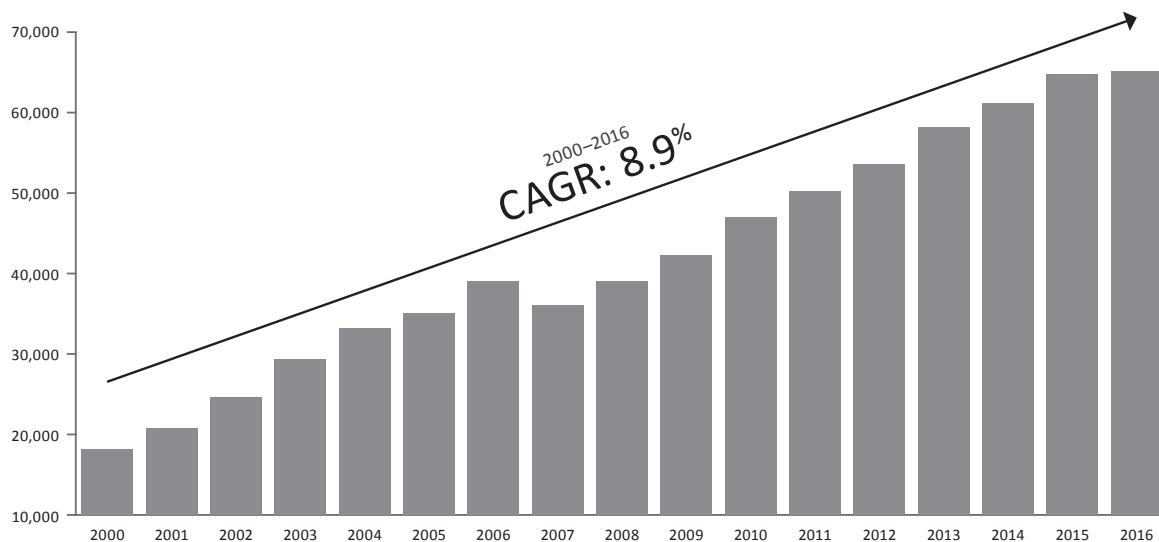
AOM's carry our Mission, Vision and Values with them every day as they support our culture and our hard-working, dedicated associates, especially our general managers. In our industry, excellence starts with the acquisition of vehicles at price points that strike a balance between quality and affordability. While the competitive environment has been tough, we know we can do better. We are already making great progress in all areas of the business, but especially in acquiring good, solid and mechanically sound vehicles. We know that we have to be excellent, always, and we will be. We owe it to our customers, and to you, our fellow shareholders.

There are several reasons why we missed the mark this year and we mention this only as a point of reference, not to make excuses. We spent the last few years building an infrastructure to compete at a much higher level and we intend to leverage these investments as we grow the business. These investments include rolling out new operational software, installing GPS technology in our vehicles, establishing credit reporting to reward our customers, centralizing a number of non-core administrative functions and building out a compliance management system to allow us to move forward in a new regulatory environment. We did all this in the face of the most intense competitive environment in the Company's history. These investments will allow the Company to

Significant Top-Line Growth (\$'s in millions)



## Significant Growth—Active Customers



move to the next level and beyond but came with significant costs and distractions, which contributed to our financial shortfalls. These distractions are now behind us, and we believe our future is bright. We are committed to excellence in all we do and we fully expect to continue to make our associates and our fellow shareholders proud to be part of the effort.

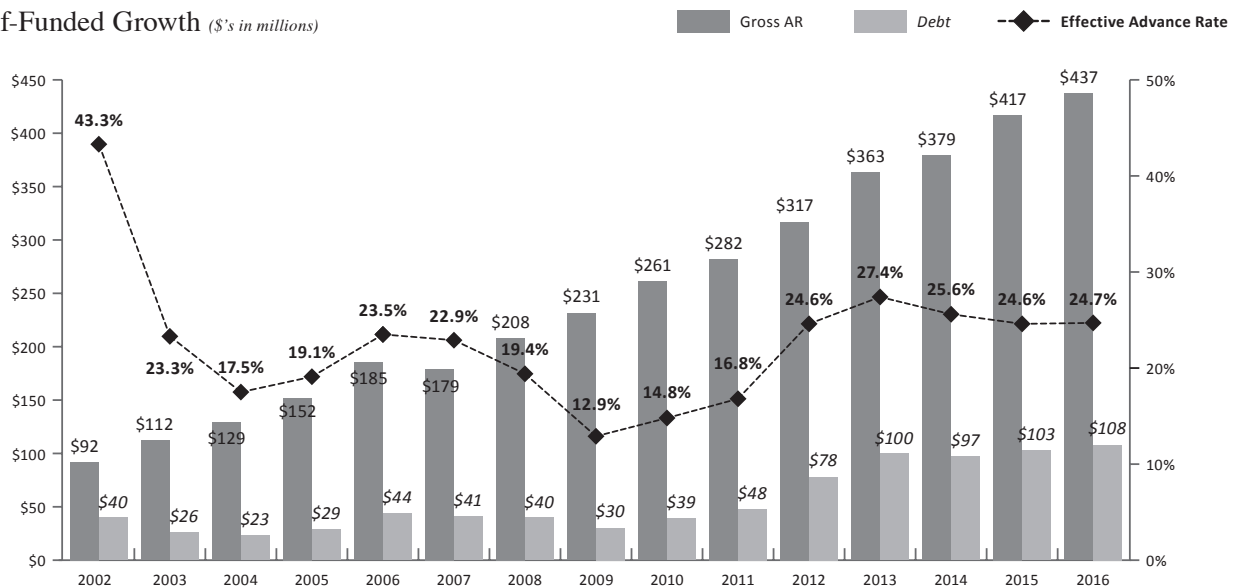
There is tremendous demand for what we offer to the communities we serve. We have many competitive advantages in our markets and will focus on and highlight these advantages as we move forward. Our advantages include our local presence, our commitment to a higher level of customer service and the strong relationships we have with our customers, allowing us to work with them as they face financial challenges. In addition, our balance sheet is extremely healthy and we do not rely on the debt or equity markets to fund growth.

Our primary competitors historically have been “mom-and-pop” dealers. However, the ultra-low interest rate environment over the past few years has attracted increased competition from indirect lenders, captives and many others who have enticed some customers into competitive deals that we believe are not in the customers’ long-term best interests and have pushed our customer success rates below acceptable levels. Simply put, we perform best when credit availability to

our market is rational, allowing us to help more of our customers succeed under the terms of their contracts. Recently, we have seen a few indirect lenders exit the market and investor demand and the resulting pricing for securitizations aimed at our market has become less frothy even though overall interest rates remain historically low. We are hopeful that funding to the industry will continue this trend toward returning to a more normal level. Again, we believe strongly that having a local “face to face” relationship is valuable to both our customers and our Company. It enables us to help them work through challenges they may encounter, and gives us the opportunity to truly earn their repeat business.

There is a significant difference in the quality of individual vehicles at the price points we need to keep transactions affordable. Industry benchmarks, while providing some meaning in the aggregate, have limited value when looking at one vehicle at a time. We have approximately 60 purchasing agents working directly with our general managers to find the very best mechanically sound vehicles at good prices that will last well beyond the contract term. This is no small feat but is the primary area where we must demonstrate excellence, always. We must always put our customers in quality vehicles with affordable and rational payment terms that allow them to build equity. We see example after example of competitive offerings that are not in

## Self-Funded Growth (\$'s in millions)



the customers' best interest but have a lower monthly payment. We spend a lot of time educating customers on the total cost of ownership and are confident that our offering puts customers in the best position to succeed. We stuck with that philosophy during the last few years and we believe it will pay off in the long term. We have never wavered from our focus on the customer and always trying to do what's best regardless of other financial offerings that might be pushed at them.

Our plans are to continue to grow our existing dealerships profitably, allocate capital to the business appropriately and continue to buy back shares opportunistically. We do intend to return to opening additional dealerships in the future as we believe even more strongly than ever that every small town in the country would benefit from having a Car-Mart. Since February 2010, we have repurchased \$135 million or 36% of our company, added 59 locations and \$177 million in Finance Receivables, and our balance sheet continues to be extremely solid. We continue to believe that market conditions will change in our favor and we have seen some positive development already. We have a balance sheet that will allow us to continue to grow our base business at a very good pace without looking to the debt or equity markets for help. That is a very nice position it be in and it's no accident that we are in this position.

We will always focus on intense expense management and efficient operations together with great customer service. Our management structure will remain flat and close to the ground but we will continue to invest in our infrastructure to ensure we maintain good control in this "high touch" business.

We would like to thank our Customers for supporting Car-Mart, and our Associates for their dedication, hard work and commitment to our Customers. Once again, thank you, our fellow shareholders, for your continuing support. We look forward to many more successful years in the future.

William H. ("Hank") Henderson  
Chief Executive Officer

Jeffrey A. Williams  
President and Chief Financial Officer



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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended April 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 0-14939

**AMERICA'S CAR-MART, INC.**

(Exact name of registrant as specified in its charter)

**Texas** **63-0851141**  
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No)

**802 Southeast Plaza Avenue, Suite 200**

**Bentonville, Arkansas**

(Address of principal executive offices)

**72712**

(Zip Code)

**(479) 464-9944**

(Registrant's telephone number, including area code)

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

Title of each class

Name of exchange of which registered

**Common Stock, \$.01 par value**

**NASDAQ Global Select Market**

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

**None**

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

- Large accelerated filer      Accelerated filer   
 Non-accelerated filer      Smaller reporting company

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

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates on October 31, 2015 was \$289,634,996 (8,458,966 shares), based on the closing price of the registrant's common stock on October 30, 2015 of \$34.24.

There were 8,016,770 shares of the registrant's common stock outstanding as of June 10, 2016.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement to be furnished to stockholders in connection with its 2016 Annual Meeting of Stockholders are incorporated by reference in response to Part III of this report.

## PART I

### Forward-Looking Statements

This Annual Report on Form 10-K and the documents incorporated by reference in this Annual Report on Form 10-K contain “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:

- new dealership openings;
- performance of new dealerships;
- same dealership revenue growth;
- future revenue growth;
- receivables growth as related to revenue growth;
- gross margin percentages;
- interest rates;
- future credit losses;
- the Company’s collection results, including but not limited to collections during income tax refund periods;
- seasonality;
- security breaches, cyber-attacks, or fraudulent activity;
- compliance with tax regulations;
- the Company’s business and growth strategies;
- financing the majority of growth from profits; and
- having adequate liquidity to satisfy its capital needs.

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

- the availability of credit facilities to support the Company’s business;
- the Company’s ability to underwrite and collect its contracts effectively;
- competition;
- dependence on existing management;
- availability of quality vehicles at prices that will be affordable to customers;
- 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; and
- 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.

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



## Item 1. Business

### Business and Organization

America's Car-Mart, Inc., a Texas corporation 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. References to the "Company" include the Company's consolidated subsidiaries. The Company's operations are principally conducted through its two operating subsidiaries, America's Car Mart, Inc., an Arkansas corporation ("Car-Mart of Arkansas"), and Colonial Auto Finance, Inc., an Arkansas corporation ("Colonial"). Collectively, Car-Mart of Arkansas and Colonial are referred to herein as "Car-Mart." The Company primarily sells older model used vehicles and provides financing for substantially all of its customers. Many of the Company's customers have limited financial resources and would not qualify for conventional financing as a result of limited credit histories or past credit problems. As of April 30, 2016, the Company operated 143 dealerships located primarily in small cities throughout the South-Central United States.

### Business Strategy

In general, it is the Company's objective to continue to expand its business using the same business model that has been developed and used by Car-Mart for over 30 years. This business strategy focuses on:

**Collecting Customer Accounts.** Collecting customer accounts is perhaps the single most important aspect of operating an Integrated Auto Sales and Finance used car business and is a focal point for dealership level and corporate office personnel on a daily basis. The Company measures and monitors the collection results of its dealerships using internally developed delinquency and account loss standards. Substantially all associate incentive compensation is tied directly or indirectly to collection results. Over the last five fiscal years, the Company's annual credit losses as a percentage of sales have ranged from a low of 21.1% in fiscal 2012 to a high of 28.5% in fiscal 2016 (average of 25.1%). Fiscal 2015 credit losses as a percentage of sales were 25.5%. The fiscal 2016 annual credit losses as a percentage of sales were 27.6% excluding the effect of the increase in the allowance for credit losses made in the second quarter of fiscal 2016. See Item 1A. Risk Factors for further discussion.

**Maintaining a Decentralized Operation.** The Company's dealerships will continue to operate on a decentralized basis. Each dealership is ultimately responsible for buying (via an assigned corporate office purchasing agent) and selling its own vehicles, making credit decisions and collecting the contracts it originates in accordance with established policies and procedures. Most customers make their payments in person at one of the Company's dealerships. This decentralized structure is complemented by the oversight and involvement of corporate office management and the maintenance of centralized financial controls, including monitoring proprietary credit scoring, establishing standards for down-payments and contract terms, and an internal compliance function.

**Expanding Through Controlled Organic Growth.** The Company plans to continue to expand its operations by increasing revenues at existing dealerships and opening new dealerships. The Company will continue to view organic growth as its primary source for growth. The Company has made significant infrastructure investments during the last five years in order to improve performance of existing dealerships and to support growth of its dealership count. The Company ended fiscal 2016 with 143 locations, a net increase of two locations over the prior year-end, and intends to add new dealerships selectively in what it considers to be good, solid communities, subject to favorable operating performance. These plans, of course, are subject to change based on both internal and external factors.

**Selling Basic Transportation.** The Company will continue to focus on selling basic and affordable transportation to its customers. The Company's average retail sales price was \$10,361 per unit in fiscal 2016. By selling vehicles at this price point, the Company is able to keep the terms of its installment sales contracts relatively short (overall portfolio weighted average of 31.6 months), while requiring relatively low payments.

**Operating in Smaller Communities.** The majority of the Company's dealerships are located in cities and towns with a population of 50,000 or less. The Company believes that by operating in smaller communities it experiences better collection results. Further, the Company believes that operating costs, such as salaries, rent and advertising, are lower in smaller communities than in major metropolitan areas.

**Enhanced Management Talent and Experience.** It has been the Company's practice to try to hire honest and hardworking individuals to fill entry level positions, nurture and develop these associates, and attempt to fill the vast majority of its managerial positions from within the Company. By promoting from within, the Company believes it is able to train its associates in the Car-Mart way of doing business, maintain the Company's unique culture and develop the loyalty of its associates by providing opportunity for advancement. The Company has recently focused, however, to a larger extent on looking outside of the Company for associates possessing requisite skills and who share the values and appreciate the unique culture the Company has developed over the years. The Company has been able to attract quality individuals via its Manager in Training Program as well as other key areas such as Human Resources, Purchasing, Collections, Information Technology, Legal, Compliance and Portfolio Analysis. Management has determined that it will be increasingly difficult to grow the Company without looking for outside talent. The Company's operating success, as well as the challenging macro-economic environment, has positively affected recruitment of outside talent in recent years, and the Company currently expects this trend to continue.

**Cultivating Customer Relationships.** The Company believes that developing and maintaining a relationship with its customers is critical to the success of the Company. A large percentage of sales at mature dealerships are made to repeat customers, and the Company estimates an additional 10% to 15% of sales result from customer referrals. By developing a personal relationship with its customers, the Company believes it is in a better position to assist a customer, and the customer is more likely to cooperate with the Company should the customer experience financial difficulty during the term of his or her installment contract. The Company is able to cultivate these relationships as the majority of its customers make their payments in person at one of the Company's dealerships on a weekly or bi-weekly basis.

## **Business Strengths**

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

**Experienced and Motivated Management.** The Company's executive operating officers have significant experience in the industry and an average tenure of over 15 years. Several of Car-Mart's dealership managers have been with the Company for more than 10 years. Each dealership manager is compensated, at least in part, based upon the net income of his or her dealership. A significant portion of the compensation of senior management is incentive based and tied to operating profits.

**Proven Business Practices.** The Company's operations are highly structured. While dealerships are operated on a decentralized basis, the Company has established policies, procedures and business practices for virtually every aspect of a dealership's operations. Detailed online operating manuals are available to assist the dealership manager and office, sales and collections personnel in performing their daily tasks. As a result, each dealership is operated in a uniform manner. Further, corporate office personnel monitor the dealerships' operations through weekly visits and a number of daily, weekly and monthly communications and reports.

**Low Cost Operator.** The Company has structured its dealership and corporate office operations to minimize operating costs. The number of associates employed at the dealership level is dictated by the number of active customer accounts each dealership services. Associate compensation is standardized for each dealership position. Other operating costs are closely monitored and scrutinized. Technology is utilized to maximize efficiency. The Company believes its operating costs as a percentage of revenues, and per unit sold, are among the lowest in the industry.

**Well-Capitalized / Limited External Capital Required for Growth.** As of April 30, 2016, the Company's debt to equity ratio (Revolving credit facilities divided by Total equity on the Consolidated Balance Sheet) was 0.47 to 1.0, which the Company believes is lower than many of its competitors. Further, the Company believes it can fund a significant amount of its planned growth from net income generated from operations. Of the external capital that will be needed to fund growth, the Company plans to draw on its existing credit facilities, or renewals or replacements of those facilities.

**Significant Expansion Opportunities.** The Company generally targets smaller communities in which to locate its dealerships (i.e., populations from 20,000 to 50,000), but is also operating in larger cities such as Tulsa, Oklahoma; Lexington, Kentucky; Springfield, Missouri and Little Rock, Arkansas. The Company believes there are numerous suitable communities within the eleven states in which the Company currently operates and other contiguous states to satisfy anticipated dealership growth for the next several years. As previously discussed, the Company plans to continue to add new dealerships going forward depending upon operational success. Existing dealerships will continue to be analyzed to ensure that they are producing desired results and have potential to provide adequate returns on invested capital.

## Operations

**Operating Segment.** 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. 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 of our individual dealerships 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.

**Dealership Organization.** Dealerships are operated on a decentralized basis. Each dealership is responsible for buying (with the assistance of a corporate office buyer) and selling vehicles, making credit decisions, and servicing and collecting the installment contracts it originates. Dealerships also maintain their own records and make daily deposits. Dealership-level financial statements are prepared by the corporate office on a monthly basis. Depending on the number of active customer accounts, a dealership may have as few as three or as many as 28 full-time associates employed at that location. Associate positions at a large dealership may include a dealership manager, assistant dealership manager, manager trainee, office manager, assistant office manager, service manager, buyer, collections personnel, salesmen and dealership attendants. Dealerships are generally open Monday through Saturday from 9:00 a.m. to 6:00 p.m. The Company has both regular and satellite dealerships. Satellite dealerships are similar to regular dealerships, except that they tend to be smaller and sell fewer vehicles.

**Dealership Locations and Facilities.** Below is a summary of dealerships operating during the fiscal years ended April 30, 2016, 2015 and 2014:

|                                  | Years Ended April 30, |      |      |
|----------------------------------|-----------------------|------|------|
|                                  | 2016                  | 2015 | 2014 |
| Dealerships at beginning of year | 141                   | 134  | 124  |
| New dealerships opened/acquired  | 6                     | 7    | 10   |
| Dealerships closed               | (4)                   | -    | -    |
| Dealerships at end of year       | 143                   | 141  | 134  |

Below is a summary of dealership locations by state as of April 30, 2016, 2015 and 2014:

| Dealerships by State | As of April 30, |            |            |
|----------------------|-----------------|------------|------------|
|                      | 2016            | 2015       | 2014       |
| Arkansas             | 37              | 38         | 38         |
| Oklahoma             | 25              | 26         | 24         |
| Missouri             | 19              | 18         | 18         |
| Alabama              | 15              | 15         | 14         |
| Texas                | 12              | 14         | 14         |
| Kentucky             | 12              | 12         | 11         |
| Tennessee            | 6               | 6          | 5          |
| Georgia              | 10              | 6          | 4          |
| Mississippi          | 5               | 5          | 5          |
| Indiana              | 1               | 1          | 1          |
| Iowa                 | 1               | 0          | 0          |
| <b>Total</b>         | <b>143</b>      | <b>141</b> | <b>134</b> |

Dealerships are typically located in smaller communities. As of April 30, 2016, approximately 74% of the Company's dealerships were located in cities with populations of less than 50,000. Dealerships are located on leased or owned property between one and three acres in size. When opening a new dealership, the Company will typically use an existing structure on the property to conduct business, or purchase a modular facility while business at the new location develops. Dealership facilities typically range in size from 1,500 to 5,000 square feet.

**Purchasing.** The Company purchases vehicles primarily from wholesalers, new car dealers, individuals and auctions. The majority of vehicle purchasing is performed by the Company's buyers, although dealership managers are authorized to purchase vehicles as needed. A buyer will purchase vehicles for one to four dealerships depending on the size of the dealerships. Buyers report to the dealership manager, or managers, for whom they make purchases, and to a regional purchasing director. The regional purchasing directors report to the Director of Purchasing. The Company centrally monitors the quantity and quality of vehicles purchased and continuously compares the cost of vehicles purchased to outside valuation sources and holds responsible parties accountable for results.

Generally, the Company's buyers purchase vehicles between six and 12 years of age with 90,000 to 140,000 miles, and pay between \$3,000 and \$7,000 per vehicle. The Company focuses on providing basic transportation to its customers. The Company generally does not purchase sports cars or luxury cars. Some of the more popular vehicles the Company sells include the Chevrolet Impala, Chevrolet Malibu, Chrysler 300, Ford Taurus, Ford Fusion, Dodge Ram Pickup, Ford Explorer and the Ford F-150 Pickup. The Company sells a significant number of trucks and sport utility vehicles. The Company's buyers inspect and test-drive almost every vehicle they purchase. Buyers attempt to purchase vehicles that require little or no repair as the Company has limited facilities to repair or recondition vehicles.

**Selling, Marketing and Advertising.** Dealerships generally maintain an inventory of 25 to 75 vehicles depending on the maturity of the dealership and the time of the year. Inventory turns over approximately 9 to 10 times each year. Selling is done principally by the dealership manager, assistant manager, manager trainee or sales associate. Sales associates are paid a commission for sales that they make in addition to an hourly wage. Sales are made on an "as is" basis; however, customers are given an option to purchase a service contract which covers certain vehicle components and assemblies. For covered components and assemblies, the Company coordinates service with third party service centers with which the Company typically has previously negotiated labor rates and mark-up percentages on parts. Substantially all of the Company's customers elect to purchase a service contract when purchasing a vehicle. Additionally, the Company offers its customers to whom financing is extended a payment protection plan product. This product contractually obligates the Company to cancel the remaining amount owed on a contract where the vehicle has been totaled, as defined in the plan, or the vehicle has been stolen. This product

is available in most of the states in which the Company operates and substantially all financed customers elect to purchase this product when purchasing a vehicle in those states.

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

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

**Underwriting and Finance.** The Company provides financing to substantially all of its customers who purchase a vehicle at one of its dealerships. The Company only provides financing to its customers for the purchase of its vehicles, and the Company does not provide any type of financing to non-customers. The Company's installment sales contracts as of April 30, 2016 typically include down payments ranging from 0% to 17% (average of 7%), terms ranging from 18 months to 42 months (average of 31.6 months), and a fixed annual interest rate of 15% (weighted average of 14.9%). Subsequent to year-end, in May 2016 the Company increased its retail installment sales contract interest rate from 15.0% to 16.5% in response to continued high levels of credit losses.

The Company requires that payments be made on a weekly, bi-weekly, semi-monthly or monthly basis, scheduled to coincide with the day the customer is paid by his or her employer. Upon the customer and the Company reaching a preliminary agreement as to financing terms, the Company obtains a credit application from the customer which includes information regarding employment, residence and credit history, personal references and a detailed budget itemizing the customer's monthly income and expenses. Certain information is then verified by Company personnel. After the verification process, the dealership manager makes the decision to accept, reject or modify (perhaps obtain a greater down payment or suggest a lower priced vehicle) the proposed transaction. In general, the dealership manager attempts to assess the stability and character of the applicant. The dealership manager who makes the credit decision is ultimately responsible for collecting the contract, and his or her compensation is directly related to the collection results of his or her dealership. The Company provides centralized support to the dealership manager in the form of a proprietary credit scoring system used for monitoring and other supervisory assistance to assist with the credit decision. Credit quality is monitored centrally by corporate office personnel on a daily, weekly and monthly basis.

**Collections.** All of the Company's retail installment contracts are serviced by Company personnel at the dealership level. A majority of the Company's customers make their payments in person at the dealership where they purchased their vehicle; however, in an effort to make paying convenient for its customers, the Company offers a variety of payment options. Customers can send their payments through the mail, set up ACH auto draft, make mobile and online payments, and make payments at certain money service centers. Each dealership closely monitors its customer accounts using the Company's proprietary receivables and collections software that stratifies past due accounts by the number of days past due. The vice presidents of operations and the area operations managers routinely review and monitor the status of customer collections to ensure collection activities are conducted in compliance with applicable policies and procedures. In addition, the Support Operations Officer oversees the collections department and provides timely oversight and additional accountability on a consistent basis. The Company also has a Director of Collection Services who assists with managing the Company's servicing and collections practices and provides additional monitoring and training. The Company believes that the timely response to past due accounts is critical to its collections success.

The Company has established standards with respect to the percentage of accounts one and two weeks past due, 15 or more days past due and 30 or more days past due (delinquency standards), and the percentage of accounts where the vehicle was repossessed or the account was charged off that month (account loss standard).

The Company works very hard to keep its delinquency percentages low and not to repossess vehicles. Accounts two days late are sent a notice in the mail. Accounts three days late are contacted by telephone. Notes from each telephone contact are electronically maintained in the Company's computer system. 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 monies the Company will ultimately realize on the customer's account and will increase the likelihood of the customer being able to pay off the vehicle 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. Other than the extension of time, concessions are not granted to customers at the time of modification. Modifications are minor and are made for pay day 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.

**New Dealership Openings.** Senior management, with the assistance of the corporate office staff, will make decisions with respect to the communities in which to locate a new dealership and the specific sites within those communities. New dealerships have historically been located in the general proximity of existing dealerships to facilitate the corporate office's oversight of the Company's dealerships. The Company currently intends to add new dealerships selectively in what it considers to be good, solid communities, subject to favorable operating performance.

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

Monthly sales levels at new dealerships are typically substantially less than sales levels at mature dealerships. Over time, new dealerships gain recognition in their communities, and a combination of customer referrals and repeat business generally facilitates sales growth. Historically, sales growth at new dealerships could exceed 10% per year for a number of years, whereas mature dealerships typically experience annual sales growth but at a lower percentage than new dealerships. Due to continual operational initiatives, the Company is able to support higher sales levels, and recently the Company has raised its volume expectation level of new locations somewhat as infrastructure improvements related to new dealership openings have improved.

New dealerships are generally provided with approximately \$1.5 million to \$2.5 million in capital from the corporate office during the first few years of operation. These funds are used principally to fund receivables growth. After this start-up period, new dealerships can typically begin generating positive cash flow, allowing for some continuing growth in receivables without additional capital from the corporate office. As these dealerships become cash flow positive, a decision is made by senior management to either increase the investment due to favorable return rates on the invested capital, or to deploy capital elsewhere. This limitation of capital to new, as well as existing, dealerships serves as an important operating discipline. Dealerships must be profitable in order to grow and typically new dealerships are profitable within the first year of opening.

**Corporate Office Oversight and Management.** The corporate office, based in Bentonville, Arkansas, consists of area operations managers, regional vice presidents, regional purchasing directors, a purchasing director,

a sales director, a director of collection services, a support operations officer, a director of audit and compliance and compliance auditors, a director of human resources, associate and management development personnel, accounting and management information systems personnel, administrative personnel and senior management. The corporate office monitors and oversees dealership operations. The corporate office receives operating and financial information and reports on each dealership on a daily, weekly and monthly basis. This information includes cash receipts and disbursements, inventory and receivables levels and statistics, receivables agings and sales and account loss data. The corporate office uses this information to compile Company-wide reports, plan dealership visits and prepare monthly financial statements.

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

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

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

## **Industry**

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

**Used Car Financing.** The used automobile financing industry is served by traditional lending sources such as banks, savings and loans, and captive finance subsidiaries of automobile manufacturers, as well as by independent finance companies and Integrated Auto Sales and Finance dealers. Many loans that flow through the more traditional sources have historically ended up packaged in the securitization markets. Despite significant opportunities, many of the traditional lending sources have not historically been consistent in providing financing to individuals with limited credit histories or past credit problems. Management believes traditional lenders have historically avoided this market because of its high credit risk and the associated collections efforts. Management believes that there was constriction in the financing sources that existed for the deep sub-prime automobile market after the financial crisis in 2008. Since the Company does not rely on securitizations as a financing source, it was largely unaffected by the credit constrictions during the crisis and was able to continue to grow its revenue level

and receivable base. More recently, funding for the deep subprime automobile market has increased significantly. Management attributes the increase to the ultra-low interest rate environment combined with the historical credit performance of the used automobile financing market during and after the recession. Management expects the availability of consumer credit within the automotive industry to continue to be higher over the near and mid-term when compared to recent history.

## **Competition**

The used automotive retail industry is fragmented and highly competitive. The Company competes principally with other independent Integrated Auto Sales and Finance dealers, as well as with (i) the used vehicle retail operations of franchised automobile dealerships, (ii) independent used vehicle dealers, and (iii) individuals who sell used vehicles in private transactions. The Company competes for both the purchase and resale of used vehicles. The increased funding to the used automobile industry has led to increased competitive pressures which have been the primary contributors to the Company's decision in recent periods to allow longer term lengths and slightly lower down payments in connection with our customer financing contracts, as well as to the higher charge-off levels experienced by the Company in recent periods.

Management believes the principal competitive factors in the sale of its used vehicles include (i) the availability of financing to consumers with limited credit histories or past credit problems, (ii) the breadth and quality of vehicle selection, (iii) pricing, (iv) the convenience of a dealership's location, (v) the option to purchase a service contract and a payment protection plan, and (vi) customer service. Management believes that its dealerships are not only competitive in each of these areas, but have some distinct advantages. The Company's local face-to-face presence allows it to serve customers at a higher level by forming strong personal relationships.

## **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. Tax refund anticipation sales efforts during the Company's third fiscal quarter have increased sales levels during the third fiscal quarter in some past years; however, due to the timing of actual tax refund dollars in the Company's markets, these sales and collections have primarily occurred in the fourth quarter in each of the last four fiscal years. The Company expects this pattern to continue in future years.

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

## **Regulation and Licensing**

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

The states in which the Company operates impose limits on interest rates the Company can charge on its installment contracts. These limits have generally been based on either (i) a specified margin above the federal primary credit rate, (ii) the age of the vehicle, or (iii) a fixed rate. Management believes the Company is in



compliance in all material respects with all applicable federal, state and local laws, ordinances and regulations; however, the adoption of additional laws, changes in the interpretation of existing laws, or the Company's entrance into jurisdictions with more stringent regulatory requirements could have a material adverse effect on the Company's used vehicle sales and finance business.

## Employees

As of April 30, 2016, the Company, including its consolidated subsidiaries, employed approximately 1,420 full time associates. None of the Company's employees are covered by a collective bargaining agreement and the Company believes that its relations with its employees are good.

## Available Information

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

## Executive Officers of the Registrant

The following table provides information regarding the executive officers of the Company as of April 30, 2016:

| <u>Name</u>               | <u>Age</u> | <u>Position with the Company</u>                           |
|---------------------------|------------|--|
| William H. Henderson..... | 52         | Chief Executive Officer and Director                       |
| Jeffrey A. Williams ..... | 53         | President, Chief Financial Officer, Secretary and Director |

**William H. Henderson** has served as Chief Executive Officer of the Company since October 2007 and served as President of the Company from May 2002 to March 2016. Mr. Henderson has also served as a director of the Company since September 2002. From 1999 until May 2002, Mr. Henderson served as Chief Operating Officer of Car-Mart. From 1992 through 1998, Mr. Henderson served as General Manager of Car-Mart. From 1987 to 1992, Mr. Henderson primarily held the positions of District Manager and Regional Manager at Car-Mart.

**Jeffrey A. Williams** has served as President of the Company since March 2016 and as Chief Financial Officer and Secretary of the Company since October 2005. Mr. Williams has also served as a director of the Company since August 2011. Mr. Williams is a Certified Public Accountant and prior to joining the Company, his experience included approximately seven years in public accounting with Arthur Andersen & Co. and Coopers and Lybrand LLC in Tulsa, Oklahoma and Dallas, Texas. His experience also includes approximately five years as Chief Financial Officer and Vice President of Operations of Wynco, LLC, a nationwide distributor of animal health products.

## Item 1A. Risk Factors

The Company is subject to various risks. The following is a discussion of risks that could materially and adversely affect the Company's business, operating results, and financial condition.

*The Company may have a higher risk of delinquency and default than traditional lenders because it finances its sales of used vehicles to credit-impaired borrowers.*

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

*The Company's allowance for credit losses may not be sufficient to cover actual credit losses, which could adversely affect its financial condition and operating results.*

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

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

The Company acquires vehicles primarily through wholesalers, new car dealers, individuals and auctions. There can be no assurance that sufficient inventory will continue to be available to the Company or will be available at comparable costs. Any reduction in the availability of inventory or increases in the cost of vehicles would adversely affect gross margin percentages as the Company focuses on keeping payments affordable to its customer base. The Company could have to absorb cost increases. The overall new car sales volumes in the United States during the economic recession of 2008 decreased dramatically from peak sales years. While sales levels for new vehicles have risen steadily since 2009 and new vehicle sales returned to near pre-recession levels during fiscal 2016, the reduced new car sales have had and could continue to have a significant negative effect on the supply of vehicles available to the Company in future periods.

*The used automotive retail industry is fragmented and highly competitive, which could result in increased costs to the Company for vehicles and adverse price competition. Increased competition on the financing side of the business could result in increased credit losses.*

The Company competes principally with other independent Integrated Auto Sales and Finance dealers, and with (i) the used vehicle retail operations of franchised automobile dealerships, (ii) independent used vehicle dealers, and (iii) individuals who sell used vehicles in private transactions. The Company competes for both the purchase and resale, which includes, in most cases, financing for the customer, of used vehicles. The Company's competitors may sell the same or similar makes of vehicles that Car-Mart offers in the same or similar markets at competitive prices. Increased competition in the market, including new entrants to the market, could result in

increased wholesale costs for used vehicles and lower-than-expected vehicle sales and margins. Further, if any of the Company's competitors seek to gain or retain market share by reducing prices for used vehicles, the Company would likely reduce its prices in order to remain competitive, which may result in a decrease in its sales and profitability and require a change in its operating strategies. Increased competition on the financing side puts pressure on contract structures and increases the risk for higher credit losses. More qualified applicants have more financing options on the front-end, and if events adversely affecting the borrower occur after the sale, the increased competition may tempt the borrower to default on their contract with the Company in favor of other financing options, which in turn increases the likelihood of the Company not being able to save that account.

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

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

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

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

*Recent and future disruptions in domestic and global economic and market conditions could have adverse consequences for the used automotive retail industry in the future and may have greater consequences for the non-prime segment of the industry.*

In the normal course of business, the used automotive retail industry is subject to changes in regional U.S. economic conditions, including, but not limited to, interest rates, gasoline prices, inflation, personal discretionary spending levels, and consumer sentiment about the economy in general. Recent and future disruptions in domestic and global economic and market conditions could adversely affect consumer demand or increase the Company's costs, resulting in lower profitability for the Company. Due to the Company's focus on non-prime customers, its actual rate of delinquencies, repossessions and credit losses on contracts could be higher under adverse economic conditions than those experienced in the automotive retail finance industry in general. The Company is unable to predict with certainty the future impact of the most recent global economic conditions on consumer demand in our markets or on the Company's costs.

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

The Company's performance is subject to local economic, competitive, and other conditions prevailing in the eleven states where the Company operates. The Company provides financing in connection with the sale of substantially all of its vehicles. These sales are made primarily to customers residing in Alabama, Arkansas, Georgia, Kentucky, Mississippi, Missouri, Oklahoma, Tennessee and Texas with approximately 31% of revenues resulting from sales to Arkansas customers. The Company's current results of operations depend substantially on general economic conditions and consumer spending habits in these local markets. Any decline in the general economic conditions or decreased consumer spending in these markets may have a negative effect on the Company's results of operations.

*The Company's success depends upon the continued contributions of its management teams and the ability to attract and retain qualified employees.*

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

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

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

*Changes in the availability or cost of capital and working capital financing could adversely affect the Company's growth and business strategies, and volatility and disruption of the capital and credit markets and adverse changes in the global economy could have a negative impact on the Company's ability to access the credit markets in the future and/or obtain credit on favorable terms.*

The Company generates cash from income from continuing operations. The cash is primarily used to fund finance receivables growth. To the extent finance receivables growth exceeds income from continuing operations, generally the Company increases its borrowings under its revolving credit facilities to provide the cash necessary to fund operations. On a long-term basis, the Company expects its principal sources of liquidity to consist of income from continuing operations and borrowings under revolving credit facilities and/or fixed interest term loans. Any adverse changes in the Company's ability to borrow under revolving credit facilities or fixed interest term loans, or any increase in the cost of such borrowings, would likely have a negative impact on the Company's ability to finance receivables growth which would adversely affect the Company's growth and business strategies. Further, the Company's current credit facilities contain various reporting and financial performance covenants. Any failure of the Company to comply with these covenants could have a material adverse effect on the Company's ability to implement its business strategy.

The capital and credit markets have remained somewhat constricted as a result of adverse economic conditions that caused the failure and near failure of a number of large financial services companies in recent years. While the adverse conditions in recent years have not impaired the Company's ability to access the credit markets and finance its operations, there can be no assurance that there will not be a future deterioration in the financial markets. If the capital and credit markets experience disruptions and the availability of funds remains low, it is possible that the Company's ability to access the capital and credit markets may be limited or available on less favorable terms which could have an impact on the Company's ability to refinance maturing debt or react to changing economic and business conditions. In addition, if negative global economic conditions persist for an extended period of time or worsen substantially, the Company's business may suffer in a manner which could cause the Company to fail to satisfy the financial and other restrictive covenants under its credit facilities.

*The Company's growth strategy is dependent upon the following factors:*

- *Favorable operating performance.* Our ability to expand our business through additional dealership openings is dependent on a sufficiently favorable level of operating performance to support the management, personnel and capital resources necessary to successfully open and operate new locations. Due to the decline in operating results during fiscal 2016 caused by the difficult competitive environment and elevated credit losses, the Company elected to defer additional dealership openings in order to focus

on making operational improvements to ensure all existing lots are performing at a high level. Management expects to return to expansion efforts in the future after overall operating performance improves. If our overall operating performance does not improve, management may be unable to devote the resources necessary to implement its expansion plans or may determine that its focus should continue to be on efforts to improve the Company's existing business in lieu of further dealership openings.

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- *Availability of suitable dealership sites.* Our ability to open new dealerships is subject to the availability of suitable dealership sites in locations and on terms favorable to the Company. If and when the Company decides to open new dealerships, the inability to acquire suitable real estate, either through lease or purchase, at favorable terms could limit the expansion of the Company's dealership base. In addition, if a new dealership is unsuccessful and we are forced to close the dealership, we could incur additional costs if we are unable to dispose of the property in a timely manner or on terms favorable to the Company. Any of these circumstances could have a material adverse effect on the Company's expansion strategy and future operating results.
- *Ability to attract and retain management for new dealerships.* The success of new dealerships is dependent upon the Company being able to hire and retain additional competent personnel. The market for qualified employees in the industry and in the regions in which the Company operates is highly competitive. If we are unable to hire and retain qualified and competent personnel to operate our new dealerships, these dealerships may not be profitable, which could have a material adverse effect on our future financial condition and operating results.
- *Availability and cost of vehicles.* The cost and availability of sources of inventory could affect the Company's ability to open new dealerships. The overall new car sales volumes in the United States decreased dramatically from peak sales years. While sales levels for new vehicles have risen steadily since 2009, new vehicle sales volumes are just now back to pre-recession levels. This could potentially have a significant negative effect on the supply of vehicles at appropriate prices available to the Company in future periods. This could also make it difficult for the Company to supply appropriate levels of inventory for an increasing number of dealerships without significant additional costs, which could limit our future sales or reduce future profit margins if we are required to incur substantially higher costs to maintain appropriate inventory levels.
- *Acceptable levels of credit losses at new dealerships.* Credit losses tend to be higher at new dealerships due to fewer repeat customers and less experienced associates; therefore, the opening of new dealerships tends to increase the Company's overall credit losses. In addition, new dealerships may experience higher than anticipated credit losses, which may require the Company to incur additional costs to reduce future credit losses or to close the underperforming locations altogether. Any of these circumstances could have a material adverse effect on the Company's future financial condition and operating results.

*The Company's business is subject to seasonal fluctuations.*

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. Tax refund anticipation sales efforts during the Company's third fiscal quarter have increased sales levels during the third fiscal quarter in some past years; however, due to the timing of actual tax refund dollars in the Company's markets, these sales and collections have primarily occurred in the fourth quarter in each of the last four fiscal years. The Company expects this pattern to continue in future years.

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

*Security breaches, cyber-attacks or fraudulent activity could result in damage to the Company's operations or lead to reputational damage.*

Our information and technology systems are vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunications failures, infiltration by unauthorized persons and security breaches, usage errors by our employees, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. A security breach of the Company's computer systems could also interrupt or damage its operations or harm its reputation. In addition, the Company could be subject to liability if confidential customer information is misappropriated from its computer systems. Any compromise of security, including security breaches perpetrated on persons with whom the Company has commercial relationships, that result in the unauthorized release of its users' personal information, could result in a violation of applicable privacy and other laws, significant legal and financial exposure, damage to the Company's reputation, and a loss of confidence in the Company's security measures, which could harm its business. Any compromise of security could deter people from entering into transactions that involve transmitting confidential information to the Company's systems and could harm relationships with the Company's suppliers, which could have a material adverse effect on the Company's business. Actual or anticipated attacks may cause the Company to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third-party experts and consultants. Despite the implementation of security measures, these systems may still be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. The Company may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber-attacks.

Most of the Company's customers provide personal information, including bank account information, when applying for financing. The Company relies on encryption and authentication technology to provide security to effectively store and securely transmit confidential information. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in the technology used by the Company to protect transaction data being breached or compromised.

In addition, many of the third parties who provide products, services, or support to the Company could also experience any of the above cyber risks or security breaches, which could impact the Company's customers and its business and could result in a loss of customers, suppliers, or revenue.

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

Not applicable.

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

As of April 30, 2016, the Company leased approximately 85% of its facilities, including dealerships and the Company's corporate offices. These facilities are located principally in the states of Alabama, Arkansas, Georgia, Kentucky, Mississippi, Missouri, Oklahoma, Tennessee and Texas. The Company's corporate offices are located in approximately 12,000 square feet of leased space in Bentonville, Arkansas. For additional information regarding the Company's properties, see "Operations-Dealership Locations and Facilities" under Item 1 above and "Contractual Payment Obligations" and "Off-Balance Sheet Arrangements" under Item 7 of Part II.

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

In the ordinary course of business, the Company has become a defendant in various types of legal proceedings. 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 4. Mine Safety Disclosure**

Not applicable.

**PART II**

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

**General**

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

|                | Fiscal 2016 |            | Fiscal 2015 |            |
|----------------|-------------|------------|-------------|------------|
|                | <u>High</u> | <u>Low</u> | <u>High</u> | <u>Low</u> |
| First quarter  | \$ 56.59    | \$ 44.07   | \$ 41.43    | \$ 35.29   |
| Second quarter | 48.10       | 31.00      | 46.74       | 36.14      |
| Third quarter  | 38.00       | 20.67      | 55.64       | 43.50      |
| Fourth quarter | 27.85       | 21.82      | 57.55       | 41.80      |

As of June 10, 2016, there were approximately 848 shareholders of record. This number excludes stockholders holding the Company's common stock as "beneficial owners" under nominee security position listings.

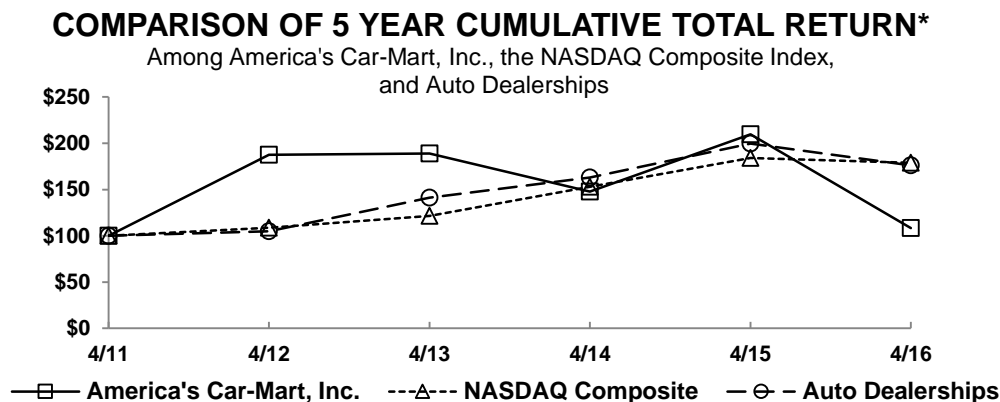
We currently maintain two compensation plans, the Amended and Restated Stock Incentive Plan and the Amended and Restated Stock Option Plan, which provide for the issuance of stock-based compensation to directors, officers and other employees. These plans have been approved by the stockholders. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plans as of April 30, 2016:

| Plan Category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights<br>(a) | Weighted-average exercise price of outstanding options, warrants and rights<br>(b) | Number of securities remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a))<br>(c) |
|--|--|--|--|
| Equity compensation plans approved by the stockholders     | 1,278,250  | \$30.57  | 440,377  |
| Equity compensation plans not approved by the stockholders | -  | -  | -  |



## Stockholder Return Performance Graph

Set forth below is a line graph comparing the fiscal year end percentage change in the cumulative total stockholder return on the Company's common stock to (i) the cumulative total return of the NASDAQ Market Index (U.S. companies), and (ii) the Hemscott Group 744 Index – Auto Dealerships ("Automobile Index"), for the period of five fiscal years commencing on May 1, 2011 and ending on April 30, 2016. The graph assumes that the value of the investment in the Company's common stock and each index was \$100 on April 30, 2011.



\*\$100 invested on 4/30/11 in stock or index, including reinvestment of dividends.  
Fiscal year ending April 30.

The dollar value at April 30, 2016 of \$100 invested in the Company's common stock on April 30, 2011 was \$108.54, compared to \$176.11 for the Automobile Index described above and \$178.99 for the NASDAQ Market Index (U.S. Companies).

## Dividend Policy

Since its inception, the Company has paid no cash dividends on its common stock. The Company currently intends for the foreseeable future to continue its policy of retaining earnings to finance future growth. Payment of cash dividends in the future will be determined by the Company's Board of Directors and will depend upon, among other things, the Company's future earnings, operations, capital requirements and surplus, general financial condition, contractual restrictions that may exist, and such other factors as the Board of Directors may deem relevant. 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 7 of Part II for more information regarding this limitation.

## Issuer Purchases of Equity Securities

The Company is authorized to repurchase up to one million shares of its common stock under the common stock repurchase program as amended and approved by the Board of Directors on November 19, 2014. The following table sets forth information with respect to purchases made by or on behalf of the Company of shares of the Company's common stock during the periods indicated:

| Period                                     | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup> | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup> |
|--|----------------------------------|------------------------------|---|---|
| February 1, 2016 through February 29, 2016 | 73,418                           | \$24.12                      | 73,418  | 406,444   |
| March 1, 2016 through March 31, 2016       | 53,484                           | \$25.35                      | 53,484  | 352,960   |
| April 1, 2016 through April 30, 2016       | 24,000                           | \$25.13                      | 24,000  | 328,960   |
| Total                                      | 150,902                          | \$24.72                      | 150,902   | 328,960   |

(1) The above described stock repurchase program has no expiration date.

## Item 6. Selected Financial Data

The financial data set forth below was derived from the audited consolidated financial statements of the Company and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto contained in Item 8, and the information contained in Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations”.

|   | Years Ended April 30,                    |            |            |            |            |
|---|--|------------|------------|------------|------------|
|   | (In thousands, except per share amounts) |            |            |            |            |
|   | 2016                                     | 2015       | 2014       | 2013       | 2012       |
| Revenues  | \$ 567,906                               | \$ 530,321 | \$ 489,187 | \$ 464,676 | \$ 430,177 |
| Net income attributable to common stockholders        | \$ 11,556                                | \$ 29,450  | \$ 21,089  | \$ 32,125  | \$ 32,947  |
| Diluted earnings per share from continuing operations | \$ 1.33                                  | \$ 3.25    | \$ 2.25    | \$ 3.36    | \$ 3.24    |

|  | April 30,      |            |            |            |            |
|--|----------------|------------|------------|------------|------------|
|  | (In thousands) |            |            |            |            |
|  | 2016           | 2015       | 2014       | 2013       | 2012       |
| Total assets                           | \$ 406,296     | \$ 400,361 | \$ 363,297 | \$ 358,265 | \$ 310,940 |
| Total debt                             | \$ 107,902     | \$ 102,685 | \$ 97,032  | \$ 99,563  | \$ 77,900  |
| Mandatorily redeemable preferred stock | \$ 400         | \$ 400     | \$ 400     | \$ 400     | \$ 400     |
| Total equity                           | \$ 228,817     | \$ 229,132 | \$ 213,006 | \$ 202,268 | \$ 184,473 |
| Shares outstanding                     | 8,074          | 8,529      | 8,736      | 9,023      | 9,378      |

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto appearing in Item 8 of this Annual Report on Form 10-K.

### Overview

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 include the Company's consolidated subsidiaries. The Company's operations are principally conducted through its two operating subsidiaries, America's Car Mart, Inc., an Arkansas corporation (“Car-Mart of Arkansas”), and Colonial Auto Finance, Inc., an Arkansas corporation (“Colonial”). Collectively, Car-Mart of Arkansas and Colonial are referred to herein as “Car-Mart.” The Company primarily sells older model used vehicles and provides financing for substantially all of its customers. Many of the Company's customers have limited financial resources and would not qualify for conventional financing as a result of limited credit histories or past credit problems. As of April 30, 2016, the Company operated 143 dealerships located primarily in small cities throughout the South-Central United States.

Car-Mart has been operating since 1981. Car-Mart has grown its revenues between approximately 3% and 14% per year over the last ten years (average 9%). Growth results from same dealership revenue growth and the addition of new dealerships. Revenue increased 7.1% for the fiscal year ended April 30, 2016 compared to fiscal 2015 primarily due to a 7.0% increase in average retail sales price and a 6.3% increase in interest income.

The Company earns revenue from the sale of used vehicles, and in most cases a related service contract and a payment protection plan product, as well as interest income and late fees from the related financing. The Company's cost structure is more fixed in nature and is sensitive to volume changes. Revenues can be affected by our level of competition, which is influenced to a large extent by the availability of funding to the sub-prime automobile industry, together with the availability and resulting purchase cost of the types of vehicles the Company purchases for resale. Revenues can also be affected by the macro-economic environment. Down payments, contract term lengths and proprietary credit scoring are critical to helping customers succeed and are monitored closely by corporate management at the point of sale. After the sale, collections, delinquencies and charge-offs are crucial elements of the Company's evaluation of its financial condition and results of operations and are monitored and reviewed on a continuous basis. Management believes that developing and maintaining a relationship with its customers and earning their repeat business is critical to the success and growth of the Company and can serve to offset the effects of increased competition and negative macro-economic factors.

A challenging competitive environment puts pressure on sales volumes especially at older dealerships which tend to have higher overall sales volumes and more repeat customers. Additionally, as the Company attempts to attract and retain target customers, increased competition can contribute to lower down payments and longer contract terms which can have a negative effect on collection percentages, liquidity and credit losses. Management believes that the ultra-low interest rate environment combined with a lack of other investment alternatives has been attracting excess capital into the sub-prime automobile market and increasing competition. In an effort to combat the increased competition the Company will continue to focus on the benefits of excellent customer service and its "local" face to face offering in an effort to help customers succeed. The Company has also focused additional attention on selling lower priced vehicles to increase affordability for customers, to address sales volume challenges and to improve credit performance in the future by improving the equity position of customers who may be tempted to default on their contracts especially when competition on the lending side is elevated.

The purchase price the Company pays for its vehicles can also have a significant effect on revenues, liquidity and capital resources. Because the Company bases its selling price on the purchase cost of the vehicle, increases in purchase costs result in increased selling prices. As the selling price increases, it 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. As we have seen in recent years, decreases in the overall volume of new car sales, particularly domestic brands, leads to decreased supply and generally increased prices in the used car market. Also, expansions or constrictions in consumer credit, as well as general economic conditions, can have an overall effect on the demand and the resulting purchase cost of the types of vehicles the Company purchases for resale.

The Company's primary focus is on collections. Each dealership is responsible for its own collections with supervisory involvement of the corporate office. Over the last five fiscal years, the Company's credit losses as a percentage of sales have ranged from approximately 21.1% in fiscal 2012 to 28.5% in fiscal 2016 (average of 25.1%). The Company's credit losses for fiscal 2012 were 21.1% of sales which was within the range of credit losses that the Company targeted annually at that time. Credit losses as a percentage of sales in fiscal 2013, however, increased to 23.1%, primarily due to increased contract term lengths and lower down payments resulting from increased competitive pressures as well as higher charge-offs caused, to an extent, by negative macro-economic factors affecting the Company's customer base. These competitive pressures intensified in fiscal 2014 and, along with a continued challenging macro-economic environment for our customers, further impacted the Company's credit losses in fiscal 2014 through lower finance receivables collections and higher charge-offs, coupled with the effect of lower wholesale sales. Credit losses as a percentage of sales for fiscal 2015 and 2016 were 25.5% and 28.5% (27.6% excluding the effect of the increase in the allowance for credit losses in the second quarter of fiscal 2016), respectively, as competitive pressures remained elevated and the increased number of newer dealerships weighed on credit loss results.

The Company maintains an allowance for credit losses in an attempt to cover credit losses inherent in its contract portfolio. The allowance for credit losses historically remained at 22.0% of finance receivables from October 2006 until April 30, 2012, when management reduced the allowance to 21.5% of finance receivables based

on the Company's then recent credit loss experience. However, as a result of the increased credit losses during fiscal 2013 and with the expectation that charge-offs would remain elevated, management increased the allowance for credit losses to 23.5% of the finance receivables principal balance, net of deferred payment protection plan revenue, at January 31, 2014. The allowance for credit losses at April 30, 2015 was 23.8% of finance receivables, net of deferred payment protection plan revenue and deferred service contract revenue. The calculation of the allowance for credit losses did not previously include a reduction for the deferred service contract revenue. This change did not have a material impact on net income or earnings per share and was not significant to any prior period. As of October 31, 2015, management increased the allowance to 25.0% due to continued increased credit losses and the expectation that such activity would continue.

Historically, credit losses, on a percentage basis, tend to be higher at new and developing dealerships than at mature dealerships. Generally, this is the case 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. Negative macro-economic issues do not always lead to higher credit loss results for the Company because the Company provides basic affordable transportation which in many cases is not a discretionary expenditure for customers. The Company does believe, however, that general inflation, particularly within staple items such as groceries and gasoline, as well as overall unemployment levels and potentially lower or stagnant personal income levels affecting customers can have, and has had in recent years, a negative impact on collections. Additionally, increased competition for used vehicle financing can have, and management believes is currently having, a negative effect on collections and charge-offs.

In an effort to offset the elevated credit losses and lower collection levels and to operate more efficiently, the Company continues to look for improvements to its business practices, including better underwriting and better 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. The Company has implemented credit reporting and the use of global positioning system ("GPS") units on vehicles. 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 Support Operations Officer oversees the collections department and provides timely oversight and additional accountability on a consistent basis. In addition, the Company has a Director of Collection Services who assists with managing the Company's servicing and collections practices and provides additional monitoring and training. Also, turnover at the dealership level for collections positions is down compared to historical levels, which management believes has a positive effect on collection results. The Company believes that the proper execution of its business practices is the single most important determinant of its long term credit loss experience.

Historically, the Company's gross margins as a percentage of sales have been fairly consistent from year to year. Over the previous five fiscal years, the Company's gross margins as a percentage of sales ranged between approximately 40% and 43%. Gross margin as a percentage of sales for fiscal 2016 was 39.8%. The Company's gross margins are based upon the cost of the vehicle purchased, with lower-priced vehicles typically having higher gross margin percentages. Gross margins in recent years have been negatively affected by the increase in the average retail sales price (a function of a higher purchase price) and higher operating costs, mostly related to increased vehicle repair costs and higher fuel costs. Additionally, the percentage of wholesale sales to retail sales, which relate for the most part to repossessed vehicles sold at or near cost, can have a significant effect on overall gross margins. The gross margin percentage in fiscal 2012 was negatively affected by higher wholesale sales, increased average retail selling price, higher inventory repair costs and lower margins on the payment protection plan and service contract products. Gross margin improved slightly in fiscal 2013 due to improved wholesale results partially offset by higher losses under the payment protection plan. The gross margin for fiscal 2014 was affected by higher inventory repair costs resulting from continued efforts to help our customers succeed and to meet competitive pressures and higher claims under the payment protection plan. Gross margins as a percentage of sales for fiscal 2015 remained relatively flat compared to fiscal 2014. For fiscal 2016, gross margin decreased to 39.8% of sales primarily due to the high level of repossession activity, as both the volume of wholesale sales and the prices received

from wholesale sales had a negative effect on overall gross margins, as did higher repair expenses. The Company expects that its gross margin percentage will continue to remain under pressure over the near term.

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 Company has added 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.

Consolidated Operations  
(Operating Statement Dollars in Thousands)

|   | Years Ended April 30, |            |            | % Change |          | As a % of Sales |         |         |
|---|-----------------------|------------|------------|----------|----------|-----------------|---------|---------|
|   |                       |            |            | 2016     | 2015     |                 |         |         |
|   | 2016                  | 2015       | 2014       | vs. 2015 | vs. 2014 | 2016            | 2015    | 2014    |
| <b>Operating Statement:</b>                       |                       |            |            |          |          |                 |         |         |
| Revenues:   |                       |            |            |          |          |                 |         |         |
| Sales   | \$ 506,517            | \$ 472,569 | \$ 434,504 | 7.2 %    | 8.8 %    | 100.0 %         | 100.0 % | 100.0 % |
| Interest and other income                         | 61,389                | 57,752     | 54,683     | 6.3      | 5.6      | 12.1            | 12.2    | 12.6    |
| Total   | 567,906               | 530,321    | 489,187    | 7.1      | 8.4      | 112.1           | 112.2   | 112.6   |
| Costs and expenses:                               |                       |            |            |          |          |                 |         |         |
| Cost of sales, excluding depreciation shown below | 304,886               | 272,446    | 251,319    | 11.9 %   | 8.4 %    | 60.2            | 57.7    | 57.8    |
| Selling, general and administrative               | 92,242                | 83,802     | 78,591     | 10.1     | 6.6      | 18.2            | 17.7    | 18.1    |
| Provision for credit losses                       | 144,397               | 120,289    | 119,247    | 20.0     | 0.9      | 28.5            | 25.5    | 27.4    |
| Interest expense                                  | 3,306                 | 2,903      | 2,997      | 13.9     | (3.1)    | 0.7             | 0.6     | 0.7     |
| Depreciation and amortization                     | 4,208                 | 3,830      | 3,285      | 9.9      | 16.6     | 0.8             | 0.8     | 0.8     |
| Loss on disposal of property and equipment        | 369                   | 17         | 76         | 2070.6   | (77.6)   | -               | -       | -       |
| Total   | 549,408               | 483,287    | 455,515    | 13.7     | 6.1      | 108.4           | 102.3   | 104.8   |
| Income before income taxes                        | \$ 18,498             | \$ 47,034  | \$ 33,672  | (60.7)   | 39.7     | 3.7 %           | 10.0 %  | 7.7 %   |
| <b>Operating Data (Unaudited):</b>                |                       |            |            |          |          |                 |         |         |
| Retail units sold                                 | 46,483                | 46,760     | 42,551     | (0.6) %  | 9.9 %    |                 |         |         |
| Average dealerships in operation                  | 145                   | 137        | 128        | 5.8      | 7.0      |                 |         |         |
| Average units sold per dealership                 | 321                   | 341        | 332        | (5.9)    | 2.7      |                 |         |         |
| Average retail sales price                        | \$ 10,361             | \$ 9,680   | \$ 9,768   | 7.0      | (0.9)    |                 |         |         |
| Same store revenue growth                         | 2.7%                  | 2.9%       | (0.8)%     |          |          |                 |         |         |
| Receivables average yield                         | 14.2%                 | 14.2%      | 14.2%      |          |          |                 |         |         |

### 2016 Compared to 2015

Total revenues increased \$37.6 million, or 7.1%, in fiscal 2016, as compared to revenue growth of 8.4% in fiscal 2015, principally as a result of (i) revenue growth from dealerships that operated a full twelve months in both fiscal years (\$14.0 million), (ii) revenue growth from dealerships opened during the fiscal year ended April 30, 2015 (\$14.6 million), and (iii) revenue from dealerships opened after April 30, 2015 (\$9.0 million). The increase in revenue for fiscal 2016 is attributable to (i) a 7.0% increase in average retail sales price, and (ii) a 6.3% increase in interest and other income.

Cost of sales, as a percentage of sales, increased to 60.2% in fiscal 2016 from 57.7% in fiscal 2015, primarily due to an increase in the average purchase cost of vehicles sold relative to the increase in average retail sales price, along with higher repair costs. The average retail sales price for fiscal 2016 was \$10,361, a \$681 increase over the prior fiscal year. As purchase costs increase, the margin between the purchase cost and the sales price of the vehicles we sell narrows as a percentage because the Company must offer affordable prices to our customers. The increased purchase costs are the result of a combination of consumer demand for the types of vehicles the Company purchases for resale, which remains high relative to supply, and a strategic management decision to purchase higher quality vehicles for our customers. The high demand and tight supply of the vehicles

we purchase for resale are largely related to excess funding to the used vehicle financing market and the depressed levels of new car sales during and after the recession, although more robust new car sales in recent years have begun to bolster the supply of used vehicles. Finally, increases in the volume of wholesales sales, resulting from higher credit losses, also increase our cost of sales and thus negatively affect our gross margin percentages. We will continue to focus efforts on minimizing the average retail sales price of our vehicles in order to help keep contract terms shorter, which helps customers to maintain appropriate equity in their vehicles and reduces credit losses and resulting wholesale volumes.

Selling, general and administrative expenses, as a percentage of sales, increased 0.5% to 18.2% in fiscal 2016 from 17.7% in fiscal 2015. Selling, general and administrative expenses are, for the most part, more fixed in nature. In dollar terms, overall selling, general and administrative expenses increased \$8.4 million from fiscal 2015, which consisted primarily of increased payroll costs, incremental costs related to new dealerships and higher infrastructure costs to support our growth, primarily in technology and compliance.

Provision for credit losses as a percentage of sales increased to 28.5% (27.6% excluding the effect of the increase in the allowance for credit losses made in the second quarter) for fiscal 2016 compared to 25.5% for fiscal 2015. Net charge-offs as a percentage of average finance receivables increased to 31.3% for fiscal 2016 compared to 27.8% for the prior year. Continuing macro-economic challenges and competitive conditions continue to put pressure on our customers and the resulting collections of our finance receivables, although the lower gas prices during fiscal 2016 have provided some relief to our customers. The Company has implemented several operational initiatives (including credit reporting and the use of GPS units on vehicles) to improve collections and continually pushes for improvements and better execution of its collection practices. The Company believes that the proper execution of its business practices is the single most important determinant of credit loss experience and that the negative impact on credit losses in both the current and prior year periods resulting from negative macro-economic and competitive pressures has been somewhat mitigated by the improvements in oversight and accountability provided by the Company's investments in our corporate infrastructure within the collections area.

Interest expense for fiscal 2016 as a percentage of sales increased slightly to 0.7% compared to 0.6% for fiscal 2015, due to higher average borrowings during the fiscal year 2016 (\$109.0 million compared to \$102.2 million in the prior year).

## **2015 Compared to 2014**

Total revenues increased \$41.1 million, or 8.4%, in fiscal 2015, as compared to revenue growth of 5.3% in fiscal 2014, principally as a result of (i) revenue growth from dealerships that operated a full twelve months in both fiscal years (\$13.7 million), (ii) revenue growth from dealerships opened during the fiscal year ended April 30, 2014 (\$20.4 million), and (iii) revenue from dealerships opened after April 30, 2014 (\$7.0 million). The increase in revenue for fiscal 2015 is attributable to (i) a 9.9% increase in retail unit volumes, and (ii) a 5.6% increase in interest and other income.

Cost of sales, as a percentage of sales, remained flat at 57.7% in fiscal 2015 from 57.8% in fiscal 2014. The average retail sales price for fiscal 2015 was \$9,680, an \$88 decrease over the prior fiscal year. Average selling prices and top line sales levels in relation to wholesale volumes, resulting from credit loss experience, can have a significant effect on gross margin percentages.

Selling, general and administrative expenses, as a percentage of sales, decreased 0.4% to 17.7% in fiscal 2015 from 18.1% in fiscal 2014. In dollar terms, overall selling, general and administrative expenses increased \$5.2 million from fiscal 2014, which consisted primarily of increased payroll costs, incremental costs related to new dealerships and higher infrastructure costs to support our growth, primarily in technology and compliance.

Provision for credit losses as a percentage of sales decreased to 25.5% for fiscal 2015 compared to 27.4% (25.7% excluding the effect of the increase in the allowance for credit losses made in the third quarter) for fiscal 2014. Net charge-offs as a percentage of average finance receivables were 27.8% for fiscal 2015 compared to

28.2% for the prior year. The decrease primarily resulted from a lower frequency of losses, partially offset by an increase in the severity of losses. The higher severity of losses primarily resulted from lower wholesale values at time of repossession.

Interest expense for fiscal 2015 as a percentage of sales decreased slightly to 0.6% compared 0.7% for fiscal 2014. Lower average borrowings during the fiscal year 2015 (\$102.2 million compared to \$103.0 million in the prior year) were partially offset by higher interest rates on the Company's variable rate debt.

## Financial Condition

The following table sets forth the major balance sheet accounts of the Company at April 30, 2016, 2015 and 2014 (in thousands):

|  | April 30,  |            |            |
|--|------------|------------|------------|
|  | 2016       | 2015       | 2014       |
| <b>Assets:</b>                           |            |            |            |
| Finance receivables, net                 | \$ 334,793 | \$ 324,144 | \$ 293,299 |
| Inventory                                | 29,879     | 34,267     | 30,115     |
| Property and equipment, net              | 34,755     | 33,963     | 33,913     |
| <b>Liabilities:</b>                      |            |            |            |
| Accounts payable and accrued liabilities | 23,558     | 23,730     | 19,366     |
| Deferred revenue                         | 27,339     | 25,236     | 17,467     |
| Income taxes payable (receivable), net   | (894)      | (645)      | 782        |
| Deferred income tax liabilities, net     | 18,280     | 19,178     | 15,244     |
| Revolving credit facilities              | 107,902    | 102,685    | 97,032     |

The following table shows receivables growth compared to revenue growth during each of the past three fiscal years. For fiscal year 2016, revenue growth exceeded growth in net finance receivables primarily due to higher charge-offs and the resulting increase in wholesale sales, which weighed on finance receivables growth, while higher interest income augmented growth in revenue. The Company currently anticipates going forward that the growth in finance receivables will generally be 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 average term for installment sales contracts at April 30, 2016 was 31.6 months compared to 30.2 months at April 30, 2016.

|  | Years Ended April 30, |      |      |
|--|-----------------------|------|------|
|  | 2016                  | 2015 | 2014 |
| Growth in finance receivables, net of deferred revenue | 4.5%                  | 8.4% | 4.3% |
| Revenue growth   | 7.1%                  | 8.4% | 5.3% |

In fiscal 2016, inventory decreased 12.8% (\$4.4 million). The decrease resulted primarily from a concerted company-wide effort to retain only the best quality vehicles. The Company will continue to manage inventory levels in the future to ensure adequate supply of vehicles, in volume and mix, and to meet sales demand.

Property and equipment, net, increased by approximately \$792,000 in fiscal 2016 as compared to fiscal 2015. The Company incurred \$4.5 million in expenditures related to new dealerships as well as to refurbish and expand a number of existing locations, offset by depreciation expense.



Accounts payable and accrued liabilities decreased approximately \$172,000 at April 30, 2016 as compared to April 30, 2015 due primarily to decreased payables related to decreased inventory levels as well as the amount and timing of cash overdrafts.

Income taxes receivable, net, increased approximately \$249,000 at April 30, 2016 compared to April 30, 2015 primarily due to the timing of income tax payments and refunds.

Deferred revenue increased \$2.1 million in fiscal 2016 over fiscal 2015, primarily resulting from the longer term on the payment protection product due to increased contract terms, as well as the increase in the term and pricing of the service contract product.

Deferred income tax liabilities, net, decreased approximately \$898,000 at April 30, 2016 as compared to April 30, 2015 due primarily to the change in finance receivables and the book/tax difference on stock based compensation.

Borrowings on the Company's revolving credit facilities fluctuate primarily based upon a number of factors including (i) net income, (ii) finance receivables changes, (iii) income taxes, (iv) capital expenditures and (v) common stock repurchases. Historically, income from continuing operations, as well as borrowings on the revolving credit facilities, have funded the Company's finance receivables growth, capital asset purchases and common stock repurchases. In fiscal 2016 the Company had a \$4.7 million net increase in total revolving debt used to contribute to the funding of finance receivables growth of \$19.9 million, net capital expenditures of \$4.5 million and common stock repurchases of \$14.2 million.

## Liquidity and Capital Resources

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

|   | Years Ended April 30, |                |                 |
|---|-----------------------|----------------|-----------------|
|   | 2016                  | 2015           | 2014            |
| <b>Operating activities:</b>  |                       |                |                 |
| Net income  | \$ 11,596             | \$ 29,490      | \$ 21,129       |
| Provision for credit losses   | 144,397               | 120,289        | 119,247         |
| Losses on claims for payment protection plan  | 13,521                | 10,588         | 9,586           |
| Depreciation and amortization   | 4,208                 | 3,830          | 3,285           |
| Amortization of debt issuance costs   | 214                   | 188            | 209             |
| Stock based compensation  | 1,519                 | 780            | 1,391           |
| Deferred income taxes   | (898)                 | 3,934          | (2,923)         |
| Finance receivable originations   | (460,499)             | (445,405)      | (404,918)       |
| Finance receivable collections  | 248,166               | 238,845        | 223,538         |
| Accrued interest on finance receivables   | 286                   | (172)          | (46)            |
| Inventory   | 48,154                | 40,686         | 50,009          |
| Accounts payable and accrued liabilities  | 1,115                 | 3,862          | (1,675)         |
| Deferred payment protection plan revenue  | 1,653                 | 2,419          | 323             |
| Deferred service contract revenue   | 450                   | 5,350          | 770             |
| Income taxes, net   | (11)                  | 200            | 3,313           |
| Other   | 415                   | (2,497)        | (1,363)         |
| Total   | <u>14,286</u>         | <u>12,387</u>  | <u>21,875</u>   |
| <b>Investing activities:</b>  |                       |                |                 |
| Purchase of property and equipment  | (4,526)               | (4,009)        | (7,095)         |
| Proceeds from sale of property and equipment  | 7                     | 112            | 2               |
| Total   | <u>(4,519)</u>        | <u>(3,897)</u> | <u>(7,093)</u>  |
| <b>Financing activities:</b>  |                       |                |                 |
| Debt facilities, net  | 5,062                 | 5,653          | (2,531)         |
| Change in cash overdrafts   | (1,587)               | 502            | (452)           |
| Purchase of common stock  | (14,214)              | (20,020)       | (12,754)        |
| Dividend payments   | (40)                  | (40)           | (40)            |
| Exercise of stock options and warrants, including tax benefits and issuance of common stock | 824                   | 5,916          | 1,012           |
| Total   | <u>(9,955)</u>        | <u>(7,989)</u> | <u>(14,765)</u> |
| Increase (decrease) in cash   | <u>\$ (188)</u>       | <u>\$ 501</u>  | <u>\$ 17</u>    |

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

Cash flows from operations in fiscal 2016 compared to fiscal 2015 increased primarily as a result of (i) a higher non-cash charge for credit losses and (ii) higher finance receivable collections, partially offset by (iii) lower net income and (iv) an increase in finance receivables originations. Finance receivables, net, increased by \$19.9 million during fiscal 2016.

Cash flows from operations in fiscal 2015 compared to fiscal 2014 were positively impacted by (i) higher net income, (ii) an increase in deferred income taxes, (iii) higher accounts payable and accrued liabilities, (iv) higher non-cash charges including credit losses, depreciation, and losses on claims for payment protection plan, partially offset by (v) an increase in finance receivables, net and (vi) an increase in inventory. Finance receivables, net, increased by \$30.8 million during fiscal 2015.

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 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.

New vehicle sales decreased dramatically beginning with the economic recession of 2008. While sales levels for new vehicles have risen steadily since 2009, new vehicle sales volumes only returned to pre-recession levels during fiscal 2016. In addition, the challenging macro-economic environment, together with the constriction in consumer credit starting in 2008, contributed to increased demand for the types of vehicles the Company purchases and a resulting increase in used car prices. These negative macro-economic conditions have continued to affect our customers in the years since the recession and, in turn, have helped keep demand high for the types of vehicles we purchase. This increased demand, coupled with depressed levels of new vehicle sales in recent years, negatively impacted both the quality and the quantity of the used vehicle supply available to the Company. Management expects the tight supply of vehicles and resulting increases in vehicle purchase costs to continue, although some relief is expected as a result of steady increases in new car sales levels in recent periods.

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 increasing its efforts to purchase vehicles from individuals at the dealership level as well as via the internet. The Company has also increased the level of accountability for its purchasing agents including the establishment of sourcing and pricing guidelines. Even with these efforts, the Company expects gross margin percentages to remain under pressure over the near term.

The Company believes that the amount of credit available for the sub-prime auto industry has increased in recent years and management expects the availability of consumer credit within the automotive industry to be higher over the near term when compared to historical levels. This is expected to contribute to continued strong overall demand for most, if not all, of the vehicles the Company purchases for resale. Increased competition resulting from availability of funding to the sub-prime auto industry has contributed to lower down payments and longer terms, which have had a negative effect on collection percentages, liquidity and credit losses when compared to prior periods.

Macro-economic factors can have an effect on credit losses and resulting liquidity. General inflation, particularly within staple items such as groceries, as well as overall unemployment levels can have a significant effect on collection results and ultimately credit losses. The Company has made improvements to its business processes within the last few years to strengthen controls and provide stronger infrastructure to support its collections efforts. The Company anticipates that credit losses in the near term will be higher than historical ranges due to significant continued macro-economic challenges for the Company's customer base as well as increased competitive pressures. 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 April 30, 2016, the Company leased approximately 85% 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 the Company's stock so long as: either (a) the aggregate amount of such repurchases does not exceed \$40 million beginning October 8, 2014 and the sum of borrowing bases combined minus the principal balances of all revolver loans after giving effect to such repurchases is equal to or greater than 30% of the sum of the borrowing bases, 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 stock repurchases, at least 12.5% of the aggregate funds committed under the credit facilities remain available. Thus, although the Company currently 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 April 30, 2016, the Company had approximately \$602,000 of cash on hand and \$61 million of availability under its revolving credit facilities (see Note F to the Consolidated Financial Statements in Item 8). On a short-term basis, the Company's principal sources of liquidity include income from operations and borrowings under its revolving credit facilities. On a longer-term basis, the Company expects its principal sources of liquidity to consist of income from operations and borrowings under revolving credit facilities or fixed interest term loans. The Company's revolving credit facilities mature in October 2017 and the Company expects that it will be able to renew or refinance its revolving credit facilities on or before the date they mature. Furthermore, while the Company has no specific plans to issue debt or equity securities, the Company believes, if necessary, it could raise additional capital through the issuance of such securities.

The Company expects to use cash from operations and borrowings to (i) grow its finance receivables portfolio, (ii) purchase property and equipment of approximately \$2.2 million in the next 12 months in connection with refurbishing existing dealerships and adding new dealerships, subject to strong operating results, (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.

### Contractual Payment Obligations

The following is a summary of the Company's contractual payment obligations as of April 30, 2016, including renewal periods under operating leases that are reasonably assured (in thousands):

|                           | Payments Due by Period |                     |                |               |                      |
|---------------------------|------------------------|---------------------|----------------|---------------|----------------------|
|                           | Total                  | Less Than<br>1 Year | 1-3 Years      | 3-5 Years     | More Than<br>5 Years |
| Revolving lines of credit | \$ 107,386             | -                   | 107,386        | -             | -                    |
| Notes payable             | 516                    | 101                 | 203            | 202           | 10                   |
| Operating leases          | 46,721                 | 5,927               | 11,214         | 9,969         | 19,611               |
| Total                     | <u>\$ 154,623</u>      | <u>6,028</u>        | <u>118,803</u> | <u>10,171</u> | <u>19,621</u>        |

The above excludes estimated interest payments on the Company's revolving lines of credit. The \$46.7 million of operating lease commitments includes \$16.2 million of non-cancelable lease commitments under the lease terms, and \$30.5 million of lease commitments for renewal periods at the Company's option that are reasonably assured.

## **Off-Balance Sheet Arrangements**

The Company has entered into operating leases for approximately 85% 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. For the years ended April 30, 2016, 2015 and 2014, rent expense for all operating leases amounted to approximately \$6.1 million, \$5.5 million and \$5.2 million, respectively.

The Company has a standby letter of credit relating to an insurance policy totaling \$1 million at April 30, 2016.

Other than its operating leases and the letter 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 300 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 April 30, 2016.

## **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 Consolidated Financial Statements in Item 8 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 Consolidated Financial Statements in Item 8.

The Company maintains an allowance for credit losses on an aggregate basis at a level it considers sufficient to cover estimated losses inherent in the portfolio at the balance sheet date in the collection of its finance receivables currently outstanding. At April 30, 2016, the weighted average total contract term was 31.6 months with 23.2

months remaining. The reserve amount in the allowance for credit losses at April 30, 2016, \$102.5 million, was 25.0% of the principal balance in finance receivables of \$437.3 million, less unearned payment protection plan revenue of \$17.3 million and unearned service contract revenue of \$10.0 million.

The estimated reserve amount is the Company's anticipated future net charge-offs for losses incurred through the balance sheet date. The allowance takes into account historical credit loss experience (both timing and severity of losses), with consideration given to recent credit loss trends and changes in contract characteristics (i.e., average amount financed, months outstanding at loss date, term and age of portfolio), delinquency levels, collateral values, economic conditions and underwriting and collection practices. The allowance for credit losses is reviewed at least quarterly by management with any changes reflected in current operations. The calculation of the allowance for credit losses uses the following primary factors:

- The number of units repossessed or charged-off as a percentage of total units financed over specific historical periods of time from one year to five years.
- The average net repossession and charge-off loss per unit during the last eighteen months, segregated by the number of months since the contract origination date, and adjusted for the expected future average net charge-off loss per unit. Approximately 50% of the charge-offs that will ultimately occur in the portfolio are expected to occur within 10-11 months following the balance sheet date. The average age of an account at charge-off date is 11.7 months.
- The timing of repossession and charge-off losses relative to the date of sale (i.e., how long it takes for a repossession or charge-off to occur) for repossessions and charge-offs occurring during the last eighteen months.

A point estimate is produced by this analysis which is then supplemented by any positive or negative subjective factors to arrive at an overall reserve amount that management considers to be a reasonable estimate of losses inherent in the portfolio at the balance sheet date that will be realized via actual charge-offs in the future. Although it is at least reasonably possible that events or circumstances could occur in the future that are not presently foreseen which could cause actual credit losses to be materially different from the recorded allowance for credit losses, the Company believes that it has given appropriate consideration to all relevant factors and has made reasonable assumptions in determining the allowance for credit losses. While challenging economic conditions can negatively impact credit losses, the effectiveness of the execution of internal policies and procedures within the collections area and the competitive environment on the funding side have historically had a more significant effect on collection results than macro-economic issues. A 1% change, as a percentage of Finance receivables, in the allowance for credit losses would equate to an approximate pre-tax change of \$4.1 million.

## **Recent Accounting Pronouncements**

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

*Debt Issuance Costs.* In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, to require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, instead of as an asset. This accounting standard was implemented by the Company in the third quarter of fiscal 2016. As a result of the application of this accounting standard, the Company has provided additional disclosures in Note F to the Consolidated Financial Statements.

*Revenue Recognition.* In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes existing revenue recognition guidance.

The new guidance in ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, to provide entities with an additional year to implement ASU 2014-09. As a result, the guidance in ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2017, using one of two retrospective application methods. The Company is currently evaluating the potential effects of the adoption of this update on the Consolidated Financial Statements.

*Leases.* In February 2016, the FASB issued ASU 2016-02, *Leases*. The new guidance requires that lessees recognize all leases, including operating leases, with a term greater than 12 months on-balance sheet and also requires disclosure of key information about leasing transactions. The guidance in ASU 2016-02 is effective for annual and interim reporting periods beginning after December 15, 2018. The Company is currently evaluating the potential effects of the adoption of this guidance on the Consolidated Financial Statements.

### **Impact of Inflation**

Inflation has not historically been a significant factor impacting the Company's results; however, recent purchase price increases for vehicles, most pronounced over the last four fiscal years, have had a negative effect on the Company's gross margin percentages when compared to past years. This is due to the fact that the Company focuses on keeping payments affordable for its customer base and at the same time ensuring that the term of the contract matches the economic life of the vehicle.

### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

The Company is exposed to market risk on its financial instruments from changes in interest rates. In particular, the Company has 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 total revolving debt of \$107.4 million outstanding at April 30, 2016. The impact of a 1% increase in interest rates on this amount of debt would result in increased annual interest expense of approximately \$1.1 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 generally bear interest at a fixed rate of 15%, while its revolving credit facilities contain variable interest rates that fluctuate with market interest rates. Subsequent to year-end, in May 2016 the Company increased the contract interest rate from 15.0% to 16.5%.

## **Item 8. Financial Statements and Supplementary Data**

The following financial statements and accountant's report are included in Item 8 of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of April 30, 2016 and 2015

Consolidated Statements of Operations for the years ended April 30, 2016, 2015 and 2014

Consolidated Statements of Cash Flows for the years ended April 30, 2016, 2015 and 2014

Consolidated Statement of Equity for the years ended April 30, 2016, 2015 and 2014

Notes to Consolidated Financial Statements



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of America's Car-Mart, Inc. (a Texas corporation) and subsidiaries (the "Company") as of April 30, 2016 and 2015, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended April 30, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of America's Car-Mart, Inc. and subsidiaries as of April 30, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 2016, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note F to the consolidated financial statements, the Company adopted new accounting guidance in 2016 and 2015, related to the presentation of debt issuance costs.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of April 30, 2016, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 17, 2016 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Tulsa, Oklahoma  
June 17, 2016

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

|   | April 30, 2016    | April 30, 2015    |
|---|-------------------|-------------------|
| <b>Assets:</b>  |                   |                   |
| Cash and cash equivalents   | \$ 602            | \$ 790            |
| Accrued interest on finance receivables   | 1,716             | 2,002             |
| Finance receivables, net  | 334,793           | 324,144           |
| Inventory   | 29,879            | 34,267            |
| Prepaid expenses and other assets   | 3,302             | 3,731             |
| Income taxes receivable, net  | 894               | 645               |
| Goodwill  | 355               | 355               |
| Property and equipment, net   | 34,755            | 33,963            |
| <b>Total Assets</b>   | <b>\$ 406,296</b> | <b>\$ 399,897</b> |
| <b>Liabilities, mezzanine equity and equity:</b>  |                   |                   |
| <b>Liabilities:</b>   |                   |                   |
| Accounts payable  | \$ 12,313         | \$ 11,022         |
| Deferred revenue  | 27,339            | 25,236            |
| Accrued liabilities   | 11,245            | 12,708            |
| Deferred income tax liabilities, net  | 18,280            | 19,178            |
| Revolving credit facilities and notes payable   | 107,902           | 102,221           |
| <b>Total liabilities</b>  | <b>177,079</b>    | <b>170,365</b>    |
| <b>Commitments and contingencies (Note L)</b>   |                   |                   |
| <b>Mezzanine equity:</b>  |                   |                   |
| Mandatorily redeemable preferred stock  | 400               | 400               |
| <b>Equity:</b>  |                   |                   |
| Preferred stock, par value \$.01 per share, 1,000,000 shares authorized;<br>none issued or outstanding  | -                 | -                 |
| Common stock, par value \$.01 per share, 50,000,000 shares authorized;<br>12,726,560 and 12,688,890 issued at April 30, 2016 and April 30, 2015,<br>respectively, of which 8,073,820 and 8,529,223 were outstanding at<br>April 30, 2016 and April 30, 2015, respectively | 127               | 127               |
| Additional paid-in capital  | 64,771            | 62,428            |
| Retained earnings   | 305,354           | 293,798           |
| Less: Treasury stock, at cost, 4,652,740 and 4,159,667<br>shares at April 30, 2016 and April 30, 2015, respectively   | (141,535)         | (127,321)         |
| <b>Total stockholders' equity</b>   | <b>228,717</b>    | <b>229,032</b>    |
| Non-controlling interest  | 100               | 100               |
| <b>Total equity</b>   | <b>228,817</b>    | <b>229,132</b>    |
| <b>Total Liabilities, mezzanine equity and equity</b>   | <b>\$ 406,296</b> | <b>\$ 399,897</b> |

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

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

|  | Years Ended April 30, |                  |                  |
|--|-----------------------|------------------|------------------|
|  | 2016                  | 2015             | 2014             |
| <b>Revenues:</b>   |                       |                  |                  |
| Sales  | \$ 506,517            | \$ 472,569       | \$ 434,504       |
| Interest and other income  | 61,389                | 57,752           | 54,683           |
| <b>Total revenues</b>  | <b>567,906</b>        | <b>530,321</b>   | <b>489,187</b>   |
| <b>Costs and expenses:</b>                                       |                       |                  |                  |
| Cost of sales, excluding depreciation                            | 304,886               | 272,446          | 251,319          |
| Selling, general and administrative                              | 92,242                | 83,802           | 78,591           |
| Provision for credit losses                                      | 144,397               | 120,289          | 119,247          |
| Interest expense   | 3,306                 | 2,903            | 2,997            |
| Depreciation and amortization                                    | 4,208                 | 3,830            | 3,285            |
| Loss on disposal of property and equipment                       | 369                   | 17               | 76               |
| <b>Total costs and expenses</b>                                  | <b>549,408</b>        | <b>483,287</b>   | <b>455,515</b>   |
| <b>Income before income taxes</b>                                | <b>18,498</b>         | <b>47,034</b>    | <b>33,672</b>    |
| <b>Provision for income taxes</b>                                | <b>6,902</b>          | <b>17,544</b>    | <b>12,543</b>    |
| <b>Net income</b>  | <b>\$ 11,596</b>      | <b>\$ 29,490</b> | <b>\$ 21,129</b> |
| <b>Less: Dividends on mandatorily redeemable preferred stock</b> | <b>40</b>             | <b>40</b>        | <b>40</b>        |
| <b>Net income attributable to common stockholders</b>            | <b>\$ 11,556</b>      | <b>\$ 29,450</b> | <b>\$ 21,089</b> |
| <b>Earnings per share:</b>                                       |                       |                  |                  |
| Basic  | \$ 1.38               | \$ 3.42          | \$ 2.36          |
| Diluted  | \$ 1.33               | \$ 3.25          | \$ 2.25          |
| <b>Weighted average number of shares outstanding:</b>            |                       |                  |                  |
| Basic  | 8,370,478             | 8,617,864        | 8,930,592        |
| Diluted  | 8,666,031             | 9,048,957        | 9,391,667        |

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

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

|   | Years Ended April 30, |               |               |
|---|-----------------------|---------------|---------------|
|   | 2016                  | 2015          | 2014          |
| Operating activities:   |                       |               |               |
| Net income  | \$ 11,596             | \$ 29,490     | \$ 21,129     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                       |               |               |
| Provision for credit losses   | 144,397               | 120,289       | 119,247       |
| Losses on claims for payment protection plan                                      | 13,521                | 10,588        | 9,586         |
| Depreciation and amortization   | 4,208                 | 3,830         | 3,285         |
| Amortization of debt issuance costs   | 214                   | 188           | 209           |
| Loss on disposal of property and equipment  | 369                   | 17            | 76            |
| Stock-based compensation  | 1,519                 | 780           | 1,391         |
| Deferred income taxes   | (898)                 | 3,934         | (2,923)       |
| Excess tax benefit from stock based compensation                                  | (238)                 | (1,627)       | (141)         |
| Change in operating assets and liabilities:                                       |                       |               |               |
| Finance receivable originations   | (460,499)             | (445,405)     | (404,918)     |
| Finance receivable collections  | 248,166               | 238,845       | 223,538       |
| Accrued interest on finance receivables   | 286                   | (172)         | (46)          |
| Inventory   | 48,154                | 40,686        | 50,009        |
| Prepaid expenses and other assets   | 284                   | (887)         | (1,298)       |
| Accounts payable and accrued liabilities  | 1,115                 | 3,862         | (1,675)       |
| Deferred payment protection plan revenue  | 1,653                 | 2,419         | 323           |
| Deferred service contract revenue   | 450                   | 5,350         | 770           |
| Income taxes, net   | (11)                  | 200           | 3,313         |
| Net cash provided by operating activities   | 14,286                | 12,387        | 21,875        |
| Investing Activities:   |                       |               |               |
| Purchases of property and equipment   | (4,526)               | (4,009)       | (7,095)       |
| Proceeds from sale of property and equipment                                      | 7                     | 112           | 2             |
| Net cash used in investing activities   | (4,519)               | (3,897)       | (7,093)       |
| Financing Activities:   |                       |               |               |
| Exercise of stock options and warrants  | 400                   | 4,143         | 720           |
| Excess tax benefits from stock based compensation                                 | 238                   | 1,627         | 141           |
| Issuance of common stock  | 186                   | 146           | 151           |
| Purchase of common stock  | (14,214)              | (20,020)      | (12,754)      |
| Dividend payments   | (40)                  | (40)          | (40)          |
| Debt issuance costs   | 146                   | (256)         | (207)         |
| Change in cash overdrafts   | (1,587)               | 502           | (452)         |
| Principal payments on notes payable   | (34)                  | -             | -             |
| Proceeds from revolving credit facilities   | 374,214               | 377,225       | 329,424       |
| Payments on revolving credit facilities   | (369,264)             | (371,316)     | (331,748)     |
| Net cash used in financing activities   | (9,955)               | (7,989)       | (14,765)      |
| Increase (decrease) in cash and cash equivalents                                  | (188)                 | 501           | 17            |
| Cash and cash equivalents, beginning of period                                    | 790                   | 289           | 272           |
| Cash and cash equivalents, end of period  | <u>\$ 602</u>         | <u>\$ 790</u> | <u>\$ 289</u> |

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

**Consolidated Statements of Equity**  
**America's Car-Mart, Inc.**  
(Dollars in thousands)  
For the Years Ended April 30, 2016, 2015 and 2014

|   | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Treasury<br>Stock   | Non-<br>Controlling<br>Interest | Total<br>Equity   |
|---|------------------------|------------------------|----------------------------------|----------------------|---------------------|---------------------------------|-------------------|
| Balance at April 30, 2013               | 12,414,659             | \$ 124                 | \$ 53,332                        | \$ 243,259           | \$ (94,547)         | \$ 100                          | \$ 202,268        |
| Issuance of common stock                | 4,150                  | -                      | 151                              | -                    | -                   | -                               | 151               |
| Stock options exercised                 | 30,500                 | 1                      | 719                              | -                    | -                   | -                               | 720               |
| Purchase of 325,598 treasury shares     | -                      | -                      | -                                | -                    | (12,754)            | -                               | (12,754)          |
| Tax benefit of stock based compensation | -                      | -                      | 141                              | -                    | -                   | -                               | 141               |
| Stock based compensation                | 3,500                  | -                      | 1,391                            | -                    | -                   | -                               | 1,391             |
| Dividends on subsidiary preferred stock | -                      | -                      | -                                | (40)                 | -                   | -                               | (40)              |
| Net income                              | -                      | -                      | -                                | 21,129               | -                   | -                               | 21,129            |
| Balance at April 30, 2014               | 12,452,809             | \$ 125                 | \$ 55,734                        | \$ 264,348           | \$ (107,301)        | \$ 100                          | \$ 213,006        |
| Issuance of common stock                | 3,831                  | -                      | 146                              | -                    | -                   | -                               | 146               |
| Stock options exercised                 | 212,250                | 2                      | 4,141                            | -                    | -                   | -                               | 4,143             |
| Purchase of 442,700 treasury shares     | -                      | -                      | -                                | -                    | (20,020)            | -                               | (20,020)          |
| Tax benefit of stock based compensation | -                      | -                      | 1,627                            | -                    | -                   | -                               | 1,627             |
| Stock based compensation                | 20,000                 | -                      | 780                              | -                    | -                   | -                               | 780               |
| Dividends on subsidiary preferred stock | -                      | -                      | -                                | (40)                 | -                   | -                               | (40)              |
| Net income                              | -                      | -                      | -                                | 29,490               | -                   | -                               | 29,490            |
| Balance at April 30, 2015               | <u>12,688,890</u>      | <u>\$ 127</u>          | <u>\$ 62,428</u>                 | <u>\$ 293,798</u>    | <u>\$ (127,321)</u> | <u>\$ 100</u>                   | <u>\$ 229,132</u> |
| Issuance of common stock                | 6,920                  | -                      | 186                              | -                    | -                   | -                               | 186               |
| Stock options exercised                 | 30,750                 | -                      | 400                              | -                    | -                   | -                               | 400               |
| Purchase of 493,073 treasury shares     | -                      | -                      | -                                | -                    | (14,214)            | -                               | (14,214)          |
| Tax benefit of stock based compensation | -                      | -                      | 238                              | -                    | -                   | -                               | 238               |
| Stock based compensation                | -                      | -                      | 1,519                            | -                    | -                   | -                               | 1,519             |
| Dividends on subsidiary preferred stock | -                      | -                      | -                                | (40)                 | -                   | -                               | (40)              |
| Net income                              | -                      | -                      | -                                | 11,596               | -                   | -                               | 11,596            |
| Balance at April 30, 2016               | <u>12,726,560</u>      | <u>\$ 127</u>          | <u>\$ 64,771</u>                 | <u>\$ 305,354</u>    | <u>\$ (141,535)</u> | <u>\$ 100</u>                   | <u>\$ 228,817</u> |

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

**Notes to Consolidated Financial Statements**  
**America's Car-Mart, Inc.**

**A - Organization and Business**

America's Car-Mart, Inc., a Texas corporation (the "Company"), is 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"). Collectively, Car-Mart of Arkansas and Colonial are referred to herein as "Car-Mart". The Company primarily sells older model used vehicles and provides financing for substantially all of its customers. Many of the Company's customers have limited financial resources and would not qualify for conventional financing as a result of limited credit histories or past credit problems. As of April 30, 2016, the Company operated 143 dealerships located primarily in small cities throughout the South-Central United States.

**B - Summary of Significant Accounting Policies**

*Principles of Consolidation*

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

*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 of our individual dealerships 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.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. 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, Kentucky, Mississippi, Missouri, Oklahoma, Tennessee, and Texas, with approximately 31% of revenues resulting from sales to Arkansas customers.

Periodically, the Company maintains cash in financial institutions in excess of the amounts insured by the federal government. The Company's revolving credit facilities mature in October 2017. The Company expects that these credit facilities will be renewed or refinanced on or before the scheduled maturity dates.

### *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 does not exceed \$40 million beginning October 8, 2014 and the sum of borrowing bases combined minus the principal balances of all revolver loans after giving effect to such repurchases is equal to or greater than 30% of the sum of the borrowing bases, 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 stock repurchases, at least 12.5% of the aggregate funds committed under the credit facilities remain available. Thus, 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 instruments purchased with original maturities of three months or less to be cash equivalents.

### *Finance Receivables, Repossessions and Charge-offs and Allowance for Credit Losses*

The Company originates installment sale contracts from the sale of used vehicles at its dealerships. These installment sale contracts typically carry an interest rate of 15% using the simple effective interest method including any deferred fees. 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 (\$1.7 million at April 30, 2016 and \$2.0 million at April 30, 2015), and as such, has been reflected as a reduction to the gross contract amount in arriving at the principal balance in finance receivables. An account is considered delinquent when the customer is one day 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 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 quickly. Customer payments are set to match their payday with approximately 73% 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. At April 30, 2016, 3.0% of the Company's finance receivables balances were 30 days or more past due compared to 5.8% at April 30, 2015.

Substantially all of the Company's automobile 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 strives to keep its delinquency percentages low, and not to repossess vehicles. Accounts two days late are sent a notice in the mail. Accounts three days late are contacted by telephone. Notes from each telephone contact are electronically maintained in the Company's computer system. 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 monies the Company will ultimately realize on

the customer's account and will increase the likelihood of the customer being able to pay off the vehicle 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. Other than the extension of additional time, concessions are not granted to customers at the time of modifications. Modifications are minor and are made for 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 62 days past due at the time of charge-off. For previously charged-off accounts that are subsequently recovered, the amount of such recovery is credited to the allowance for credit losses.

The Company maintains an allowance for credit losses on an aggregate basis, as opposed to a contract-by-contract basis, at an amount it considers sufficient to cover estimated losses inherent in the portfolio at the balance sheet date in the collection of its finance receivables currently outstanding. The Company accrues an estimated loss as it is probable that the entire amount will not be collected and the amount of the loss can be reasonably estimated in the aggregate. The allowance for credit losses is based primarily upon historical credit loss experience, with consideration given to recent credit loss trends and changes in contract characteristics (i.e., average amount financed and term), delinquency levels, collateral values, economic conditions and underwriting and collection practices. The allowance for credit losses is periodically reviewed by management with any changes reflected in current operations. Although it is at least reasonably possible that events or circumstances could occur in the future that are not presently foreseen which could cause actual credit losses to be materially different from the recorded allowance for credit losses, the Company believes that it has given appropriate consideration to all relevant factors and has made reasonable assumptions in determining the allowance for credit losses. The calculation of the allowance for credit losses uses the following primary factors:

- The number of units repossessed or charged-off as a percentage of total units financed over specific historical periods of time from one year to five years.
- The average net repossession and charge-off loss per unit during the last eighteen months, segregated by the number of months since the contract origination date, and adjusted for the expected future average net charge-off loss per unit. Approximately 50% of the charge-offs that will ultimately occur in the portfolio are expected to occur within 10-11 months following the balance sheet date. The average age of an account at charge-off date is 11.7 months.
- The timing of repossession and charge-off losses relative to the date of sale (i.e., how long it takes for a repossession or charge-off to occur) for repossessions and charge-offs occurring during the last eighteen months.

A point estimate is produced by this analysis which is then supplemented by any positive or negative subjective factors to arrive at an overall reserve amount that management considers to be a reasonable estimate of losses inherent in the portfolio at the balance sheet date that will be realized via actual charge-offs in the future. While challenging economic conditions can negatively impact credit losses, the effectiveness of the execution of internal policies and procedures within the collections area and the competitive environment on the lending side have historically had a more significant effect on collection results than macro-economic issues.



An increase to the allowance for credit losses was made in the second quarter of fiscal 2016 which resulted in a \$4.8 million charge to the provision for credit losses based on the analysis discussed above and the increased level of charge-offs with the expectation that charge-offs related to a significant extent to increased competition on the lending side will remain elevated.

In most states, the Company offers retail customers who finance their vehicle the option of purchasing a payment protection plan product as an add-on to the installment sale contract. This product contractually obligates the Company to cancel the remaining principal outstanding for any 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 payment protection plan revenues, an additional liability is recorded for such difference. No such liability was required at April 30, 2016 or 2015.

### *Inventory*

Inventory consists of used vehicles and is valued at the lower of cost or market on a specific identification basis. Vehicle reconditioning costs are capitalized as a component of inventory. Repossessed vehicles 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 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. If the fair value of the reporting unit falls below its carrying value, the Company performs the second step of the two-step goodwill impairment process to determine the amount, if any, that the goodwill is impaired. The second step involves determining the fair value of the identifiable assets and liabilities and the implied goodwill. 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 fiscal 2016 or fiscal 2015.

### *Property and Equipment*

Property and equipment are stated at cost. 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 |

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

### *Cash Overdraft*

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 its revolving

credit facilities. Any cash overdraft balance principally represents outstanding checks, net of any deposits in transit that as of the balance sheet date had not yet been presented for payment. Any cash overdraft balance is reflected in accrued liabilities on the Company's 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 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 bases 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.

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 fiscal years before 2013.

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 April 30, 2016 and 2015, respectively.

#### *Revenue Recognition*

Revenues are generated principally from the sale of used vehicles, which in most cases includes a service contract and a payment protection plan product, and 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. Payment protection plan revenues are initially deferred and then recognized to income using the "Rule of 78's" interest method over the life of the contract so that revenues are recognized in proportion to the amount of cancellation protection provided. Payment protection plan revenues are included in sales and related losses are included in cost of sales as incurred. 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 consist of the following for the years ended April 30, 2016, 2015 and 2014:

| <i>(In thousands)</i>           | Years Ended April 30,    |                          |                          |
|---------------------------------|--------------------------|--------------------------|--------------------------|
|                                 | 2016                     | 2015                     | 2014                     |
| Sales – used autos              | \$ 436,080               | \$ 416,060               | \$ 385,672               |
| Wholesales – third party        | 24,917                   | 19,961                   | 18,886                   |
| Service contract sales          | 27,323                   | 19,758                   | 15,833                   |
| Payment protection plan revenue | <u>18,197</u>            | <u>16,790</u>            | <u>14,113</u>            |
| <b>Total</b>                    | <b><u>\$ 506,517</u></b> | <b><u>\$ 472,569</u></b> | <b><u>\$ 434,504</u></b> |

At April 30, 2016 and 2015, finance receivables more than 90 days past due were approximately \$1.1 million and \$2.8 million, respectively. Late fee revenues totaled approximately \$2.0 million, \$2.2 million and \$2.2 million for the fiscal years ended 2016, 2015 and 2014, respectively. Late fee revenue is recognized when collected and is reflected within Interest and other income on the Consolidated Statements of Operations.

#### *Advertising Costs*

Advertising costs are expensed as incurred and consist principally of radio, television and print media marketing costs. Advertising costs amounted to \$4.2 million, \$3.6 million and \$4.2 million for the years ended April 30, 2016, 2015 and 2014, respectively.

#### *Employee Benefit Plans*

The Company has 401(k) plans for all of its employees meeting certain eligibility requirements. The plans provide for voluntary employee contributions and the Company matches 50% of employee contributions up to a maximum of 4% of each employee's compensation. The Company contributed approximately \$403,000, \$363,000, and \$329,000 to the plans for the years ended April 30, 2016, 2015 and 2014, respectively.

The Company offers employees the right to purchase common shares at a 15% discount from market price under the 2006 Employee Stock Purchase Plan which was approved by shareholders in October 2006. The Company takes a charge to earnings for the 15% discount. Amounts for fiscal years 2016, 2015 and 2014 were not material individually and in the aggregate. A total of 200,000 shares were registered and 152,636 remain available for issuance under this plan at April 30, 2016.

#### *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 K.

### *Treasury Stock*

The Company purchased 493,073, 442,700, and 325,598 shares of its common stock to be held as treasury stock for a total cost of \$14.2 million, \$20.0 million and \$12.8 million during the years ended April 30, 2016, 2015 and 2014, respectively. Treasury stock may be used for issuances under the Company's stock-based compensation plans or for other general corporate purposes. During fiscal 2016, the Company established 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.

### *Recent Accounting Pronouncements*

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

*Debt Issuance Costs.* In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, to require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, instead of as an asset. This accounting standard was implemented by the Company in the third quarter of fiscal 2016. As a result of the application of this accounting standard, the Company has provided additional disclosures in Note F to the Consolidated Financial Statements.

*Revenue Recognition.* In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes existing revenue recognition guidance. The new guidance in ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, to provide entities with an additional year to implement ASU 2014-09. As a result, the guidance in ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2017, using one of two retrospective application methods. The Company is currently evaluating the potential effects of the adoption of this update on the Consolidated Financial Statements.

*Leases.* In February 2016, the FASB issued ASU 2016-02, *Leases*. The new guidance requires that lessees recognize all leases, including operating leases, with a term greater than 12 months on-balance sheet and also requires disclosure of key information about leasing transactions. The guidance in ASU 2016-02 is effective for annual and interim reporting periods beginning after December 15, 2018. The Company is currently evaluating the potential effects of the adoption of this guidance on the Consolidated Financial Statements.

## Reclassifications

The Company has made reclassifications to certain amounts in the accompanying Consolidated Balance Sheet as of April 30, 2015. The reclassifications did not have an impact on net income or earnings per share. The Company has provided additional disclosures regarding these reclassifications in Note F.

### C - Finance Receivables, Net

The Company originates installment sale contracts from the sale of used vehicles at its dealerships. These installment sale contracts typically carry an interest rate of 15% per annum, are collateralized by the vehicle sold and typically provide for payments over periods ranging from 18 to 42 months. The Company's finance receivables are defined as one segment and one class of loans, which is sub-prime consumer automobile contracts. The level of risks inherent in our financing receivables is managed as one homogeneous pool. The components of finance receivables as of April 30, 2016 and 2015 are as follows:

| <i>(In thousands)</i>            | April 30, 2016    | April 30, 2015    |
|----------------------------------|-------------------|-------------------|
| Gross contract amount            | \$ 504,149        | \$ 477,305        |
| Less unearned finance charges    | <u>(66,871)</u>   | <u>(59,937)</u>   |
| Principal balance                | 437,278           | 417,368           |
| Less allowance for credit losses | <u>(102,485)</u>  | <u>(93,224)</u>   |
| Finance receivables, net         | <u>\$ 334,793</u> | <u>\$ 324,144</u> |

Changes in the finance receivables, net for the years ended April 30, 2016, 2015 and 2014 are as follows:

| <i>(In thousands)</i>   | Years Ended April 30, |                   |                   |
|---|-----------------------|-------------------|-------------------|
|   | 2016                  | 2015              | 2014              |
| Balance at beginning of period  | \$ 324,144            | \$ 293,299        | \$ 288,049        |
| Finance receivable originations                                       | 460,499               | 445,405           | 404,918           |
| Finance receivable collections  | (248,166)             | (238,845)         | (223,538)         |
| Provision for credit losses   | (144,397)             | (120,289)         | (119,247)         |
| Losses on claims for payment protection plan                          | (13,521)              | (10,588)          | (9,586)           |
| Inventory acquired in repossession and payment protection plan claims | <u>(43,766)</u>       | <u>(44,838)</u>   | <u>(47,297)</u>   |
| Balance at end of period  | <u>\$ 334,793</u>     | <u>\$ 324,144</u> | <u>\$ 293,299</u> |

Changes in the finance receivables allowance for credit losses for the years ended April 30, 2016, 2015 and 2014 are as follows:

| <i>(In thousands)</i>                    | Years Ended April 30, |                  |                  |
|--|-----------------------|------------------|------------------|
|  | 2016                  | 2015             | 2014             |
| Balance at beginning of period           | \$ 93,224             | \$ 86,033        | \$ 75,345        |
| Provision for credit losses              | 144,397               | 120,289          | 119,247          |
| Charge-offs, net of recovered collateral | <u>(135,136)</u>      | <u>(113,098)</u> | <u>(108,559)</u> |
| Balance at end of period                 | <u>\$ 102,485</u>     | <u>\$ 93,224</u> | <u>\$ 86,033</u> |

The factors which influenced management's judgment in determining the amount of the additions to the allowance charged to provision for credit losses are described below:

The level of actual charge-offs, net of recovered collateral, is the most important factor in determining the charges to the provision for credit losses. This is due to the fact that once a contract becomes delinquent the account is either made current by the customer, the vehicle is repossessed or the account is written off if the collateral cannot be recovered. Net charge-offs as a percentage of average finance receivables was 31.3% for fiscal 2016 as compared to 27.8% for fiscal 2015. The increase in net charge-offs for fiscal 2016 resulted from a higher frequency of losses and an increase in severity due largely to lower wholesale values at time of repossession. The fiscal 2016 provision includes a \$4.8 million increase in the provision as a result of the increase in our provision percentage applied to the growth in finance receivables during the second quarter of fiscal 2016.

Collections and delinquency levels can have a significant effect on additions to the allowance and are reviewed frequently. Collections as a percentage of average finance receivables were 57.5% for the year ended April 30, 2016 compared to 58.7% for the year ended April 30, 2015. The decrease in collections as a percentage of average finance receivables was primarily due to the longer overall contract term, partially offset by lower delinquencies. Delinquencies greater than 30 days decreased to 3.0% for April 30, 2016 compared to 5.8% at April 30, 2015.

Macro-economic factors, and more importantly, proper execution of operational policies and procedures have a significant effect on additions to the allowance charged to the provision. Higher unemployment levels, higher gasoline prices and higher prices for staple items can potentially have a significant effect. The Company continues to focus on operational improvements within the collections area such as credit reporting for customers and further implementation of GPS technology on vehicles sold.

Credit quality information for finance receivables is as follows:

| <i>(Dollars in thousands)</i> | April 30, 2016    |                      | April 30, 2015    |                      |
|-------------------------------|-------------------|----------------------|-------------------|----------------------|
|                               | Principal Balance | Percent of Portfolio | Principal Balance | Percent of Portfolio |
| Current                       | \$ 378,631        | 86.59%               | \$ 329,329        | 78.91%               |
| 3 - 29 days past due          | 45,631            | 10.43%               | 64,004            | 15.33%               |
| 30 - 60 days past due         | 8,429             | 1.93%                | 12,777            | 3.06%                |
| 61 - 90 days past due         | 3,498             | 0.80%                | 8,463             | 2.03%                |
| > 90 days past due            | 1,089             | 0.25%                | 2,795             | 0.67%                |
| Total                         | <u>\$ 437,278</u> | <u>100.00%</u>       | <u>\$ 417,368</u> | <u>100.00%</u>       |

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 Company believes that the improvement in the past due percentages can be attributed in part to the proper execution of best collections efforts at all dealerships during fiscal 2016, and partially to year-end falling on a Saturday.

Substantially all of the Company's automobile 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 contract term length, down payment percentages, and collections for credit quality indicators.

|   | Twelve Months Ended<br>April 30, |       |
|---|----------------------------------|-------|
|   | 2016                             | 2015  |
| Principal collected as a percent of average finance receivables | 57.5%                            | 58.7% |
| Average down-payment percentage                                 | 6.7%                             | 6.9%  |

|  | April 30, 2016 | April 30, 2015 |
|--|----------------|----------------|
| Average originating contract term ( <i>in months</i> )                                 | 28.9           | 27.7           |
| Portfolio weighted average contract term, including modifications ( <i>in months</i> ) | 31.6           | 30.2           |

The decrease in collections as a percentage of average finance receivables was primarily due to the longer overall contract term, partially offset by the lower delinquencies. The increases in contract term are primarily related to efforts to keep payments affordable, for competitive reasons and to continue to work more with our customers when they experience financial difficulties. In order to remain competitive, term lengths may continue to increase.

#### D - Property and Equipment

A summary of property and equipment is as follows:

| ( <i>In thousands</i> )                   | April 30, 2016   | April 30, 2015   |
|---|------------------|------------------|
| Land                                      | \$ 6,711         | \$ 6,245         |
| Buildings and improvements                | 11,928           | 11,509           |
| Furniture, fixtures and equipment         | 14,941           | 13,486           |
| Leasehold improvements                    | 23,308           | 21,023           |
| Construction in progress                  | 250              | 1,235            |
| Accumulated depreciation and amortization | (22,383)         | (19,535)         |
|   | <u>\$ 34,755</u> | <u>\$ 33,963</u> |

#### E - Accrued Liabilities

A summary of accrued liabilities is as follows:

| ( <i>In thousands</i> )         | April 30, 2016   | April 30, 2015   |
|---------------------------------|------------------|------------------|
| Employee compensation           | \$ 3,684         | \$ 3,954         |
| Cash overdrafts (see Note B)    | -                | 1,587            |
| Deferred sales tax (see Note B) | 2,736            | 2,762            |
| Interest                        | -                | 230              |
| Other                           | 4,825            | 4,175            |
|                                 | <u>\$ 11,245</u> | <u>\$ 12,708</u> |

#### F – Debt Facilities

A summary of revolving credit facilities is as follows:

| (In thousands)              | Aggregate<br>Amount | Interest<br>Rate | Maturity        | Balance at     |                |
|-----------------------------|---------------------|------------------|-----------------|----------------|----------------|
|                             |                     |                  |                 | April 30, 2016 | April 30, 2015 |
| Revolving credit facilities | \$ 172,500          | LIBOR + 2.375%   | October 8, 2017 | \$ 107,386     | \$ 102,221     |

(2.81% at April 30, 2016 and 2.56% at April 30, 2015)

On March 9, 2012, the Company entered into an Amended and Restated Loan and Security Agreement (“Credit Facilities”) with a group of lenders providing revolving credit facilities totaling \$125 million. Prior to fiscal 2015, the Credit Facilities were amended on September 30, 2012, February 4, 2013, June 24, 2013 and February 13, 2014, respectively. The first amendment to the Credit Facilities increased the total revolving commitment to \$145 million. The second amendment amended the definition of eligible vehicle contracts to include contracts with 36-42 month terms. The third amendment extended the term to June 24, 2016, provided the option to request revolver commitment increases for up to an additional \$55 million and provided for a 0.25% decrease in each of the three pricing tiers for determining the applicable interest rate. The fourth amendment amended the structure of the debt covenants as related to the application of the fixed charge coverage ratio calculation. As amended, the fixed charge coverage ratio calculation will be required only if availability, as defined, under the revolving credit facilities is less than certain specified thresholds. The amendment also increased the allowable capital expenditures to \$10 million in the aggregate during any fiscal year and allows for the sale of certain vehicle contracts to third parties.

On October 8, 2014, the Company entered into a fifth amendment to the Credit Facilities, which extended the term of the Credit Facilities to October 8, 2017, added a new pricing tier for determining the applicable interest rate, and provided for a 0.125% increase in each of the three existing pricing tiers. The fifth amendment also amended one of two alternative distribution limitations related to repurchases of the Company’s stock. With respect to such limitation, the amendment (i) reset the \$40 million aggregate limit on repurchases beginning with October 8, 2014, (ii) redefined the aggregate amount of repurchases to be net of proceeds received from the exercise of stock options, and (iii) changed the requirement that the sum of borrowing bases combined minus the principal balances of all revolver loans after giving effect to such repurchases be equal to or greater than 30% of the sum of the borrowing bases.

On February 18, 2016, the Company exercised an option under its existing credit agreement to increase total revolving credit facilities by \$27.5 million from \$145 million to \$172.5 million. The increase in the total revolving credit commitments was made pursuant to an accordion feature of the Credit Facilities, which allows the Company to increase the total revolver commitments by up to an additional \$55 million (up to \$200 million in total commitments), subject to lender approval and/or successful syndication.

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. 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 LIBOR plus 2.375%. 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.

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 does not exceed \$40 million beginning October 8, 2014 and the sum of borrowing bases combined minus the principal balances of all revolver loans after giving effect to such repurchases is equal to or greater than 30% of the sum of the borrowing bases, 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 stock repurchases, at least 12.5% of the aggregate funds committed under the credit facilities remain available.

The Company was in compliance with the covenants at April 30, 2016. 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 April 30, 2016, the Company had additional availability of approximately \$61 million under the revolving credit facilities.



The Company recognized \$214,000 and \$188,000 of amortization for the twelve months ended April 30, 2016 and 2015, respectively, related to debt issuance costs. The amortization is reflected as interest expense in the Company's Consolidated Statements of Operations.

During the third quarter of fiscal 2016, the Company implemented the guidance of ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which amended the presentation of debt issuance costs in the financial statements. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, rather than as an asset. As a result of the retrospective adoption of this guidance, debt issuance costs were reclassified from prepaid expenses and other assets to revolving credit facilities on the Company's Consolidated Financial Statements. Debt issuance costs of approximately \$396,000 and \$464,000 as of April 30, 2016 and 2015, respectively, are shown as a deduction from the revolving credit facilities in the Consolidated Balance Sheet.

On December 15, 2015, the Company entered into an agreement to purchase the property on which one of its dealerships is located for a purchase price of \$550,000. Under the agreement, the purchase price is being paid in monthly principal and interest installments of \$10,005. The debt matures in December 2020, bears interest at a rate of 3.50% and is secured by the property. The balance on this note payable was approximately \$516,000 as of April 30, 2016.

## G – Fair Value Measurements

The table below summarizes information about the fair value of financial instruments included in the Company's financial statements at April 30, 2016 and 2015:

| (In thousands)              | April 30, 2016 |            | April 30, 2015 |            |
|-----------------------------|----------------|------------|----------------|------------|
|                             | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Cash                        | \$ 602         | \$ 602     | \$ 790         | \$ 790     |
| Finance receivables, net    | 334,793        | 268,926    | 324,144        | 256,681    |
| Accounts payable            | 12,313         | 12,313     | 11,022         | 11,022     |
| Revolving credit facilities | 107,902        | 107,902    | 102,221        | 102,221    |

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                        | The carrying amount is considered to be a reasonable estimate of fair value due to the short-term nature of the financial instrument.   |
| 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 November 2012 that indicates a range of 35% to 40% 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. Since the Company does |

not intend to offer the receivables for sale to an outside third party, the expectation is that the net book value at April 30, 2016, will ultimately be collected. By collecting the accounts internally the Company expects to realize more than a third party purchaser would expect to collect with a servicing requirement and a profit margin included.

|                             |   |
|-----------------------------|---|
| 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. |
| Revolving credit facilities | The fair value approximates carrying value due to the variable interest rates charged on the borrowings, which reprice frequently.    |

## H - Income Taxes

The provision for income taxes was as follows:

| <i>(In thousands)</i>      | Years Ended April 30, |                  |                  |
|----------------------------|-----------------------|------------------|------------------|
|                            | 2016                  | 2015             | 2014             |
| Provision for income taxes |                       |                  |                  |
| Current                    | \$ 7,800              | \$ 13,610        | \$ 15,466        |
| Deferred                   | (898)                 | 3,934            | (2,923)          |
|                            | <u>\$ 6,902</u>       | <u>\$ 17,544</u> | <u>\$ 12,543</u> |

The provision for income taxes is different from the amount computed by applying the statutory federal income tax rate to income before income taxes for the following reasons:

| <i>(In thousands)</i>               | Years Ended April 30, |                  |                  |
|-------------------------------------|-----------------------|------------------|------------------|
|                                     | 2016                  | 2015             | 2014             |
| Tax provision at statutory rate     | \$ 6,474              | \$ 16,463        | \$ 11,785        |
| State taxes, net of federal benefit | 443                   | 1,172            | 813              |
| Other, net                          | (15)                  | (91)             | (55)             |
|                                     | <u>\$ 6,902</u>       | <u>\$ 17,544</u> | <u>\$ 12,543</u> |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred income tax assets and liabilities were as follows:

| <i>(In thousands)</i>                       | April 30,        |                  |
|---|------------------|------------------|
|   | 2016             | 2015             |
| Deferred income tax liabilities related to: |                  |                  |
| Finance receivables                         | \$ 24,868        | \$ 25,388        |
| Property and equipment                      | 1,160            | 839              |
| Total                                       | <u>26,028</u>    | <u>26,227</u>    |
| Deferred income tax assets related to:      |                  |                  |
| Accrued liabilities                         | 2,069            | 1,872            |
| Inventory                                   | 149              | 196              |
| Share based compensation                    | 4,505            | 4,030            |
| Deferred revenue                            | 1,025            | 951              |
| Total                                       | <u>7,748</u>     | <u>7,049</u>     |
| Deferred income tax liabilities, net        | <u>\$ 18,280</u> | <u>\$ 19,178</u> |

## I – Capital Stock

The Company is authorized to issue up to one million shares of \$.01 par value preferred stock in one or more series having such respective terms, rights and preferences as are designated by the Board of Directors. The Company has not issued any preferred stock.

A subsidiary of the Company has issued 500,000 shares of \$1.00 par value preferred stock which carries an 8% cumulative dividend. The Company's subsidiary can redeem the preferred stock at any time at par value plus any unpaid dividends. After April 30, 2016, a holder of 400,000 shares of the subsidiary preferred stock can require the Company's subsidiary to redeem such stock for \$400,000 plus any unpaid dividends.

## J – 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:

|   | Years Ended April 30, |                  |                  |
|---|-----------------------|------------------|------------------|
|   | 2016                  | 2015             | 2014             |
| Weighted average shares outstanding-basic   | 8,370,478             | 8,617,864        | 8,930,592        |
| Dilutive options and restricted stock       | <u>295,553</u>        | <u>431,093</u>   | <u>461,075</u>   |
| Weighted average shares outstanding-diluted | <u>8,666,031</u>      | <u>9,048,957</u> | <u>9,391,667</u> |
| Antidilutive securities not included:       |                       |                  |                  |
| Options                                     | 325,125               | 76,250           | 77,500           |

## K – Stock-Based Compensation Plans

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 currently being utilized 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 \$1.5 million (\$952,000 after tax effects) and \$780,000 (\$489,000 after tax effects) for the year ended April 30, 2016 and 2015, respectively. Tax benefits were recognized for these costs at the Company's overall effective tax rate.

### *Stock Options*

The Company has options outstanding under two stock option plans approved by the shareholders, the 1997 Stock Option Plan ("1997 Plan") and the Amended and Restated Stock Option Plan, formerly the 2007 Stock Option Plan. While previously granted options remain outstanding, no additional option grants may be made under the 1997 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 Restated 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. 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 granted under the Company's stock option plans expire in the calendar years 2016 through 2026.

|  | <u>1997 Plan</u> | <u>Restated Option Plan</u> |
|--|------------------|-----------------------------|
| Minimum exercise price as a percentage of fair market value at date of grant | 100%             | 100%                        |
| Last expiration date for outstanding options                                 | July 2, 2017     | March 2, 2026               |
| Shares available for grant at April 30, 2016                                 | -                | 263,250                     |

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.

|                         | <u>April 30, 2016</u> | <u>April 30, 2015</u> | <u>April 30, 2014</u> |
|-------------------------|-----------------------|-----------------------|-----------------------|
| Expected terms (years)  | 5.5                   | 5.4                   | 5.0                   |
| Risk-free interest rate | 1.55%                 | 1.64%                 | 0.67%                 |
| Volatility              | 34%                   | 34%                   | 50%                   |
| Dividend yield          | -                     | -                     | -                     |

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

The following is an aggregate summary of the activity in the Company's stock option plans from April 30, 2013 to April 30, 2016:

|                               | <u>Number<br/>of<br/>Shares</u> | <u>Exercise<br/>Price<br/>per Share</u> | <u>Proceeds<br/>on<br/>Exercise</u> | <u>Weighted Average<br/>Exercise Price per<br/>Share</u> |
|-------------------------------|---------------------------------|---|-------------------------------------|--|
|                               |                                 |   | (in thousands)                      |  |
| Outstanding at April 30, 2013 | 1,122,500                       | \$ 11.90 to \$ 45.72                    | \$ 23,892                           | \$ 21.28   |
| Granted                       | 25,000                          | \$44.52 to \$46.44                      | 1,122                               | 44.90  |
| Exercised                     | <u>(30,500)</u>                 | <u>\$23.34 to \$23.75</u>               | <u>(720)</u>                        | 23.58  |
| Outstanding at April 30, 2014 | 1,117,000                       | \$ 11.90 to \$ 46.44                    | \$ 24,294                           | \$ 21.75   |
| Granted                       | 89,000                          | \$36.54 to \$50.25                      | 3,997                               | 44.91  |
| Exercised                     | (212,250)                       | \$11.90 to \$45.46                      | (4,143)                             | 19.52  |
| Cancelled                     | <u>(12,000)</u>                 | <u>\$41.86 to \$45.72</u>               | <u>(540)</u>                        | 45.08  |
| Outstanding at April 30, 2015 | 981,750                         | \$ 11.90 to \$ 53.02                    | \$ 23,608                           | \$ 24.05   |
| Granted                       | 338,750                         | \$ 26.37 to \$ 53.02                    | 16,471                              | 48.62  |
| Exercised                     | (30,750)                        | \$ 11.90 to \$ 23.34                    | (400)                               | 13.00  |
| Cancelled                     | <u>(11,500)</u>                 | <u>\$ 41.86 to \$ 53.02</u>             | <u>(598)</u>                        | 52.05  |
| Outstanding at April 30, 2016 | <u>1,278,250</u>                |   | <u>\$ 39,081</u>                    | \$ 30.57   |

Stock option compensation expense on a pre-tax basis was \$1.4 million (\$870,000 after tax effects) and \$664,000 (\$416,000 after tax effects) and \$1.3 million (\$791,000 after tax effects) for the years ended April 30, 2016, 2015 and 2014, respectively. As of April 30, 2016, the Company had approximately \$3.9 million of total unrecognized compensation cost related to unvested options that are expected to vest. These options have a weighted-average remaining vesting period of 3.79 years.

There were 338,750 options granted during fiscal 2016. The grant-date fair value of all options granted during fiscal 2016, 2015 and 2014 was \$5.6 million, \$1.4 million and \$487,000, respectively. The options were granted at fair market value on date of grant. Generally, options vest after three to five years, except for options issued to directors which are immediately vested at date of grant.

Of the options granted during fiscal 2016, 142,250 were performance based stock options that were granted to key employees that have a five-year performance period ending April 30, 2020. Tiered vesting of these options is based solely on comparing the Company's net income over the specified performance period to net income at April 30, 2015. As of April 30, 2016, the Company had \$1.2 million in unrecognized compensation expense related to 67,750 of these options that are not currently expected to vest.

The aggregate intrinsic value of outstanding options at April 30, 2016 and 2015 was \$4.8 million and \$26.8 million, respectively.

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 Consolidated Statements of Cash Flows.

| <i>(Dollars in thousands)</i>        | Twelve Months Ended |                   |        |
|--------------------------------------|---------------------|-------------------|--------|
|                                      | 2016                | April 30,<br>2015 | 2014   |
| Options Exercised                    | 30,750              | 212,250           | 30,500 |
| Cash Received from Options Exercised | \$ 400              | \$ 4,143          | \$ 720 |
| Intrinsic Value of Options Exercised | \$ 943              | \$ 5,983          | \$ 563 |

As of April 30, 2016 there were 904,000 vested and exercisable stock options outstanding with an aggregate intrinsic value of \$4.8 million and a weighted average remaining contractual life of 3.43 years and a weighted average exercise price of \$23.33.

#### *Stock Incentive Plan*

On October 14, 2009, the shareholders of the Company approved an amendment to the Company's Stock Incentive Plan that increased the number of shares of common stock that may be issued under the Stock Incentive Plan from 150,000 to 300,000. On August 5, 2015, the shareholders of the Company approved the Amended and Restated Stock Incentive Plan, which extended the term of the Stock Incentive Plan to June 10, 2025. 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.

The following is a summary of the activity in the Company's Stock Incentive Plan:

|                                   | Number<br>of<br>Shares | Weighted Average<br>Grant Date<br>Fair Value |
|-----------------------------------|------------------------|--|
| Unvested shares at April 30, 2015 | 9,500                  | \$ 52.10                                     |
| Shares granted                    | -                      |  |
| Shares vested                     | -                      |  |
| Unvested shares at April 30, 2016 | 9,500                  | \$ 52.10                                     |

The fair value at vesting for awards under the stock incentive plan was \$495,000, \$495,000 and \$126,000 in fiscal 2016, 2015 and 2014, respectively.

During the fiscal year 2015, 9,500 restricted shares were granted with a fair value of \$52.10 per share. There were no restricted shares granted during fiscal years 2016 or 2014. A total of 177,527 shares remain available for award at April 30, 2016.

The Company recorded compensation cost of \$99,000 (\$62,000 after tax effects), \$90,000 (\$56,000 after tax effects) and \$105,000 (\$66,000 after tax effects) related to the Stock Incentive Plan during the years ended April 30, 2016, 2015 and 2014, respectively. As of April 30, 2016 the Company had \$396,000 of total unrecognized compensation cost related to unvested awards granted under the Stock Incentive Plan, which the Company expects to recognize over a weighted-average remaining period of four years.

## **L - Commitments and Contingencies**

### *Letter of Credit*

The Company has a standby letter of credit relating to an insurance policy totaling \$1 million at April 30, 2016.

#### *Facility Leases*

The Company leases certain dealership and office facilities under various non-cancelable operating leases. Dealership leases are generally for periods from three to five years and contain multiple renewal options. As of April 30, 2016 the aggregate rentals due under such leases, including renewal options that are reasonably assured, were as follows:

| Years Ending<br>April 30, | Amount<br><i>(In thousands)</i> |
|---------------------------|---------------------------------|
| 2017                      | \$ 5,927                        |
| 2018                      | 5,766                           |
| 2019                      | 5,448                           |
| 2020                      | 5,217                           |
| 2021                      | 4,752                           |
| Thereafter                | 19,611                          |
|                           | <u>\$ 46,721</u>                |

The \$46.7 million of lease commitments includes \$16.2 million of non-cancelable lease commitments under the lease terms, and \$30.5 million of lease commitments for renewal periods at the Company's option that are reasonably assured. For the years ended April 30, 2016, 2015 and 2014, rent expense for all operating leases amounted to approximately \$6.1 million, \$5.5 million, and \$5.2 million, respectively.

#### *Litigation*

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

#### *Related Finance Company*

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.

## M - Supplemental Cash Flow Information

Supplemental cash flow disclosures for the years ended April 30, 2016, 2015 and 2014 are as follows:

Years Ended April 30,

| <i>(in thousands)</i>   | 2016     | 2015     | 2014     |
|---|----------|----------|----------|
| <b>Supplemental disclosures:</b>                                      |          |          |          |
| Interest paid   | \$ 3,536 | \$ 2,885 | \$ 3,023 |
| Income taxes paid, net  | 7,811    | 13,409   | 12,153   |
| <b>Non-cash transactions:</b>   |          |          |          |
| Inventory acquired in repossession and payment protection plan claims | 43,766   | 44,838   | 47,297   |
| Purchase of property and equipment using the issuance of debt         | 550      | -        | -        |
| Loss accrued on disposal of property and equipment                    | 300      | -        | -        |

## N - Quarterly Results of Operations (unaudited)

A summary of the Company's quarterly results of operations for the years ended April 30, 2016 and 2015 is as follows (in thousands, except per share information):

|  | Year Ended April 30, 2016 |                   |                  |                   |            |
|--|---------------------------|-------------------|------------------|-------------------|------------|
|  | First<br>Quarter          | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Total      |
| Revenues                                       | \$ 142,690                | \$ 133,004        | \$ 137,463       | \$ 154,749        | \$ 567,906 |
| Gross profit                                   | 52,508                    | 46,074            | 49,089           | 53,960            | 201,631    |
| Net income                                     | 4,616                     | (485)             | 4,102            | 3,363             | 11,596     |
| Net income attributable to common stockholders | 4,606                     | (495)             | 4,092            | 3,353             | 11,556     |
| <b>Earnings per share:</b>                     |                           |                   |                  |                   |            |
| Basic  | 0.54                      | (0.06)            | 0.49             | 0.41              | 1.38       |
| Diluted  | 0.52                      | (0.06)            | 0.47             | 0.40              | 1.33       |
|  | Year Ended April 30, 2015 |                   |                  |                   |            |
|  | First<br>Quarter          | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Total      |
| Revenues                                       | \$ 127,376                | \$ 133,834        | \$ 131,500       | \$ 137,611        | \$ 530,321 |
| Gross profit                                   | 47,988                    | 51,279            | 49,734           | 51,122            | 200,123    |
| Net income                                     | 7,260                     | 7,519             | 7,461            | 7,250             | 29,490     |
| Net income attributable to common stockholders | 7,250                     | 7,509             | 7,451            | 7,240             | 29,450     |
| <b>Earnings per share:</b>                     |                           |                   |                  |                   |            |
| Basic  | 0.83                      | 0.87              | 0.87             | 0.85              | 3.42       |
| Diluted  | 0.79                      | 0.83              | 0.82             | 0.81              | 3.25       |

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## **Item 9A. Controls and Procedures**

### **Disclosure Controls and Procedures**

Based on management's evaluation (with the participation of the Company's Chief Executive Officer and Chief Financial Officer), as of April 30, 2016, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), to allow timely decisions regarding required disclosure.



## **Management's Report on Internal Control over Financial Reporting**

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of April 30, 2016. In making this assessment, management used the criteria set forth in *The 2013 Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on management's assessment, management believes that the Company maintained effective internal control over financial reporting as of April 30, 2016.

The Company's independent registered public accounting firm independently assessed the effectiveness of the Company's internal control over financial reporting and has issued their report on the effectiveness of the Company's internal control over financial reporting at April 30, 2016. That report appears below.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of America's Car-Mart, Inc. (a Texas corporation) and subsidiaries (the "Company") as of April 30, 2016, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of April 30, 2016, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended April 30, 2016, and our report dated June 17, 2016 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Tulsa, Oklahoma  
June 17, 2016

### **Changes in Internal Control over Financial Reporting**

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

### **Item 9B. Other Information**

None.

### **PART III**

Except as to information with respect to executive officers which is contained in a separate heading under Part I, Item 1 of this Form 10-K, the information required by Items 10 through 14 of this Form 10-K is, pursuant to General Instruction G(3) of Form 10-K, incorporated by reference herein from the Company's definitive proxy statement to be filed pursuant to Regulation 14A for the Company's Annual Meeting of Stockholders to be held in August 2016 (the "Proxy Statement"). The Company will, within 120 days of the end of its fiscal year, file with the SEC a definitive proxy statement pursuant to Regulation 14A.

#### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item will be contained in the Proxy Statement and such information is incorporated herein by reference. Information regarding the executive officers of the Company is set forth under the heading "Executive Officers" in Part I, Item 1 of this report.

#### **Item 11. Executive Compensation**

The information required by this item will be contained in the Proxy Statement and such information is incorporated herein by reference.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item will be contained in the Proxy Statement and such information is incorporated herein by reference.

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item will be contained in the Proxy Statement and such information is incorporated herein by reference.

#### **Item 14. Principal Accounting Fees and Services**

The information required by this item will be contained in the Proxy Statement and such information is incorporated herein by reference.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

#### (a)1. Financial Statements

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

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of April 30, 2016 and 2015

Consolidated Statements of Operations for the years ended April 30, 2016, 2015 and 2014

Consolidated Statements of Cash Flows for the years ended April 30, 2016, 2015 and 2014

Consolidated Statements of Equity for the years ended April 30, 2016, 2015 and 2014

Notes to Consolidated Financial Statements

#### (a)2. Financial Statement Schedules

The financial statement schedules are omitted since the required information is not present, or is not present in amounts sufficient to require submission of the schedules, or because the information required is included in the Consolidated Financial Statements and Notes thereto.

#### (a)3. Exhibits

The exhibits listed in the accompanying Exhibit Index (following the Signature section of this Annual Report on Form 10-K) are filed or incorporated by reference as part of this Annual Report on Form 10-K.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Dated: June 17, 2016

By: /s/ Jeffrey A. Williams  
Jeffrey A. Williams  
President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u>  | <u>Title</u>  | <u>Date</u>   |
|---|---|---------------|
| <u>/s/ William H. Henderson</u><br>William H. Henderson | Chief Executive Officer,<br>and Director<br>(Principal Executive Officer)                         | June 17, 2016 |
| <u>/s/ Jeffrey A. Williams</u><br>Jeffrey A. Williams   | President,<br>Chief Financial Officer,<br>Secretary and Director<br>(Principal Financial Officer) | June 17, 2016 |
| <u>/s/ Vickie D. Judy</u><br>Vickie D. Judy             | Vice President, Accounting<br>(Principal Accounting Officer)                                      | June 17, 2016 |
| <u>*</u><br>J. David Simmons                            | Lead Director   | June 17, 2016 |
| <u>*</u><br>Daniel J. Englander                         | Director  | June 17, 2016 |
| <u>*</u><br>Kenny Gunderman                             | Director  | June 17, 2016 |
| <u>*</u><br>Robert Cameron Smith                        | Director  | June 17, 2016 |
| <u>*</u><br>Eddie L. Hight                              | Director  | June 17, 2016 |

\* By/s/ Jeffrey A. Williams  
Jeffrey A. Williams  
As Attorney-in-Fact  
Pursuant to Powers of  
Attorney filed herewith

| <b><u>Exhibit Number</u></b> | <b><u>Description of Exhibit</u></b>  |
|------------------------------|---|
| 3.1                          | Articles of Incorporation of the Company, as amended. (Incorporated by reference to Exhibits 4.1-4.8 to the Company's Registration Statement on Form S-8 filed with the SEC on November 16, 2005 (File No. 333-129727))   |
| 3.2                          | Amended and Restated Bylaws of the Company dated December 4, 2007. (Incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 31, 2007 filed with the SEC on December 7, 2007)  |
| 3.3                          | Amendment No. 1 to the Amended and Restated Bylaws of the Company dated February 18, 2014. (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on February 19, 2014)   |
| 4.1                          | Specimen stock certificate. (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended April 30, 1994 (File No. 000-14939))  |
| 4.2                          | Amended and Restated Loan and Security Agreement dated March 9, 2012, among America's Car-Mart, Inc., a Texas corporation, as Parent; Colonial Auto Finance, Inc., an Arkansas corporation, America's Car Mart, Inc., an Arkansas corporation, and Texas Car-Mart, Inc., a Texas corporation, as Borrowers; and certain financial institutions, as Lenders, with Bank of America N.A., as Administrative Agent, Lead Arranger and Book Manager. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012) |
| 4.3                          | Colonial Second Amended and Restated Revolver Note dated March 9, 2012 by Colonial Auto Finance, Inc. in favor of Bank of America, N.A., as Lender. (Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012)   |
| 4.4                          | Colonial Second Amended and Restated Revolver Note dated March 9, 2012 by Colonial Auto Finance, Inc. in favor of BOKF, NA d/b/a Bank of Arkansas, as Lender. (Incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012)   |
| 4.5                          | Colonial Second Amended and Restated Revolver Note dated March 9, 2012 by Colonial Auto Finance, Inc. in favor of Commerce Bank, as Lender. (Incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012)   |
| 4.6                          | Colonial Revolver Note dated March 9, 2012 by Colonial Auto Finance, Inc. in favor of First Tennessee Bank, as Lender. (Incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012)  |
| 4.7                          | Colonial Second Amended and Restated Revolver Note dated March 9, 2012 by Colonial Auto Finance, Inc. in favor of Arvest Bank, as Lender. (Incorporated by reference to Exhibit 4.6 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012)   |
| 4.8                          | ACM-TCM Amended and Restated Revolver Note dated March 9, 2012 by America's Car Mart, Inc., an Arkansas corporation, and Texas Car-Mart, Inc., as Borrowers, in favor of Bank of America, N.A., as Lender. (Incorporated by reference to Exhibit 4.7 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012)  |

| <b><u>Exhibit Number</u></b> | <b><u>Description of Exhibit</u></b>  |
|------------------------------|---|
| 4.9                          | ACM-TCM Amended and Restated Revolver Note dated March 9, 2012 by America's Car Mart, Inc., an Arkansas corporation, and Texas Car-Mart, Inc., as Borrowers, in favor of BOKF, NA d/b/a Bank of Arkansas, as Lender. (Incorporated by reference to Exhibit 4.8 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012)                                  |
| 4.10                         | ACM-TCM Amended and Restated Revolver Note dated March 9, 2012 by America's Car Mart, Inc., an Arkansas corporation, and Texas Car-Mart, Inc., as Borrowers, in favor of Commerce Bank, as Lender. (Incorporated by reference to Exhibit 4.9 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012)  |
| 4.11                         | ACM-TCM Revolver Note dated March 9, 2012 by America's Car Mart, Inc., an Arkansas corporation, and Texas Car-Mart, Inc., as Borrowers, in favor of First Tennessee Bank, as Lender. (Incorporated by reference to Exhibit 4.10 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012)   |
| 4.12                         | ACM-TCM Amended and Restated Revolver Note dated March 9, 2012 by America's Car Mart, Inc., an Arkansas corporation, and Texas Car-Mart, Inc., as Borrowers, in favor of Arvest Bank, as Lender. (Incorporated by reference to Exhibit 4.11 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012)   |
| 4.13                         | Amended and Restated Continuing Guaranty dated as of March 9, 2012, by America's Car-Mart, Inc., a Texas corporation, as Guarantor, in favor of Bank of America, N.A. as Agent for the Lenders. (Incorporated by reference to Exhibit 4.12 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012)  |
| 4.14                         | Amended and Restated Continuing Guaranty dated as of March 9, 2012, by America's Car Mart, Inc., an Arkansas corporation, and Texas Car-Mart, Inc., a Texas corporation, as Guarantors, in favor of Bank of America, N.A., as Agent for the Lenders. (Incorporated by reference to Exhibit 4.13 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012) |
| 4.15                         | Amended and Restated Continuing Guaranty dated as of March 9, 2012, by Colonial Auto Finance, Inc., as Guarantor, in favor of Bank of America, N.A., as Agent for the Lenders. (Incorporated by reference to Exhibit 4.14 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012)   |
| 4.16                         | Amended and Restated Security Agreement dated as of March 9, 2012, between America's Car-Mart, Inc., a Texas corporation, as Grantor, and Bank of America, N.A., as Agent for Lenders. (Incorporated by reference to Exhibit 4.15 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012)   |
| 4.17                         | Amended and Restated Security Agreement dated as of March 9, 2012, by and among America's Car Mart, Inc., an Arkansas corporation, and Texas Car-Mart, Inc., a Texas corporation, as Grantors, and Bank of America, N.A., as Agent for Lenders. (Incorporated by reference to Exhibit 4.16 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012)      |



- 4.18 Amended and Restated Security Agreement dated as of March 9, 2012, between Colonial Auto Finance, Inc., as Grantor, and Bank of America, N.A., as Agent for Lenders. (Incorporated by reference to Exhibit 4.17 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012)
- 4.19 Amendment No. 1 to Amended and Restated Loan and Security Agreement dated September 20, 2012, among America's Car-Mart, Inc., a Texas corporation, as Parent; Colonial Auto Finance, Inc., an Arkansas corporation, America's Car Mart, Inc., an Arkansas corporation, and Texas Car-Mart, Inc., a Texas corporation, as Borrowers; and certain financial institutions, as Lenders, with Bank of America N.A., as Administrative Agent, Lead Arranger and Book Manager (Incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the SEC on September 21, 2012)
- 4.20 Colonial Third Amended and Restated Revolver Note dated September 20, 2012 by Colonial Auto Finance, Inc. in favor of Bank of America, N.A., as Lender (Incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed with the SEC on September 21, 2012)
- 4.21 Colonial Third Amended and Restated Revolver Note dated September 20, 2012 by Colonial Auto Finance, Inc. in favor of BOKF, NA d/b/a Bank of Arkansas, as Lender (Incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K filed with the SEC on September 21, 2012)
- 4.22 Colonial Amended and Restated Revolver Note dated September 20, 2012 by Colonial Auto Finance, Inc. in favor of First Tennessee Bank, as Lender (Incorporated by reference to Exhibit 4.6 to the Company's Current Report on Form 8-K filed with the SEC on September 21, 2012)
- 4.23 Colonial Third Amended and Restated Revolver Note dated September 20, 2012 by Colonial Auto Finance, Inc. in favor of Arvest (Incorporated by reference to Exhibit 4.7 to the Company's Current Report on Form 8-K filed with the SEC on September 21, 2012)
- 4.24 Amendment No. 2 to Amended and Restated Loan and Security Agreement dated February 4, 2013, among America's Car-Mart, Inc., a Texas corporation, as Parent; Colonial Auto Finance, Inc., an Arkansas corporation, America's Car Mart, Inc., an Arkansas corporation, and Texas Car-Mart, Inc., a Texas corporation, as Borrowers; and certain financial institutions, as Lenders, with Bank of America N.A., as Administrative Agent, Lead Arranger and Book Manager (Incorporated by reference to Exhibit 4.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended January 31, 2013 filed with the SEC on March 1, 2013)
- 4.25 Amendment No. 3 to Amended and Restated Loan and Security Agreement dated June 24, 2013, among America's Car-Mart, Inc., a Texas corporation, as Parent; Colonial Auto Finance, Inc., an Arkansas corporation, America's Car Mart, Inc., an Arkansas corporation, and Texas Car-Mart, Inc., a Texas corporation, as Borrowers; and certain financial institutions, as Lenders, with Bank of America N.A., as Administrative Agent, Lead Arranger and Book Manager. (Incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed with the SEC on June 28, 2013).
- 4.26 Amendment No. 4 to Amended and Restated Loan and Security Agreement dated February 13, 2014, among America's Car-Mart, Inc., a Texas corporation, as Parent; Colonial Auto Finance, Inc., an Arkansas corporation, America's Car Mart, Inc., an Arkansas corporation, and Texas Car-Mart, Inc., a Texas corporation, as Borrowers; and certain financial

institutions, as Lenders, with Bank of America N.A., as Administrative Agent, Lead Arranger and Book Manager (Incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K filed with the SEC on February 19, 2014).

- 4.27 Amendment No. 5 to Amended and Restated Loan and Security Agreement dated October 8, 2014, among America's Car-Mart, Inc., a Texas corporation, as Parent; Colonial Auto Finance, Inc., an Arkansas corporation, America's Car Mart, Inc., an Arkansas corporation, and Texas Car-Mart, Inc., a Texas corporation, as Borrowers; and certain financial institutions, as Lenders, with Bank of America N.A., as Administrative Agent, Lead Arranger and Book Manager (Incorporated by reference to Exhibit 4.6 to the Company's Current Report on Form 8-K filed with the SEC on October 10, 2014).
- 10.1\* Amended and Restated Stock Incentive Plan (Incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A filed with the SEC on June 23, 2015).
- 10.2\* Amended and Restated Stock Option Plan (Incorporated by reference to Appendix B to the Company's Proxy Statement on Schedule 14A filed with the SEC on June 23, 2015).
- 10.2.1\* Option Agreement for Amended and Restated Stock Option Plan, dated August 5, 2015, between America's Car-Mart, Inc., a Texas corporation, and William H. Henderson (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 10, 2015).
- 10.2.2\* Option Agreement for Amended and Restated Stock Option Plan, dated August 5, 2015, between America's Car-Mart, Inc., a Texas corporation, and William H. Henderson (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on August 10, 2015).
- 10.2.3\* Option Agreement for Amended and Restated Stock Option Plan, dated August 5, 2015, between America's Car-Mart, Inc., a Texas corporation, and Jeffrey A. Williams (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on August 10, 2015).
- 10.2.4\* Option Agreement for Amended and Restated Stock Option Plan, dated August 5, 2015, between America's Car-Mart, Inc., a Texas corporation, and Jeffrey A. Williams (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on August 10, 2015).
- 10.3\* Form of Indemnification Agreement between the Company and certain officers and directors of the Company. (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 1993)
- 10.4\* Employment Agreement, dated as of May 1, 2015, between America's Car Mart, Inc., an Arkansas corporation, and William H. Henderson (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 23, 2015).
- 10.5\* Employment Agreement, dated as of May 1, 2015, between America's Car Mart, Inc., an Arkansas corporation, and Jeffrey A. Williams (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on June 23, 2015).
- 10.6\* America's Car-Mart, Inc. Nonqualified Deferred Compensation Plan (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 10, 2014).

|         |  |
|---------|--|
| 14.1    | Code of Business Conduct and Ethics. (Incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K for the year ended April 30, 2004 filed with the SEC on July 8, 2004)                        |
| 21.1    | Subsidiaries of America's Car-Mart, Inc.   |
| 23.1    | Consent of Independent Registered Public Accounting Firm   |
| 24.1    | Power of Attorney of J. David Simmons  |
| 24.2    | Power of Attorney of Kenny Gunderman   |
| 24.3    | Power of Attorney of Daniel J. Englander   |
| 24.4    | Power of Attorney of Robert Cameron Smith  |
| 24.5    | Power of Attorney of Eddie L. Hight  |
| 24.6    | Power of Attorney of Jim von Grep  |
| 31.1    | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")  |
| 31.2    | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act  |
| 32.1    | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema Document  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document   |

\* Indicates management contract or compensatory plan or arrangement covering executive officers or directors of the Company.

## **Exhibit 21.1**

### **Subsidiaries of America's Car-Mart, Inc.**

Crown Delaware Investments Corp. (a Delaware corporation)

America's Car-Mart, Inc. (an Arkansas Corporation)

Colonial Auto Finance, Inc. (an Arkansas Corporation)

Colonial Underwriting, Inc. (an Arkansas Corporation)

Texas Car-Mart, Inc. (a Texas corporation)

Auto Finance Investors, Inc. (a Texas corporation)

**Exhibit 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our reports dated June 17, 2016, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of America's Car-Mart, Inc. on Form 10-K for the year ended April 30, 2016. We hereby consent to the incorporation by reference of said reports in the Registration Statements of America's Car-Mart, Inc. on Forms S-8 (File Nos. 333-38475, 333-147915, 333-139270, 333-139269, 333-129727, 333-163022, 333-170964).

/s/ GRANT THORNTON LLP

Tulsa, OK

June 17, 2016

**Exhibit 24.1**

STATE OF ALABAMA       §  
COUNTY OF JEFFERSON §

**POWER OF ATTORNEY**

Know all men by these presents, that I, J. DAVID SIMMONS, a Director of AMERICA'S CAR-MART, INC., a Texas corporation, do constitute and appoint WILLIAM H. HENDERSON and JEFFREY A. WILLIAMS my true and lawful attorneys-in-fact, with full power of substitution, for me in any and all capacities, to sign, pursuant to the requirements of the Securities Exchange Act of 1934, the Annual Report on Form 10-K for AMERICA'S CAR-MART, INC. for the fiscal year ended April 30, 2016 and to file the same with the Securities and Exchange Commission and National Association of Securities Dealers, Inc., together with all exhibits thereto and other documents in connection therewith, and to sign on my behalf and in my stead, in any and all capacities, any amendments to said Annual Report, incorporating such changes as said attorneys-in-fact deem appropriate, hereby ratifying and confirming all that said attorneys-in-fact, or their substitute or substitutes may do or cause to be done by virtue hereof.

In witness whereof, I have hereunto set my hand and seal this 16th day of June, 2016.

/s/ J. David Simmons  
J. DAVID SIMMONS

**ACKNOWLEDGMENT**

Before me this 16th day of June, 2016, came J. DAVID SIMMONS, personally known to me, who in my presence did sign and seal the above and foregoing Power of Attorney and acknowledged the same as his true act and deed.

/s/ Charlotte H. Mileski  
NOTARY PUBLIC

**Exhibit 24.2**

STATE OF ARKANSAS           §  
COUNTY OF PULASKI       §

**POWER OF ATTORNEY**

Know all men by these presents, that I, KENNY GUNDERMAN, a Director of AMERICA'S CAR-MART, INC., a Texas corporation, do constitute and appoint WILLIAM H. HENDERSON and JEFFREY A. WILLIAMS my true and lawful attorneys-in-fact, with full power of substitution, for me in any and all capacities, to sign, pursuant to the requirements of the Securities Exchange Act of 1934, the Annual Report on Form 10-K for AMERICA'S CAR-MART, INC. for the fiscal year ended April 30, 2016 and to file the same with the Securities and Exchange Commission and National Association of Securities Dealers, Inc., together with all exhibits thereto and other documents in connection therewith, and to sign on my behalf and in my stead, in any and all capacities, any amendments to said Annual Report, incorporating such changes as said attorneys-in-fact deem appropriate, hereby ratifying and confirming all that said attorneys-in-fact, or their substitute or substitutes may do or cause to be done by virtue hereof.

In witness whereof, I have hereunto set my hand and seal this 16th day of June, 2016.

/s/ Kenny Gunderman  
KENNY GUNDERMAN

**ACKNOWLEDGMENT**

Before me this 16th day of June, 2016, came KENNY GUNDERMAN, personally known to me, who in my presence did sign and seal the above and foregoing Power of Attorney and acknowledged the same as his true act and deed.

/s/ Alyssa Foster  
NOTARY PUBLIC

**Exhibit 24.3**

STATE OF NEW YORK §  
COUNTY OF SUFFOLK §

**POWER OF ATTORNEY**

Know all men by these presents, that I, DANIEL J. ENGLANDER, a Director of AMERICA'S CAR-MART, INC., a Texas corporation, do constitute and appoint WILLIAM H. HENDERSON and JEFFREY A. WILLIAMS my true and lawful attorneys-in-fact, with full power of substitution, for me in any and all capacities, to sign, pursuant to the requirements of the Securities Exchange Act of 1934, the Annual Report on Form 10-K for AMERICA'S CAR-MART, INC. for the fiscal year ended April 30, 2015 and to file the same with the Securities and Exchange Commission and National Association of Securities Dealers, Inc., together with all exhibits thereto and other documents in connection therewith, and to sign on my behalf and in my stead, in any and all capacities, any amendments to said Annual Report, incorporating such changes as said attorneys-in-fact deem appropriate, hereby ratifying and confirming all that said attorneys-in-fact, or their substitute or substitutes may do or cause to be done by virtue hereof.

In witness whereof, I have hereunto set my hand and seal this 14th day of June, 2016.

/s/ Daniel J. Englander  
DANIEL J. ENGLANDER

**ACKNOWLEDGMENT**

Before me this 14th day of June, 2016, came DANIEL J. ENGLANDER, personally known to me, who in my presence did sign and seal the above and foregoing Power of Attorney and acknowledged the same as his true act and deed.

/s/ Diane Carnesi  
NOTARY PUBLIC



**Exhibit 24.4**

STATE OF ARKANSAS           §  
COUNTY OF BENTON       §

**POWER OF ATTORNEY**

Know all men by these presents, that I, ROBERT CAMERON SMITH, a Director of AMERICA'S CAR-MART, INC., a Texas corporation, do constitute and appoint WILLIAM H. HENDERSON and JEFFREY A. WILLIAMS my true and lawful attorneys-in-fact, with full power of substitution, for me in any and all capacities, to sign, pursuant to the requirements of the Securities Exchange Act of 1934, the Annual Report on Form 10-K for AMERICA'S CAR-MART, INC. for the fiscal year ended April 30, 2016 and to file the same with the Securities and Exchange Commission and National Association of Securities Dealers, Inc., together with all exhibits thereto and other documents in connection therewith, and to sign on my behalf and in my stead, in any and all capacities, any amendments to said Annual Report, incorporating such changes as said attorneys-in-fact deem appropriate, hereby ratifying and confirming all that said attorneys-in-fact, or their substitute or substitutes may do or cause to be done by virtue hereof.

In witness whereof, I have hereunto set my hand and seal this 14th day of June, 2016.

/s/ Robert Cameron Smith  
ROBERT CAMERON SMITH

**ACKNOWLEDGMENT**

Before me this 14th day of June, 2016, came ROBERT CAMERON SMITH, personally known to me, who in my presence did sign and seal the above and foregoing Power of Attorney and acknowledged the same as his true act and deed.

/s/ L.A. Sodowsky  
NOTARY PUBLIC

**Exhibit 24.5**

STATE OF ARKANSAS           §  
COUNTY OF BENTON       §

**POWER OF ATTORNEY**

Know all men by these presents, that I, EDDIE L. HIGHT, a Director of AMERICA'S CAR-MART, INC., a Texas corporation, do constitute and appoint WILLIAM H. HENDERSON and JEFFREY A. WILLIAMS my true and lawful attorneys-in-fact, with full power of substitution, for me in any and all capacities, to sign, pursuant to the requirements of the Securities Exchange Act of 1934, the Annual Report on Form 10-K for AMERICA'S CAR-MART, INC. for the fiscal year ended April 30, 2016 and to file the same with the Securities and Exchange Commission and National Association of Securities Dealers, Inc., together with all exhibits thereto and other documents in connection therewith, and to sign on my behalf and in my stead, in any and all capacities, any amendments to said Annual Report, incorporating such changes as said attorneys-in-fact deem appropriate, hereby ratifying and confirming all that said attorneys-in-fact, or their substitute or substitutes may do or cause to be done by virtue hereof.

In witness whereof, I have hereunto set my hand and seal this 16th day of June, 2016.

/s/ Eddie L. Hight  
EDDIE L. HIGHT

**ACKNOWLEDGMENT**

Before me this 16th day of June, 2016, came EDDIE L. HIGHT, personally known to me, who in my presence did sign and seal the above and foregoing Power of Attorney and acknowledged the same as his true act and deed.

/s/ Christy Wilkerson  
NOTARY PUBLIC

**Exhibit 24.6**

STATE OF ARKANSAS           §  
COUNTY OF BENTON       §

**POWER OF ATTORNEY**

Know all men by these presents, that I, JIM VON GREMP, a Director of AMERICA'S CAR-MART, INC., a Texas corporation, do constitute and appoint WILLIAM H. HENDERSON and JEFFREY A. WILLIAMS my true and lawful attorneys-in-fact, with full power of substitution, for me in any and all capacities, to sign, pursuant to the requirements of the Securities Exchange Act of 1934, the Annual Report on Form 10-K for AMERICA'S CAR-MART, INC. for the fiscal year ended April 30, 2016 and to file the same with the Securities and Exchange Commission and National Association of Securities Dealers, Inc., together with all exhibits thereto and other documents in connection therewith, and to sign on my behalf and in my stead, in any and all capacities, any amendments to said Annual Report, incorporating such changes as said attorneys-in-fact deem appropriate, hereby ratifying and confirming all that said attorneys-in-fact, or their substitute or substitutes may do or cause to be done by virtue hereof.

In witness whereof, I have hereunto set my hand and seal this 15th day of June, 2016.

/s/ Jim von Grempp  
JIM VON GREMP

**ACKNOWLEDGMENT**

Before me this 15th day of June, 2016, came JIM VON GREMP, personally known to me, who in my presence did sign and seal the above and foregoing Power of Attorney and acknowledged the same as his true act and deed.

/s/ Christy Wilkerson  
NOTARY PUBLIC

## Exhibit 31.1

### Certification

I, William H. Henderson, certify that:

1. I have reviewed this Annual Report on Form 10-K for the period ended April 30, 2016 of America's Car-Mart, Inc.
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.

June 17, 2016

/s/ William H. Henderson  
William H. Henderson  
Chief Executive Officer  
(Principal Executive Officer)

## Exhibit 31.2

### Certification

I, Jeffrey A. Williams, certify that:

1. I have reviewed this Annual Report on Form 10-K for the period ended April 30, 2016 of America's Car-Mart, Inc.
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.

June 17, 2016

/s/ Jeffrey A. Williams  
Jeffrey A. Williams  
President, Chief Financial Officer and Secretary  
(Principal Financial Officer)

**Exhibit 32.1**

**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 Annual Report on Form 10-K for the period ended April 30, 2016 of America's Car-Mart, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, William H. Henderson, Chief Executive Officer of the Company, Jeffrey A. Williams, President and Chief Financial Officer of the Company, and Vickie Judy, Vice President, Accounting, 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/ William H. Henderson  
William H. Henderson  
President and Chief Executive Officer  
June 17, 2016

By: /s/ Jeffrey A. Williams  
Jeffrey A. Williams  
Vice President Finance, Chief Financial Officer and Secretary  
June 17, 2016

America's Car-Mart, Inc.  
2016 Annual Report

# CORPORATE INFORMATION

## Board of Directors

John David Simmons  
*Lead Director*  
*President, Simmons & Associates, LLC*

William H. ("Hank") Henderson  
*Chief Executive Officer*

Kenny Gunderman  
*President and Chief Executive Officer*  
*Communications Sales & Leasing, Inc.*

Robert Cameron Smith  
*President, Cameron Smith & Associates, Inc.*

Daniel J. Englander  
*Managing Partner, Ursula Investors*

Jeffrey A. Williams  
*President and Chief Financial Officer*

Eddie L. Hight  
*Retired Chief Operating Officer*

Jim von Grep  
*Managing Member, von Grep LLC*  
*Certified Public Accountant—Inactive*

## Executive Officers

William H. ("Hank") Henderson  
*Chief Executive Officer*

Jeffrey A. Williams  
*President and Chief Financial Officer*

## Corporate Headquarters

802 SE Plaza Avenue, Suite 200  
Bentonville, Arkansas 72712  
(479) 464-9944

## Annual Meeting

The annual meeting of stockholders will be held at America's Car-Mart Corporate Headquarters, 802 SE Plaza Avenue, Suite 200, Bentonville, Arkansas at 10:00 a.m. Central Time on Wednesday, August 31, 2016.

## Transfer Agent and Registrar

Securities Transfer Corporation  
Dallas, Texas  
(469) 633-0101

## Independent Public Accountants

Grant Thornton, LLP  
Tulsa, Oklahoma



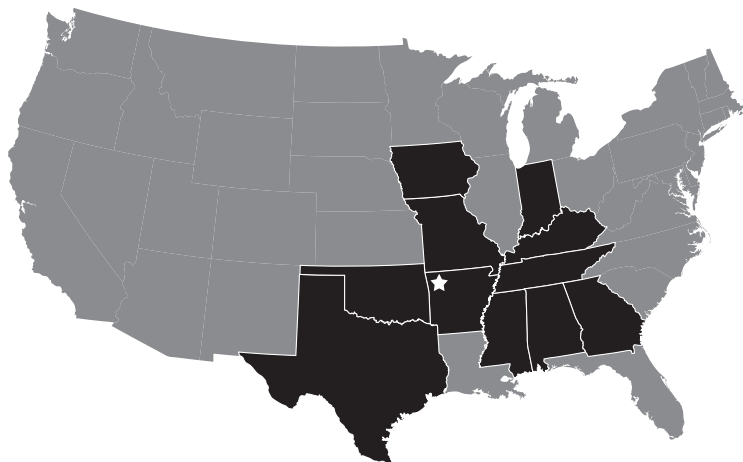
# America's **CAR-MART**

Drive Easy.®

*America's Car-Mart currently operates 143 dealerships in eleven states, with headquarters in Bentonville, Arkansas.*

★ **Corporate Headquarters**

802 SE Plaza Avenue, Suite 200  
Bentonville, Arkansas 72712  
Phone: (479) 464-9944  
Fax: (479) 273-7556  
www.car-mart.com



**ALABAMA (15)**

Albertville  
Anniston  
Athens  
Cullman  
Decatur  
Dothan  
Enterprise  
Florence  
Gadsden  
Muscle Shoals  
Opelika  
Phenix City  
Prattville  
Troy  
Tuscaloosa

**ARKANSAS (37)**

Arkadelphia  
Batesville  
Benton  
Berryville  
Bethel Heights  
Camden  
Clarksville  
Conway  
El Dorado  
Fayetteville  
Forrest City  
Fort Smith  
Harrison  
Hope  
Hot Springs  
Jacksonville  
Jonesboro  
Little Rock  
Magnolia  
Malvern  
Morrilton  
Mountain Home

North Little Rock (2)

Paragould  
Pine Bluff (2)  
Rogers (2)  
Russellville (2)  
Searcy  
Siloam Springs  
Springdale (2)  
Van Buren  
West Memphis

**GEORGIA (10)**

Albany  
Brunswick  
Carrollton  
Covington  
Dalton  
Macon  
Millidgeville  
Rome  
Valdosta  
Woodstock

**INDIANA (1)**

Evansville

**IOWA (1)**

Burlington

**KENTUCKY (12)**

Bowling Green  
Elizabethtown  
Glasgow  
Henderson  
Hopkinsville  
Lexington  
Madisonville  
Nicholasville  
Owensboro

Paducah  
Richmond  
Winchester

**MISSISSIPPI (5)**

Columbus  
Corinth  
Meridian  
Oxford  
Tupelo

**MISSOURI (19)**

Cape Girardeau  
Carthage  
Columbia  
Farmington  
Harrisonville  
Jefferson City  
Joplin  
Kirksville  
Lebanon  
Moberly  
Neosho  
Poplar Bluff  
Rolla  
Saint Joseph  
Sedalia  
Springfield (2)  
West Plains  
Warrensburg

**OKLAHOMA (25)**

Ada  
Altus  
Ardmore  
Bartlesville  
Broken Arrow  
Claremore  
Duncan  
Durant

Enid  
Grove  
Lawton  
McAlester  
Miami  
Muskogee  
Okmulgee  
Owasso  
Ponca City  
Poteau  
Sapulpa  
Shawnee  
Stillwater  
Stilwell  
Tahlequah  
Tulsa (2)

**TENNESSEE (6)**

Clarksville  
Columbia  
Hixson  
Jackson  
Madison  
Tullahoma

**TEXAS (12)**

Corsicana  
Greenville  
Longview  
Lufkin  
Mount Pleasant  
Nacogdoches  
Palestine  
Paris  
Sherman  
Sulphur Springs  
Texarkana  
Wichita Falls