

AMERICAS CARMART INC
Form DEF 14A
August 28, 2006

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

SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

- Definitive Proxy Statement
- Definitive Additional Materials

- Soliciting Material Pursuant to § 240.14a-12

AMERICA'S CAR-MART, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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- Fee paid previously with preliminary materials.
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No.: _____

(3) Filing

Party: _____

(4) Date

Filed: _____

**AMERICA'S CAR-MART, INC.
802 Southeast Plaza Ave., Suite 200
Bentonville, Arkansas 72712**

NOTICE of Annual Meeting of Stockholders

**To be Held
October 18, 2006**

To the Holders of Common Stock of
America's Car-Mart, Inc.

Notice is hereby given that the Annual Meeting of Stockholders of America's Car-Mart, Inc., a Texas corporation (the "Company"), will be held at the Clarion Hotel, 211 Southeast Walton Boulevard, Bentonville, Arkansas 72712, on Wednesday, October 18, 2006, at 10:00 a.m., local time, for the following purposes:

- (1) To elect six directors to serve for a term of one year and until their successors have been elected and qualified;
- (2) To approve the Company's 2006 Employee Stock Purchase Plan; and
- (3) To conduct such other business as may properly come before the meeting or any adjournment thereof.

Only stockholders of record as of the close of business on August 28, 2006, will be entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement thereof.

By Order of the Board of Directors.

Tilman J. Falgout, III
Chief Executive Officer and General Counsel

August 28, 2006

Your vote is important. Whether or not you plan to attend the meeting in person, you are urged to complete, sign, date and mail the enclosed proxy in the accompanying return envelope to which no postage need be affixed if mailed within the United States.

**AMERICA'S CAR-MART, INC.
802 Southeast Plaza Ave., Suite 200
Bentonville, Arkansas 72712**

**Annual Meeting of Stockholders
October 18, 2006**

PROXY STATEMENT

This Proxy Statement, which is first being mailed to stockholders on or about September 1, 2006, is furnished in connection with the solicitation of proxies by and on behalf of the Board of Directors of America's Car-Mart, Inc. (the "Company"), for use at the Annual Meeting of Stockholders of the Company to be held at the Clarion Hotel, 211 Southeast Walton Boulevard, Bentonville, Arkansas 72712, on Wednesday, October 18, 2006, at 10:00 a.m., local time, and at any or all adjournments or postponements thereof. The address of the principal executive offices of the Company is 802 Southeast Plaza Ave., Suite 200, Bentonville, Arkansas 72712 and the Company's telephone number is (479) 464-9944.

VOTING

Voting and Revocability of Proxies

Any person giving a proxy pursuant to this Proxy Statement may revoke it at any time before it is exercised at the Annual Meeting by notifying in writing the Secretary of the Company at the address above, prior to the Annual Meeting date. In addition, if the person executing the proxy is present at the Annual Meeting, he may, but need not, revoke the proxy, by notice of such revocation to the Secretary of the Annual Meeting, and vote his shares in person. Proxies in the form enclosed, if duly signed and received in time for voting, and not so revoked, will be voted at the Annual Meeting in accordance with the instructions specified therein. Where no choice is specified, proxies will be voted FOR the election of the nominees for director named herein, FOR approval of the Company's 2006 Employee Stock Purchase Plan and, on any other matters presented for a vote, in accordance with the judgment of the persons acting under the proxies.

Return of Proxy Card

Please complete, sign, date and return the accompanying proxy card promptly in the enclosed addressed envelope, even if you plan to attend the Annual Meeting. Postage need not be affixed to the envelope if mailed in the United States.

The immediate return of your proxy card will be of great assistance in preparing for the Annual Meeting and is, therefore, urgently requested. If you attend the Annual Meeting and vote in person, your proxy card will not be used.

Record Date and Share Ownership

Only stockholders of record at the close of business on August 28, 2006 will be entitled to notice of and to vote at the Annual Meeting and any adjournments thereof. Each share of common stock of the Company issued and outstanding on such record date is entitled to one vote. As of August 28, 2006, the Company had outstanding 11,895,524 shares of common stock.

Expenses of Solicitation

We will bear the entire cost of the proxy solicitation, including preparation, assembly, printing and mailing of this Proxy Statement, the proxy card, and any additional materials furnished to stockholders. Copies of proxy solicitation material will be furnished to brokerage houses, fiduciaries and custodians holding shares in their names that are beneficially owned by others to forward to such beneficial owners. In addition, we may reimburse such persons for their cost of forwarding the solicitation material to such beneficial owners. Solicitation of proxies by mail may be supplemented by one or more of telephone, e-mail, telegram, facsimile or personal solicitation by our directors, officers or regular employees. No additional compensation will be paid for such services. We may engage the services of a professional proxy solicitation firm to aid in the solicitation of proxies from certain brokers, bank nominees and other institutional owners. Our costs for such services, if retained, will not be material.

Quorum; Required Vote; Abstentions and Broker Non-Votes

The presence at the Annual Meeting of the holders of a majority of the outstanding shares of our common stock as of the record date is necessary to constitute a quorum. Stockholders will be counted as present at the meeting if they are present in person at the Annual Meeting or if they have properly submitted a proxy card. A plurality of the votes duly cast is required for the election of directors. The affirmative vote of the holders of a majority of the outstanding shares of common stock present in person or by proxy at the meeting is required for approval of the Company's 2006 Employee Stock Purchase Plan.

Any abstaining votes and broker "non-votes" will be counted as present and entitled to vote and therefore will be included for purposes of determining whether a quorum is present at the Annual Meeting. Neither abstentions nor broker "non-votes" will be deemed to be "votes cast." As a result, broker "non-votes" and abstentions will not be included in the tabulation of the voting results on the election of directors and, therefore, will not have any effect on such votes. A broker "non-vote" occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner.

CORPORATE GOVERNANCE AND BOARD MATTERS

Board Independence

Our Board presently consists of five members. The Board has determined that Carl E. Baggett, William M. Sams and John David Simmons have no relationship with our company that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and are independent within the rules of the NASDAQ National Market ("NASDAQ").

Committees of the Board of Directors

The Board of Directors of the Company presently has three standing committees: Audit Committee, Compensation and Stock Option Committee (the "Compensation Committee") and Nominating Committee. Each of these committees is described below.

Audit Committee. The Audit Committee assists the Board in overseeing our accounting and financial reporting processes and audits of our financial statements. It is directly responsible for the appointment, compensation, retention, and oversight of the work of our registered public accounting firm. It reviews the auditing accountant's audit of our financial statements and its report thereon, management's report on our system of internal controls over financial reporting, various other accounting and auditing matters and the independence of the auditing accountants. The Committee reviews and pre-approves all audit and non-audit services performed by our auditing accountants, or

other accounting firms, other than as may be allowed by applicable law. It has established procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting and auditing matters. The Audit Committee meets with management to review any issues related to matters within the scope of the Audit Committee's duties.

The Audit Committee is currently composed of Messrs. Simmons, Sams and Baggett, each of whom is an “independent director” as such term is defined by the NASDAQ’s listing standards. The Board has determined that Carl E. Baggett is an “audit committee financial expert,” as defined by the rules of the Securities and Exchange Commission (the “SEC”). Beginning in April 2006, Mr. Simmons receives \$2,000 per month for serving as Chairman of the Audit Committee. Other than Mr. Simmons, no other member of the committee receives any compensation from us other than for service as a member of the Board of Directors and committees of the Board. The Audit Committee held six meetings during the last fiscal year.

Compensation Committee. The Compensation Committee is currently composed of Messrs. Simmons, Sams and Baggett. This Committee recommends compensation levels for our executive officers, and is authorized to consider and make grants of options and restricted stock pursuant to the Company’s 1997 Stock Option Plan and the Company’s 2005 Restricted Stock Plan and to administer the 1997 Stock Option Plan and the 2005 Restricted Stock Plan and any other equity incentive plans adopted by the Company. The Compensation Committee met once during fiscal 2006.

Nominating Committee. The Nominating Committee is currently composed of Messrs. Simmons, Sams and Baggett. The Nominating Committee operates pursuant to a written charter adopted by the Board of Directors. Although the charter is not available on the Company’s website, a copy was attached as Appendix A to the Company’s 2005 Proxy Statement. Nominees for election to the Board of Directors are considered and recommended by the Nominating Committee of the Board of Directors. The full Board of Directors considers the recommendations of the Nominating Committee and recommends the nominees to the stockholders. The Nominating Committee’s process for identifying and evaluating potential nominees includes soliciting recommendations from our directors and officers. Additionally, the Nominating Committee will consider persons recommended by our stockholders in selecting nominees for election. The Nominating Committee does not have a formal policy with regard to the consideration of any director candidates recommended by stockholders because it believes that it can adequately evaluate any such nominee on a case-by-case basis. However, the Nominating Committee would consider for possible nomination qualified nominees recommended by stockholders. Stockholders who wish to propose a qualified nominee for consideration should submit complete information as to the identity and qualifications of that person to the Secretary of the Company at 802 Southeast Plaza Ave., Suite 200, Bentonville, Arkansas 72712. See “—Stockholder Proposals for 2007 Annual Meeting” below for information regarding procedures that must be followed by stockholders in order to nominate directors at the 2007 annual meeting. Absent special circumstances, the Nominating Committee will continue to nominate qualified incumbent directors whom the Nominating Committee believes will continue to make important contributions to the Board of Directors. The Nominating Committee generally requires that nominees be persons of sound ethical character, be able to represent all stockholders fairly, have no material conflicts of interest, have demonstrated professional achievement, have meaningful experience and have a general appreciation of the major business issues facing the Company. The Nominating Committee met once during fiscal 2006.

Compensation Committee Interlocks and Insider Participation

None of the members of our Compensation Committee is or has been one of our officers or employees. There are no compensation committee interlocks and no insider participation in compensation decisions that are required to be disclosed in this Proxy Statement.

Stockholder Communications with the Board

The Board of Directors has implemented a process for stockholders to send communications to the Board. Any stockholder desiring to communicate with the Board, or with specific individual directors, may do so by writing to the Secretary of the Company at 802 Southeast Plaza Ave., Suite 200, Bentonville, Arkansas 72712. The Secretary of the Company has been instructed by the Board to promptly forward all such communications to the Board or such individual directors.

Stockholder Proposals for 2007 Annual Meeting

Any proposal to be presented at the 2007 Annual Meeting of Stockholders must be received at the principal executive offices of the Company not later than April 30, 2007, directed to the attention of the Secretary, for consideration for inclusion in the Company's proxy statement and form of proxy relating to that meeting. In connection with next year's Annual Meeting, if the Company does not receive notice of a matter or proposal to be considered by July 14, 2007, then the persons appointed by the Board of Directors to act as the proxies for such Annual Meeting (named in the form of proxy) will be allowed to use their discretionary voting authority with respect to any such matter or proposal at the Annual Meeting, if such matter or proposal is raised at that Annual Meeting. Any such proposals must comply in all respects with the rules and regulations of the SEC.

Director Compensation

Effective November 1, 2004, each non-employee director receives a \$3,000 monthly retainer. Directors who are also employees of the Company do not receive separate compensation for their services as a director. On the first business day of July in each year, each then serving non-employee director of the Company is automatically granted an option pursuant to the 1997 Stock Option Plan to purchase 3,750 shares of common stock, at an exercise price equal to the fair market value of such stock as of the close of business on the date of grant. These options are exercisable for a period of up to ten years from the date of grant or, in the event that a director ceases to be a director of the Company for any reason, 90 days following the date on which such director ceased to be a director, if earlier.

Board Members' Attendance at Board Meetings and Prior Year's Annual Meeting

During the Company's last fiscal year, the Board of Directors held seven meetings. Each incumbent director attended at least 75% of the aggregate number of meetings held by the Board and by the Committees of the Board on which such director served.

It is the Board's policy that all directors should attend the Annual Meeting of Stockholders unless unavoidably prevented from doing so by unforeseen circumstances. All of our directors attended the 2005 Annual Meeting of Stockholders.

Code of Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all employees, including executive officers and directors. A copy of the Company's Code was filed as Exhibit 14.1 to our Annual Report on Form 10-K for the fiscal year ended April 30, 2004. In the event that we make any amendment to, or grant any waiver from, a provision of the Code that requires disclosure under applicable SEC or NASDAQ rules, we shall disclose such amendment or waiver and the reasons therefor, as required.

PROPOSALS TO BE VOTED ON

Proposal 1: Election of Directors

Pursuant to the Bylaws of the Company, the Board of Directors has set the number of directors for the ensuing year at six, all of whom are proposed to be elected at the Annual Meeting. In the event any nominee is unable or declines to serve as a director at the time of the meeting, the persons named as proxies therein will have discretionary authority to vote the proxies for the election of such person or persons as may be nominated in substitution by the present Board of Directors, upon the recommendation of the Nominating Committee. Management knows of no current circumstances that would render any nominee named herein unable to accept nomination or election. Directors shall be elected by a plurality of the votes cast by the holders of shares entitled to vote in the election of directors at a meeting of stockholders at which a quorum is present.

Members of the Board of Directors are elected annually to serve until the next annual meeting of stockholders and until their successors are elected and qualified.

Nominees for election to the Board of Directors are considered and recommended by the Nominating Committee of the Board of Directors. The full Board of Directors considers the recommendations of the Nominating Committee and recommends the nominees to the stockholders. The following persons were nominated in accordance with this process.

Tilman J. Falgout, III, age 57, has served as Chief Executive Officer of the Company since May 2002 and as General Counsel of the Company since March 1995. Mr. Falgout also served as Executive Vice President of the Company from March 1995 to May 2002. Mr. Falgout has served as Chairman of the Board since May 2004 and as a director since September 1992.

Carl E. Baggett, age 72, has served as Chairman of the Board of Directors of Arvest Bank in Rogers, Arkansas since 2000. From 1975 until 2000, Mr. Baggett was President and Chief Executive Officer of First National Bank, Rogers, Arkansas. Mr. Baggett has served as a director of the Company since September 2002.

William H. Henderson, age 43, has served as President of the Company since May 2002. From 1999 until May 2002, Mr. Henderson served as Chief Operating Officer of Car-Mart, the Company's wholly owned operating subsidiary. 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. Mr. Henderson has served as Vice Chairman of the Board since May 2004 and as a director since September 2002.

William M. Sams, age 68, has served as a director of the Company since March 2005. Mr. Sams currently manages his personal investments. From 1981 until 2000, Mr. Sams was the President and Chief Investment Officer of FPA Paramount Fund, Inc., as well as Executive Vice President to both First Pacific Advisors, Inc. and FPA Perennial Fund, Inc. He started his career in 1966 in the mutual fund industry.

John David Simmons, age 70, has served as a director of the Company since August 1986. Since 1970, he has been President of Simmons & Associates LLC, a real estate development company, and Management Resources LLC, a management consulting firm.

William A. Swanston, age 52, a current nominee for director, has held a number of Executive Level positions with Frito Lay, a division of Pepsico, over the course of a 25 year Pepsico career. Mr. Swanston has extensive Strategy, Supply Chain and Procurement experience. Mr. Swanston joined Dean Foods as Senior Vice President - Business

Transformation in August 2006.

The Board of Directors recommends a vote FOR each of the six nominees to the Company's Board of Directors.

5

Proposal 2: Approval of the Company's 2006 Employee Stock Purchase Plan

On August 10, 2006, the Compensation Committee adopted, subject to stockholder approval, the 2006 Employee Stock Purchase Plan ("2006 Plan"). The 2006 Plan will become effective upon stockholder approval. The following summary of certain features of the 2006 Plan is qualified in its entirety by reference to the full text of the 2006 Plan, which is attached to this proxy statement as Appendix B and incorporated herein by reference.

The affirmative vote of the holders of a majority of the outstanding shares of common stock present in person or by proxy at the meeting is required for approval of this proposal.

Nature and Purpose of the 2006 Plan

The purpose of the 2006 Plan is to provide eligible employees with an incentive to advance the interests of the Company by affording them an opportunity to purchase stock of the Company at a favorable price.

Authorized Shares

The aggregate number of shares which may be sold pursuant to options granted under the Plan shall not exceed 200,000 shares of the authorized \$.01 par value common stock of the Company ("Stock"), which shares may be unissued shares or reacquired shares or shares bought on the market for purposes of the 2006 Plan. Should any option granted under the Plan expire or terminate prior to its exercise in full, the shares theretofore subject to such option may again be subject to an option granted under the Plan. Any shares of Stock which are not subject to outstanding options upon the termination of the Plan shall cease to be subject to the Plan.

Administration

The 2006 Plan shall be administered by the Compensation and Stock Option Committee of the Company (the "Committee") as appointed by the Board of Directors of the Company (the "Board"). In the absence of such appointment, the Board shall serve as the Committee. Subject to the provisions of the 2006 Plan, the Committee shall interpret and construe the 2006 Plan and all options granted under the 2006 Plan, shall make such rules as it deems necessary for the proper administration of the 2006 Plan, shall make all other determinations necessary or advisable for the administration of the 2006 Plan, including the determination of eligibility to participate in the 2006 Plan and the amount of a Participant's option under the 2006 Plan, and shall correct any defect or supply any omission or reconcile any inconsistency in the 2006 Plan or in any option granted under the 2006 Plan in the manner and to the extent that the Committee deems desirable to carry the 2006 Plan or any option into effect. The Committee shall, in its sole discretion exercised in good faith, make such decisions or determinations and take such actions as it deems appropriate, and all such decisions, determinations and actions taken or made by the Committee shall be conclusive on all parties. The Committee shall not be liable for any decision, determination or action taken in good faith in connection with the administration of the 2006 Plan. The Committee may approve the use of a voice response system or on-line administration system through which Eligible Employees and the Committee may act under the 2006 Plan, as an alternative to written forms, notices and elections.

Eligibility

All employees of the Company and the Participating Companies who are employed for the applicable Service Period as of the applicable Date of Grant and who are customarily employed at least 20 hours per week and at least five months per year shall be eligible to participate in the 2006 Plan; provided, however, that no option shall be granted to an employee if such employee, immediately after the option is granted, owns stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company ("Eligible Employee"). "Service Period"

means the period of service (including any authorized leave of absence) that an employee of the Company or a Participating Company must complete to be eligible to begin participating in the Plan. The applicable Service Period is 12 months.

As of August 8, 2006, approximately 394 persons were eligible to receive options pursuant to the 2006 Plan.

Grant of Options

Upon the effective date of the 2006 Plan and continuing while the 2006 Plan remains in force, the Company shall offer options under the 2006 Plan to all Eligible Employees to purchase shares of Stock. Except as otherwise determined by the Committee, these options shall be granted on the first day of the first payroll period beginning on or after the first day of January and July of each subsequent year (each of which dates is herein referred to as a "Date of Grant"). The term of each option granted shall be for a six (6) month period ending on June 30 or December 31 (each such six (6) month period is herein referred to as an "Option Period"). The last day of each Option Period is herein referred to as a "Date of Exercise." No Eligible Employee shall be granted an option under the 2006 Plan to the extent such grant would permit his rights to purchase Stock under the 2006 Plan and under all other employee stock purchase plans of the Company and its parent and subsidiary corporations to accrue at a rate which exceeds, in any one calendar year in which any such option granted to such employee is outstanding, \$25,000 of the Fair Market Value of Stock (determined at the time the option is granted).

Exercise of Options

Each Participant in the Plan, automatically and without any act on his part, shall be deemed to have exercised his option on each Date of Exercise to the extent that the cash balance then in his account under the 2006 Plan is sufficient to purchase at the "Option Price" whole shares of Stock. The Option Price per share of Stock to be paid by each Participant on each exercise of his option shall be an amount equal to 85% of the Fair Market Value of the Stock on the Date of Exercise.

Holding Period

A Participant may not dispose of (in any manner including assignment or hypothecation) shares of Stock acquired under this Plan until the later of twelve (12) months following the Date of Exercise of such shares or twenty-four (24) months following the Date of Grant for such shares (the "Holding Period"), regardless of whether the Participant is issued the applicable share certificates or whether the Company, or its agent, retains the share certificates; provided, however, the Holding Period with respect to a Participant's shares of Stock shall expire upon such earlier date and to the extent that the Committee determines, in its sole discretion, that such Participant would otherwise have qualified for a hardship distribution from the Company's 401(k) Plan. Upon the expiration of the Holding Period for any share of Stock, the Participant may dispose of such Stock as long as such disposition complies with all applicable securities laws. At the sole discretion of the Company, share certificates may bear a legend describing the restriction set forth in this paragraph.

Amendment or Termination of the 2006 Plan

The Board in its discretion may terminate the 2006 Plan at any time with respect to any shares for which options have not theretofore been granted. The Committee shall have the right to alter or amend the 2006 Plan or any part thereof from time to time without the approval of the stockholders of the Company; *provided*, that no change in any option theretofore granted, other than a change determined by the Committee to be necessary to comply with applicable law, may be made which would impair the rights of the Participant without the consent of such Participant; and *provided, further*, that the Committee may not make any alteration or amendment which would increase the aggregate number of shares which may be issued pursuant to the provisions of the 2006 Plan (other than as a result of the anti-dilution provisions of the 2006 Plan), change the class of individuals eligible to receive options under the 2006 Plan, or cause options issued under the 2006 Plan to fail to meet the requirements for employee stock purchase plans as defined in

Section 423 of the Code without the approval of the stockholders of the Company.

7

Federal Income Tax Consequences

The following discussion of the Federal income tax consequences of the grant of options and the purchase of the shares under the 2006 Plan is based on an analysis of the Internal Revenue Code of 1986 (as amended and currently in effect; the “Code”), existing laws, judicial decisions and administrative rulings and regulations, all of which are subject to change. In addition to being subject to the Federal income tax consequences described below, a participant may also be subject to state and local tax consequences in the jurisdiction in which he or she works and/or resides.

The 2006 Plan, and the right of participants to make purchases thereunder, is intended to qualify under the provisions of Section 423 of the Code which governs the taxation of what are commonly referred to as “employee stock purchase plans” or “ESPPs.” Under Section 423 of the Code, no income will be taxable to a participant at the time of grant of the option or exercise of the option.

If a participant holds shares received by the exercise of an option (“Option Shares”) for the longer of (1) two years from the grant of the option and (2) one year from the date on which the option is exercised (the “ESPP Holding Period”), he or she will recognize ordinary income on the lesser of (a) the difference between the fair market value of the Option Shares at the time he or she disposes of the Option Shares and the option exercise price or (b) the difference between the fair market value of the Option Shares at the date of the option grant and the option exercise price. Because the 2006 Plan generally requires that Option Shares must be held for the longer of twelve (12) months following the date of exercise of such Option Shares or twenty-four (24) months following the date of grant for such Option Shares, the ESPP Holding Period should be met and this recognition rule should apply. This recognition rule will also apply if a participant dies while holding Option Shares and his or her estate subsequently disposes of the Option Shares.

However, if the twelve or twenty-four month holding period, whichever is longer, expires because the Committee determines that the participant has experienced a hardship that would have qualified him or her for a distribution from the Company’s 401(k) Plan and the participant disposes of the Option Shares before the expiration of the ESPP Holding Period, he or she will be required to recognize ordinary income on the difference between the fair market value of the Option Shares on the exercise date and the exercise price. In addition, the difference between the fair market value of the Option Shares on the date of disposition and the fair market value of the Option Shares on the date of exercise will be long-term or short-term capital gain or loss, depending on how long the participant has held the Option Shares following exercise of the option. If the participant has held the shares for one year or less, the gain or loss will be short-term. If the participant has held the shares for more than one year, the gain or loss will be long-term.

The Company will not be entitled to any deduction with respect to Option Shares if the Option Shares are disposed of after the expiration of the ESPP Holding Period. If, however, the Option Shares are disposed of during the ESPP Holding Period, the Company will be entitled to deduct the amount of ordinary income recognized by the participant when he or she disposes of Option Shares before the ESPP Holding Period expires. This deduction may be taken in the Company’s taxable year in which or within which the participant’s taxable year (in which the disposition occurs) ends.

The Board of Directors recommends a vote FOR the adoption of the 2006 Plan.

REPORT OF THE AUDIT COMMITTEE

In accordance with the written charter adopted by the Board of Directors, a copy of which is attached as Appendix A hereto, the Audit Committee assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company. During the fiscal year ended April 30, 2006, the Audit Committee met six times and discussed internal controls, accounting, auditing and financial reporting practices of the Company with the Company's Chief Financial Officer and the independent auditors and accountants for the Company, Grant Thornton LLP. In discharging its oversight responsibility as to the audit process, each member of the Audit Committee has reviewed the Company's audited financial statements as of and for the year ended April 30, 2006 and the Audit Committee held one meeting with management and Grant Thornton LLP to discuss the audited financial statements prior to filing the Company's Annual Report on Form 10-K. The Audit Committee also met with Grant Thornton LLP to discuss the matters required to be discussed by Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU § 380) prior to filing the Company's Annual Report on Form 10-K.

The Audit Committee has received and reviewed the letter from Grant Thornton LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with Grant Thornton LLP its independence in connection with its audit of the Company's financial statements for the year ended April 30, 2006. The Audit Committee has also considered whether Grant Thornton LLP's provision of non-audit services to the Company is compatible with maintaining such firm's independence with respect to the Company and has determined that the provision of certain non-audit services is consistent with and compatible with Grant Thornton LLP maintaining its independence. See "Principal Accountant Fees and Services." Based upon the foregoing, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended April 30, 2006.

Respectfully submitted,

John David Simmons Carl E. Baggett William M. Sams

The information in the foregoing Report of the Audit Committee shall not be deemed to be soliciting material, or be filed with the SEC or subject to Regulation 14A or 14C or to liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended (the "Securities Act") or the Exchange Act, except to the extent that the Company specifically incorporates these paragraphs by reference into such filing.

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

The Compensation Committee of the Board of Directors of the Company recommends compensation levels for the executive officers of the Company, including the Chief Executive Officer, and is authorized to consider and make grants of options pursuant to the Company's 1997 Stock Option Plan and the 2005 Restricted Stock Plan and to administer the 1997 Stock Option Plan and the 2005 Restricted Stock Plan and any other equity compensation plan adopted by the Company. It is the Committee's responsibility to review and make recommendations to the Board of Directors with respect to compensation of officers of the Company. In formulating its compensation policies and decisions, the Committee endeavors to provide a competitive compensation package that enables the Company to attract and retain key executives and to integrate compensation programs with the Company's annual and long-term business strategies and objectives and focus executive actions on the fulfillment of the objectives. The Compensation Committee met once during fiscal 2006.

The Company's executive compensation program generally consists of base salary and annual incentive compensation through the payment of cash and/or stock bonuses. Stock options are also occasionally utilized in order to align executives' interests more closely with the interests of the stockholders of the

Company. During the fiscal year ended April 30, 2006, Mr. Falgout, the Company's Chief Executive Officer, received a base salary of \$330,000 and a bonus of \$83,523. The Compensation Committee established Mr. Falgout's salary and bonus taking into consideration (i) the Company's recent operating results, (ii) the Company's growth and (iii) the compensation levels paid to chief executive officers of other public companies of comparable size. For fiscal 2006, Mr. Falgout's salary and bonus increased 6% as compared to fiscal 2005. During the same period, the Company's revenues increased 14% and income from continuing operations decreased 7%. From the end of fiscal 2005 to the end of fiscal 2006, the Company's market capitalization decreased approximately 3%.

The Compensation Committee takes action from time to time, based upon guidelines and recommendations provided by the Board of Directors, to provide additional incentive compensation to the executive officers and other employees through the award of stock options under the Company's existing stock option plan. There were no stock options granted to executive officers or other employees during the year ended April 30, 2006.

The Company's future compensation policies will be developed in light of the Company's financial position and results of operations and with the goal of rewarding members of management for their contributions to the Company's success.

Respectfully submitted,

John David Simmons Carl E. Baggett William M. Sams

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act or the Exchange Act that might incorporate future filings, including this Proxy Statement, in whole or in part, the foregoing Report of the Compensation Committee on Executive Compensation shall not be incorporated by reference into any such filings.

EXECUTIVE COMPENSATION

The following table sets forth the compensation paid or accrued by the Company to or on behalf of the Company's executive officers for the years ended April 30, 2006, 2005 and 2004:

Name and Principal Position	Fiscal Year	Annual Compensation	Long-Term Compensation	All Other Compensation ⁽¹⁾
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