

FIRST CASH FINANCIAL SERVICES INC  
Form 10-Q  
November 09, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007, or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-19133

FIRST CASH FINANCIAL SERVICES, INC.

Exact name of registrant as specified in its charter)

Delaware  
(state or other jurisdiction of incorporation or  
organization)

690 East Lamar Blvd., Suite 400

Arlington, Texas

(Address of principal executive offices)

75-2237318

(IRS Employer Identification No.)

76011

(Zip Code)

Registrant's telephone number, including area code: (817) 460-3947

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer [  ] Accelerated filer [  ] Non-accelerated filer [  ]

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

As of November 7, 2007 there were 30,722,754 shares of Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

FIRST CASH FINANCIAL SERVICES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30,		December 31,
	<u>2007</u>	<u>2006</u>	<u>2006</u>
	(unaudited)		
	(in thousands, except per share data)		
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,811	\$ 20,789	\$ 15,535
Finance and service charges receivable	6,769	5,203	4,966
Customer receivables, net of allowances of \$7,969, \$5,812 and \$5,867, respectively	75,652	59,055	60,251
Inventories	34,947	27,663	28,761
Prepaid expenses and other current assets	10,301	7,026	5,901
	<hr/>	<hr/>	<hr/>
Total current assets	139,480	119,736	115,414
Customer receivables with long-term maturities, net of allowance of \$8,468, \$3,851 and \$3,895, respectively	30,090	12,365	14,013
Property and equipment, net	42,608	29,119	30,643
Goodwill and other intangible assets, net	72,400	72,631	72,544
Other	1,384	1,208	1,228
	<hr/>	<hr/>	<hr/>
Total assets	\$ 285,962	\$ 235,059	\$ 233,842
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current portion of notes payable	\$ 2,250	\$ 2,250	\$ 2,250
Accounts payable	1,818	2,091	1,535
Accrued liabilities	12,793	13,601	17,976
	<hr/>	<hr/>	<hr/>
Total current liabilities	16,861	17,942	21,761
Revolving credit facility	46,800	31,000	8,000
Notes payable, net of current portion	5,500	7,750	7,188
Deferred income taxes payable	8,059	9,245	8,297
	<hr/>	<hr/>	<hr/>
Total liabilities	77,220	65,937	45,246
<hr/>			
Stockholders' equity:			
Preferred stock; \$.01 par value; 10,000,000 shares authorized	-	-	-
Common stock; \$.01 par value; 90,000,000 shares authorized	359	347	353
Additional paid-in capital	110,716	92,173	101,949

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Retained earnings	164,116	124,875	134,567
Common stock held in treasury	(66,449)	(48,273)	(48,273)
	<u>          </u>	<u>          </u>	<u>          </u>
Total stockholders' equity	208,742	169,122	188,596
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and stockholders' equity	\$ 285,962	\$ 235,059	\$ 233,842

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

FIRST CASH FINANCIAL SERVICES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(in thousands, except per share amounts)			
Revenues:				
Merchandise sales	\$ 67,388	\$ 36,988	\$ 182,886	\$ 95,850
Finance and service charges	36,585	31,479	101,735	82,685
Other	990	1,005	3,222	3,012
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	104,963	69,472	287,843	181,547
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Cost of revenues:				
Cost of goods sold	36,027	20,781	97,091	55,314
Credit loss provision	16,034	6,789	37,628	11,328
Other	57	122	269	312
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	52,118	27,692	134,988	66,954
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net revenues	52,845	41,780	152,855	114,593
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Expenses and other income:				
Store operating expenses	26,311	21,086	75,365	57,853
Administrative expenses	6,777	6,031	21,545	16,801
Depreciation	2,738	2,065	7,910	5,665
Amortization	59	25	144	25
Interest expense	778	219	1,487	219
Interest income	(18)	(141)	(56)	(691)
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	<u>36,645</u>	<u>29,285</u>	<u>106,395</u>	<u>79,872</u>
Income before income taxes	16,200	12,495	46,460	34,721
Provision for income taxes	<u>5,815</u>	<u>4,560</u>	<u>16,911</u>	<u>12,669</u>
Net income	\$ 10,385	\$ 7,935	\$ 29,549	\$ 22,052
Net income per share:				
Basic	\$ 0.33	\$ 0.26	\$ 0.93	\$ 0.70
Diluted	\$ 0.32	\$ 0.25	\$ 0.89	\$ 0.67

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

FIRST CASH FINANCIAL SERVICES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Nine Months Ended September 30,</u>	
	<u>2007</u>	<u>2006</u>
	(unaudited, in thousands)	
Cash flows from operating activities:		
Net income	\$ 29,549	\$ 22,052
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	8,054	5,690
Share-based compensation expense	184	560
Non-cash portion of credit loss provision	28,076	4,289
Changes in operating assets and liabilities:		
Buy-here/pay-here automotive customer receivables	(48,955)	(3,538)
Finance and service fees receivable	(1,803)	(1,027)
Inventories	(2,621)	(999)
Prepaid expenses and other assets	(4,805)	(294)
Accounts payable and accrued liabilities	(6,542)	(1,159)
Current and deferred income taxes	1,653	(1,293)
	<u>2,790</u>	<u>24,281</u>
Cash flows from investing activities:		
Pawn customer receivables	(9,744)	(9,257)
Short-term loan customer receivables	(4,420)	(2,708)
Purchases of property and equipment	(19,875)	(10,928)
Acquisition of Auto Master buy-here/pay-here automotive division	-	(23,652)

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	Net cash flows from investing activities	(34,039)	(46,545)
		<hr/>	<hr/>
Cash flows from financing activities:			
Proceeds from debt		64,375	31,000
Payments of debt		(27,263)	(14,490)
Purchase of treasury stock		(18,176)	(24,753)
Proceeds from exercise of stock options and warrants		6,393	5,582
Stock option and warrant income tax benefit		2,196	2,973
		<hr/>	<hr/>
	Net cash flows from financing activities	27,525	312
		<hr/>	<hr/>
Change in cash and cash equivalents		(3,724)	(21,952)
Cash and cash equivalents at beginning of the period		15,535	42,741
		<hr/>	<hr/>
Cash and cash equivalents at end of the period		\$ 11,811	\$ 20,789
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest		\$ 1,418	\$ 148
Income taxes		\$ 4,328	\$ 11,310
Supplemental disclosure of non-cash operating activity:			
Inventory acquired in repossession		\$ 2,012	\$ 255
Supplemental disclosure of non-cash investing activity:			
Non-cash transactions in connection with pawn receivables settled through forfeitures of collateral transferred to inventories		\$ 42,157	\$ 35,379
Supplemental disclosure of non-cash financing activity:			
Notes payable issued in connection with the acquisition of Auto Master		\$ -	\$ 10,000

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

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FIRST CASH FINANCIAL SERVICES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Note 1 - Basis of Presentation

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The accompanying unaudited condensed consolidated financial statements, including the notes thereto, include the accounts of First Cash Financial Services, Inc. (the "Company"), and its wholly-owned subsidiaries. In addition, the accompanying consolidated financial statements include the accounts of Cash & Go, Ltd., a Texas limited partnership that operates financial services kiosks inside convenience stores, in which the Company has a 50% ownership interest. All significant intercompany accounts and transactions have been eliminated.

On August 25, 2006, the Company acquired Guaranteed Auto Finance, Inc. and SHAC, Inc. (collectively doing business as "Auto Master"). Accordingly, the Consolidated Statements of Income for the three and nine month periods ended September 30, 2006 do not include the results of Auto Master prior to August 25, 2006. All significant intercompany accounts and transactions have been eliminated.

Such unaudited consolidated financial statements are condensed and do not include all disclosures and footnotes required by generally accepted accounting principles in the United States of America for complete financial statements. Such interim period financial statements should be read in conjunction with the Company's consolidated financial statements, which are included in the Company's December 31, 2006 Annual Report on Form 10-K. The condensed consolidated financial statements as of September 30, 2007 and for the three and nine month periods ended September 30, 2007 and 2006 are unaudited, but in management's opinion, include all adjustments (consisting of only normal recurring adjustments) considered necessary to present fairly the financial position, results of operations and cash flows for such interim periods. Operating results for the periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the full fiscal year.

Certain amounts in prior year comparative presentations have been reclassified in order to conform to the 2007 presentation.

Note 2 - Stock Split

In January 2006, the Company's Board of Directors approved a two-for-one stock split in the form of a stock dividend to shareholders of record on February 6, 2006. The additional shares were distributed on February 20, 2006. Common stock and all share and per share amounts (except authorized shares and par value) have been retroactively adjusted to reflect the split.

Note 3 - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	<u>Three Months Ended September 30,</u>	<u>Nine Months Ended September 30,</u>
	<u>2007</u>	
		<u>2006</u>
		<u>2007</u>
		<u>2006</u>

Numerator:

Net income for calculating basic

earnings per share

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	\$
	10,385
	\$
	7,935
	\$
	29,549
	\$
	22,052
Interest on convertible note, net of taxes	
	11
	4
	34
	4
<hr/>	
<hr/>	
<hr/>	
<hr/>	
Net income for calculating dilutive earnings per share	
	\$
	10,396
	\$
	7,939
	\$
	29,583
	\$
	22,056

Denominator:

Weighted-average common shares for  
calculating basic earnings per share

31,637

30,938

31,786

31,514

Effect of dilutive securities:

Convertible notes payable

56

21

56

7

Stock options and warrants

1,187

1,348

1,318

1,362

Weighted-average common shares for  
calculating diluted earnings per share

32,880

32,307

33,160



	32,883
Basic earnings per share	
	\$
	0.33
	\$
	0.26
	\$
	0.93
	\$
	0.70
Diluted earnings per share	
	\$
	0.32
	\$
	0.25
	\$
	0.89
	\$
	0.67

Note 4 - Guarantees

First Cash Credit, Ltd. ("FCC"), a wholly-owned subsidiary of the Company, offers a fee-based credit services program ("CSO program") to assist consumers in its Texas markets in obtaining credit. Under the CSO program, FCC assists customers in applying for a short-term loan from an independent, non-bank, consumer lending company (the "Independent Lender") and issues the Independent Lender a letter of credit to guarantee the repayment of the loan. The loans made by the Independent Lender to credit services customers of FCC range in amount from \$100 to \$1,000, have terms of 7 to 31 days and bear interest at a rate of less than 10% on an annualized basis.

These letters of credit constitute a guarantee for which the Company is required to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken by issuing the letters of credit. The Independent Lender may present the letter of credit to FCC for payment if the customer fails to repay the full amount of the loan and accrued interest after the due date of the loan. Each letter of credit expires within 60 days from the inception of

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the associated lending transaction. FCC's maximum loss exposure under all of the outstanding letters of credit issued on behalf of its customers to the Independent Lender as of September 30, 2007 was \$13,869,000 compared to \$12,823,000 at September 30, 2006. According to the letters of credit, if the borrower defaults on the loan, the Company will pay the Independent Lender the principal, accrued interest, insufficient funds fee, and late fees, all of which the Company records as a component of its credit loss provision. FCC is entitled to seek recovery, directly from its customers, any of the amounts it pays the Independent Lender in performing under the letters of credit. The Company records the estimated fair value of the liability under the letters of credit as a component of accrued liabilities.

Note 5 - Operating Segment Information

The Company manages its business on the basis of two reportable segments: the pawn and short-term loan segment and the buy-here/pay-here automotive segment. There are no intersegmental sales and each segment is managed separately. The following tables detail selected balance sheet information regarding the operating segments as of September 30, 2007 and September 30, 2006 (in thousands):

	Pawn and Short-Term Loan	Buy-Here/ Pay-Here Automotive	Consolidated
	<hr/>	<hr/>	<hr/>
<u>September 30, 2007</u>			
Service fees receivable	\$ 6,476	\$ 293	\$ 6,769
Customer receivables, with current and long-term maturities, net of allowances	48,460	57,282	105,742
Inventories	27,460	7,487	34,947
Total assets	217,668	68,294	285,962
<u>September 30, 2006</u>			
Service fees receivable	\$ 5,128	\$ 75	\$ 5,203
Customer receivables, with current and long-term maturities, net of allowances	41,158	30,262	71,420
Inventories	24,912	2,751	27,663
Total assets	201,367	33,692	235,059

The following tables detail revenues, cost of revenues, net revenues and certain expenses by operating segment for the three months ended September 30, 2007 and September 30, 2006 (in thousands):

	Pawn and Short-Term Loan	Buy-Here/ Pay-Here Automotive	Total
	<hr/>	<hr/>	<hr/>
<u>Three Months Ended September 30, 2007</u>			
Revenues:			
Merchandise sales	\$ 38,968	\$ 28,420	\$ 67,388
Finance and service charges	34,679	1,906	36,585
Other	960	30	990
	<hr/>	<hr/>	<hr/>
	74,607	30,356	104,963
	<hr/>	<hr/>	<hr/>

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Cost of revenues:			
Cost of goods sold	23,326	12,701	36,027
Credit loss provision	6,156	9,878	16,034
Other	57	-	57
	<u>29,539</u>	<u>22,579</u>	<u>52,118</u>
Net revenues	45,068	7,777	52,845
Expenses and other income:			
Store operating expenses	22,942	3,369	26,311
Store depreciation and amortization	2,360	55	2,415
	<u>25,302</u>	<u>3,424</u>	<u>28,726</u>
Net store contribution	\$ 19,766	\$ 4,353	\$ 24,119
Expenditures on property and equipment	\$ 3,586	\$ 2,772	\$ 6,358

Three Months Ended September 30, 2006

Revenues:			
Merchandise sales	\$ 30,620	\$ 6,368	\$ 36,988
Finance and service charges	31,150	329	31,479
Other	979	26	1,005
	<u>62,749</u>	<u>6,723</u>	<u>69,472</u>
Cost of revenues:			
Cost of goods sold	17,822	2,959	20,781
Credit loss provision	5,237	1,552	6,789
Other	122	-	122
	<u>23,181</u>	<u>4,511</u>	<u>27,692</u>
Net revenues	39,568	2,212	41,780
Expenses and other income:			
Store operating expenses	20,277	809	21,086
Store depreciation and amortization	1,867	4	1,871
	<u>22,144</u>	<u>813</u>	<u>22,957</u>
Net store contribution	\$ 17,424	\$ 1,399	\$ 18,823



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	<u>174,824</u>	<u>6,723</u>	<u>181,547</u>
Cost of revenues:			
Cost of goods sold	52,355	2,959	55,314
Credit loss provision	9,776	1,552	11,328
Other	312	-	312
	<u>62,443</u>	<u>4,511</u>	<u>66,954</u>
Net revenues	112,381	2,212	114,593
Expenses and other income:			
Store operating expenses	57,044	809	57,853
Store depreciation and amortization	5,126	4	5,130
	<u>62,170</u>	<u>813</u>	<u>62,983</u>
Net store contribution	\$ 50,211	\$ 1,399	\$ 51,610
Expenditures on property and equipment	\$ 10,916	\$ 303	\$ 11,219