

FIRST CASH FINANCIAL SERVICES INC
Form 10-Q
May 10, 2007

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 March 31, 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 []

Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-Q

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 May 8, 2007 there were 32,424,504 shares of Common Stock outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST CASH FINANCIAL SERVICES, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS

| | March 31, | | December 31, |
|--|---------------------------------------|-------------|--------------|
| | <u>2007</u> | <u>2006</u> | <u>2006</u> |
| | (unaudited) | | |
| | (in thousands, except per share data) | | |
| ASSETS | | | |
| Cash and cash equivalents | \$ 12,178 | \$ 56,367 | \$ 15,535 |
| Finance and service charges receivable | 5,103 | 3,934 | 4,966 |
| Customer receivables, net of allowances of \$6,217, \$171 and \$5,867, respectively | 61,571 | 31,342 | 60,251 |
| Inventories | 30,048 | 20,701 | 28,761 |
| Prepaid expenses and other current assets | 6,374 | 4,487 | 5,901 |
| | 115,274 | 116,831 | 115,414 |
| Customer receivables with long-term maturities, net of allowance of \$5,888, \$0 and \$3,895, respectively | 20,709 | - | 14,013 |
| Property and equipment, net | 32,821 | 25,380 | 30,643 |
| Goodwill and other intangible assets, net | 72,518 | 53,237 | 72,544 |
| Other | 1,229 | 1,090 | 1,228 |
| | 242,551 | 196,538 | 233,842 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current portion of notes payable | \$ 2,250 | \$ - | \$ 2,250 |
| Accounts payable | 2,037 | 1,211 | 1,535 |
| Accrued liabilities | 18,554 | 10,443 | 17,976 |
| | 22,841 | 11,654 | 21,761 |
| Total current liabilities | | | |
| Revolving credit facility | 4,900 | - | 8,000 |

Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-Q

| | | | |
|---|-------------------|-------------------|-------------------|
| Notes payable, net of current portion | 6,625 | - | 7,188 |
| Deferred income taxes payable | 8,218 | 8,826 | 8,297 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | 42,584 | 20,480 | 45,246 |
| | <u> </u> | <u> </u> | <u> </u> |
| Stockholders' equity: | | | |
| Preferred stock; \$.01 par value; 10,000,000 shares authorized | - | - | - |
| Common stock; \$.01 par value; 90,000,000 shares authorized | 354 | 345 | 353 |
| Additional paid-in capital | 103,040 | 88,788 | 101,949 |
| Retained earnings | 144,846 | 110,445 | 134,567 |
| Common stock held in treasury | (48,273) | (23,520) | (48,273) |
| | <u> </u> | <u> </u> | <u> </u> |
| Total stockholders' equity | 199,967 | 176,058 | 188,596 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities and stockholders' equity | \$ 242,551 | \$ 196,538 | \$ 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 March
31,

| | <u>2007</u> | <u>2006</u> |
|-----------------------------|---|-------------------|
| | (unaudited) | |
| | (in thousands, except per share amounts) | |
| Revenues: | | |
| Merchandise sales | \$ 57,234 | \$ 29,509 |
| Finance and service charges | 31,719 | 25,106 |
| Other | 1,207 | 1,085 |
| | <u> </u> | <u> </u> |
| | 90,160 | 55,700 |
| | <u> </u> | <u> </u> |
| Cost of revenues: | | |
| Cost of goods sold | 30,166 | 17,516 |
| Credit loss provision | 9,230 | 784 |
| Other | 108 | 94 |
| | <u> </u> | <u> </u> |
| | 39,504 | 18,394 |
| | <u> </u> | <u> </u> |
| Net revenues | <u>50,656</u> | <u>37,306</u> |

| | | |
|----------------------------|---------------|---------------|
| Expenses and other income: | | |
| Store operating expenses | 24,202 | 18,119 |
| Administrative expenses | 7,457 | 5,706 |
| Depreciation | 2,426 | 1,705 |
| Amortization | 26 | - |
| Interest expense | 342 | - |
| Interest income | (20) | (221) |
| | <u>34,433</u> | <u>25,309</u> |
| Income before income taxes | 16,223 | 11,997 |
| Provision for income taxes | 5,944 | 4,375 |
| Net income | \$ 10,279 | \$ 7,622 |
| Net income per share: | | |
| Basic | \$ 0.32 | \$ 0.24 |
| Diluted | \$ 0.31 | \$ 0.23 |

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

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

| | Three Months Ended March 31, | |
|--|------------------------------|-------------------|
| | <u>2007</u> | <u>2006</u> |
| | (unaudited, in thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 10,279 | \$ 7,622 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation and amortization | 2,452 | 1,705 |
| Share-based compensation | 40 | 506 |
| Non-cash portion of credit loss provision | 7,458 | 416 |
| Changes in operating assets and liabilities: | | |
| Buy-here/pay-here automotive customer receivables | (14,564) | - |
| Finance and service fees receivable | (137) | 242 |
| Inventories | (1,867) | 450 |
| Prepaid expenses and other assets | (723) | 1,053 |
| Accounts payable and accrued liabilities | (3,258) | (3,912) |
| Current and deferred income taxes | 4,508 | 962 |
| | <u> </u> | <u> </u> |

Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-Q

| | | |
|--|-----------|-----------|
| Net cash flows from operating activities | 4,188 | 9,044 |
| Cash flows from investing activities: | | |
| Pawn customer receivables | (685) | 1,407 |
| Cash advance customer receivables | 355 | 1,473 |
| Purchases of property and equipment | (4,604) | (3,520) |
| Net cash flows from investing activities | (4,934) | (640) |
| Cash flows from financing activities: | | |
| Proceeds from debt | 18,700 | - |
| Payments of debt | (22,363) | - |
| Proceeds from exercise of stock options and warrants | 613 | 3,110 |
| Stock option and warrant income tax benefit | 439 | 2,112 |
| Net cash flows from financing activities | (2,611) | 5,222 |
| Change in cash and cash equivalents | (3,357) | 13,626 |
| Cash and cash equivalents at beginning of the period | 15,535 | 42,741 |
| Cash and cash equivalents at end of the period | \$ 12,178 | \$ 56,367 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 354 | \$ - |
| Income taxes | \$ 1,440 | \$ 1,232 |
| Supplemental disclosure of non-cash operating activity: | | |
| Inventory acquired in repossession | \$ 290 | \$ - |
| Supplemental disclosure of non-cash investing activity: | | |
| Non-cash transactions in connection with pawn receivables settled through forfeitures of collateral transferred to inventories | \$ 12,031 | \$ 10,550 |

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

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

Note 1 - Basis of Presentation

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.

Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-Q

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 Balance Sheets include the accounts of Auto Master as of March 31, 2007 and December 31, 2006 and the Consolidated Statements of Income include the results of Auto Master for the period January 1, 2007 through March 31, 2007. 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 March 31, 2007 and for the three month periods ended March 31, 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 period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the full fiscal year.

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):

| | Three Months Ended March 31, | |
|--|---------------------------------|-------------|
| | <u>2007</u> | <u>2006</u> |
| Numerator: | | |
| Net income for calculating basic and diluted earnings per share | \$ 10,279 | \$ 7,622 |
| Denominator: | | |
| Weighted-average common shares for calculating basic earnings per share | 32,138 | 31,846 |
| Effect of dilutive securities: | | |
| Convertible notes payable | 56 | - |
| Stock options and warrants | 1,403 | 1,951 |
| Weighted-average common shares for calculating diluted earnings per share | 33,597 | 33,797 |
| Basic earnings per share | \$ 0.32 | \$ 0.24 |
| Diluted earnings per share | \$ 0.31 | \$ 0.23 |

Note 4 - Share-Based Compensation Expense

The Company's income includes the following share-based compensation expense, determined in accordance with the fair value provisions of SFAS No. 123(R) (in thousands):

| | Three Months Ended March 31, | |
|---|------------------------------|---------------|
| | <u>2007</u> | <u>2006</u> |
| Gross share-based compensation cost | \$ 40 | \$ 506 |
| Income tax benefit | (15) | (185) |
| Share-based compensation cost, net of tax benefit | <u>\$ 25</u> | <u>\$ 321</u> |

Note 5 - 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 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 March 31, 2007 was \$10,676,000 compared to \$8,535,000 at March 31, 2006. According to the letter 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 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 6 - Acquisition

Pursuant to the Company's strategic initiative to grow and diversify its product suite within the specialty consumer finance industry, the Company acquired two affiliated companies, collectively doing business as Auto Master, an automotive retailer and related finance company focused exclusively on the "buy-here/pay-here" segment of the retail used vehicle market. Auto Master, based in Northwest Arkansas, owns and operates buy-here/pay-here automobile dealerships located in Arkansas, Missouri and Oklahoma, which specialize in the sale of clean, moderately-priced used vehicles. The definitive stock purchase agreement for the privately-held Auto Master group of companies was signed and closed on August 25, 2006. The purchase price, in the amount of \$33.7 million, was funded through a combination of \$23.7 million in cash and notes payable to the sellers in the amount of \$10 million. In addition, the Company retired approximately \$14 million of the outstanding interest-bearing debt of Auto Master subsequent to closing the purchase transaction.

Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-Q

The acquisition has been accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to assets and liabilities acquired based upon their estimated fair market values at the date of acquisition. The excess purchase price over the estimated fair market value of the net tangible assets acquired and identifiable intangible assets has been recorded as goodwill. The total amount of goodwill and identified intangible assets of \$19.4 million is expected to be deductible for tax purposes. The results of operations of the acquired companies are included in the consolidated financial statements from its date of acquisition.

The allocation of the purchase price is as follows (in thousands):

| | | |
|-------------------------------|----|----------|
| Cash | \$ | 7 |
| Customer receivables | | 28,531 |
| Inventory | | 2,578 |
| Other current assets | | 36 |
| Property, plant and equipment | | 297 |
| Customer relationships | | 1,423 |
| Trade name | | 4,360 |
| Goodwill | | 13,637 |
| Current liabilities | | (2,719) |
| Debt | | (14,490) |

Purchase price