

FIRST CASH FINANCIAL SERVICES INC
Form 10-Q
May 09, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2008

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

75-2237318

(state or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

690 East Lamar Blvd., Suite 400

Arlington, Texas

76011

(Address of principal executive offices)

(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, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

As of May 7, 2008, there were 29,229,335 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>2008</u>	<u>2007</u>	<u>2007</u>
	(unaudited)		
	(in thousands)		
ASSETS			
Cash and cash equivalents	\$ 13,689	\$ 12,178	\$ 14,175
Finance and service charges receivable	7,082	5,103	7,867
Customer receivables, net of allowances of \$8,409, \$6,146 and \$9,903, respectively	74,462	59,278	74,532
Inventories	35,346	30,048	35,612
Prepaid expenses and other current assets	6,095	6,374	9,103
Discontinued operations	320	2,293	1,509
	<u>136,994</u>	<u>115,274</u>	<u>142,798</u>
Total current assets			
Customer receivables with long-term maturities, net of allowance of \$9,198, \$5,888 and \$10,878, respectively	30,918	20,709	31,218
Property and equipment, net	47,418	32,821	43,762
Goodwill, net	66,874	66,874	66,874
Intangible assets, net	5,407	5,644	5,466
Other	1,421	1,229	1,430
	<u>289,032</u>	<u>242,551</u>	<u>291,548</u>
Total assets	\$ 289,032	\$ 242,551	\$ 291,548
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current portion of notes payable	\$ 2,250	\$ 2,250	\$ 2,250
Accounts payable	6,357	2,037	1,732
Accrued liabilities	16,918	18,554	17,066
Discontinued operations	91	-	-
	<u>25,616</u>	<u>22,841</u>	<u>21,048</u>
Total current liabilities			
Revolving credit facility	54,900	4,900	55,000
Notes payable, net of current portion	3,375	6,625	3,938

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Deferred income taxes payable	10,053	8,218	10,353
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	93,944	42,584	90,339
	<u> </u>	<u> </u>	<u> </u>
Stockholders' equity:			
Preferred stock	-	-	-
Common stock	361	354	359
Additional paid-in capital	112,241	103,040	111,410
Retained earnings	176,550	144,846	169,855
Common stock held in treasury	(94,064)	(48,273)	(80,415)
	<u> </u>	<u> </u>	<u> </u>
Total stockholders' equity	195,088	199,967	201,209
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 289,032	\$ 242,551	\$ 291,548

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>2008</u>	<u>2007</u>
	(unaudited)	
	(in thousands, except per share amounts)	
Revenues:		
Merchandise sales	\$ 66,699	\$ 57,234
Finance and service charges	34,783	29,717
Other	1,259	1,170
	<u> </u>	<u> </u>
	102,741	88,121
	<u> </u>	<u> </u>
Cost of revenues:		
Cost of goods sold	36,444	30,166
Credit loss provision	15,856	9,031
Other	108	108
	<u> </u>	<u> </u>
	52,408	39,305
	<u> </u>	<u> </u>
Net revenues	50,333	48,816
	<u> </u>	<u> </u>
Expenses and other income:		
Store operating expenses	28,801	23,750
Administrative expenses	7,521	7,457

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Depreciation	2,926	2,410
Amortization	59	26
Interest expense	912	342
Interest income	(18)	(20)
	<u>40,201</u>	<u>33,965</u>
Income from continuing operations before income taxes	10,132	14,851
Provision for income taxes	3,735	5,445
Income from continuing operations	6,397	9,406
Income from discontinued operations, net of tax of \$174 and \$500, respectively	298	873
Net income	\$ 6,695	\$ 10,279
Basic income per share:		
Income from continuing operations	\$ 0.21	\$ 0.30
Income from discontinued operations	0.01	0.02
Net income per basic share	\$ 0.22	\$ 0.32
Diluted income per share:		
Income from continuing operations	\$ 0.21	\$ 0.28
Income from discontinued operations	0.01	0.03
Net income per diluted share	\$ 0.22	\$ 0.31

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>2008</u>	<u>2007</u>
	(unaudited, in thousands)	
Cash flows from operating activities:		
Net income	\$ 6,695	\$ 10,279
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	3,134	2,452
Share-based compensation expense	38	40
Non-cash portion of credit loss provision	12,858	7,458
Changes in operating assets and liabilities:		

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Buy-here/pay-here automotive customer receivables	(12,607)	(14,564)
Finance and service fees receivable	785	(137)
Inventories	788	(1,867)
Prepaid expenses and other assets	2,759	(723)
Accounts payable and accrued liabilities	2,917	(3,258)
Current and deferred income taxes	1,609	4,508
	<hr/>	<hr/>
Net cash flows from operating activities	18,976	4,188
	<hr/>	<hr/>
Cash flows from investing activities:		
Pawn customer receivables	193	(602)
Short-term loan customer receivables	593	272
Purchases of property and equipment	(6,731)	(4,604)
Distribution to minority interest in Cash & Go, Ltd. joint venture	(194)	(63)
	<hr/>	<hr/>
Net cash flows from investing activities	(6,139)	(4,997)
	<hr/>	<hr/>
Cash flows from financing activities:		
Proceeds from debt	11,000	18,700
Payments of debt	(11,663)	(22,363)
Purchases of treasury stock	(13,649)	-
Proceeds from exercise of stock options and warrants	677	676
Stock option and warrant income tax benefit	312	439
	<hr/>	<hr/>
Net cash flows from financing activities	(13,323)	(2,548)
	<hr/>	<hr/>
Change in cash and cash equivalents	(486)	(3,357)
Cash and cash equivalents at beginning of the period	14,175	15,535
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	\$ 13,689	\$ 12,178
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 941	\$ 354
Income taxes	\$ 2,307	\$ 1,001
Supplemental disclosure of non-cash operating activity:		
Inventory acquired in repossession	\$ 570	\$ 290
Supplemental disclosure of non-cash investing activity:		
Non-cash transactions in connection with pawn receivables settled through forfeitures of collateral transferred to inventories	\$ 16,283	\$ 12,031

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. 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, 2007 Annual Report on Form 10-K. The condensed consolidated financial statements as of March 31, 2008 and for the three month periods ended March 31, 2008 and 2007 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, 2008 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 2008 presentation.

Note 2 - Discontinued Operations

Effective December 2007, the Company discontinued its short-term loan operations in the District of Columbia ("D.C."). This was a result of legislation enacted in 2007, which reduced the maximum annual percentage rate charged on short-term loans to 24%, making the Company's short-term loan product financially unviable. All revenues, expenses and income reported herein have been adjusted to reflect reclassification of the discontinued D.C. operations.

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>2008</u>	<u>2007</u>
Numerator:		
Income from continuing operations for calculating basic earnings per share	\$ 6,397	\$ 9,406
Interest on convertible note, net of taxes	-	11
Income from continuing operations for calculating diluted		

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	earnings per share	6,397	9,417
	Income from discontinued operations	298	873
		<u> </u>	<u> </u>
	Net income for calculating diluted earnings per share	\$ 6,695	\$ 10,290
Denominator:			
	Weighted-average common shares for calculating basic earnings per share	30,588	31,721
	Effect of dilutive securities:		
	Convertible note payable	-	56
	Stock options and warrants	529	1,402
		<u> </u>	<u> </u>
	Weighted-average common shares for calculating diluted earnings per share	31,117	33,179
Basic earnings per share:			
	Income from continuing operations	\$ 0.21	\$ 0.30
	Income from discontinued operations	0.01	0.02
		<u> </u>	<u> </u>
	Net income per basic share	\$ 0.22	\$ 0.32
Diluted earnings per share:			
	Income from continuing operations	\$ 0.21	\$ 0.28
	Income from discontinued operations		