

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
	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
	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
	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
	77,220	65,937	45,246
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)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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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

The following table reconciles net store contribution, as presented above, to income before income taxes for each period presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Total net store contribution for reportable segments	\$ 24,119	\$ 18,823	\$ 70,431	\$ 51,610
Administrative depreciation and amortization	(382)	(219)	(995)	(560)
Administrative expenses	(6,777)	(6,031)	(21,545)	(16,801)
(1)				
Interest expense	(778)	(219)	(1,487)	(219)
Interest income	18	141	56	691
Income before income taxes	<u>\$ 16,200</u>	<u>\$ 12,495</u>	<u>\$ 46,460</u>	<u>\$ 34,721</u>

(1) Administrative expenses are comprised of all operating expenses, except for interest, depreciation and amortization, incurred by the Company that are not allocable to specific stores. It is the Company's policy not to allocate such administrative expenses to specific stores or operating segments.

Note 6 - Income Taxes

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on penalties and interest related to income taxes and requires increased disclosures. Interest and penalties related to income tax liabilities that could arise subsequent to the adoption of FIN 48 would be classified as interest expense in the Consolidated Statements of Income.

As of January 1, 2007 and September 30, 2007, the Company had no unrecognized tax benefits and therefore, the Company did not have a liability for accrued interest and penalties. The adoption of FIN 48 resulted in no adjustment to beginning retained earnings.

The Company files federal income tax returns in the United States and Mexico, as well as multiple state and local income tax returns in the United States. The Company's U.S. federal and state income tax returns are not subject to examination for the tax years prior to 2004 with the exception of two states. With respect to Mexico, the years prior to 2002 are closed to examination. The Company does not currently have any federal, foreign or state income tax returns under examination. The Company does not believe that its unrecognized tax benefits will significantly change over the next twelve months.

## ITEM 2.

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### **GENERAL**

The Company receives revenues from four primary products and services, which are (i) pawn revenues, (ii) short-term loan revenues, (iii) credit services fees and (iv) buy-here/pay-here automotive revenues.

The Company's pawn revenues are derived primarily from service fees on pawns and merchandise sales of forfeited pawn collateral and used goods purchased directly from the general public. The Company accrues pawn service charge revenue on a constant-yield basis over the life of the pawn for all pawns that the Company deems collection to be probable based on historical pawn redemption statistics. If a pawn is not repaid prior to the expiration of the automatic extension period, if applicable, the property is forfeited to the Company and transferred to inventory at a value equal to the principal amount of the loan, exclusive of accrued interest.

The Company's short-term loan revenues are derived primarily from fees on short-term loans and credit services fees. The Company recognizes service fee income on short-term loans on a constant-yield basis over the life of the short-term loan, which is generally thirty-one days or less. The net defaults on short-term loans and changes in the short-term loan valuation reserve are charged to the short-term loan loss provision. The credit loss provision is based primarily upon historical credit loss experience, with consideration given to recent credit loss trends, delinquency rates, economic conditions and management's expectations of future credit losses.

First Cash Credit, Ltd., ("FCC") a wholly-owned subsidiary of the Company, offers a fee-based credit services organization program ("CSO program") to assist customers in all of the Company's Texas locations 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 and issues the Independent Lender a letter of credit to guarantee the repayment of the loan. The Company recognizes credit services fees ratably over the life of the loan made by the Independent

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Lender. The loans made by the Independent Lender to credit services customers of FCC have terms of seven to thirty-one days. The Company records a liability for the estimated fair value of the liability under the letters of credit.

The Company's buy-here/pay-here automotive revenues are derived primarily from the sale of used vehicles and the finance charges from related vehicle financing contracts. Revenues from the sale of used vehicles are recognized when the sales contract and related finance agreement are signed and the customer has taken possession of the vehicle. Interest income is recognized on all active finance receivable accounts on a constant-yield basis. Late payment fees are recognized when collected and are included in revenue. The Company maintains an allowance for credit losses, on an aggregate basis, at a level it considers sufficient to cover estimated losses in the collection of its customer receivables. The credit loss provision is based primarily upon historical credit loss experience, with consideration given to recent credit loss trends, delinquency rates, economic conditions and management's expectations of future credit losses.

OPERATIONS AND LOCATIONS

As of September 30, 2007, the Company had 460 locations in thirteen U.S. states and ten states in Mexico, which represents a 16% increase over the 398 locations open at September 30, 2006. A total of 15 new retail locations were opened during the third quarter of 2007. The openings were a combination of pawn stores, short-term loan stores and Auto Master buy-here/pay-here dealerships. The following table details store counts for the three and nine-month periods ended September 30, 2007:

	U.S. Locations			Mexico	Total
	Pawn Stores	Short-Term Loan/Check-Cashing Stores	Buy-Here/Pay-Here Automotive Dealerships	Pawn/Short-Term Loan Stores	
<u>Three Months Ended September 30, 2007</u>					
Total locations, beginning of period	94	155	12	187	448
New locations opened	-	3	3	9	15
Locations closed or consolidated	-	(2)	-	(1)	(3)
Total locations, end of period	94	156	15	195	460
<u>Nine Months Ended September 30, 2007</u>					
Total locations, beginning of period	95	145	10	157	407
New locations opened	-	13	5	40	58
Locations closed or consolidated	(1)	(2)	-	(2)	(5)
Total locations, end of period	94	156	15	195	460

For the three and nine-month periods ended September 30, 2007, the Company's 50% owned joint venture, Cash & Go, Ltd., operated a total of 39 kiosks located inside convenience stores in the state of Texas, which are not included in the above table. During the nine months ended September 30, 2007, the Company closed one Cash & Go, Ltd.,

kiosk.

While the Company has had significant increases in revenues due to new store openings and acquisitions in 2007 and 2006, the Company has also incurred increases in operating expenses attributable to the additional locations. Operating expenses consist of all items directly related to the operation of the Company's stores and dealerships, including salaries and related payroll costs, rent, utilities, equipment, advertising, property taxes, licenses, supplies and security. Administrative expenses consist of items relating to the operation of the corporate office, including the compensation and benefit costs of corporate management, area supervisors and other operations management personnel, collections operations and personnel, accounting and administrative costs, information technology costs, liability and casualty insurance, outside legal and accounting fees and stockholder-related expenses.

Stores included in the same-store revenue calculations are those stores that were opened prior to the beginning of the prior year comparative fiscal period and are still open. Also included are stores that were relocated during the year within a specified distance serving the same market, where there is not a significant change in store size and where there is not a significant overlap or gap in timing between the opening of the new store and the closing of the existing store. During the third quarter of 2006, the Company relocated one store that involved a significant change in the size of its retail showroom, and accordingly, the expanded store has been excluded from the same-store calculations. Non-retail sales of scrap jewelry are included in same-store revenue calculations. The Auto Master buy-here/pay-here automotive dealerships acquired in August 2006 were not included in the same-store revenue calculations.

#### CRITICAL ACCOUNTING POLICIES

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 amounts of assets and liabilities, related revenues and expenses, and disclosure of gain and loss contingencies at the date of the financial statements. Such estimates and assumptions are subject to a number of risks and uncertainties, which may cause actual results to differ materially from the Company's estimates. Both the significant accounting policies that management believes are the most critical to aid in fully understanding and evaluating the reported financial results and the effects of recent accounting pronouncements have been reported in the Company's 2006 Annual Report on Form 10-K.

In accordance with the provisions of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," the Company has determined that the letters of credit issued by FCC to the Independent Lender as part of the CSO program 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. Each letter of credit is issued at the time that a FCC credit services customer enters into a loan agreement with the Independent Lender. 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 is entitled to seek recovery directly from its customers for amounts it pays the Independent Lender in performing under the letters of credit. The Company records the estimated fair value of the liabilities under the letters of credit in accrued liabilities.

#### Recent accounting pronouncements

- In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 requires that a more-likely-than-not threshold be met before the benefit of a tax position may be recognized in the financial statements and prescribes how such benefit should be measured. It requires that the new standard be applied to the balances of assets and liabilities as of the beginning of the period of adoption and that a corresponding adjustment be made to the opening balance of retained earnings. Effective January 1, 2007, the Company adopted FIN 48, as described in Note 6, "Income Taxes."

In June 2006, the FASB ratified the consensus reached on EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)" ("EITF 06-3"). EITF 06-3 requires disclosure of the method of accounting for the applicable



assessed taxes and the amount of assessed taxes that are included in revenues if they are accounted for under the gross method. EITF 06-3 is effective for the first interim or annual reporting period beginning after December 15, 2006. No additional disclosures will be required since the Company presents revenues net of any taxes collected from customers.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It establishes a fair value hierarchy and expands disclosures about fair value measurements in both interim and annual periods. SFAS 157 will be effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect SFAS 157 to have a material effect on the Company's consolidated financial position or results of operations.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the "fair value option") and requires an entity to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. SFAS 159 will be effective for fiscal years beginning after November 15, 2007. The Company does not expect SFAS 159 to have a material effect on the Company's consolidated financial position or results of operations.

## RESULTS OF OPERATIONS

Three months ended September 30, 2007, compared to the three months ended September 30, 2006

The following table (in thousands) details the components of revenues for the three months ended September 30, 2007 (the "Third Quarter of 2007"), as compared to the three months ended September 30, 2006 (the "Third Quarter of 2006"):

	Three Months Ended September 30,			
	<u>2007</u>	<u>2006</u>	<u>Increase/(Decrease)</u>	
Domestic revenues:				
Pawn retail merchandise sales	\$ 14,906	\$ 13,864	\$ 1,042	8%
Pawn scrap jewelry sales	5,017	3,399	1,618	48%
Pawn service charges	8,191	7,523	668	9%
Short-term loan and credit services fees	19,307	18,244	1,063	6%
Buy-here/pay-here retail automobile sales	27,863	6,221	21,642	348%
Buy-here/pay-here wholesale automobile sales	557	147	410	279%
Buy-here/pay-here finance charges	1,906	329	1,577	479%
Other	990	1,005	(15)	(1)%
	<u>\$ 78,737</u>	<u>\$ 50,732</u>	<u>\$ 28,005</u>	<u>55%</u>

Foreign revenues:

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Pawn retail merchandise sales	\$ 12,019	\$ 8,223	\$ 3,796	46%
Pawn scrap jewelry sales	7,026	5,134	1,892	37%
Pawn service charges	7,181	5,383	1,798	33%
	<u>\$ 26,226</u>	<u>\$ 18,740</u>	<u>\$ 7,486</u>	40%

Total revenues:

Pawn retail merchandise sales	\$ 26,925	\$ 22,087	\$ 4,838	22%
Pawn scrap jewelry sales	12,043	8,533	3,510	41%
Pawn service charges	15,372	12,906	2,466	19%
Short-term loan and credit services fees	19,307	18,244	1,063	6%
Buy-here/pay-here retail automobile sales	27,863	6,221	21,642	348%
Buy-here/pay-here wholesale automobile sales	557	147	410	279%
Buy-here/pay-here finance charges	1,906	329	1,577	479%
Other	990	1,005	(15)	(1)%
	<u>\$ 104,963</u>	<u>\$ 69,472</u>	<u>\$ 35,491</u>	51%

Year-over-year revenue increases for pawn retail merchandise sales, pawn service fees and short-term loan/credit services fees were due to a combination of same-store revenue growth and the opening of new stores. Same-store revenues (stores that were in operation during all of the Third Quarter of both 2007 and 2006) increased 14%, or \$8,756,000, for the Third Quarter of 2007 as compared to the same quarter last year. Revenues generated by the 29 new pawn stores and the 51 new short-term loan stores opened since July 1, 2006 increased by \$3,439,000, compared to the same quarter last year.

The consolidated increase in scrap jewelry sales during the Third Quarter of 2007 was primarily due to a 30% increase in the quantity of gold sold and a 9% increase in the weighted-average selling price of scrap gold.

The Company acquired Auto Master on August 25, 2006, and accordingly, the buy-here/pay-here automotive revenues for the Third Quarter of 2006 do not include the results of Auto Master prior to August 25, 2006. During this period, Auto Master sold approximately 2,700 vehicles to retail customers for an average selling price of \$10,400 per vehicle.

The following table (in thousands) details pawn receivables, short-term loan receivables, active CSO loans outstanding from an independent third-party lender and buy-here/pay-here automotive receivables as of September 30, 2007, as compared to September 30, 2006:

	Balance at September 30,			
	<u>2007</u>	<u>2006</u>	<u>Increase/(Decrease)</u>	
Domestic customer receivables & CSO loans outstanding:				
Pawn receivables	\$ 23,419	\$ 21,398	\$ 2,021	9%
Short-term loan receivables, net of allowance	7,810	6,459	1,351	21%
CSO loans held by independent third-party lender	11,861	10,967	894	8%

(1)

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Buy-here/pay-here receivables, with current and long-term maturities, net of allowance	57,282	30,262	27,020	89%
	<u>100,372</u>	<u>69,086</u>	<u>31,286</u>	45%
Foreign customer receivables:				
Pawn receivables	17,231	13,301	3,930	30%
Total customer receivables and CSO loans outstanding:				
Pawn receivables	40,650	34,699	5,951	17%
Short-term loan receivables, net of allowance	7,810	6,459	1,351	21%
CSO loans held by independent third-party lender	11,861	10,967	894	8%
(1)				
Buy-here/pay-here receivables, with current and long-term maturities, net of allowance	57,282	30,262	27,020	89%
	<u>\$ 117,603</u>	<u>\$ 82,387</u>	<u>\$ 35,216</u>	43%

(1) CSO loans outstanding are comprised of the principal portion of active CSO loans outstanding from an independent third-party lender, which are not included on the Company's balance sheet, net of the Company's estimated fair value of its liability under the letters of credit guaranteeing the loans.

The Company's loss reserve on short-term loan receivables increased from \$239,000 at September 30, 2006 to \$316,000 at September 30, 2007. The estimated fair value of liabilities under the CSO letters of credit, net of anticipated recoveries from customers, was \$555,000 at September 30, 2007, compared to \$490,000 at September 30, 2006, which is included as a component of the Company's accrued liabilities. The Company's loss reserve on buy-here/pay-here automotive receivables was \$16,121,000 at September 30, 2007, compared to \$9,424,000 at September 30, 2006.

The gross profit margin on total pawn merchandise sales was 40.1% during the Third Quarter of 2007, compared to 41.8% during the Third Quarter of 2006. The retail pawn merchandise margin, which excludes scrap jewelry sales, was 44.1% during the Third Quarter of 2007, compared to 44.4% in the Third Quarter of 2006. Gross margin on sales of scrap jewelry was 31.3% in the Third Quarter of 2007 compared to 35.1% in the Third Quarter of 2006. The decrease in scrap jewelry margins is due primarily to increased loan-to-value ratios on gold jewelry pawns compared to the same period last year. The margin on buy-here/pay-here retail automobile sales, net of credit losses, was 22.8% for the Third Quarter of 2007.

The Company's short-term loan and credit services loss provision increased from 28.7% of short-term loan and credit services fee revenues during the Third Quarter of 2006 to 31.9% during the Third Quarter of 2007. The increase was primarily related to higher loss rates in the Company's newer locations, which typically experience higher loss rates than the Company's more mature stores. The Company currently has disproportionately more of its short-term loan revenue being generated by its newer stores, as compared to the prior year. The buy-here/pay-here automotive credit loss provision was \$9,878,000 for the Third Quarter of 2007, or 35.5% of retail automobile sales. The increased credit loss provision for Auto Master was anticipated and was primarily attributable to the significant growth of Auto Master from 8 to 15 dealerships over the past twelve months. Newly opened lots, especially those in new markets, typically generate higher credit losses until they develop and isolate a stable core customer base. Starting in the third quarter, the Company began to further centralize and scale its collection operations to more efficiently serve the sales growth,

more customer accounts and new store locations.

Pawn and short-term loan store operating expenses increased 13% to \$22,942,000 during the Third Quarter of 2007, compared to \$20,277,000 during the Third Quarter of 2006, primarily as a result of the net addition of 75 new pawn and check cashing/short-term loan stores since July 1, 2006, which is a 20% increase in the store count. Buy-here/pay-here automotive dealership operating expenses totaled \$3,369,000 for the Third Quarter of 2007. Administrative expenses increased 12% to \$6,777,000 during the Third Quarter of 2007 compared to \$6,031,000 during the Third Quarter of 2006, which is primarily attributable to increased management and supervisory compensation expense and to additional administrative expenses related to new store openings and the Auto Master acquisition. The Company incurred interest expense in the Third Quarter of 2007 of \$778,000, compared to \$219,000 for the Third Quarter of 2006 due primarily to higher amounts of interest-bearing debt related to the acquisition of Auto Master and stock repurchases. Interest income decreased from \$141,000 in the Third Quarter of 2006 to \$18,000 in the Third Quarter of 2007 due to lower levels of invested cash.

For the Third Quarter of 2007 and 2006, the Company's effective income tax rates of 35.9% and 36.5%, respectively, differed from the federal statutory tax rate of 35% primarily as a result of state income taxes.

Nine months ended September 30, 2007, compared to the nine months ended September 30, 2006

The following table (in thousands) details the components of revenues for the nine months ended September 30, 2007 (the "Nine-Month 2007 Period"), as compared to the nine months ended September 30, 2006 (the "Nine-Month 2006 Period"):

	Nine Months Ended September 30,			
	<u>2007</u>	<u>2006</u>	<u>Increase/(Decrease)</u>	
Domestic revenues:				
Pawn retail merchandise sales	\$ 46,039	\$ 43,242	\$ 2,797	6%
Pawn scrap jewelry sales	11,655	8,397	3,258	39%
Pawn service charges	23,026	20,650	2,376	12%
Short-term loan and credit services fees	53,969	47,050	6,919	15%
Buy-here/pay-here retail automobile sales	73,765	6,221	67,544	1086%
Buy-here/pay-here wholesale automobile sales	1,705	147	1,558	1060%
Buy-here/pay-here finance charges	5,049	329	4,720	1435%
Other	3,222	3,012	210	7%
	<u>\$ 218,430</u>	<u>\$ 129,048</u>	<u>\$ 89,382</u>	<u>69%</u>
Foreign revenues:				
Pawn retail merchandise sales	\$ 33,499	\$ 22,616	\$ 10,883	48%
Pawn scrap jewelry sales	16,223	15,227	996	7%
Pawn service charges	19,691	14,656	5,035	34%
	<u>\$ 69,413</u>	<u>\$ 52,499</u>	<u>\$ 16,914</u>	<u>32%</u>

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Total revenues:

Pawn retail merchandise sales	\$ 79,538	\$ 65,858	\$ 13,680	21%
Pawn scrap jewelry sales	27,878	23,624	4,254	18%
Pawn service charges	42,717	35,306	7,411	21%
Short-term loan and credit services fees	53,969	47,050	6,919	15%
Buy-here/pay-here retail automobile sales	73,765	6,221	67,544	1086%
Buy-here/pay-here wholesale automobile sales	1,705	147	1,558	1060%
Buy-here/pay-here finance charges	5,049	329	4,720	1435%
Other	3,222	3,012	210	7%
	\$ 287,843	\$ 181,547	\$ 106,296	59%

Year-over-year revenue increases for pawn retail merchandise sales, pawn scrap jewelry sales, pawn service fees, short-term loan/credit services fees and other revenues were due to a combination of same-store revenue growth and the opening of new stores. Same-store revenues (stores that were in operation during all of the first nine months of both 2006 and 2007) increased 10%, or \$17,038,000, for the Nine-Month 2007 Period as compared to the same period last year. Revenues generated by the 48 new pawn stores and the 75 new short-term loan stores opened since January 1, 2006 increased by \$15,985,000, compared to the same period last year.

The consolidated increase in scrap jewelry sales during the Nine-Month Period of 2007 was primarily due to an 11% increase in the weighted-average price of gold and a 5% increase in the quantity of gold sold.

The Company acquired Auto Master on August 25, 2006, and accordingly, the buy-here/pay-here automotive revenues for the Nine-Month 2006 Period do not include the results of Auto Master prior to August 25, 2006. During this period, Auto Master sold approximately 7,300 vehicles to retail customers for an average selling price of \$10,400 per vehicle.

The gross profit margin on total pawn merchandise sales was 40.9% during the Nine-Month 2007 Period, compared to 41.5% during the Nine-Month 2006 Period. The retail pawn merchandise margin, which excludes scrap jewelry sales, was 43.9% during the Nine-Month 2007 Period, compared to 44.4% in the Nine-Month 2006 Period. Gross margins on sales of scrap jewelry were 32.6% in the Nine-Month 2007 Period compared to 33.5% in the Nine-Month 2006 Period. The margin on buy-here/pay-here retail automobile sales, net of credit losses, was 25.6% for the Nine-Month 2007 Period.

The Company's short-term loan and credit services loss provision increased from 20.8% of short-term loan and credit services fee revenues during the Nine-Month 2006 Period to 25.3% during the Nine-Month 2007 Period. During the Nine-Month 2007 Period, the Company sold certain bad debt portfolios generated from short-term loan and credit services guarantees for an aggregate price of \$664,000, compared to proceeds of \$1,883,000 for similar transactions in the prior year period. The sales were recorded as reductions of the short-term loan and credit services loss provision. The decline in bad debt portfolio sales accounted for 270 basis points of the increase in the short-term loan and credit services loss provision ratio. The remainder of the increase in the provision was related to an increased proportion of new stores, which typically have greater early credit losses and higher charge-offs associated with new customers and employees. The buy-here/pay-here automotive credit loss provision was \$23,956,000 for the Nine-Month 2007 Period, or 32.5% of retail automobile sales.

Pawn and short-term loan store operating expenses increased 17% to \$66,792,000 during the Nine-Month 2007 Period, compared to \$57,044,000 during the Nine-Month 2006 Period, primarily as a result of the net addition of 117

pawn and check cashing/short-term loan stores since January 1, 2006, which is a 36% increase in the store count. Buy-here/pay-here automotive dealership operating expenses totaled \$8,573,000 for the Nine-Month 2007 Period. Administrative expenses increased 28% to \$21,545,000 during the Nine-Month 2007 Period compared to \$16,801,000 during the Nine-Month 2006 Period, which is primarily attributable to increased management and supervisory compensation expense and to additional administrative expenses related to new store openings and the Auto Master acquisition. The Company incurred interest expense in the Nine-Month 2007 Period of \$1,487,000 compared to \$219,000 during the Nine-Month 2006 Period due primarily to higher amounts of interest-bearing debt related to the acquisition of Auto Master and stock repurchases. Interest income decreased from \$691,000 in the Nine-Month 2006 Period to \$56,000 in the Nine-Month 2007 Period due primarily to lower levels of invested cash.

For the Nine-Month 2007 Period and Nine-Month 2006 Period, the Company's effective income tax rates of 36.4% and 36.5%, respectively, differed from the federal statutory tax rate of 35% primarily as a result of state income taxes.

## LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2007, the Company's primary sources of liquidity were \$11,811,000 in cash and cash equivalents, \$112,511,000 in receivables, \$34,947,000 in inventories and \$43,200,000 of available and unused funds under the Company's long-term line of credit with two commercial lenders (the "Credit Facility"). The Company had working capital of \$122,619,000 as of September 30, 2007.

The Credit Facility was amended during the Third Quarter of 2007 to increase the amount available under the line of credit from \$50,000,000 to \$90,000,000 and to extend the term of the facility until April 2010. The Credit Facility bears interest at the prevailing LIBOR rate (which was approximately 5.1% at September 30, 2007) plus a fixed interest rate margin of 1.375%. Amounts available under the Credit Facility are limited to 300% of the Company's earnings before income taxes, interest, and depreciation for the trailing twelve months. At September 30, 2007, the Company had \$46,800,000 outstanding under the Credit Facility and \$43,200,000 available for borrowings. Under the terms of the Credit Facility, the Company is required to maintain certain financial ratios and comply with certain technical covenants. The Company was in compliance with the requirements and covenants of the Credit Facility as of September 30, 2007, and November 7, 2007. The Company is required to pay an annual commitment fee of 1/8 of 1% on the average daily unused portion of the Credit Facility commitment. The Company's Credit Facility contains provisions that allow the Company to repurchase stock and/or pay cash dividends within certain parameters. Substantially all of the unencumbered assets of the Company have been pledged as collateral against indebtedness under the Credit Facility.

At September 30, 2007, the Company has notes payable to individuals arising from the Auto Master acquisition that total \$7,750,000 in aggregate and bear interest at 7%, with quarterly payments of principal and interest. Of the \$7,750,000 in notes payable, \$2,250,000 is classified as a current liability, and \$5,500,000 is classified as long-term debt. One of the notes payable, in the principal amount of \$1,000,000, is convertible anytime after August 25, 2007 into 55,555 shares of the Company's common stock at a conversion price of \$18.00 per share.

The following table sets forth certain historical information with respect to the Company's statements of cash flows:

	Nine Months Ended September 30,	
	<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:		

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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)
	<hr/>	<hr/>
Net cash flows from operating activities	2,790	24,281
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
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

During the third quarter of 2007, the Company repurchased approximately 823,000 shares of common stock for a total of \$18,176,000. During the second quarter of 2006, the Company repurchased approximately 1,262,000 shares of common stock for a total of \$24,753,000.

The profitability and liquidity of the Company is affected by the amount of customer receivables outstanding and related collections of such receivables. In general, revenue growth is dependent upon the Company's ability to fund growth of customer receivable balances and inventories and the ability to absorb related credit losses. In addition to these factors, merchandise sales and the pace of store expansions affect the Company's liquidity.

Management believes that the Credit Facility and cash generated from operations will be sufficient to accommodate the Company's current operations and store expansion plans for fiscal 2007 and 2008. Other than the Credit Facility,

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the Company currently has no written commitments for additional borrowings or future acquisitions; however, the Company intends to continue to grow and may seek additional capital to facilitate expansion.

The Company intends to continue expansion primarily through new store openings. The majority of capital expenditures, working capital requirements and start-up losses related to this expansion are expected to be funded through operating cash flows and the Credit Facility. While the Company continually looks for, and is presented with potential acquisition opportunities, the Company currently has no definitive plans or commitments for acquisitions. The Company will evaluate potential acquisitions, if any, based upon growth potential, purchase price, strategic fit and quality of management personnel, among other factors. If the Company encounters an attractive opportunity to acquire new stores in the near future, the Company may seek additional financing, the terms of which will be negotiated on a case-by-case basis.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") for the twelve month period ended September 30, 2007 totaled \$73,836,000, an increase of 38% compared to \$53,312,000 for the twelve month period ended September 30, 2006. The EBITDA margin (EBITDA as a percentage of revenues) for the twelve month period ended September 30, 2007 was 20%, compared to 22% for the comparable prior year period.

EBITDA is commonly used by investors to assess a company's leverage capacity, liquidity and financial performance. EBITDA is not considered a measure of financial performance under U.S. generally accepted accounting principles ("GAAP"), and the items excluded from EBITDA are significant components in understanding and assessing the Company's financial performance. Since EBITDA is not a measure determined in accordance with GAAP and is thus susceptible to varying calculations, EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. EBITDA should not be considered as an alternative to net income, cash flows provided by or used in operating, investing or financing activities or other financial statement data presented in the Company's consolidated financial statements as an indicator of financial performance or liquidity. Non-GAAP measures should be evaluated in conjunction with, and are not a substitute for, GAAP financial measures.

The following table provides a reconciliation of net income to EBITDA (in thousands):

	Twelve Months Ended September 30,	
	<u>2007</u>	<u>2006</u>
Net income	\$ 39,241	\$ 29,773
Adjustments:		
Income taxes	22,098	16,812
Depreciation and amortization	10,405	7,299
Interest expense	2,184	219
Interest income	(92)	(791)
	<u>73,836</u>	<u>53,312</u>
Earnings before interest, income taxes, depreciation and amortization	\$ 73,836	\$ 53,312

### CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE RESULTS

#### Forward-Looking Information

This quarterly report may contain forward-looking statements about the business, financial condition and prospects of the Company. Forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, can be identified by the use of forward-looking terminology such as "believes," "projects," "expects," "may," "estimates," "should," "plans," "intends," "could," or "anticipates," or the negative thereof, or other variations thereon,



or comparable terminology, or by discussions of strategy. Forward-looking statements can also be identified by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Forward-looking statements in this quarterly report include, without limitation, the Company's expectations of earnings per share, earnings growth, expansion strategies, store and dealership openings, future liquidity, cash flows, credit loss provisions, debt repayments, consumer demand for the Company's products and services, competition, and other performance results. These statements are made to provide the public with management's current assessment of the Company's business. Although the Company believes that the expectations reflected in forward-looking statements are reasonable, there can be no assurances that such expectations will prove to be accurate. Security holders are cautioned that such forward-looking statements involve risks and uncertainties. The forward-looking statements contained in this quarterly report speak only as of the date of this statement, and the Company expressly disclaims any obligation or undertaking to report any updates or revisions to any such statement to reflect any change in the Company's expectations or any change in events, conditions or circumstances on which any such statement is based. Certain factors may cause results to differ materially from those anticipated by some of the statements made in this quarterly report. Such factors are difficult to predict and many are beyond the control of the Company and may include changes in regional, national or international economic conditions, changes in consumer borrowing and repayment behaviors, changes in credit markets, credit losses, changes or increases in competition, the ability to locate, open and staff new stores and dealerships, the availability or access to sources of inventory, inclement weather, the ability to successfully integrate acquisitions, the ability to retain key management personnel, the ability to operate with limited regulation as a credit services organization in Texas, new legislative initiatives or governmental regulations (or changes to existing laws and regulations) affecting short-term loan/payday advance businesses, credit services organizations, pawn businesses and buy-here/pay-here automotive businesses in both the U.S. and Mexico, unforeseen litigation, changes in interest rates, changes in tax rates or policies, changes in gold prices, changes in energy prices, changes in used-vehicle prices, cost of funds, changes in foreign currency exchange rates, future business decisions, and other uncertainties. These and other risks and uncertainties are further and more completely described in the Company's 2006 Annual Report on Form 10-K (see "Item 1A. Risk Factors").

#### Regulatory Developments

The Company is subject to extensive regulation of its pawnshop, short-term loan/payday advance lending, credit services and buy-here/pay-here automotive retailing operations in most jurisdictions in which it operates. These regulations are provided through numerous laws, ordinances and regulatory pronouncements from various federal, state and local governmental entities in the United States and Mexico. In many jurisdictions, the Company must obtain and maintain regulatory operating licenses. In addition, many statutes and regulations prescribe, among other things, the general terms of the Company's loan agreements and the maximum service fees and/or interest rates that may be charged. These regulatory agencies have broad discretionary authority. The Company is also subject to U.S. federal and state regulations relating to the reporting and recording of certain currency transactions. The Company's pawnshop operations in Mexico are also subject to, and must comply with pawnshop-specific regulations and other general business, tax, employment and consumer protection regulations from various federal, state and local governmental agencies in Mexico.

Existing regulations and regulatory developments are described in greater detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. Subsequent regulatory developments are described herein.

During 2006, the United States Congress enacted legislation that caps the annual percentage rate charged on short-term advance/payday loans made to active military personnel at 36%; this legislation became effective in October 2007. The Company does not have any short-term/payday loan or credit services products bearing an effective interest rate of 36% per annum or less, nor does the Company intend to develop any such product, as the Company believes the losses and servicing costs associated with lending to the Company's traditional customer base would exceed the revenue produced at that rate. The Company does not expect this legislation will have a material

adverse effect on the Company's financial condition or results of operations.

The State of Oregon enacted legislation that provided for significantly more restrictive regulation of the payday loan industry beginning in July 2007. The implementation of these more restrictive regulations, which capped payday advance service fees at a 36% annual percentage rate plus a \$10 application fee, had a significant negative effect on the Company's payday advance revenues in Oregon, beginning in July 2007. As a result, the Company has closed two of its seven locations in Oregon. The impact of this change reduced the Company's net income by approximately \$0.01 per share for the three-month period ended September 30, 2007, and could affect future quarters similarly. The Company may be able to offset a portion of this reduction through increased payday loan volumes under the new law and through the addition of pawn loans in this market.

In the District of Columbia, where the Company operates nine locations that offer short-term/payday advances, legislation was recently passed by the City Council to cap the maximum annual percentage rate charged on payday advances at a 24% annual percentage rate. This legislation must still be approved by the U.S. Congress before it can become effective. If enacted, the proposed rate restrictions in Washington, D.C. would make the payday loan product financially unviable and would likely cause the Company to discontinue the product in the Washington D.C. market. Such changes could become effective at some point in 2008 and, using a conservative estimate, could cause the Company to adjust earnings by approximately \$0.13 per share on an annualized basis, plus an additional \$0.02 per share one-time charge to close stores in the market, should this become necessary. Should these regulatory changes occur, the Company may be able to offset a portion of the reduced payday advance revenues by converting certain of the D.C. short-term loan stores to pawn stores and through increased pawn revenues in the existing pawn stores in D.C. and the nearby surrounding markets. The potential impact of Washington D.C. regulations is seen as a one-time adjustment to the Company's earnings stream, as D.C. is a mature market where the Company has no plans to add additional stores.

There can be no assurance that additional local, state or federal statutes or regulations in either the United States or Mexico will not be enacted or that existing laws and regulations will not be amended at some future date that could inhibit the ability of the Company to offer pawn loans, short-term loans, payday advances, credit services and buy-here/pay-here automotive retailing/financing, significantly decrease the service fees for lending money, or prohibit or more stringently regulate the sale of certain goods, any of which could cause a significant, adverse effect on the Company's future results. If legislative or regulatory actions that had negative effects on the pawn, short-term loan, credit services or buy-here/pay-here automotive industries were taken at the federal level in the U.S. or Mexico, or in U.S. or Mexican states or municipalities where the Company has a significant number of stores, those actions could have a materially adverse effect on the Company's lending, credit services and retail activities and revenues. There can be no assurance that additional federal, state or local legislation in the U.S. or Mexico will not be enacted, or that existing laws and regulations will not be amended, which would have a materially adverse impact on the Company's operations and financial condition.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to the Company's operations result primarily from changes in interest rates, gold prices and foreign currency exchange rates and are described in detail in the Company's 2006 Annual Report on Form 10-K. The Company does not engage in speculative or leveraged transactions, nor does it hold or issue financial instruments for trading purposes. There have been no material changes to the Company's exposure to market risks since December 31, 2006.

### ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, management of the Company has evaluated the effectiveness of the design and operation of 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 of September 30, 2007 ("Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective (i) to ensure that information required to be disclosed by us in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms; and (ii) to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to our management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

There was no change in the Company's internal control over financial reporting during the quarter ended September 30, 2007, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company's management, including its Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or internal controls will prevent all possible error and fraud. The Company's disclosure controls and procedures are, however, designed to provide reasonable assurance of achieving their objectives, and the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's financial controls and procedures are effective at that reasonable assurance level.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

There have been no material changes in the status of legal proceedings previously reported in the Company's 2006 Annual Report on Form 10-K.

### ITEM 1A. RISK FACTORS

Except as described in the section of this report entitled "Regulatory Developments," there have been no material changes in the risk factors previously reported in the Company's 2006 Annual Report on Form 10-K.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the period from January 1, 2007 through September 30, 2007, the Company issued 494,100 shares of common stock relating to the exercise of outstanding stock options for an aggregate exercise price of \$8,145,000 (including income tax benefit). During the period from January 1, 2007 through September 30, 2007, the Company issued 56,600 shares of common stock relating to the exercise of outstanding stock warrants for an aggregate exercise price of \$564,000 (including income tax benefit).

The transactions set forth in the above paragraph were completed pursuant to either Section 4(2) of the Securities Act or Rule 506 of Regulation D of the Securities Act. With respect to issuances made pursuant to Section 4(2) of the Securities Act, the transactions did not involve any public offering and were sold to a limited group of persons. Each recipient either received adequate information about the Company or had access, through employment or other relationships, to such information, and the Company determined that each recipient had such knowledge and experience in financial and business matters that they were able to evaluate the merits and risks of an investment in the Company. With respect to issuances made pursuant to Rule 506 of Regulation D of the Securities Act, the Company determined that each purchaser was an "accredited investor" as defined in Rule 501(a) under the Securities Act. All sales of the Company's securities were made by officers of the Company who received no commission or other remuneration for the solicitation of any person in connection with the respective sales of securities described above. The recipients of securities represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share

certificates and other instruments issued in such transactions.

In June 2006, the Company's Board of Directors authorized an open-ended stock repurchase plan, with no dollar limitation, to permit future repurchases of up to 2,000,000 shares of First Cash's outstanding common stock. During the second quarter of 2006, the Company repurchased a total of 461,000 common shares under this repurchase plan for an aggregate purchase price of \$8,848,000 or \$19.21 per share.

The following table provides the information with respect to purchases made by the Company of shares of its common stock during each month that the program was in effect during the Third Quarter of 2007:

	Total Number Of Shares  Purchased	Average Price Paid  Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans	Maximum Number Of Shares that May Yet be Purchased  Under the Plans
July 1 through July 31, 2007	437,836	\$ 23.14	437,836	1,101,508
August 1 through August 31, 2007	385,000	20.90	385,000	716,508
September 1 through September 30, 2007	-	-	-	716,508
Total	822,836	\$ 22.09	822,836	

Subsequent to September 30, 2007, the Company repurchased approximately 717,000 shares to close out the 2006-authorized program. The repurchase price of the 2,000,000 shares repurchased under this plan was \$41 million, or a weighted-average of \$20.50 per share. In November 2007, the Company's Board of Directors authorized a repurchase program for up to 1,000,000 shares of First Cash's outstanding common stock. No shares were repurchased under the 2007-authorized program as of the report date.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

### ITEM 5. OTHER INFORMATION

None

### ITEM 6. EXHIBITS

Exhibits:

10.1 Amended and Restated Employment Agreement - Rick L. Wessel

31.1

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Certification Pursuant to Section 302 of the Sarbanes-Oxley Act provided by Rick L. Wessel, Chief Executive Officer

- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act provided by R. Douglas Orr, Chief Financial Officer
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 provided by Rick L. Wessel, Chief Executive Officer
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 provided by R. Douglas Orr, Chief Financial Officer

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SIGNATURES

Pursuant to the requirements 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.

Dated: November 7, 2007

FIRST CASH FINANCIAL SERVICES, INC.  
(Registrant)

/s/ RICK L. WESSEL  
Rick L. Wessel  
Chief Executive Officer  
(Principal Executive Officer)

/s/ R. DOUGLAS ORR  
R. Douglas Orr  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

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INDEX TO EXHIBITS

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