

FIRST CASH FINANCIAL SERVICES INC
Form 10-Q
May 10, 2016
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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, 2016

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)

(817) 460-3947

(Registrant's telephone number, including area code)

NONE

(Former name, former address and former fiscal year, if changed since last report)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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).

Yes No

As of May 3, 2016, there were 28,243,229 shares of common stock outstanding.

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CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE RESULTS

Forward-Looking Information

This quarterly report contains forward-looking statements about the business, financial condition and prospects of First Cash Financial Services, Inc. and its wholly owned subsidiaries (together, the “Company”) and the Company’s previously announced all-stock merger of equals transaction with Cash America International, Inc. (“Cash America”). 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,” “targets,” “intends,” “could,” or “anticipates,” or the negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy or objectives. 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, the impact of new or existing regulations, store openings, liquidity (including the availability of capital under existing credit facilities), cash flow, consumer demand for the Company’s products and services, income tax rates, currency exchange rates, future share repurchases and anticipated dividend payments, the price of gold and the impacts thereof, future earnings accretion and related transaction expenses from acquisitions and mergers, the successful completion of expected acquisitions, anticipated debt repayments, the ability to successfully integrate acquisitions and other performance results. These forward-looking statements with respect to the proposed transaction with Cash America include, without limitation, the benefits of the proposed transaction and the expected completion of the transaction. These statements are made to provide the public with management’s current assessment of the Company’s business. Although the Company believes the expectations reflected in forward-looking statements are reasonable, there can be no assurances such expectations will prove to be accurate. Security holders are cautioned such forward-looking statements involve risks and uncertainties. Certain factors may cause results to differ materially from those anticipated by the forward-looking statements made in this quarterly report. Such factors are difficult to predict and many are beyond the control of the Company and may include, without limitation, the following:

- changes in foreign currency exchange rates and the U.S. dollar to the Mexican peso and Guatemalan quetzal exchange rates in particular;
- new federal, state or local legislative initiatives or governmental regulations (or changes to existing laws and regulations) affecting pawn businesses, consumer loan businesses and credit services organizations (in the United States, Mexico, Guatemala and El Salvador), including administrative or legal interpretations thereto;
- changes in consumer demand, including purchasing, borrowing and repayment behaviors;
- changes in regional, national or international economic conditions, including inflation rates, unemployment rates and energy prices;
- changes in pawn forfeiture rates and credit loss provisions;
- changes in the market value of pawn collateral and merchandise inventories, including gold prices and the value of consumer electronics and other products;
- changes or increases in competition;
- the ability to locate, open and staff new stores and successfully integrate acquisitions;
- the availability or access to sources of used merchandise inventory;
- changes in credit markets, interest rates and the ability to establish, renew and/or extend the Company’s debt financing;
- the ability to maintain banking relationships for treasury services and processing of certain consumer lending transactions;
- the ability to hire and retain key management personnel;
- risks and uncertainties related to foreign operations in Mexico, Guatemala and El Salvador;

- changes in import/export regulations and tariffs or duties;
 - changes in banking, anti-money laundering or gun control regulations;
 - unforeseen litigation;
 - changes in tax rates or policies in the U.S., Mexico, Guatemala and El Salvador;
 - inclement weather, natural disasters and public health issues;
 - security breaches, cyber attacks or fraudulent activity;
 - a prolonged interruption in the Company's operations of its facilities, systems, and business functions, including its information technology and other business systems;
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- the implementation of new, or changes in the interpretation of existing, accounting principles or financial reporting requirements;
- future business decisions;
- the risk that the required stockholder approvals to approve the proposed transaction with Cash America may not be obtained;
- the risks that the other condition(s) to closing of the proposed transaction may not be satisfied;
- the length of time necessary to consummate the proposed transaction;
- the risk that the Company and the Cash America businesses will not be integrated successfully;
- the risk that the cost savings, synergies, growth and cash flows from the proposed transaction may not be fully realized or may take longer to realize than expected;
- the diversion of management time on transaction-related issues;
- the risk that costs associated with the integration of the Company and Cash America are higher than anticipated; and
- litigation risk related to the proposed transaction.

These and other risks, uncertainties and regulatory developments are further and more completely described in the Company's 2015 annual report on Form 10-K filed with the Securities and Exchange Commission on February 17, 2016, including the risks described in Part 1, Item 1A, "Risk Factors" of the Company's annual report, and in Part II, Item 1A, "Risk Factors" of this quarterly report. Many of these risks and uncertainties are beyond the ability of the Company to control, nor can the Company predict, in many cases, all of the risks and uncertainties that could cause its actual results to differ materially from those indicated by the forward-looking statements. The forward-looking statements contained in this quarterly report speak only as of the date of this quarterly report, 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, except as required by law.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST CASH FINANCIAL SERVICES, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (unaudited, in thousands)

	March 31,		December
	2016	2015	31, 2015
ASSETS			
Cash and cash equivalents	\$54,150	\$75,803	\$86,954
Pawn loan fees and service charges receivable	17,070	16,232	16,406
Pawn loans	126,620	114,306	117,601
Consumer loans, net	985	977	1,118
Inventories	90,714	82,554	93,458
Prepaid expenses and other current assets	6,911	3,302	9,897
Total current assets	296,450	293,174	325,434
Property and equipment, net	120,712	112,587	112,447
Goodwill	315,439	276,545	295,609
Other non-current assets	10,291	10,887	10,084
Deferred tax assets	10,993	8,845	9,321
Total assets	\$753,885	\$702,038	\$752,895
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable and accrued liabilities	\$54,496	\$41,704	\$42,252
Income taxes payable	1,433	50	3,923
Total current liabilities	55,929	41,754	46,175
Revolving unsecured credit facilities	40,000	14,500	58,000
Senior unsecured notes	196,037	195,409	195,874
Deferred tax liabilities	22,632	17,901	21,464
Total liabilities	314,598	269,564	321,513
Stockholders' equity:			
Preferred stock	—	—	—
Common stock	403	399	403
Additional paid-in capital	203,143	193,278	202,393
Retained earnings	653,248	599,682	643,604
Accumulated other comprehensive loss from cumulative foreign currency translation adjustments	(80,899)	(47,277)	(78,410)
Common stock held in treasury, at cost	(336,608)	(313,608)	(336,608)
Total stockholders' equity	439,287	432,474	431,382
Total liabilities and stockholders' equity	\$753,885	\$702,038	\$752,895

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

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FIRST CASH FINANCIAL SERVICES, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (unaudited, in thousands, except per share amounts)

	Three Months Ended March 31,	
	2016	2015
Revenue:		
Retail merchandise sales	\$118,776	\$110,454
Pawn loan fees	51,433	48,654
Consumer loan and credit services fees	5,686	7,595
Wholesale scrap jewelry revenue	7,308	9,320
Total revenue	183,203	176,023
Cost of revenue:		
Cost of retail merchandise sold	74,422	68,246
Consumer loan and credit services loss provision	1,047	997
Cost of wholesale scrap jewelry sold	5,871	8,009
Total cost of revenue	81,340	77,252
Net revenue	101,863	98,771
Expenses and other income:		
Store operating expenses	55,411	52,321
Administrative expenses	17,668	13,838
Depreciation and amortization	4,937	4,547
Interest expense	4,460	4,020
Interest income	(274)	(344)
Total expenses and other income	82,202	74,382
Income before income taxes	19,661	24,389
Provision for income taxes	6,487	7,601
Net income	\$13,174	\$16,788
Net income per share:		
Basic	\$0.47	\$0.59
Diluted	\$0.47	\$0.59
Dividends declared per common share	\$0.125	\$—

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

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FIRST CASH FINANCIAL SERVICES, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF
 COMPREHENSIVE INCOME
 (unaudited, in thousands)

	Three Months Ended March 31,	
	2016	2015
Net income	\$13,174	\$16,788
Other comprehensive income (loss):		
Currency translation adjustment	(2,489)	(6,999)
Comprehensive income	\$10,685	\$9,789

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

FIRST CASH FINANCIAL SERVICES, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 (unaudited, in thousands)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accum- ulated Other Compre- hensive Loss	Common Stock Held in Treasury	Total Stock- holders' Equity			
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at 12/31/2015	—	\$ —	40,288	\$ 403	\$ 202,393	\$ 643,604	\$(78,410)	12,052	\$(336,608)	\$431,382
Shares issued under share-based com-pensation plan	—	—	7	—	—	—	—	—	—	—
Share-based compensation expense	—	—	—	750	—	—	—	—	—	750
Net income	—	—	—	—	13,174	—	—	—	—	13,174
Dividends paid	—	—	—	—	(3,530)	—	—	—	—	(3,530)
Currency translation adjustment	—	—	—	—	—	(2,489)	—	—	—	(2,489)
Balance at 3/31/2016	—	\$ —	40,295	\$ 403	\$ 203,143	\$ 653,248	\$(80,899)	12,052	\$(336,608)	\$439,287

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

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FIRST CASH FINANCIAL SERVICES, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 CONTINUED
 (unaudited, in thousands)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accum- ulated Other Compre- hensive Loss	Common Stock Held in Treasury	Total Stock- holders' Equity		
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at 12/31/2014	—	\$ 39,708	\$ 397	\$ 188,062	\$ 582,894	\$(40,278)	11,200	\$(296,634)	\$ 434,441
Shares issued under share-based com-pensation plan	—	5	—	—	—	—	—	—	—
Exercise of stock options	—	145	2	2,899	—	—	—	—	2,901
Income tax benefit from exercise of stock options	—	—	—	1,617	—	—	—	—	1,617
Share-based compensation expense	—	—	—	700	—	—	—	—	700
Net income	—	—	—	—	16,788	—	—	—	16,788
Currency translation adjustment	—	—	—	—	—	(6,999)	—	—	(6,999)
Repurchases of treasury stock	—	—	—	—	—	—	336	(16,974)	(16,974)
Balance at 3/31/2015	—	\$ 39,858	\$ 399	\$ 193,278	\$ 599,682	\$(47,277)	11,536	\$(313,608)	\$ 432,474