

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

FIRST CASH FINANCIAL SERVICES INC
Form 10-Q/A
October 08, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q/A
(Amendment No. 1)

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

For the Quarter Ended
March 31, 2004

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)

75-2237318
(IRS Employer Identification No.)

690 East Lamar Blvd., Suite 400
Arlington, Texas
(Address of principal executive offices)

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 an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act). Yes No

As of May 4, 2004 there were 16,112,455 shares of Common Stock outstanding.

FIRST CASH FINANCIAL SERVICES, INC.
FORM 10-Q/A
(Amendment No. 1)

For the Three Months Ended March 31, 2004

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (this "Amendment") amends the Quarterly Report on Form 10-Q for the Three Months Ended March 31, 2004 filed on May 5, 2004 (the "Original Filing"). First Cash Financial Services, Inc. (the "Company") has filed this Amendment to correct the classification of certain transactions presented in the Statements of Cash Flows in the Original Filing. The net effect of the corrections of these

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

classifications in each period presented is to increase operating cash flows, while decreasing investing and financing cash flows. These changes were identified during the course of the Company preparing its response to a comment letter from the U.S. Securities and Exchange Commission regarding the Original Filing.

A description of these reclassifications and a summary showing their effect on the restated Condensed Consolidated Statements of Cash Flows is provided in Part I, Note 5 to the Consolidated Financial Statements. This Amendment also includes corresponding textual changes in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources and an addition to related information in Part II, Item 4, Controls and Procedures. This Amendment has no effect on the Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Income, and Condensed Consolidated Statements of Changes in Stockholders' Equity, and more specifically, does not affect net income, earnings per share, total cash flows, current assets, total assets, current liabilities, total stockholders' equity or other information as presented in the Original Filing.

Other information contained herein has not been updated. Therefore, this Amendment should be read together with other documents that the Company has filed with the Securities and Exchange Commission subsequent to the filing of the Original Filing. Information in such reports and documents updates and supersedes certain information contained in this Amendment. The filing of this Amendment shall not be deemed an admission that the Original Filing, when made, included any known, untrue statement of material fact or knowingly omitted to state a material fact necessary to make a statement not misleading.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST CASH FINANCIAL SERVICES, INC. CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31,		December 31,
	2004	2003	2003
	(unaudited)		
	(in thousands, except share data)		
ASSETS			
Cash and cash equivalents.....	\$ 19,482	\$ 13,106	\$ 15,847
Service charges receivable.....	3,565	2,806	3,918
Receivables.....	30,565	24,119	33,796
Inventories.....	14,467	12,330	15,588
Prepaid expenses and other current assets	900	960	964
Income taxes receivable.....	3,141	-	1,613
	-----	-----	-----
Total current assets	72,120	53,321	71,726
Property and equipment, net.....	15,012	11,963	14,418
Goodwill.....	53,237	53,194	53,237
Receivable from Cash & Go, Ltd.....	-	4,853	-
Other.....	737	624	683
	-----	-----	-----
	\$141,106	\$123,955	\$140,064
	=====	=====	=====

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

LIABILITIES AND STOCKHOLDERS' EQUITY			
Current portion of long-term debt.....	\$ -	\$ 600	\$ -
Accounts payable.....	644	584	1,054
Accrued expenses.....	5,930	8,837	9,832
Income taxes payable.....	-	1,016	-
	-----	-----	-----
Total current liabilities	6,574	11,037	10,886
Revolving credit facility.....	-	17,000	6,000
Other long-term debt, net of current portion.....	-	575	-
Deferred income taxes.....	6,255	5,223	5,955
	-----	-----	-----
	12,829	33,835	22,841
	-----	-----	-----
Stockholders' equity:			
Preferred stock; \$.01 par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-	-
Common stock; \$.01 par value; 20,000,000 shares authorized	158	96	109
Additional paid-in capital	66,207	52,037	63,395
Retained earnings	61,912	45,257	56,734
Notes receivable from officers	-	(4,255)	-
Common stock held in treasury, at cost; 981,271 shares in 2003	-	(3,015)	(3,015)
	-----	-----	-----
	128,277	90,120	117,223
	-----	-----	-----
	\$141,106	\$123,955	\$140,064
	=====	=====	=====

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, 2004	March 31, 2003
	-----	-----
	(unaudited)	(unaudited)
	(in thousands, except per share amounts)	
Revenues:		
Merchandise sales	\$ 20,471	\$ 17,153
Service charges	20,137	16,013
Check cashing fees	910	772
Other	332	306
	-----	-----
	41,850	34,244
	-----	-----
Cost of goods sold and expenses:		
Cost of goods sold	12,070	10,347
Operating expenses	16,239	13,911
Interest expense	43	182
Interest income	(14)	(183)
Depreciation	921	662
Administrative expenses	4,412	3,734

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

	-----	-----
	33,671	28,653
	-----	-----
Income before income taxes.....	8,179	5,591
Provision for income taxes.....	3,001	2,093
	-----	-----
Net income.....	\$ 5,178	\$ 3,498
	=====	=====
Net income per share:		
Basic	\$ 0.34	\$ 0.26
	=====	=====
Diluted	\$ 0.30	\$ 0.24
	=====	=====

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, 2004	March 31, 2003
	-----	-----
	(unaudited)	(unaudited)
	(in thousands)	
	(as restated, see Note 5)	
Cash flows from operating activities:		
Net income	\$ 5,178	\$ 3,498
Adjustment to reconcile net income to net cash flows from operating activities:		
Depreciation	921	662
Short-term advance loss provision	1,399	1,438
Tax benefit from exercise of employee stock options	3,953	-
Changes in operating assets and liabilities:		
Service charges receivable	353	368
Inventories	392	448
Prepaid expenses and other assets	10	249
Accounts payable and accrued expenses	(4,312)	(633)
Current and deferred income taxes	(1,228)	1,316
	-----	-----
Net cash flows from operating activities .	6,666	7,346
	-----	-----
Cash flows from investing activities:		
Pawn receivables, net	982	1,794
Short-term advance receivables, net	1,579	833
Purchases of property and equipment	(1,515)	(875)
Decrease in receivable from Cash & Go, Ltd ...	-	2,498
	-----	-----
Net cash flows from investing activities .	1,046	4,250
	-----	-----
Cash flows from financing activities:		
Net repayments of debt	(6,000)	(11,327)
Notes receivable from officers	-	(27)
Proceeds from exercise of options and warrants	3,270	129

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

Purchase of treasury stock	(1,347)	-
	-----	-----
Net cash flows from financing activities	(4,077)	(11,225)
	-----	-----
Change in cash and cash equivalents.....	3,635	371
Cash and cash equivalents at beginning of the period.....	15,847	12,735
	-----	-----
Cash and cash equivalents at end of the period.	\$ 19,482	\$ 13,106
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 43	\$ 197
	=====	=====
Income taxes	\$ 277	\$ 610
	=====	=====

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 also include the accounts of Cash & Go, Ltd., a Texas limited partnership, which owns financial services kiosks inside convenience stores. The Company has a 50% ownership interest in the partnership, which it has historically accounted for by the equity method of accounting as neither partner has control. Effective December 31, 2003, when the Company adopted FASB Interpretation No. 46(R) - Consolidation of Variable Interest Entities, the Company's consolidated balance sheet includes the assets and liabilities of Cash & Go, Ltd. The operating results of Cash & Go, Ltd. are included in the Company's consolidated operating results effective for accounting periods beginning January 1, 2004. 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, 2003 Annual Report on Form 10-K. The consolidated financial statements as of March 31, 2004 and for the periods ended March 31, 2004 and 2003 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, 2004 are not necessarily indicative of the results that may be expected for the full fiscal year.

All share amounts and earnings per share amounts included in these

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

financial statements reflect a three-for-two stock split effective April 6, 2004.

Note 2 - Revolving Credit Facility

The Company maintains a combined long-term line of credit with two commercial lenders (the "Credit Facility"). The Credit Facility provides a \$25,000,000 long-term line of credit that matures on April 15, 2006 and bears interest at the prevailing LIBOR rate (which was approximately 1.1% at March 31, 2004) 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, depreciation and amortization for the trailing twelve months. At March 31, 2004, the Company had no outstanding amounts due under the facility and had \$25,000,000 available for future 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 March 31, 2004 and May 4, 2004. 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 will 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.

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, 2004	March 31, 2003
Numerator:		
Net income for calculating basic and diluted earnings per share	\$ 5,178 =====	\$ 3,498 =====
Denominator:		
Weighted-average common shares for calculating basic earnings per share	15,431	13,331
Effect of dilutive securities: Stock options and warrants	1,648 -----	1,353 -----
Weighted-average common shares for calculating diluted earnings per share	17,079 =====	14,684 =====
Basic earnings per share	\$ 0.34 =====	\$ 0.26 =====
Diluted earnings per share	\$ 0.30 =====	\$ 0.24 =====

There were no shares excluded from the calculation of diluted earnings per share.

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

Note 4 - Employee Stock Incentive Plans

The Company accounts for its employee stock incentive plans under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees and the related interpretations under Financial Accounting Standards Board (FASB) Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation. Accordingly, no stock-based employee compensation cost is reflected in net income as all options and warrants granted had an exercise price equal to the market value of the underlying common stock on the date of grant. In accordance with SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, the following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Three Months Ended	
	March 31, 2004	March 31, 2003
Net income, as reported	\$ 5,178	\$ 3,498
Less: Stock based employee compensation determined under the fair value requirements of SFAS 123, net of income tax benefits	2,356	88
Adjusted net income	\$ 2,822	\$ 3,410
Earnings per share:		
Basic, as reported	\$ 0.34	\$ 0.26
Basic, adjusted	0.18	0.26
Diluted, as reported	0.30	0.24
Diluted, adjusted	0.17	0.23

The fair values were determined using a Black-Scholes option-pricing model using the following assumptions:

	Three Months Ended	
	March 31, 2004	March 31, 2003
Expected dividend yield.....	-	-
Expected volatility.....	52.7%	58.1%
Risk-free interest rate.....	3.5%	3.5%
Average expected life.....	5.5 years	7.0 years

During the period from January 1, 2004 through March 31, 2004, the Company issued 680,117 shares of common stock relating to the exercise of outstanding stock options and warrants for an aggregate exercise price of \$7,223,000, including income tax benefit.

Note 5 - Restatement of the Condensed Consolidated Statements of Cash Flows

The Statements of Cash Flows for the three-month periods ended March 31, 2004 and 2003 have been restated to correct the classification of certain transactions between sections of the Statements of Cash Flows. The

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

Company determined that it had incorrectly classified the short-term advance loss provision as an investing activity rather than an operating activity. The effect of the adjustment to correct the misclassification is to increase cash flows from operating activities and to decrease cash flows from investing activities in the amounts of \$1,399,000, and \$1,438,000 for the three-month periods ended March 31, 2004 and 2003, respectively. In addition, the Company has reviewed its recording and classification of cash flows arising from the forfeiture and subsequent sale of pawn collateral and determined that investing cash flows representing a return of pawn receivables were incorrectly recorded on the dates of forfeiture rather than on the dates that the forfeited collateral was sold. Accordingly, the previously reported cash flows related to forfeited collateral have been corrected to remove the non-cash impact of increases and decreases in on-hand inventories. The effect of the adjustment to correct the misclassification is to increase cash flows from investing activities and to decrease cash flows from operating activities in the amounts of \$729,000 and \$870,000 for the three-month periods ended March 31, 2004 and 2003, respectively. The Company has also reviewed the cash flow presentation of the tax benefit associated with the exercise of employee stock options. This amount was previously included in the change in current and deferred taxes, a component of cash flows from operating activities. In the restated Condensed Statements of Cash Flows, the tax benefit is reported separately as an adjustment to reconcile net income to net cash flows, which is also a component of cash flows from operating activities. Accordingly, there is no effect from this reclassification which would increase or decrease the totals from any section within the Condensed Statements of Cash Flows.

A summary of the effects of these corrections are as follows:

Quarter Ended March 31, 2004			
As			
	Previously Reported	Adjustments	As Restated
(in thousands)			
Net cash flows from operating activities	\$ 5,996	\$ 670	\$ 6,666
Net cash flows from investing activities	1,716	(670)	1,046
Net cash flows from financing activities	(4,077)	-	(4,077)
Change in cash and cash equivalents	3,635	-	3,635
Cash and cash equivalents at beginning of the period	15,847	-	15,847
Cash and cash equivalents at end of the period	\$ 19,482	\$ -	\$ 19,482
Quarter Ended March 31, 2003			
As			
	Previously Reported	Adjustments	As Restated
(in thousands)			
Net cash flows from operating activities	\$ 6,778	\$ 568	\$ 7,346
Net cash flows from investing activities	4,818	(568)	4,250
Net cash flows from financing activities	(11,225)	-	(11,225)
Change in cash and cash equivalents	371	-	371
Cash and cash equivalents at beginning			

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

of the period	12,735	-	12,735
	-----	-----	-----
Cash and cash equivalents at end of the period	\$ 13,106	\$ -	\$ 13,106
	=====	=====	=====

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

First Cash Financial Services, Inc. (the "Company") is a leading provider of specialty consumer finance products. The Company currently has 251 locations in eleven U.S. states and Mexico and is the nation's third largest publicly traded pawnshop operator. The Company's pawn stores engage in both consumer finance and retail sales activities and are a convenient source for small consumer loans, advancing money against pledged tangible personal property such as jewelry, electronic equipment, tools, sporting goods and musical equipment. The pawn stores also retail previously-owned merchandise acquired through collateral forfeitures and over-the-counter purchases from customers. Many of the Company's pawn stores offer short-term, unsecured advances ("short-term advances"), which are also known as payday loans.

The Company also operates stand-alone check cashing/short-term advance stores in several U.S. states. These stores provide a broad range of consumer financial services products, including check cashing, short-term advances, money order sales, money transfers and bill payment services. In addition, the Company is a 50% partner in Cash & Go, Ltd., a Texas limited partnership, which currently owns and operates 40 kiosks located inside convenience stores, which offer short-term advances and check cashing.

OPERATIONS AND LOCATIONS

The following table details store openings and closings for the three months ended March 31, 2004.

	Pawn Stores	Check Cashing/ Short-term Advance Stores	Total Stores
	-----	-----	-----
Beginning count at January 1, 2004..	160	75	235
New stores opened.....	12	2	14
Closed stores.....	(2)	-	(2)
	-----	-----	-----
Ending Count at March 31, 2004.....	170	77	247
	=====	=====	=====

The Company's business plan is to continue to expand its operations by opening both new check cashing/short-term advance stores and new pawn stores in selected geographic markets. In addition, for the three months ended March 31, 2004, the Company's 50% owned joint venture, Cash & Go, Ltd. operated a total of 40 kiosks located inside convenience stores in the state of Texas. No kiosks were opened or closed during the quarter.

For the quarter ended March 31, 2004, the Company's revenues were derived 49% from merchandise sales, 48% from service charges on pawn loans

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

and short-term advances, and 3% from other sources, primarily check cashing fees.

Although the Company has had significant increases in revenues due to new store openings in 2003 and 2004, the Company has also incurred increases in operating expenses attributable to the additional stores and increases in administrative expenses attributable to building a management team and the support personnel required by the Company's growth. Operating expenses consist of all items directly related to the operation of the Company's stores, including salaries and related payroll costs, rent, utilities, equipment depreciation, advertising, property taxes, licenses, supplies, security and bad debt and collection expenses for both check cashing and short-term advances. Administrative expenses consist of items relating to the operation of the corporate office, including the compensation and benefit costs of corporate officers, area supervisors and other operations management, accounting and administrative costs, information technology costs, liability and casualty insurance, outside legal and accounting fees and stockholder-related expenses.

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, and 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 which 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 2003 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Three months ended March 31, 2004 compared to the three months ended March 31, 2003

Total revenues increased 22% to \$41,850,000 for the three months ended March 31, 2004 ("the first quarter of 2004") as compared to \$34,244,000 for the three months ended March 31, 2003 ("the first quarter of 2003"). The change was comprised of an increase in revenues of \$2,568,000 generated by the 61 new pawn and check cashing/short-term advance stores which were opened since January 1, 2003, an increase of \$4,005,000 at the stores which were in operation during all of the first quarter of 2003 and the first quarter of 2004, an increase of \$1,424,000 related to the consolidation of the 40 Cash & Go, Ltd. kiosks, net of a decrease in revenues of \$391,000 from the four stores closed since January 1, 2003. Same store revenues increased 12% primarily due to increased consumer demand for short-term loan products and continued maturation of newer stores opened in 2002 and prior. Of the \$7,606,000 increase in total revenues, 44%, or \$3,318,000, was attributable to increased merchandise sales, 54%, or \$4,124,000, was attributable to a net increase in service charges on pawn and short-term advances, and 2% or \$164,000 was attributable to other income, comprised primarily of check cashing fees. A significant component of the increase in merchandise sales was non-retail bulk sales of scrap jewelry merchandise, which increased from \$2,388,000 in the first quarter of 2003 to \$3,439,000 in the first quarter of 2004. Service charges from short-term advances increased from \$9,519,000 in the first quarter of 2003 to \$12,003,000 in the

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

first quarter of 2004, while service charges from pawns increased from \$6,494,000 in the first quarter of 2003 to \$8,134,000 in the first quarter of 2004. As a percentage of total revenues, merchandise sales decreased from 50% to 49% during the first quarter of 2004 as compared to the first quarter of 2003, service charges increased from 47% to 48%, and check cashing fees and other income as a percentage of total revenues were 3% during both the first quarter of 2004 and the first quarter of 2003.

The receivables balance increased 27% from \$24,119,000 at March 31, 2003 to \$30,565,000 at March 31, 2004. Of the \$6,446,000 increase, an increase of \$2,807,000 was attributable to the growth in loan balances at the 197 pawn and check cashing/short-term advance stores which were in operation as of March 31, 2004 and 2003, an increase of \$2,394,000 was attributable to the 50 new pawn and check cashing/short-term advance stores opened since March 31, 2003, and an increase of \$1,245,000 was attributable to the consolidation of the 40 Cash & Go, Ltd. kiosks. The aggregate receivables balance at March 31, 2004 was comprised of \$19,784,000 of pawn loan receivables and \$10,781,000 of short-term advance receivables, compared to \$15,700,000 of pawn loan receivables and \$8,419,000 of short-term advance receivables at March 31, 2003.

Gross profit margins as a percentage of total merchandise sales were 41% during the first quarter of 2004 compared to 40% during the first quarter of 2003. Retail merchandise margins, which do not include scrap jewelry sales, were 45% over the same periods.

Operating expenses increased 17% to \$16,239,000 during the first quarter of 2004 compared to \$13,911,000 during the first quarter of 2003, primarily as a result of the consolidation of Cash & Go, Ltd.'s operating results and the net addition of 57 pawn and check cashing/short-term advance stores since January 1, 2003, which is a 30% increase in store count. The Company's net bad debt expense relating to short-term advances decreased from \$1,438,000 in the first quarter of 2003 to \$1,399,000 in the first quarter of 2004. As a percentage of short-term advance service charge revenues, net bad debts decreased from 15% during the first quarter of 2003 to 12% during the first quarter of 2004 due to strong collections associated with larger tax refunds during the first quarter of 2004. Administrative expenses increased 18% to \$4,412,000 during the first quarter of 2004 compared to \$3,734,000 during the first quarter of 2003 primarily as a result of the consolidation of Cash & Go, Ltd.'s operating results. Increased costs for administrative/supervisory compensation and benefits, insurance, accounting and legal fees and other expenses necessary to support the Company's growth strategy and increase in store counts were partially offset by a \$570,000 non-recurring insurance recovery related to an unreimbursed employment-related insurance claim. Interest expense decreased to \$43,000 in the first quarter of 2004 compared to interest expense of \$182,000 in the first quarter of 2003 due to the reduction, and subsequent elimination of interest-bearing debt during the first quarter of 2004. Interest income decreased from \$183,000 in the first quarter of 2003 to \$14,000 in the first quarter of 2004, due primarily to the elimination of interest income associated with the consolidation of Cash & Go, Ltd.

For the first quarter of 2004 and 2003, the Company's effective federal income tax rate of 37% differed from the statutory tax rate of approximately 34% primarily as a result of state and foreign income taxes.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operations and store openings have been financed with funds generated from operations, bank and other borrowings, and the issuance of the Company's securities.

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

The Company's Credit Facility provides a \$25,000,000 long-term line of credit that matures on April 15, 2006 and bears interest at the prevailing LIBOR rate (which was approximately 1.1% at March 31, 2004) 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, depreciation and amortization for the trailing twelve months. At March 31, 2004, the Company had no outstanding amounts due under the facility and the Company had \$25,000,000 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 March 31, 2004 and May 4, 2004. 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 will 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.

As of March 31, 2004, the Company's primary sources of liquidity were \$19,482,000 in cash and cash equivalents, \$34,130,000 in receivables, \$14,467,000 in inventories and \$25,000,000 of available and unused funds under the Company's Credit Facility. The Company had working capital of \$65,546,000 as of March 31, 2004, and total liabilities to equity ratio of 0.1 to 1.

Certain transactions presented in the restated Condensed Statements of Cash Flows for the quarters ended March 31, 2004 and 2003, respectively, have been reclassified between certain sections of the Condensed Statements of Cash Flows. A summary of these reclassifications showing their effect on the Condensed Statements of Cash Flows is provided in Note 5 to the Condensed Consolidated Financial Statements.

The Company utilized positive cash flows from operations in the three-month 2004 period to fund investing and financing activities primarily related to opening new stores and the elimination of debt. Net cash provided by operating activities of the Company during the three months ended March 31, 2004 was \$6,666,000, consisting primarily of net income of \$5,178,000 plus non-cash adjustments for depreciation of \$921,000, the short-term advance loss provision of \$1,399,000, and the tax benefit from the exercise of employee stock options of \$3,953,000 in addition to a decrease in service charge receivables and inventory of \$353,000 and \$392,000, respectively, net of a decrease in accounts payable and accrued expenses of \$4,312,000, and a change in tax balances of \$1,228,000. Net cash provided by investing activities during the three months ended March 31, 2004 was \$1,046,000, which was primarily comprised of net cash inflows related to pawn receivable activity of \$982,000 and a decrease in short-term advance receivable activity of \$1,579,000, net of cash paid for fixed asset additions of \$1,515,000. The opening of 14 new stores during the first quarter of 2004 contributed significantly to the volume of fixed asset additions. Net cash used by financing activities was \$4,077,000 during the three months ended March 31, 2004, which primarily consisted of a decrease in the Company's debt of \$6,000,000, a purchase of treasury stock in the amount of \$1,347,000 and proceeds from exercises of stock options and warrants of \$3,270,000.

For purposes of its internal liquidity assessments, the Company considers net cash changes in pawn receivables and short-term advance receivables to be closely related to operating cash flows. For the Three-Month 2004 Period the total cash flows from operations were \$6,666,000, while net cash inflows related to pawn receivables and short-term advance

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

receivables were \$982,000 and \$1,579,000, respectively. The combined net cash flows from operations and pawn and short-term advance receivables totaled \$9,227,000 for the Three-Month 2004 Period. For the comparable Three-Month 2003 Period, cash flows from operations were \$7,346,000 and net cash inflows related to pawn receivables and short-term advance receivables were \$1,794,000 and \$833,000, respectively. The combined net cash flows from operations and pawn and short-term advance receivables totaled \$9,973,000 for the Three-Month 2003 Period.

The profitability and liquidity of the Company is affected by the amount of pawn loans outstanding, which is controlled in part by the Company's lending decisions. The Company is able to influence the frequency of pawn redemption by increasing or decreasing the amount loaned in relation to the resale value of the pawned property. Tighter credit decisions generally result in smaller pawn loans in relation to the estimated resale value of the pledged property and can thereby decrease the Company's aggregate pawn loan balance and, consequently, decrease pawn service charges. Additionally, small advances in relation to the pledged property's estimated resale value tend to increase pawn redemptions and improve the Company's liquidity. Conversely, providing larger pawn loans in relation to the estimated resale value of the pledged property can result in an increase in the Company's pawn service charge income. Also, larger average pawn loan balances can result in an increase in pawn forfeitures, which increases the quantity of goods on hand and, unless the Company increases inventory turnover, reduces the Company's liquidity. The Company's renewal policy allows customers to renew pawns by repaying all accrued interest on such pawns, effectively creating a new pawn transaction.

The amount of short-term advances outstanding and related potential bad debt expense also affect the profitability and liquidity of the Company. An allowance for losses is provided on active short-term advances and service charges receivable, based upon expected default rates, net of estimated future recoveries of previously defaulted short-term advances and service charges receivable. The Company considers short-term advances to be in default if they are not repaid on the due date, and writes off the principal amount and service charges receivable as of the default date, leaving only active receivables in the reported balances. Net defaults and changes in the short-term advance allowance are charged to bad debt expense, which is included in operating expenses.

In addition to these factors, merchandise sales and the pace of store expansions affect the Company's liquidity. Management believes that cash generated from operations will be sufficient to accommodate the Company's current operations for Fiscal 2004. The Company has no significant capital commitments. 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.

While the Company continually looks for, and is presented with potential acquisition candidates, the Company has no definitive plans or commitments for further acquisitions. The Company will evaluate acquisitions, if any, based upon opportunities, acceptable financing, purchase price, strategic fit and qualified management personnel. If the Company encounters an attractive opportunity to acquire or open additional 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.

CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE RESULTS

Forward-Looking Statements

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

This release may contain forward-looking statements about the business, financial condition and prospects of First Cash Financial Services, Inc. Forward-looking statements can be identified by the use of forward-looking terminology such as "believes," "projects," "expects," "may," "estimates," "will," "should," "plans," "intends," or "anticipates" or the negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy. Forward-looking statements in this release include, without limitation, the earnings per share discussion, the expectations of revenue growth and increased profitability, the expectation for additional store openings, and the expectation for future operating cash flows. These statements are made to provide the public with management's 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 release speak only as of the date of this statement, and the Company expressly disclaims any obligation or undertaking to release any updates or revisions to any such statement to reflect any change in the Company's expectations or any change in events, conditions or circumstance 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 release. Such factors are difficult to predict and many are beyond the control of the Company, but may include changes in regional, national or international economic conditions, the ability to open and integrate new stores, the ability to maintain favorable banking relationships as it relates to short-term lending products, changes in governmental regulations, unforeseen litigation, changes in interest rates, changes in tax rates or policies, changes in gold prices, changes in foreign currency exchange rates, future business decisions, and other uncertainties.

Regulatory Changes

Governmental action to prohibit or restrict short-term advances has been advocated over the past few years by consumer-advocacy groups and by media reports and stories. The consumer groups and media stories typically focus on the cost to a consumer for that type of short-term advance, which is higher than the interest typically charged by credit-card issuers to a more creditworthy consumer. The consumer groups and media stories typically characterize short-term advance activities as abusive toward consumers. During the last few years, legislation has been introduced in the United States Congress and in certain state legislatures, and regulatory authorities have proposed or publicly addressed the possibility of proposing regulations, that would prohibit or restrict short-term advances.

The U.S. Office of Comptroller of the Currency has effectively eliminated the ability of nationally chartered banks to establish or maintain relationships with loan servicers in order to make out-of-state short-term advance loans. The Company does not currently maintain nor intend in the future to establish loan-servicing relationships with nationally chartered banks. The Federal Deposit Insurance Corporation, ("FDIC"), which regulates the ability of state chartered banks to enter into relationships with loan servicers, enacted new examiner guidelines in July 2003 under which such arrangements are permitted. Texas is the only state in which the Company functions as loan servicer through a relationship with a state chartered bank, County Bank of Rehoboth Beach, Delaware, that is subject to the new FDIC examiner guidelines. The ultimate effect of the new guidelines, which are currently being implemented, on the Company's ability to offer short term advances in Texas under its current loan servicing arrangement with County Bank is unknown at this time. If the implementation of the FDIC's new guidelines were to ultimately restrict the ability of all

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

or certain state banks to maintain relationships with loan servicers, it could have a materially adverse impact on the Company's operations and financial results.

Legislation and regulatory developments at a state level continue to affect consumer-lending activities. While some states have recently enacted legislation that is favorable to short-term advance providers, other states are restricting, or attempting to restrict, short-term advance lending activities. The Company intends to continue, with others in the short-term advance industry, to oppose legislative or regulatory action that would prohibit or restrict short-term advances. But if legislative or regulatory action with that effect were taken at the state level in states such as Texas, in which the Company has a significant number of stores, that action could have a material adverse effect on the Company's short-term advance-related activities and revenues.

There can be no assurance that additional local, state, or federal legislation will not be enacted or that existing laws and regulations will not be amended, which would materially, adversely impact the Company's operations and financial condition.

Other

Certain factors may cause results to differ materially from those anticipated by some of the statements made in this report. Such factors are difficult to predict and many are beyond the control of the Company, but may include changes in regional or national economic conditions, changes in competition from various sources including both financial services entities and retail businesses, the ability to integrate new stores, changes in governmental regulations, unforeseen litigation, changes in capital markets, changes in interest rates or tax rates, the ability to maintain a loan servicing relationship with an out-of-state bank necessary to generate service charges from short-term advances in the Texas market, future business decisions, changes in gold prices, changes in foreign currency exchange rates, other risks indicated in the Company's 2003 Annual Report to Stockholders and other uncertainties.

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 2003 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, 2003.

ITEM 4. CONTROLS AND PROCEDURES

- (a) Subsequent to the filing of the Company's original Form 10-Q for the period ended March 31, 2004, the Company discovered certain errors in the classification of certain transaction types presented in its Statements of Cash Flows, which are described in Note 5 to these Condensed Consolidated Financial Statements. As a result, the Company determined that a significant deficiency existed in its disclosure controls surrounding the preparation of the Statements of Cash Flows. The Company has taken steps to improve the control processes surrounding the preparation and review of the Statements of Cash Flows. Specifically, key personnel involved in the Company's financial reporting processes have undertaken research of both

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

authoritative guidance and industry practices in order to improve their understanding of cash flow presentation issues relevant to the consumer finance industry. In addition, the Company has documented and implemented additional review procedures related to the preparation of the Statements of Cash Flows. There were no other significant deficiencies, and therefore there were no other corrective actions taken.

The Company considered the impact of the significant deficiency described above on its original evaluation of disclosure controls and procedures as of March 31, 2004, and in particular assessed the magnitude of any actual or potential misstatement resulting from the deficiency. The Company determined that the magnitude of any actual or potential misstatement was limited to the classification of certain transactions presented in the Condensed Consolidated Statements of Cash Flows and did not affect the Company's general ledger account balances nor its prepared Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Income, or Notes to the Condensed Consolidated Financial Statements. Accordingly, 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 March 31, 2004. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2004, the Company's disclosure controls and procedures are effective in timely alerting them to the material information relating to the Company required to be included in its periodic filings with the Securities and Exchange Commission.

- (b) There has been no significant change in the Company's internal control over financial reporting that was identified in connection with management's evaluation, as described above, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material developments in the litigation and arbitration "previously reported" in the Company's 2003 Annual Report to Stockholders filed on Form 10-K.

ITEM 2. CHANGES IN SECURITIES

During the period from January 1, 2004 through May 4, 2004, the Company issued 709,400 shares of common stock relating to the exercise of outstanding stock warrants for an aggregate exercise price of \$7,386,000 (including income tax effect).

During the period from January 1, 2004 through May 4, 2004, the Company issued 333,750 shares of common stock relating to the exercise of outstanding stock options for an aggregate exercise price of \$4,297,000 (including income tax effect) and issued options to purchase 454,500 shares of common stock at an average exercise price of \$19.33, expiring in ten years.

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

On March 9, 2004, the Board of Directors of First Cash Financial Services, Inc. (the "Company") approved a three-for-two split of the Company's common stock in the form of a common stock dividend. As a result of the stock split, shareholders received one additional common share for every two shares held on the record date of March 22, 2004.

The transactions set forth in the above paragraphs 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.

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 AND REPORTS ON FORM 8-K

(1) Exhibits:

- 31.1 Chief Executive Officer Certification Pursuant to Section 13a-14 of the Securities Exchange Act
- 31.2 Chief Financial Officer Certification Pursuant to Section 13a-14 of the Securities Exchange Act
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(2) Reports on Form 8-K:

- January 22, 2004 Item 7. Financial Statements and Exhibits
- Item 12. Results of Operations and Financial Condition

