FIRST CASH FINANCIAL SERVICES INC
Form 10-Q
April 24, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014
OR

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

For the transition period from __________ to ___________

Commission file number 0-19133
FIRST CASH FINANCIAL SERVICES, INC.
(Exact name of registrant as specified in its charter)

Delaware	75-2237318
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
690 East Lamar Blvd., Suite 400	76011
Arlington, Texas	(Zip Code)

(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. xYes o 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). xYes o 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.

x Large accelerated filer	o Accelerated filer
o Non-accelerated filer (Do not check if a smaller reporting company)	o Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). oYes x No
As of April 21, 2014, there were 28,953,035 shares of common stock outstanding.

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FIRST CASH FINANCIAL SERVICES, INC.
FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2014

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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” or “First Cash”). 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, regulatory exposures, 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 and the price of gold and the impacts thereof, earnings and related transaction expenses from acquisitions, the ability to successfully integrate acquisitions 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. 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 regional, national or international economic conditions, including inflation rates, unemployment rates and energy prices;
- changes in consumer demand, including purchasing, borrowing and repayment behaviors;
- 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;
- 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 both the United States and Mexico);
- risks and uncertainties related to foreign operations in Mexico;
- changes in import/export regulations and tariffs or duties;
- changes in anti-money laundering and gun control regulations;
- unforeseen litigation;
- changes in tax rates or policies in the U.S. and Mexico;
- changes in foreign currency exchange rates;
- 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;
- the implementation of new, or changes in, the interpretation of existing accounting principles or financial reporting requirements; and
- future business decisions.

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These and other risks, uncertainties and regulatory developments are further and more completely described in the Company’s 2013 annual report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2014. 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, 2014	2013	December 31, 2013
ASSETS			
Cash and cash equivalents	$94,929	$38,339	$70,643
Pawn loan fees and service charges receivable	16,539	15,544	16,689
Pawn loans	113,938	104,636	115,234
Consumer loans, net	1,239	1,618	1,450
Inventories	72,279	64,771	77,793
Prepaid expenses and other current assets	2,425	7,310	3,369
Deferred tax assets	5,190	1,148	5,044
Total current assets	306,539	233,366	290,222
Property and equipment, net	109,882	97,006	108,137
Goodwill, net	254,790	168,799	251,241
Other non-current assets	15,978	6,561	9,373
Total assets	$687,189	$505,732	$658,973
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current portion of notes payable	$—	$3,240	$3,326
Accounts payable and accrued liabilities	37,184	30,827	38,023
Income taxes payable	3,377	—	7,412
Total current liabilities	40,561	34,067	48,761
Revolving unsecured credit facility	—	52,000	182,000
Notes payable, net of current portion	—	7,531	5,026
Senior unsecured notes	200,000	—	—
Deferred income tax liabilities	9,292	17,155	8,827
Total liabilities	249,853	110,753	244,614
Stockholders' equity:			
Preferred stock	—	—	—
Common stock	394	393	394
Additional paid-in capital	177,225	175,144	176,675
Retained earnings	520,410	434,146	497,728
Accumulated other comprehensive income (loss) from cumulative foreign currency translation adjustments	(8,006)	(709)	(7,751)
Common stock held in treasury, at cost	(252,687)	(213,995)	(252,687)
Total stockholders' equity	437,336	394,979	414,359
Total liabilities and stockholders' equity	$687,189	$505,732	$658,973

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,	
	2014	2013
Revenue:		
Retail merchandise sales	$ 98,708	$ 81,770
Pawn loan fees	47,638	43,151
Consumer loan and credit services fees	9,784	11,767
Wholesale scrap jewelry revenue	13,647	23,224
Total revenue	169,777	159,912
Cost of revenue:		
Cost of retail merchandise sold	60,490	48,039
Consumer loan and credit services loss provision	1,743	2,109
Cost of wholesale scrap jewelry sold	11,088	18,504
Total cost of revenue	73,321	68,652
Net revenue	96,456	91,260
Expenses and other income:		
Store operating expenses	48,492	42,805
Administrative expenses	13,329	13,092
Depreciation and amortization	4,272	3,625
Interest expense	1,436	719
Interest income	(81)	(147)
Total expenses and other income	67,448	60,094
Income from continuing operations before income taxes	29,008	31,166
Provision for income taxes	6,054	10,986
Income from continuing operations	22,954	20,180
Income (loss) from discontinued operations, net of tax	(272)	84
Net income	$ 22,682	$ 20,264
Basic income per share:		
Income from continuing operations	$ 0.79	$ 0.69
Income (loss) from discontinued operations	(0.01)	—
Net income per basic share	$ 0.78	$ 0.69
Diluted income per share:		
Income from continuing operations	$ 0.78	$ 0.68
Income (loss) from discontinued operations	(0.01)	—
Net income per diluted share	$ 0.77	$ 0.68

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, 2014	2013
Net income	$22,682	$20,264
Other comprehensive income (loss):		
Currency translation adjustment, gross	(393)	9,411
Tax (expense) benefit	138	(3,180)
Comprehensive income	$22,427	$26,495

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 Income (Loss)	Common Stock Held in Treasury		Total Stock-holders' Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance at 12/31/2013	—	$—	39,377	$394	$176,675	$497,728	$(7,751)	10,429	$(252,687)	$414,359
Shares issued under share-based com-pensation plan	—	—	5	—	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	550	—	—	—	—	550
Net income	—	—	—	—	—	22,682	—	—	—	22,682
Currency translation adjustment, net of tax	—	—	—	—	—	—	(255)	—	—	(255)
Balance at 3/31/2014	—	$—	39,382	$394	$177,225	$520,410	$(8,006)	10,429	$(252,687)	$437,336

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	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury		Total Stockholders' Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance at 12/31/2012	—	$—	38,796	$388	$159,081	$413,882	$(6,940)	9,700	$(213,995)	$352,416
Shares issued under share-based com-pensation plan	—	—	4	—	—	—	—	—	—	—
Exercise of stock options	—	—	532	5	8,417	—	—	—	—	8,422
Income tax benefit from exercise of stock options	—	—	—	—	7,218	—	—	—	—	7,218
Share-based compensation expense	—	—	—	—	428	—	—	—	—	428
Net income	—	—	—	—	—	20,264	—	—	—	20,264
Currency translation adjustment, net of tax	—	—	—	—	—	—	6,231	—	—	6,231
Balance at 3/31/2013	—	$—	39,332	$393	$175,144	$434,146	$(709)	9,700	$(213,995)	$394,979

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 CASH FLOWS
(unaudited, in thousands)

	Three Months Ended March 31, 2014	2013
Cash flow from operating activities:		
Net income	$22,682	$20,264
Adjustments to reconcile net income to net cash flow provided by operating activities:		
Non-cash portion of credit loss provision	213	249
Share-based compensation expense	550	428
Depreciation and amortization expense	4,272	3,625
Amortization of debt issuance costs	162	47
Deferred income taxes	451	700
Changes in operating assets and liabilities, net of business combinations:		
Pawn fees and service charges receivable	154	62
Merchandise inventories	1,805	975
Prepaid expenses and other assets	(185)	(2,670)
Accounts payable and accrued expenses	(459)	2,110
Income taxes payable, current	(4,051)	(596)
Net cash flow provided by operating activities	25,594	25,194
Cash flow from investing activities:		
Loan receivables, net of cash repayments	5,773	3,136
Purchases of property and equipment	(5,674)	(4,704)
Acquisitions of pawn stores, net of cash acquired	(4,889)	(1,468)
Net cash flow used in investing activities	(4,790)	(3,036)
Cash flow from financing activities:		
Borrowings from revolving credit facilities	2,500	—
Repayments of revolving credit facilities	(184,500)	(50,500)
Repayments of notes payable	(8,352)	(792)
Issuance of senior notes	200,000	—
Debt issuance costs paid	(5,909)	—
Proceeds from exercise of share-based compensation awards	—	8,422
Income tax benefit from exercise of stock options	—	7,218
Net cash flow provided by (used in) financing activities	3,739	(35,652)
Effect of exchange rates on cash	(257)	1,548
Change in cash and cash equivalents	24,286	(11,946)
Cash and cash equivalents at beginning of the period	70,643	50,285
Cash and cash equivalents at end of the period	$94,929	$38,339

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 - Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, including the notes thereto, include the accounts of First Cash Financial Services, Inc. and its wholly-owned subsidiaries (together, the “Company”). All significant intercompany accounts and transactions have been eliminated.

These 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. These interim period financial statements should be read in conjunction with the Company's consolidated financial statements, which are included in the Company's annual report for the year ended December 31, 2013, on Form 10-K filed with the Securities and Exchange Commission on February 28, 2014. The condensed consolidated financial statements as of March 31, 2014, and for the three month periods ended March 31, 2014, and 2013 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 flow for such interim periods. Operating results for the period ended March 31, 2014, are not necessarily indicative of the results that may be expected for the full fiscal year.

The Company manages its pawn and consumer loan operations under three operating segments: U.S. pawn operations, U.S. consumer loan operations and Mexico operations. The three operating segments have been aggregated into one reportable segment because they have similar economic characteristics and similar long-term financial performance metrics. Additionally, all three segments offer similar and overlapping products and services to a similar customer demographic, operate in similar regulatory environments, and are supported by a single, centralized administrative support platform.

The Company has significant operations in Mexico where the functional currency for the Company's Mexican subsidiaries is the Mexican peso. Accordingly, the assets and liabilities of these subsidiaries are translated into U.S. dollars at the exchange rate in effect at each balance sheet date, and the resulting adjustments are accumulated in other comprehensive income (loss) as a separate component of stockholders’ equity. Revenue and expenses are translated at the average exchange rates occurring during the year-to-date periods.

Certain amounts in prior year comparative presentations have been reclassified in order to conform to the 2014 presentation.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board issued ASU No. 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)” (“ASU 2014-08”). The amendments in ASU 2014-08 require that a disposal representing a strategic shift that has (or will have) a major effect on an entity’s financial results or a business activity classified as held for sale should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify as discontinued operations. The amendments are effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014 (early adoption is permitted only for disposals that have not been previously reported). The Company does not expect

ASU 2014-08 to have a material effect on the Company’s current financial position, results of operations or financial statement disclosures, however, it may impact the reporting of future discontinued operations if and when they occur.

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Note 2 - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (unaudited, in thousands, except per share data):

	Three Months Ended March 31, 2014	2013
Numerator:		
Income from continuing operations for calculating basic and diluted earnings per share	$22,954	$20,180
Income (loss) from discontinued operations	(272)	84
Net income for calculating basic and diluted earnings per share	$22,682	$20,264
Denominator:		
Weighted-average common shares for calculating basic earnings per share	28,952	29,313
Effect of dilutive securities:		
Stock options and nonvested awards	390	642
Weighted-average common shares for calculating diluted earnings per share	29,342	29,955
Basic earnings per share:		
Income from continuing operations	$0.79	$0.69
Income (loss) from discontinued operations	(0.01)	—
Net income per basic share	$0.78	$0.69
Diluted earnings per share:		
Income from continuing operations	$0.78	$0.68
Income (loss) from discontinued operations	(0.01)	—
Net income per diluted share	$0.77	$0.68

Note 3 - Long-Term Debt

Senior Unsecured Notes

On March 24, 2014, the Company completed the private offering of $200,000,000 of 6.75% senior notes due on April 1, 2021 (the “Notes”). Interest on the Notes will be payable semi-annually in arrears on April 1 and October 1, commencing on October 1, 2014. The Notes were sold to the placement agents as initial purchasers for resale only to qualified institutional buyers in accordance with Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”), and outside the United States in accordance with Regulation S under the Securities Act. The net proceeds from the sale of the Notes were approximately $195,000,000. The Company used $153,411,000 of the net proceeds from the offering to repay all amounts outstanding under the 2014 Credit Facility (defined below) and to pay off the remaining balances on notes payable related to previous pawn store acquisitions. Approximately $41,589,000 of the net proceeds remain available for general corporate purposes. The Company is capitalizing approximately $5,000,000 in issuance costs, which consisted primarily of placement agent fees and legal and other professional expenses. The issuance costs are being amortized over the life of the Notes as a component of interest expense.

The Notes are fully and unconditionally guaranteed on a senior unsecured basis jointly and severally by all of the Company's existing and future domestic subsidiaries that guarantee its revolving bank credit facility. The Company may redeem the Notes at any time on or after April 1, 2017, at the redemption prices set forth in the indenture governing the Notes (the “Indenture”), plus accrued and unpaid interest, if any. In addition, prior to April 1, 2017, the

Company may redeem some or all of the Notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus a “make-whole” premium set forth in the Indenture. The Company may redeem up to 35% of the Notes prior to April 1, 2017, with the proceeds of certain equity

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offerings at a redemption price of 106.75% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any. In addition, upon a change of control, noteholders have the right to require the Company to purchase the Notes at a price equal to 101% of the principal amount of the Notes, plus accrued and unpaid interest, if any.

On March 24, 2014, the Company entered into a registration rights agreement with the initial purchasers of the Notes. Pursuant to the registration rights agreement, the Company agreed to use commercially reasonable efforts to issue in exchange for the Notes, generally no later than approximately 245 days following the closing date of the issuance and sale of the Notes, identical new notes that have been registered under the Securities Act. In certain circumstances, the Company may be required to file a shelf registration statement to cover resales of the Notes. If the Company does not comply with certain covenants set forth in the registration rights agreement, the Company may be required to pay liquidated damages to holders of the Notes.

Revolving Credit Facilities

During the period from January 1, 2014, through February 4, 2014, the Company maintained a revolving line of credit agreement with its lenders (the “2012 Credit Facility”) in the amount of $205,000,000, which was scheduled to mature in February 2015. The 2012 Credit Facility charged interest at the prevailing 30-day London Interbank Offered Rate (“LIBOR”) plus a fixed spread of 2.0%. On February 4, 2014, the Company had $174,000,000 outstanding under the 2012 Credit Facility.

On February 5, 2014, the Company entered into an agreement with a group of commercial lenders to establish a new revolving credit facility (the “2014 Credit Facility”) in the amount of $160,000,000 with an accordion feature whereby the facility may be increased up to an additional $50,000,000 with the consent of any increasing or additional participating lenders. The Company used proceeds from the 2014 Credit Facility and available cash balances to retire and terminate the 2012 Credit Facility. The 2014 Credit Facility matures in February 2019 and bears interest, at the Company's option, at either (i) the prevailing LIBOR rate (with interest periods of 1, 2, 3 or 6 months at the Company's option) plus a fixed spread of 2.5% or (ii) the prevailing prime or base rate plus a fixed spread of 1.5%. The Company is required to maintain certain financial ratios and comply with certain financial covenants, including compliance with a leverage ratio of no greater than 2.5 times Consolidated EBITDA (as defined in the 2014 Credit Facility). The 2014 Credit Facility limits the Company's ability to incur additional indebtedness, subject to customary exceptions, including permitted additional unsecured debt so long as the aggregate principal amount of the loans and commitments under the 2014 Credit Facility plus such additional unsecured debt plus foreign third-party loans does not in the aggregate exceed $500,000,000. The 2014 Credit Facility is unsecured except for the pledge of 65% of the stock of certain of the Company's foreign subsidiaries, and the Company is restricted from pledging any of its other assets as collateral against other indebtedness. The 2014 Credit Facility is guaranteed by the Company's material U.S. operating subsidiaries. The 2014 Credit Facility allows the Company to repurchase shares of its stock and to pay cash dividends within certain parameters. The Company is required to pay an annual commitment fee of 0.50% on the average daily unused portion of the 2014 Credit Facility commitment. During March 2014, the Company used $145,870,000 of the proceeds from the sale of the Notes to repay all amounts outstanding under the 2014 Credit Facility. At March 31, 2014, the Company had no amount outstanding under the 2014 Credit Facility and $160,000,000 was available for borrowings.

Other Notes Payable

In March 2014, the Company used $7,541,000 of the proceeds from the sale of the Notes to repay the entire remaining balances on notes payable of $6,134,000 related to a September 2012 multi-store pawn acquisition and a note payable of $1,407,000 related to a January 2012 multi-store pawn acquisition.

Note 4 - Income Taxes

In July 2013, the Company terminated an election to include foreign subsidiaries in its consolidated U.S. federal income tax return and it is the Company's intent to indefinitely reinvest the earnings of these subsidiaries outside the U.S. Accordingly, under U.S. income tax law, as of December 31, 2013, the undistributed earnings of the foreign subsidiaries should not be subject to U.S. federal income taxes. The Company recognized an estimated non-recurring net income tax benefit of approximately $3,979,000 in 2013 related primarily to changes in deferred tax assets and liabilities, net of certain one-time U.S. tax liabilities associated with the termination of the election. The Company recorded an additional benefit of $3,669,000 in March 2014 as the result of a change in its estimated U.S. federal liability associated with the terminated election. The amount of the benefits could be subject to adjustment pending the preparation and filing of the Company's 2013 tax returns during 2014.

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

The following discussion of financial condition, results of operations, liquidity and capital resources of First Cash Financial Services, Inc. and its wholly-owned subsidiaries (the "Company") should be read in conjunction with the Company's condensed consolidated financial statements and accompanying notes included under Part I, Item 1 of this quarterly report on Form 10-Q, as well as with Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's annual report on Form 10-K for the year ended December 31, 2013.

GENERAL

The Company is a leading operator of retail-based pawn stores in the United States and Mexico. The Company's primary business is the operation of pawn stores, which engage in retail sales, the purchase of secondhand goods as well as offer consumer finance services products. The Company's pawn stores generate significant retail sales from the merchandise acquired through collateral forfeitures and over-the-counter purchases from customers. The Company's pawn stores are also a convenient source for small consumer loans to help customers meet their short-term cash needs. Personal property such as consumer electronics, jewelry, power tools, sporting goods and musical instruments are pledged as collateral for the loans. In addition, some of the Company's pawn stores offer consumer loans or credit services products. The Company's strategy is to focus on growing its retail-based pawn operations in the United States and Mexico through new store openings and acquisition opportunities as they arise.

Pawn operations accounted for approximately 94% of the Company's consolidated revenue from continuing operations during the three months ended March 31, 2014, compared to 93% during the three months ended March 31, 2013. The Company's pawn revenue is derived primarily from merchandise sales of forfeited pawn collateral and used goods purchased directly from the general public. The Company accrues pawn loan fee revenue on a constant-yield basis over the life of the pawn loan for all pawn loans that the Company deems collection to be probable based on historical redemption statistics. If a pawn loan is not repaid prior to the expiration of the loan term, including any 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 operates a small number of stand-alone consumer finance stores in Texas and Mexico. These stores provide consumer financial services products including credit services, consumer loans and check cashing. Certain of the Company's pawn stores also offer credit services and/or consumer loans as an ancillary product. Consumer loan and credit services revenue accounted for approximately 6% of consolidated revenue from continuing operations during the three months ended March 31, 2014, compared to 7% during the three months ended March 31, 2013, and was derived primarily from credit services fees. The Company recognizes service fee income on consumer loans and credit services transactions on a constant-yield basis over the life of the loan or credit extension, which is generally 180 days or less. The net defaults on consumer loans and credit services transactions and changes in the valuation reserve are charged to the consumer loan credit loss provision. The credit loss provision associated with the Company's credit services organization ("CSO Program") and consumer loans are 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. For an additional discussion of the credit loss provision and related allowances and accruals, see —"Results of Continuing Operations."

Stores included in the same-store revenue calculations are those stores that were opened prior to the beginning of the prior-year comparative period and remained open through the end of the measurement period. 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. Unless otherwise stated, non-retail sales of scrap jewelry are included in same-store revenue calculations.

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, advertising, property taxes, licenses, supplies and security. Administrative expenses consist of items relating to the operation of the corporate offices, 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.

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The Company's business is subject to seasonal variations, and operating results for the current quarter are not necessarily indicative of the results of operations for the full year. Typically, the Company experiences seasonal growth of service fees in the third and fourth quarter of each year due to loan balance growth that occurs after the heavy repayment period of pawn loans in the fourth quarter in Mexico, which is associated with statutory year-end Christmas bonuses paid by employers, and in the first quarter in the United States, which is associated with tax refund proceeds received by customers. Retail sales are seasonally higher in the fourth quarter associated with holiday shopping.

OPERATIONS AND LOCATIONS

The Company has operations in the United States and Mexico. For the three months ended March 31, 2014, approximately 49% of total revenue was generated from Mexico and 51% from the United States.

As of March 31, 2014, the Company had 915 store locations in 12 U.S. states and 26 states in Mexico, which represents a net store-count increase of 9% over the trailing twelve months. The Company had net store growth of nine locations, with a total of 12 new store locations added during the first quarter of 2014.

The following table details store openings for the three months ended March 31, 2014:

	Pawn Locations		Consumer	
	Large Format (1)	Small Format (2)	Loan Locations (3)	Total Locations
Domestic:				
Total locations, beginning of period	227	25	57	309
New locations opened	2	1	—	3
Locations acquired	1	—	—	1
Store format conversions	1	(1)	—	—
Locations closed or consolidated	(2)	(1)	—	(3)
Total locations, end of period	229	24	57	310
International:				
Total locations, beginning of period	552	17	28	597
New locations opened	8	—	—	8
Total locations, end of period	560	17	28	605
Total:				
Total locations, beginning of period	779	42	85	906
New locations opened	10	1	—	11
Locations acquired	1	—	—	1
Store format conversions	1	(1)	—	—
Locations closed or consolidated	(2)	(1)	—	(3)
Total locations, end of period	789	41	85	915

(1) The large format locations include retail showrooms and accept a broad array of pawn collateral including consumer electronics, appliances, power tools, jewelry and other general merchandise items. At March 31, 2014, 121 of the U.S. large format pawn stores also offered consumer loans or credit services products.

(2) The small format locations typically have limited retail operations and primarily accept jewelry and small electronic items as pawn collateral and also offer consumer loans or credit services products.

(3) The Company's U.S. free-standing, small format consumer loan locations offer a credit services product and are all located in Texas. The Mexico locations offer small, short-term consumer loans. The Company's credit services operations also include an internet distribution channel for customers residing in the state of Texas.

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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, assumptions and judgments that affect the reported amounts of assets and liabilities, related revenue and expenses, and disclosure of gain and loss contingencies at the date of the financial statements. Such estimates, assumptions and judgments are subject to a number of risks and uncertainties, which may cause actual results to differ materially from the Company’s estimates. The significant accounting policies that the Company believes are the most critical to aid in fully understanding and evaluating its reported financial results have been reported in the Company’s 2013 annual report on Form 10-K. There have been no changes to the Company's significant accounting policies for the three months ended March 31, 2014.

Recent Accounting Pronouncements

There were no recent accounting pronouncements that had a material effect on the Company’s financial position, results of operations or financial statement disclosures.

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RESULTS OF CONTINUING OPERATIONS

Three Months Ended March 31, 2014, Compared To The Three Months Ended March 31, 2013

The following table details the components of the Company's revenue for the three months ended March 31, 2014, as compared to the three months ended March 31, 2013 (unaudited, in thousands). Constant currency results exclude the effects of foreign currency translation and are calculated by translating current-year results at prior-year average exchange rates. The average value of the Mexican peso to the U.S. dollar decreased 5%, from 12.7 to 1 during the first quarter of 2013 to 13.2 to 1 during the first quarter of 2014. The end-of-period value of the Mexican peso to the U.S. dollar decreased 6%, from 12.4 to 1 at March 31, 2013, to 13.1 to 1 at March 31, 2014. As a result of these currency exchange movements, revenue from Mexican operations translated into fewer U.S. dollars relative to the prior-year period, and net assets of Mexican operations as of March 31, 2014 translated into fewer U.S. dollars relative to the prior period end. While the weakening of the Mexican peso decreased the translated dollar-value of revenue, the cost of sales and operating expenses decreased as well. The scrap jewelry generated in Mexico is exported and sold in U.S. dollars, which does not contribute to the Company’s peso-denominated earnings stream. See —“Non-GAAP Financial Information—Constant Currency Results” below.

	Three Months Ended March 31,						
	2014	2013	Increase/(Decrease)			Increase/(Decrease) Constant Currency Basis	
Domestic revenue:							
Retail merchandise sales	$45,575	$33,712	$11,863	35	%	35	%
Pawn loan fees	22,902	18,839	4,063	22	%	22	%
Consumer loan and credit services fees	9,112	10,888	(1,776)	(16	)%	(16	)%
Wholesale scrap jewelry revenue	8,543	13,950	(5,407)	(39	)%	(39	)%
	86,132	77,389	8,743	11	%	11	%
International revenue:							
Retail merchandise sales	53,133	48,058	5,075	11	%	16	%
Pawn loan fees	24,736	24,312					