

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2008

or

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

For the transition period from _____ to _____

Commission file number 0-19133

FIRST CASH FINANCIAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware

75-2237318

(state or other jurisdiction of incorporation or organization)

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

690 East Lamar Blvd., Suite 400

Arlington, Texas

76011

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(817) 460-3947

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

o Yes x No

As of May 7, 2008, there were 29,229,335 shares of common stock outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST CASH FINANCIAL SERVICES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

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

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

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

FIRST CASH FINANCIAL SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

| | Three Months Ended March 31, | |
|-----------------------------|--|-------------------|
| | <u>2008</u> | <u>2007</u> |
| | (unaudited) | |
| | (in thousands, except per share amounts) | |
| Revenues: | | |
| Merchandise sales | \$ 66,699 | \$ 57,234 |
| Finance and service charges | 34,783 | 29,717 |
| Other | 1,259 | 1,170 |
| | <u> </u> | <u> </u> |
| | 102,741 | 88,121 |
| | <u> </u> | <u> </u> |
| Cost of revenues: | | |
| Cost of goods sold | 36,444 | 30,166 |
| Credit loss provision | 15,856 | 9,031 |
| Other | 108 | 108 |
| | <u> </u> | <u> </u> |
| | 52,408 | 39,305 |
| | <u> </u> | <u> </u> |
| Net revenues | 50,333 | 48,816 |
| | <u> </u> | <u> </u> |
| Expenses and other income: | | |
| Store operating expenses | 28,801 | 23,750 |
| Administrative expenses | 7,521 | 7,457 |

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

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

FIRST CASH FINANCIAL SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three Months Ended March 31, | |
|---|------------------------------|-------------|
| | <u>2008</u> | <u>2007</u> |
| | (unaudited, in thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 6,695 | \$ 10,279 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation and amortization | 3,134 | 2,452 |
| Share-based compensation expense | 38 | 40 |
| Non-cash portion of credit loss provision | 12,858 | 7,458 |
| Changes in operating assets and liabilities: | | |

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

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

FIRST CASH FINANCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, including the notes thereto, include the accounts of First Cash Financial Services, Inc. (the "Company"), and its wholly-owned subsidiaries. In addition, the accompanying consolidated financial statements include the accounts of Cash & Go, Ltd., a Texas limited partnership that operates financial services kiosks inside convenience stores, in which the Company has a 50% ownership interest. All significant intercompany accounts and transactions have been eliminated.

Such unaudited consolidated financial statements are condensed and do not include all disclosures and footnotes required by generally accepted accounting principles in the United States of America for complete financial statements. Such interim period financial statements should be read in conjunction with the Company's consolidated financial statements, which are included in the Company's December 31, 2007 Annual Report on Form 10-K. The condensed consolidated financial statements as of March 31, 2008 and for the three month periods ended March 31, 2008 and 2007 are unaudited, but in management's opinion, include all adjustments (consisting of only normal recurring adjustments) considered necessary to present fairly the financial position, results of operations and cash flows for such interim periods. Operating results for the period ended March 31, 2008 are not necessarily indicative of the results that may be expected for the full fiscal year.

Certain amounts in prior year comparative presentations have been reclassified in order to conform to the 2008 presentation.

Note 2 - Discontinued Operations

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

Note 3 - Earnings Per Share

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

| | Three Months Ended March 31, | |
|--|------------------------------|-------------|
| | <u>2008</u> | <u>2007</u> |
| Numerator: | | |
| Income from continuing operations for calculating basic earnings per share | \$ 6,397 | \$ 9,406 |
| Interest on convertible note, net of taxes | - | 11 |
| Income from continuing operations for calculating diluted | | |

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| | | | |
|-----------------------------|--|-------------------|-------------------|
| | earnings per share | 6,397 | 9,417 |
| | Income from discontinued operations | 298 | 873 |
| | | <u> </u> | <u> </u> |
| | Net income for calculating diluted earnings per share | \$ 6,695 | \$ 10,290 |
| Denominator: | | | |
| | Weighted-average common shares for calculating basic earnings per share | 30,588 | 31,721 |
| | Effect of dilutive securities: | | |
| | Convertible note payable | - | 56 |
| | Stock options and warrants | 529 | 1,402 |
| | | <u> </u> | <u> </u> |
| | Weighted-average common shares for calculating diluted earnings per share | 31,117 | 33,179 |
| Basic earnings per share: | | | |
| | Income from continuing operations | \$ 0.21 | \$ 0.30 |
| | Income from discontinued operations | 0.01 | 0.02 |
| | | <u> </u> | <u> </u> |
| | Net income per basic share | \$ 0.22 | \$ 0.32 |
| Diluted earnings per share: | | | |
| | Income from continuing operations | \$ 0.21 | \$ 0.28 |
| | Income from discontinued operations | 0.01 | 0.03 |
| | | <u> </u> | <u> </u> |
| | Net income per diluted share | \$ 0.22 | \$ 0.31 |

Note 4 - Guarantees

First Cash Credit, Ltd. ("FCC"), a wholly-owned subsidiary of the Company, offers a fee-based credit services program ("CSO program") to assist consumers in obtaining credit. Under the CSO program, FCC assists customers in applying for a short-term loan from an independent, non-bank, consumer lending company (the "Independent Lender") and issues the Independent Lender a letter of credit to guarantee the repayment of the loan. The loans made by the Independent Lender to credit services customers of FCC range in amount from \$50 to \$1,500, have terms of 7 to 180 days and bear interest at a rate of less than 10% on an annualized basis.

These letters of credit constitute a guarantee for which the Company is required to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken by issuing the letters of credit. The Independent Lender may present the letter of credit to FCC for payment if the customer fails to repay the full amount of the loan and accrued interest after the due date of the loan. Each letter of credit expires approximately 30 days after the due date of the loan. FCC's maximum loss exposure under all of the outstanding letters of credit issued on behalf of its customers to the Independent Lender as of March 31, 2008 was \$12,185,000 compared to \$10,676,000 at March 31, 2007. According to the letters of credit, if the borrower defaults on the loan, the Company will pay the Independent Lender the principal, accrued interest, insufficient funds fee, and late fees, all of which the Company records as a component of its credit loss provision. FCC is entitled to seek recovery, directly from its customers, of the amounts it pays the Independent Lender in performing under the letters of credit. The Company records the estimated fair value of the liability under the letters of credit as a component of accrued liabilities.

Note 5 - Operating Segment Information

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The Company manages its business on the basis of two reportable segments: the pawn and short-term loan segment and the buy-here/pay-here automotive segment. There are no intersegmental sales and each segment is managed separately. The following tables detail selected balance sheet information regarding the operating segments as of March 31, 2008 and March 31, 2007 (in thousands):

| | Pawn and Short-Term Loan | Buy-Here/ Pay-Here Automotive | Consolidated |
|---|--------------------------------|-------------------------------------|--------------|
| <u>March 31, 2008</u> | | | |
| Customer receivables, with short- and long-term maturities: | | | |
| Pawn | \$ 41,454 | \$ - | \$ 41,454 |
| Short-term loan | 5,488 | - | 5,488 |
| Buy-here/pay-here | - | 76,045 | 76,045 |
| | <hr/> | <hr/> | <hr/> |
| | 46,942 | 76,045 | 122,987 |
| CSO short-term loans held by independent third-party (1) | 10,906 | - | 10,906 |
| Allowances for doubtful accounts | (758) | (17,436) | (18,194) |
| | <hr/> | <hr/> | <hr/> |
| | \$ 57,090 | \$ 58,609 | \$ 115,699 |
| | | | |
| Service fees receivable | \$ 6,796 | \$ 286 | \$ 7,082 |
| Inventories | 26,797 | 8,549 | 35,346 |
| Total assets | 209,439 | 79,593 | 289,032 |
| <u>March 31, 2007</u> | | | |
| Customer receivables, with short- and long-term maturities: | | | |
| Pawn | \$ 33,931 | \$ - | \$ 33,931 |
| Short-term loan | 4,314 | - | 4,314 |
| Buy-here/pay-here | - | 53,776 | 53,776 |
| | <hr/> | <hr/> | <hr/> |
| | 38,245 | 53,776 | 92,021 |
| CSO short-term loans held by independent third-party (1) | 9,532 | - | 9,532 |
| Allowances for doubtful accounts | (555) | (11,906) | (12,461) |
| | <hr/> | <hr/> | <hr/> |
| | \$ 47,222 | \$ 41,870 | \$ 89,092 |
| | | | |
| Service fees receivable | \$ 4,946 | \$ 157 | \$ 5,103 |
| Inventories | 23,675 | 6,373 | 30,048 |
| Total assets | 193,269 | 49,282 | 242,551 |

(1) CSO short-term loans outstanding are from an independent third-party lender and are not included on the Company's balance sheet.

The following tables detail results of continuing operations by operating segment for the three months ended March 31, 2008 and March 31, 2007 (in thousands):

Pawn and Buy-Here/

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| | Short-Term Loan | Pay-Here Automotive | Consolidated |
|--|--------------------|------------------------|--------------|
| | <hr/> | <hr/> | <hr/> |
| <u>Three Months Ended March 31, 2008</u> | | | |
| Revenues: | | | |
| Retail merchandise sales | | | \$ 28,814 |
| | | | \$ 22,280 |
| | | | \$ 51,094 |
| Wholesale merchandise sales | | | 15,189 |
| | | | 416 |
| | | | 15,605 |
| Pawn service charges | | | 16,453 |
| | | | - |
| | | | 16,453 |
| Short-term loan and credit services fees | | | 16,279 |
| | | | - |
| | | | 16,279 |
| Buy-here/pay-here finance charges | | | - |
| | | | 2,051 |

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| | |
|--------------------------------|---------|
| | 2,051 |
| Other | |
| | 1,106 |
| | 153 |
| | 1,259 |
| <hr/> | |
| | 77,841 |
| | 24,900 |
| | 102,741 |
| <hr/> | |
| <hr/> | |
| Cost of revenues: | |
| Cost of goods sold - retail | |
| | 15,802 |
| | 11,180 |
| | 26,982 |
| Cost of goods sold - wholesale | |
| | 8,942 |
| | 520 |
| | 9,462 |
| Credit loss provision | |
| | 3,725 |
| | 12,131 |
| | 15,856 |
| Other | |
| | 108 |
| | 10 |

| | |
|-------------------------------------|--------|
| | - |
| | 108 |
| | |
| | |
| | 28,577 |
| | 23,831 |
| | 52,408 |
| | |
| | |
| Net revenues | |
| | 49,264 |
| | 1,069 |
| | 50,333 |
| | |
| | |
| Expenses and other income: | |
| Store operating expenses | |
| | 24,417 |
| | 4,384 |
| | 28,801 |
| Store depreciation and amortization | |
| | 2,456 |
| | 110 |
| | 2,566 |
| | |
| | |
| | 26,873 |
| | 4,494 |
| | 11 |

31,367

Net store contribution (loss)

\$

22,391

\$

(3,425)

\$

18,966

Three Months Ended March 31, 2007

Revenues:

Retail merchandise sales

\$

26,194

\$

22,372

\$

48,566

Wholesale merchandise sales

8,251

417

8,668

Pawn service charges

13,318

-

13,318

12

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Short-term loan and credit services fees

15,025

-

15,025

Buy-here/pay-here finance charges

-

1,374

1,374

Other

1,125

45

1,170

63,913

24,208

88,121

Cost of revenues:

Cost of goods sold - retail

14,668

9,388

24,056

Cost of goods sold - wholesale

5,490

620

13

| | |
|----------------------------|--------|
| | 6,110 |
| Credit loss provision | |
| | 2,332 |
| | 6,699 |
| | 9,031 |
| Other | |
| | 108 |
| | - |
| | 108 |
| | |
| | |
| | 22,598 |
| | 16,707 |
| | 39,305 |
| | |
| | |
| Net revenues | |
| | 41,315 |
| | 7,501 |
| | 48,816 |
| | |
| | |
| Expenses and other income: | |
| Store operating expenses | |
| | 21,357 |
| | 2,393 |
| | 23,750 |

Store depreciation and amortization

| | |
|-------------------------------|--------|
| | 2,157 |
| | 14 |
| | 2,171 |
| <hr/> | |
| | 23,514 |
| | 2,407 |
| | 25,921 |
| <hr/> | |
| <hr/> | |
| <hr/> | |
| Net store contribution (loss) | \$ |
| | 17,801 |
| | \$ |
| | 5,094 |
| | \$ |
| | 22,895 |

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

| | Three Months Ended March 31, |
|--|------------------------------|
| | <u>2008</u> |
| <u>2007</u> | |
| Total net store contribution for reportable segments | \$ |
| | 18,966 |
| | \$ |
| | 15 |

| | |
|---|---------|
| | 22,895 |
| Administrative depreciation and amortization | (419) |
| | (265) |
| Administrative expenses (1) | (7,521) |
| | (7,457) |
| Interest expense | (912) |
| | (342) |
| Interest income | 18 |
| | 20 |
| <hr/> | |
| Income from continuing operations before income taxes | \$ |
| | 10,132 |
| | \$ |
| | 14,851 |

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

Expenditures for property and equipment for the first quarter of 2008 total \$6,731,000. Of this amount, \$2,310,000 was related to the pawn and short-term loan segment and \$3,847,000 was related to the buy-here/pay-here automotive segment. Expenditures for property and equipment for the first quarter of 2007 total \$4,604,000. Of this amount, \$3,566,000 was related to the pawn and short-term loan segment and \$371,000 was related to the buy-here/pay-here automotive segment.

ITEM 2.

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

GENERAL

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

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

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

First Cash Credit, Ltd., ("FCC") a wholly-owned subsidiary of the Company, offers a fee-based credit services organization program ("CSO program") to assist customers in all of the Company's Texas locations in obtaining credit. Under the CSO program, FCC assists customers in applying for a short-term loan from an independent, non-bank, consumer lending company and issues the Independent Lender a letter of credit to guarantee the repayment of the loan. The Company recognizes credit services fees ratably over the life of the loan made by the Independent Lender. The loans made by the Independent Lender to credit services customers of FCC have terms of 7 to 180 days. The Company records a liability for the estimated fair value of the liability under the letters of credit.

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

OPERATIONS AND LOCATIONS

As of March 31, 2008, the Company had 480 locations in thirteen U.S. states and twelve states in Mexico, which represents a 13% increase over the 424 locations open at March 31, 2007. A total of nine new retail locations were opened during the first quarter of 2008. The openings were a combination of pawn stores, short-term loan stores and Auto Master buy-here/pay-here dealerships. The following table details store counts for the three month period ended March 31, 2008:

| U.S. Locations | Mexico Locations |
|----------------|---------------------|
| Short-Term | |

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| | Pawn Stores | Loan/ Check Cashing Stores | Buy-Here/ Pay-Here Automotive Dealerships | Pawn/ Short-Term Loan Stores | Total Locations |
|--|----------------|-------------------------------------|--|---------------------------------------|--------------------|
| <u>Three Months Ended March 31, 2008</u> | | | | | |
| Total locations, beginning of period | 96 | 157 | 15 | 207 | 475 |
| New locations opened | - | 2 | 1 | 6 | 9 |
| Locations closed or consolidated | (1) | (1) | - | (2) | (4) |
| Total locations, end of period | 95 | 158 | 16 | 211 | 480 |

For the three month period ended March 31, 2008, the Company's 50% owned joint venture, Cash & Go, Ltd., operated a total of 39 kiosks located inside convenience stores in the state of Texas, which are not included in the above table. During the three months ended March 31, 2008, the Company did not open or close any Cash & Go, Ltd. kiosks.

While the Company has had significant increases in revenues due to new store openings in 2008 and 2007, the Company has also incurred increases in operating expenses attributable to the additional locations. Operating expenses consist of all items directly related to the operation of the Company's stores and dealerships, including salaries and related payroll costs, rent, utilities, equipment, advertising, property taxes, licenses, supplies and security. Administrative expenses consist of items relating to the operation of the corporate office, including the compensation and benefit costs of corporate management, area supervisors and other operations management personnel, collections operations and personnel, accounting and administrative costs, information technology costs, liability and casualty insurance, outside legal and accounting fees and stockholder-related expenses.

Stores included in the same-store revenue calculations are those stores that were opened prior to the beginning of the prior year comparative fiscal period and are still open. Also included are stores that were relocated during the year within a specified distance serving the same market, where there is not a significant change in store size and where there is not a significant overlap or gap in timing between the opening of the new store and the closing of the existing store. During the first quarter of 2007, the Company relocated one store that involved a significant change in the size of its retail showroom, and accordingly, the expanded store has been excluded from the same-store calculations. Non-retail sales of scrap jewelry and automobiles are included in same-store revenue calculations.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related revenues and expenses, and disclosure of gain and loss contingencies at the date of the financial statements. Such estimates and assumptions are subject to a number of risks and uncertainties, which may cause actual results to differ materially from the Company's estimates. Both the significant accounting policies that management believes are the most critical to aid in fully understanding and evaluating the reported financial results and the effects of recent accounting pronouncements have been reported in the Company's 2007 Annual Report on Form 10-K.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It establishes a fair

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value hierarchy and expands disclosures about fair value measurements in both interim and annual periods. SFAS 157 was effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, FASB issued FASB Staff Position ("FSP") FAS 157-2, "Effective Date of FASB Statement No. 157", which delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis. The FSP partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The adoption of SFAS 157 and FSP FAS 157-2 did not have a material effect on the Company's financial position or results of operations. The Company has not applied the provisions of SFAS 157 to its nonfinancial assets and nonfinancial liabilities in accordance with FSP FAS 157-2.

The Company will apply the provisions of SFAS 157 to these assets and liabilities beginning January 1, 2009 as required by FSP FAS 157-2.

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

In December 2007, the FASB issued SFAS No. 141, "Business Combinations - Revised" ("SFAS 141(R)"). SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination: recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase price; and, determines what information to disclose to enable users of the consolidated financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. In the past, the Company has completed significant acquisitions. The application of SFAS 141(R) will cause management to evaluate future transaction returns under different conditions, particularly the near-term and long-term economic impact of expensing transaction costs up front.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51" ("SFAS 160"). This statement will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. The Company does not expect SFAS 160 to have a material effect on the Company's financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 requires enhanced disclosures concerning (1) the manner in which an entity uses derivatives (and the reasons it uses them), (2) the manner in which derivatives and related hedged items are accounted for under SFAS No. 133 and interpretations thereof, and (3) the effects that derivatives and related hedged items have on an entity's financial position, financial performance, and cash flows. The standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company does not expect SFAS 161 to have a material effect on the Company's financial position or results of operations.

RESULTS OF CONTINUING OPERATIONS

Three months ended March 31, 2008, compared to the three months ended March 31, 2007

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The following table (in thousands) details the components of revenues for the three months ended March 31, 2008, as compared to the three months ended March 31, 2007:

| | Three Months Ended March 31, | | Increase/(Decrease) | |
|--|---------------------------------|------------------|---------------------|------------|
| | <u>2008</u> | <u>2007</u> | | |
| Domestic revenues: | | | | |
| Pawn retail merchandise sales | \$ 16,724 | \$ 16,390 | \$ 334 | 2% |
| Pawn scrap jewelry sales | 6,608 | 3,850 | 2,758 | 72% |
| Pawn service charges | 8,773 | 7,756 | 1,017 | 13% |
| Short-term loan and credit services fees | 15,803 | 14,958 | 845 | 6% |
| Buy-here/pay-here retail automobile sales | 22,280 | 22,372 | (92) | 0% |
| Buy-here/pay-here wholesale automobile sales | 416 | 417 | (1) | 0% |
| Buy-here/pay-here finance charges | 2,051 | 1,374 | 677 | 49% |
| Other | 1,259 | 1,170 | 89 | 8% |
| | <u>\$ 73,914</u> | <u>\$ 68,287</u> | <u>\$ 5,627</u> | <u>8%</u> |
| Foreign revenues: | | | | |
| Pawn retail merchandise sales | \$ 12,090 | \$ 9,804 | \$ 2,286 | 23% |
| Pawn scrap jewelry sales | 8,581 | 4,401 | 4,180 | 95% |
| Pawn service charges | 7,680 | 5,562 | 2,118 | 38% |
| Short-term loan and credit services fees | 476 | 67 | 409 | 610% |
| | <u>\$ 28,827</u> | <u>\$ 19,834</u> | <u>\$ 8,993</u> | <u>45%</u> |
| Total revenues: | | | | |
| Pawn retail merchandise sales | \$ 28,814 | \$ 26,194 | \$ 2,620 | 10% |
| Pawn scrap jewelry sales | 15,189 | 8,251 | 6,938 | 84% |
| Pawn service charges | 16,453 | 13,318 | 3,135 | 24% |
| Short-term loan and credit services fees | 16,279 | 15,025 | 1,254 | 8% |
| Buy-here/pay-here retail automobile sales | 22,280 | 22,372 | (92) | 0% |
| Buy-here/pay-here wholesale automobile sales | 416 | 417 | (1) | 0% |
| Buy-here/pay-here finance charges | 2,051 | 1,374 | 677 | 49% |
| Other | 1,259 | 1,170 | 89 | 8% |
| | <u>\$ 102,741</u> | <u>\$ 88,121</u> | <u>\$ 14,620</u> | <u>17%</u> |

The following table (in thousands) details pawn receivables, short-term loan receivables, active CSO loans outstanding from an independent third-party lender and buy-here/pay-here automotive receivables as of March 31, 2008, as compared to March 31, 2007:

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Balance at March 31,

2008

2007

Increase/(Decrease)

Domestic customer receivables & CSO loans outstanding:

Pawn receivables

\$

22,212

\$

19,529

\$

2,683

14%

Short-term loan receivables, net of allowance

4,879

4,103

776

19%

CSO short-term loans held by independent third-party (1)

10,319

9,105

1,214

13%

Buy-here/pay-here receivables, with short- and

long-term maturities, net of allowance

58,609

21

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| | |
|---|--------|
| | 41,870 |
| | 16,739 |
| | 40% |
| <hr/> | |
| <hr/> | |
| | 96,019 |
| | 74,607 |
| | 21,412 |
| | 29% |
| <hr/> | |
| <hr/> | |
| <hr/> | |
| Foreign customer receivables: | |
| Pawn receivables | |
| | 19,242 |
| | 14,402 |
| | 4,840 |
| | 34% |
| Short-term loan receivables, net of allowance | |
| | 438 |
| | 83 |
| | 355 |
| | 428% |
| <hr/> | |
| <hr/> | |
| <hr/> | |
| | 19,680 |
| | 14,485 |
| | 5,195 |
| | 22 |

36%

Total customer receivables and CSO loans outstanding:

Pawn receivables

41,454

33,931

7,523

22%

Short-term loan receivables, net of allowance

5,317

4,186

1,131

27%

CSO short-term loans held by independent third-party (1)

10,319

9,105

1,214

13%

Buy-here/pay-here receivables, with short- and
long-term maturities, net of allowance

58,609

41,870

16,739

40%

\$
115,699
\$
89,092
\$
26,607
30%

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

Pawn & Short-Term Loan Segment

The 22% increase in year-over-year revenue for the pawn and short-term loan segment was due to a combination of strong same-store revenue growth and the opening of new stores. Combined pawn retail and wholesale scrap merchandise sales increased by 28%. The 84% increase in wholesale scrap jewelry sales during the first quarter of 2008 was primarily due to a 16% increase in the quantity of gold sold and a 40% increase in the weighted-average selling price of scrap gold. Retail sales of pawn merchandise grew at a lesser rate, as the Company elected to scrap a greater percentage of pawn inventories, given increased scrap margins and lower selling costs associated with scrap sales. The 24% increase in pawn service charge revenue was consistent with the increase in pawn receivables, which reflected increased consumer demand and continued expansion in Mexico. The increase in short-term loan and credit services revenue was due primarily to increased loan balances in the Company's free-standing short-term loan stores. Short-term loan balances and related revenue were flat or slightly decreased in the Company's pawn stores and joint venture kiosks, reflecting increased competition from free-standing short-term loan stores. In addition, revenue in the Company's Oregon locations decreased by \$294,000, primarily as a result of additional regulatory restrictions enacted in July 2007.

Same-store revenue in the pawn and short-term loan stores (stores that were in operation during all of the first quarter of both 2008 and 2007) increased 17%, or \$10,930,000, for the first quarter of 2008 as compared to the same quarter last year. Revenues generated by the new pawn and short-term loan stores opened since January 1, 2007 increased by \$2,232,000, compared to the same quarter last year.

The gross profit margin on total pawn merchandise sales was 43.8% during the first quarter of 2008, compared to 41.5% during the first quarter of 2007. The retail pawn merchandise margin, which excludes scrap jewelry sales, was 45.2% during the first quarter of 2008, compared to 44.0% in the first quarter of 2007. Gross margin on sales of scrap jewelry was 41.1% in the first quarter of 2008 compared to 33.5% in the first quarter of 2007. The increase in both retail and wholesale margins is due primarily to increased gold prices compared to the same period last year.

The Company's short-term loan and credit services loss provision increased to 22.9% of short-term loan and credit services fee revenues during the first quarter of 2008, compared to 15.5% during the first quarter of 2007. The

increase was primarily related to higher loss rates in the Company's newer locations, which typically experience higher loss rates than the Company's more mature stores. The Company currently has disproportionately more of its short-term loan revenue being generated by its newer stores, as compared to the prior year. The Company's loss reserve on short-term loan receivables increased to \$171,000 at March 31, 2008 from \$128,000 at March 31, 2007. The estimated fair value of liabilities under the CSO letters of credit, net of anticipated recoveries from customers, was \$587,000 at March 31, 2008, compared to \$427,000 at March 31, 2007, which is included as a component of the Company's accrued liabilities. The increases in the reserves were consistent with increases in the loan balances and the credit provision.

Pawn and short-term loan store operating expenses increased 14% to \$24,417,000 during the first quarter of 2008, compared to \$21,357,000 during the first quarter of 2007, primarily as a result of the net addition of 72 new pawn and short-term loan stores since January 1, 2007, which is an 18% increase in the store count.

The net store profit contribution from the pawn and short-term loan segment for the current-year quarter was \$22,391,000, an increase of 26% over the prior-year quarter of \$17,801,000.

Buy-Here/Pay-Here Automotive Segment

Total revenue from Auto Master increased by 3% in the first quarter of 2008 compared to the prior-year quarter. While finance fee income increased by 49%, retail automobile sales were flat, reflecting continued consumer weakness previously noted in the fourth quarter of 2007. In addition, certain strategic initiatives implemented by the Company in the latter part of 2007 to improve credit quality, which included more rigid underwriting standards and larger down payment requirements for certain customers, contributed to same-store sales declines of 37% for the quarter. During this period, Auto Master sold approximately 2,100 vehicles to retail customers for an average selling price of \$10,600 per vehicle, compared to 2,200 vehicles sold in the prior-year quarter at an average price of \$10,300. During the first quarter of 2008, the Company operated a weighted-average of 16 dealerships, compared to the prior-year quarter when the Company operated a weighted-average of 11 dealerships.

The retail automobile gross margin was 50% for the quarter, compared to 58% in the prior-year quarter. The margin adjustment was primarily the result of a deliberate strategy to deliver higher quality vehicles to customers at similar historical price points. The Company believes that selling newer, lower mileage cars will reduce warranty expenses, improve collection results and increase customer satisfaction.

The automotive credit loss provision was \$12,131,000 for the first quarter of 2008, compared to a \$6,699,000 provision for the prior-year quarter. The increase in the provision reflects the year-over-year increase in the receivable portfolio and increased write-off volumes that the Company began to experience in the fourth quarter of 2007. The Company has implemented certain initiatives over the past several months to improve collections and reduce the credit loss provision. In addition to the tightening of underwriting/down payment standards and improvements to product quality, as noted above, the Company has made significant management changes and reorganizations, and it recently opened a new, fully-centralized collections center near the First Cash corporate headquarters in Texas. The combined effect of these initiatives began to positively impact collections over the course of the first quarter. While the credit loss provision increased over the prior-year quarter, it decreased by \$3,395,000 compared to the fourth quarter of 2007, the most recent sequential quarter. In addition, the percentage of accounts over 30 days past due decreased by 29% over the course of the first quarter. The Company's loss reserve on automotive receivables was \$17,436,000 at March 31, 2008, compared to \$11,906,000 at March 31, 2007. The loss reserve as a percentage of customer receivables was 23% at March 31, 2008, compared to 22% at March 31, 2007.

Automotive dealership operating expenses increased 83% to \$4,384,000 during the first quarter of 2008, compared to \$2,393,000 during the first quarter of 2007, primarily as a result of the addition of six new dealerships since January 1, 2007, which is a 60% increase in the store count. The net store loss from the automotive segment for the current-year quarter was \$3,425,000, compared to the prior-year quarter net store profit of \$5,094,000.

Administrative Expenses, Interest, Taxes & Income

Administrative expenses increased less than 1% to \$7,521,000 during the first quarter of 2008 compared to \$7,457,000 during the first quarter of 2007. The Company incurred interest expense in the first quarter of 2008 of \$912,000, compared to \$342,000 for the first quarter of 2007 due primarily to higher amounts of interest-bearing debt related to stock repurchases.

For the first quarter of 2008 and 2007, the Company's effective income tax rates of 36.9% and 36.7%, respectively, differed from the federal statutory tax rate of 35% primarily as a result of state income taxes.

Income from continuing operations decreased 32% to \$6,397,000 during the first quarter of 2008 compared to \$9,406,000 during the first quarter of 2007. Net income decreased 35% to \$6,695,000 during the first quarter of 2008 compared to \$10,279,000 during the first quarter of 2007.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2008, the Company's primary sources of liquidity were \$13,689,000 in cash and cash equivalents, \$112,462,000 in receivables, \$35,346,000 in inventories and \$35,100,000 of available and unused funds under the Company's long-term line of credit. The Company had working capital of \$111,378,000 as of March 31, 2008.

The Company has a \$90,000,000 long-term line of credit with two commercial lenders, (the "Credit Facility"), which expires in April 2010. The Credit Facility bears interest at the prevailing LIBOR rate (which was approximately 2.7% at March 31, 2008) plus a fixed interest rate margin of 1.375%. Amounts available under the Credit Facility are limited to 300% of the Company's earnings before income taxes, interest, and depreciation for the trailing twelve months. At March 31, 2008, the Company had \$54,900,000 outstanding under the Credit Facility and \$35,100,000 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, 2008, and May 7, 2008. The Company is required to pay an annual commitment fee of 1/8 of 1% on the average daily unused portion of the Credit Facility commitment. The Company's Credit Facility contains provisions that allow the Company to repurchase stock and/or pay cash dividends within certain parameters. Substantially all of the unencumbered assets of the Company have been pledged as collateral against indebtedness under the Credit Facility.

At March 31, 2008, the Company has notes payable to individuals arising from the Auto Master acquisition that total \$5,625,000 in aggregate and bear interest at 7%, with quarterly payments of principal and interest. Of the \$5,625,000 in notes payable, \$2,250,000 is classified as a current liability, and \$3,375,000 is classified as long-term debt.

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

| | Three Months Ended March 31, | |
|--|------------------------------|-------------|
| | <u>2008</u> | <u>2007</u> |
| | (unaudited, in thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 6,695 | \$ 10,279 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation and amortization | 3,134 | 2,452 |
| Share-based compensation expense | 38 | 40 |
| Non-cash portion of credit loss provision | 12,858 | 7,458 |
| Changes in operating assets and liabilities: | | |

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| | | |
|--|-------------------|-------------------|
| Buy-here/pay-here automotive customer receivables | (12,607) | (14,564) |
| Finance and service fees receivable | 785 | (137) |
| Inventories | 788 | (1,867) |
| Prepaid expenses and other assets | 2,759 | (723) |
| Accounts payable and accrued liabilities | 2,917 | (3,258) |
| Current and deferred income taxes | 1,609 | 4,508 |
| | <u> </u> | <u> </u> |
| Net cash flows from operating activities | 18,976 | 4,188 |
| | <u> </u> | <u> </u> |
| Cash flows from investing activities: | | |
| Pawn customer receivables | 193 | (602) |
| Short-term loan customer receivables | 593 | 272 |
| Purchases of property and equipment | (6,731) | (4,604) |
| Distribution to minority interest in Cash & Go, Ltd. joint venture | (194) | (63) |
| | <u> </u> | <u> </u> |
| Net cash flows from investing activities | (6,139) | (4,997) |
| | <u> </u> | <u> </u> |
| Cash flows from financing activities: | | |
| Proceeds from debt | 11,000 | 18,700 |
| Payments of debt | (11,663) | (22,363) |
| Purchases of treasury stock | (13,649) | - |
| Proceeds from exercise of stock options and warrants | 677 | 676 |
| Stock option and warrant income tax benefit | 312 | 439 |
| | <u> </u> | <u> </u> |
| Net cash flows from financing activities | (13,323) | (2,548) |
| | <u> </u> | <u> </u> |
| Change in cash and cash equivalents | (486) | (3,357) |
| Cash and cash equivalents at beginning of the period | 14,175 | 15,535 |
| | <u> </u> | <u> </u> |
| Cash and cash equivalents at end of the period | \$ 13,689 | \$ 12,178 |

During the first quarter of 2008, the Company repurchased approximately 1,352,000 shares of common stock at an aggregate cost of \$13,652,000 and an average cost per share of \$10.10. There were no shares repurchased during the first quarter of 2007. The Company funded \$6.7 million in capital expenditures during the first quarter of 2008 related primarily to new store locations and a centralized collections facility for Auto Master.

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

Management believes that the Credit Facility and cash generated from operations will be sufficient to accommodate the Company's current operations and store expansion plans for fiscal 2008. Other than the Credit Facility and other existing notes, the Company currently has no written commitments for additional borrowings or future acquisitions; however, the Company intends to continue to grow and may seek additional capital to facilitate expansion.

The Company intends to continue expansion primarily through new store openings. The majority of capital expenditures, working capital requirements and start-up losses related to this expansion are expected to be funded through operating cash flows and the Credit Facility. While the Company continually looks for, and is presented with

potential acquisition opportunities, the Company currently has no definitive plans or commitments for acquisitions. The Company will evaluate potential acquisitions, if any, based upon growth potential, purchase price, strategic fit and quality of management personnel, among other factors. If the Company encounters an attractive opportunity to acquire new stores in the near future, the Company may seek additional financing, the terms of which will be negotiated on a case-by-case basis.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") for the trailing twelve month period ended March 31, 2008 totaled \$60,995,000, an increase of 5% compared to \$58,331,000 for the trailing twelve month period ended March 31, 2007. The EBITDA margin (EBITDA as a percentage of revenues) for the twelve month period ended March 31, 2008 was 15%, compared to 20% for the comparable prior year period.

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

The following table provides a reconciliation of income from continuing operations to EBITDA (in thousands):

| | Trailing Twelve Months Ended March 31, | |
|---|---|------------------|
| | <u>2008</u> | <u>2007</u> |
| Income from continuing operations | \$ 29,701 | \$ 31,238 |
| Adjustments: | | |
| Income taxes | 17,010 | 17,637 |
| Depreciation and amortization | 11,352 | 8,724 |
| Interest expense | 3,008 | 1,258 |
| Interest income | (76) | (526) |
| Earnings before interest, income taxes, depreciation and amortization | <u>\$ 60,995</u> | <u>\$ 58,331</u> |

CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE RESULTS

Forward-Looking Information

This quarterly report may contain forward-looking statements about the business, financial condition and prospects of First Cash Financial Services, Inc. ("First Cash" or the "Company"). Forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, can be identified by the use of forward-looking terminology such as "believes," "projects," "expects," "may," "estimates," "should," "plans," "intends," "could," or "anticipates," or the negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy. Forward-looking statements can also be identified by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results. Because forward-looking statements relate to matters that have not yet occurred, these statements are

inherently subject to risks and uncertainties. Forward-looking statements in this quarterly report include, without limitation, the Company's expectations of earnings per share, earnings growth, expansion strategies, store and dealership openings, liquidity, cash flows, credit losses and related provisions, debt repayments, consumer demand for the Company's products and services, competition, and other performance results. These statements are made to provide the public with management's current assessment of the Company's business. Although the Company believes that the expectations reflected in forward-looking statements are reasonable, there can be no assurances that such expectations will prove to be accurate. Security holders are cautioned that such forward-looking statements involve risks and uncertainties. The forward-looking statements contained in this quarterly report speak only as of the date of this statement, and the Company expressly disclaims any obligation or undertaking to report any updates or revisions to any such statement to reflect any change in the Company's expectations or any change in events, conditions or circumstances on which any such statement is based. Certain factors may cause results to differ materially from those anticipated by some of the statements made in this quarterly report. Such factors are difficult to predict and many are beyond the control of the Company and may include changes in regional, national or international economic conditions, changes in consumer borrowing and repayment behaviors, changes in credit markets, credit losses, changes or increases in competition, the ability to locate, open and staff new stores and dealerships, the availability or access to sources of inventory, inclement weather, the ability to successfully integrate acquisitions, the ability to retain key management personnel, the ability to operate with limited regulation as a credit services organization in Texas, new legislative initiatives or governmental regulations (or changes to existing laws and regulations) affecting short-term loan businesses, credit services organizations, pawn businesses and buy-here/pay-here automotive businesses in both the U.S. and Mexico, unforeseen litigation, changes in interest rates, changes in tax rates or policies, changes in gold prices, changes in energy prices, changes in used-vehicle prices, cost of funds, changes in foreign currency exchange rates, future business decisions, and other uncertainties. These and other risks and uncertainties are further and more completely described in the Company's 2007 Annual Report on Form 10-K (see "Item 1A. Risk Factors").

Regulatory Developments

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

Existing regulations and recent regulatory developments are described in greater detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

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

There can be no assurance that additional federal, state or local legislation in the U.S. or Mexico will not be enacted, or that existing laws and regulations will not be amended, which would have a materially adverse impact on the Company's operations and financial condition.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to the Company's operations result primarily from changes in interest rates, gold prices and foreign currency exchange rates and are described in detail in the Company's 2007 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, 2007.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, management of the Company has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of March 31, 2008 ("Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective (i) to ensure that information required to be disclosed by us in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms; and (ii) to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to our management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

There was no change in the Company's internal control over financial reporting during the quarter ended March 31, 2008, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes in the status of legal proceedings previously reported in the Company's 2007 Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors previously reported in the Company's 2007 Annual Report on Form 10-K.

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

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During the period from January 1, 2008 through March 31, 2008, the Company issued 147,000 shares of common stock relating to the exercise of outstanding stock options for an aggregate exercise price of \$988,000 (including income tax benefit).

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

In November 2007, the Company's Board of Directors authorized a repurchase program for up to 1,000,000 shares of First Cash's outstanding common stock. No shares were repurchased under this 2007-authorized program during 2007. In March 2008, the Company's Board of Directors authorized an amendment to the 2007-authorized program which allows the Company to repurchase up to 3,000,000 shares of its common stock.

The following table provides the information with respect to purchases made by the Company of shares of its common stock during each month that the program was in effect during the first quarter of 2008:

| | Total Number Of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased As Part of Publicly Announced Plans | Maximum Number Of Shares that May Yet be Purchased Under the Plans |
|---|---|---------------------------------------|---|---|
| January 1 through January 31, 2008 | - | \$ - | - | - |
| February 1 through February 29, 2008 | - | - | - | - |
| March 1 through March 31, 2008 | 1,352,137 | 10.10 | 1,352,137 | 1,647,863 |
| Total | 1,352,137 | \$ 10.10 | 1,352,137 | |

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibits:

- | | |
|------|--|
| 31.1 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act provided by Rick L. Wessel, Chief Executive Officer |
| 31.2 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act provided by R. Douglas Orr, Chief Financial Officer |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 provided by Rick L. Wessel, Chief Executive Officer |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 provided by R. Douglas Orr, Chief Financial Officer |
-

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 7, 2008

FIRST CASH FINANCIAL SERVICES, INC.
(Registrant)

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

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

INDEX TO EXHIBITS

EXHIBIT
NUMBER

DESCRIPTION

- | | |
|------|--|
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|------|--|

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