

FIRST CASH FINANCIAL SERVICES INC
Form 10-K
February 22, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Exchange on Which Registered

Common Stock, par value \$.01 per share

The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

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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 (C232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 505 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the last reported sales price on the NASDAQ Global Select Market on June 30, 2012, is \$1,151,655,000.

As of February 18, 2013, there were 29,274,376 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Company's Proxy Statement in connection with its Annual Meeting of Stockholders to be held on or about June 12, 2013, is incorporated by reference in Part III, Items 10, 11, 12 and 13.

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 For the Year Ended December 31, 2012

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FORWARD-LOOKING INFORMATION

This annual report may contain forward-looking statements about the business, financial condition and prospects of the Company. Forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, can be identified by the use of forward-looking terminology such as “believes,” “projects,” “expects,” “may,” “estimates,” “should,” “plans,” “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 annual 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, currency exchange rates, future share repurchases and the impact thereof, completion of disposition transactions and expected gains or losses from the disposition of such operations, earnings 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. The forward-looking statements contained in this annual 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 annual 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 the inflation rate, changes in the unemployment rate, changes in consumer purchasing, borrowing and repayment behaviors, changes in credit markets, the ability to renew and/or extend the Company’s existing bank line of credit, credit losses, changes in the market value of pawn collateral and merchandise inventories, changes or increases in competition, the ability to locate, open and staff new stores, the availability or access to sources of inventory, inclement weather, the ability to successfully integrate acquisitions, the ability to hire and retain key management personnel, the ability to operate with limited regulation as a credit services organization, new federal, state or local legislative initiatives or governmental regulations (or changes to existing laws and regulations, including recently enacted federal pawn legislation in Mexico and ordinances in the Texas cities of San Antonio and El Paso) affecting consumer loan businesses, credit services organizations and pawn businesses (in both the United States and Mexico), changes in import/export regulations and tariffs or duties, changes in anti-money laundering regulations, unforeseen litigation, changes in interest rates, monetary inflation, changes in tax rates or policies, changes in gold prices, changes in energy prices, cost of funds, changes in foreign currency exchange rates, future business decisions, public health issues, changes in demand for the Company’s services and products, changes in the Company’s ability to satisfy its debt obligations or to obtain new capital to finance growth, a prolonged interruption in the Company’s operations of its facilities, systems, and business functions, including its information technology, cash management and other business systems, the implementation of new, or changes in the interpretation of existing accounting principles or financial reporting requirements, and other uncertainties. These and other risks, uncertainties and regulatory developments are further and more completely described in “Item 1A. Risk Factors.” 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.

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PART I

Item 1. Business

General

First Cash Financial Services, Inc. and its subsidiaries (the "Company" or "First Cash") is a leading operator of retail-based pawn and consumer finance stores in the United States and Mexico. As of February 18, 2013, the Company had approximately 829 locations in twelve U.S. states and 24 states in Mexico.

The Company's primary business is the operation of pawn stores, which engage in retail sales, purchasing of secondhand goods and consumer finance activities. The pawn stores generate significant retail sales from the merchandise acquired through collateral forfeitures and over-the-counter purchases from customers. Pawn stores are also a convenient source for small consumer loans to help customers meet their short-term cash needs. Personal property such as jewelry, consumer electronics, 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.

The Company operates a significantly smaller number of stand-alone consumer finance stores in Texas and Mexico. These stores provide consumer financial services products including credit services, consumer loans, check cashing, money orders and money transfers. The product mix in these stores varies by market.

Revenue for the twelve months ended December 31, 2012, was primarily derived from the Company's pawn operations in the U.S. and Mexico:

The Company was formed as a Texas corporation in July 1988, and in April 1991 the Company reincorporated as a Delaware corporation. Except as otherwise indicated, the term "Company" includes its wholly-owned subsidiaries, which are detailed in Exhibit 21.1.

The Company's principal executive offices are located at 690 East Lamar Blvd., Suite 400, Arlington, Texas 76011, and its telephone number is (817) 460-3947.

Pawn Industry

Pawnshops are retail-based operations that buy and sell popular consumer items such as jewelry, consumer electronics, power tools, musical instruments and sporting goods. Pawnshops also provide a quick and convenient source of small consumer loans to unbanked, under-banked and credit-challenged customers. These consumers are typically not effectively or efficiently served by traditional lenders such as banks, credit unions or credit card providers. First Cash pawn stores compete directly in both the specialty retail and consumer finance industries.

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The pawn industry in the United States is well established, with the highest concentration of pawnshops located in the Southeast, Midwest and Southwest regions of the country. The operation of pawnshops is governed primarily by state laws, and accordingly, states that maintain pawn laws most conducive to profitable operations have historically seen the greatest concentration of pawnshops. Although mature, management believes that the U.S. pawn industry remains highly fragmented. The three major publicly traded pawnshop companies, which include First Cash, currently operate approximately 2,200 of the estimated 11,000 to 15,000 total pawnshops in the United States. The Company believes that individuals operating less than five locations own the majority of pawnshops.

The large format, full-service pawn industry in Mexico is less developed, as compared to the U.S., with approximately 6,000 stores, of which approximately 5,000 are small "jewelry-only" stores. The jewelry-only pawnshops in Mexico are much smaller than most stores in the U.S. and typically only make loans collateralized by gold jewelry and have limited, if any, retail operations. The Company operates mostly large, full-service stores in Mexico, where competition is extremely limited. The Company believes that there are 1,000 or fewer large format, full-service pawnshops in Mexico. A large percentage of the population in Mexico is unbanked or under-banked and has limited access to consumer credit. The Company believes that there is significant opportunity for future expansion in Mexico due to the large potential consumer base and limited competition, especially from large format pawnshop operators.

Business Strategy

The Company's business plan is to continue the expansion of its operations by opening new retail pawn locations, acquiring existing pawnshops in strategic markets and increasing revenue and operating profits in its existing stores. In addition, the Company will continue to evaluate acquisition opportunities in the pawn industry, in both Mexico and the United States, if and when they arise.

The Company has opened or acquired 431 new stores in the last five fiscal years and intends to open additional stores in locations where management believes appropriate demand and other favorable conditions exist. The following chart details store additions over the past five years:

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Domestic stores:					
New locations opened	6	10	6	3	7
Locations acquired	46	11	6	2	—
Total additions	52	21	12	5	7
International stores:					
New locations opened	62	61	58	60	48
Locations acquired	29	—	—	—	16
Total additions	91	61	58	60	64
Total:					
New locations opened	68	71	64	63	55
Locations acquired	75	11	6	2	16
Total additions	143	82	70	65	71

New Store Openings

The Company plans to continue opening new pawn stores, both in Mexico and in the U.S. Management opens new stores in under-developed markets, especially where customer demographics are favorable and competition is limited or restricted. It is the Company's experience that after a suitable location has been identified and a lease and licenses

are obtained, a new store can be open for business within six to twelve weeks. The investment required to open a new location includes store operating cash, inventory, funds for pawn and consumer loans, leasehold improvements, store fixtures, security systems, computer equipment and start-up losses.

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Enhance Productivity of Existing and Newly Opened Stores

The primary factors affecting the profitability of the Company's existing store base are the volume and gross profit of merchandise sales, the volume and yield on customer loans outstanding, the volume and fees collected on credit services transactions, check cashing transactions and other consumer financial services transactions, and the control of store expenses, including the loss provision expense related to consumer loans and credit services loans. To encourage customer traffic, which management believes is a key determinant to increasing its stores' profitability, the Company has taken several steps to distinguish its stores and to make customers feel more comfortable. In addition to a clean and secure physical store facility, the stores' exteriors typically display attractive and distinctive signage similar to those used by contemporary specialty retailers.

The Company has an employee-training program for both store and corporate-level personnel that promotes customer service, productivity and professionalism. The Company utilizes a proprietary computer information system that provides fully-integrated functionality to support point-of-sale retail operations, inventory management and loan processing. Each store is connected on a real-time basis to a secured off-site data center that houses the centralized databases and operating systems. The information systems provide management with the ability to continuously monitor store transactions and operating results. The Company maintains a well-trained internal audit staff that conducts regular store visits to test compliance of financial and operational controls. Management believes that the current operating and financial controls and systems are adequate for the Company's existing store base and can accommodate reasonably foreseeable growth in the near term.

Acquisitions

Because of the fragmented nature of the pawn industry, the Company believes that acquisition opportunities may arise from time to time. The timing of any future acquisitions is based on identifying suitable stores and purchasing them on terms that are viewed as favorable to the Company. Before making an acquisition, management typically studies a demographic analysis of the surrounding area, considers the number and size of competing stores, and researches state and local regulatory issues. Specific pawn store acquisition criteria include an evaluation of the volume of merchandise sales and pawn transactions, outstanding customer pawn loan balances, historical pawn yields, retail margins and redemption rates, the condition and quantity of inventory on hand, and location and condition of the facility, including lease terms.

Pawn Merchandise Sales

The Company's pawn merchandise sales are primarily retail sales to the general public from its pawn stores. The items retailed are primarily used consumer electronics, jewelry, household appliances, tools, musical instruments, and sporting goods. The Company also melts down certain quantities of scrap jewelry and sells the gold, silver and diamonds in commodity markets. Merchandise sales accounted for approximately 66% of the Company's revenue from continuing operations during fiscal 2012.

The Company acquires pawn merchandise inventory primarily through forfeited pawn collateral and, to a lesser extent, through purchases of used goods directly from the general public. Merchandise acquired by the Company through forfeited pawn collateral is carried in inventory at the amount of the related pawn loan, exclusive of any accrued service fees.

The Company does not provide financing to customers for the purchase of its merchandise, but does permit its customers to purchase merchandise on an interest-free "layaway" plan. Should the customer fail to make a required payment, the item is returned to inventory and previous payments are forfeited to the Company. Interim payments from customers on layaway sales are credited to deferred revenue and subsequently recorded as income during the

period in which final payment is received or when previous payments are forfeited to the Company.

Pawn Lending Activities

The Company's pawn stores make small loans to their customers in order to help them meet short-term cash needs. All pawn loans are collateralized by personal property such as jewelry, electronic equipment, household appliances, tools, sporting goods and musical instruments. Pawn loans are non-recourse loans and the pledged goods provide the only security to the Company for the repayment of the loan. The Company does not investigate the creditworthiness of the borrower, relying instead on the marketability and sales value of pledged goods as a basis for its credit decision. A customer does not have a legal obligation to repay a pawn loan and the decision to not repay the loan will not affect the customer's credit score.

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At the time a pawn transaction is entered into, an agreement, commonly referred to as a pawn ticket, is delivered to the borrower for signature that sets forth, among other items, the name and address of the pawnshop, borrower's name, borrower's identification number from his/her driver's license or other identification, date, identification and description of the pledged goods, including applicable serial numbers, amount financed, pawn service fee, maturity date, total amount that must be paid to redeem the pledged goods on the maturity date, and the annual percentage rate.

Pledged property is held through the term of the loan, unless the pawn is paid earlier or renewed. The typical loan term is generally one month plus an additional grace period (typically 30 to 90 days). If a pawn is not repaid prior to the expiration of the automatic extension period, if applicable, the pawn collateral 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 does not record pawn loan losses or charge-offs because the amount advanced becomes the carrying cost of the forfeited collateral that is to be recovered through the merchandise sales function described above.

The Company contracts for pawn loan fees and service charges as compensation for the use of the funds loaned and to cover direct operating expenses related to the transaction and holding the pledged property. The pawn loan fees and service charges are typically calculated as a percentage of the pawn loan amount based on the size and duration of the transaction and generally range from 4% to 25% per month, as permitted by applicable laws. As required by applicable laws, the amounts of these charges are disclosed to the customer on the pawn ticket. These pawn loan fees and service charges accounted for approximately 26% of the Company's revenue from continuing operations during fiscal 2012.

The amount that the Company is willing to finance for a pawn loan typically is based on a percentage of the estimated sale value of the collateral. There are no minimum or maximum pawn to fair market value restrictions in connection with the Company's lending activities. The basis for the Company's determination of the sale value includes such sources as precious metals spot markets, catalogs, blue books, on-line auction sites and newspapers. The Company also utilizes its integrated computer information system to recall recent selling prices of similar merchandise in its own stores and to review the customer's previous transaction history with the Company. These sources, together with the employees' experience in selling similar items of merchandise in particular stores, influence the determination of the estimated sale value of such items. The Company does not utilize a standard or mandated percentage of estimated sale value in determining the amount to be financed. Rather, the employee has the authority to set the percentage for a particular item and to determine the ratio of pawn amount to estimated sale value with the expectation that, if the item is forfeited to the pawnshop, its subsequent sale should yield a gross profit margin consistent with the Company's historical experience. The recovery of the principal and realization of gross profit on sales of inventory is dependent on the Company's initial assessment of the property's estimated sale value. Improper assessment of the sale value of the collateral in the lending function can result in reduced marketability of the property and sale of the property for an amount less than the principal amount pawned. As of December 31, 2012, the Company's average pawn loan was approximately \$110 on a consolidated basis, approximately \$185 in its U.S. stores and approximately \$75 in its Mexico stores.

Credit Services and Consumer Loan Activities

The Company has significantly reduced its U.S.-based consumer loan activities, primarily from payday lending, over the past several years. In September 2012, the Company closed seven of its consumer loan stores located in the Texas cities of Austin and Dallas. In March 2011, the Company sold its ten payday/consumer loan stores located in Illinois. In September 2010, the Company discontinued its internet-based credit services product offered in Maryland and in December 2009, the Company reached an agreement to sell all 22 of its payday/consumer loan stores located in California, Washington and Oregon. In addition, the Company sold its payday/consumer loan operations in Michigan in 2009. All revenue, expenses and income reported in these financial statements have been adjusted to reflect reclassification of these discontinued operations.

The Company offers a fee-based credit services organization program (“CSO Program”) to assist consumers, in Texas markets, in obtaining extensions of credit. The Company's consumer loan and pawn stores in Texas offer the CSO Program, and, in Texas, credit services are also offered via an internet platform. The Company's CSO Program in Texas is licensed as a Credit Access Business (“CAB”) under Texas Finance Code Chapter 393 and regulated by the Texas Office of the Consumer Credit Commissioner. Under the CSO Program, the Company assists customers in applying for a short-term extension of credit 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 extension of credit. The extensions of credit made by the Independent Lender to credit services customers of the Company range in amount from \$50 to \$1,500, with an average loan of \$518, terms of 7 to 35 days and bear interest at a rate of 10% on an annualized basis. The Company typically charges a credit services fee of \$22 per \$100 advanced. If the extension of credit is not repaid prior to the expiration of the term, the customer's personal check or ACH withdrawal is deposited into the Independent Lender's bank account. Banks return a significant number of customer checks deposited into the Independent Lender's account due to insufficient funds in the customers' accounts. If the extension of credit is unpaid after 16 days from its due date, the Company reimburses the Independent Lender, under the terms of its letter of credit, for the outstanding principal amount,

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accrued interest, applicable late fees and returned check fees. The Company subsequently collects a large percentage of these bad debts by redepositing the customers' checks, ACH collections or subsequent cash repayments by the customers. The profitability of the Company's credit services operations is dependent upon adequate collection of these returned items. The Company also offers an automobile title lending product under the CSO Program, however, its results were not significant in fiscal 2012. These credit services fees accounted for approximately 8% of the Company's revenue from continuing operations during fiscal 2012.

The Company's consumer loan stores in Mexico make small, unsecured consumer loans with an average loan amount of approximately \$86. To qualify for a consumer loan, a customer generally must have proof of steady income, residence and valid identification. At maturity, the customer typically returns to the store to pay off the loan and related fee with cash. If the customer fails to repay the loan, the Company initiates collection procedures, which can include collection calls and home visits. Consumer loans in Mexico are not secured by a personal check. The term of the consumer loan in Mexico ranges from 7 to 15 days. Consumer loans made in Mexico bear fees of 10% on the loan amount on seven day loans and 20% on 14 and 15 day loans; the maximum loan amount is \$400. In Mexico, the Company also offers an installment loan product with a term of 365 days and bears weekly service fees of 7% on the loan amount; the maximum loan amount is \$400. These consumer loan fees accounted for less than 1% of the Company's revenue from continuing operations during fiscal 2012.

See additional discussion of the credit loss provision and related allowances/accruals in the Critical Accounting Policies in Item 7, the table of selected operating metrics and the subsequent narrative in Item 7.

Financial Information about Geographic Areas

Additional financial information regarding the Company's revenue and long-lived assets by geographic areas is provided in Note 15 of Notes to Consolidated Financial Statements.

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Locations and Operations

The following table details store openings for the twelve months ended December 31, 2012:

	Pawn Locations		Consumer	Total Locations
	Large Format (1)	Small Format (2)	Loan Locations (3)	
Domestic:				
Total locations, beginning of period	132	25	74	231
New locations opened	6	—	—	6
Locations acquired	46	—	—	46
Store format conversions	—	2	(2) —
Discontinued consumer loan operations	—	—	(7) (7
Total locations, end of period	184	27	65	276
International:				
Total locations, beginning of period	394	19	34	447
New locations opened	62	—	—	62
Locations acquired	29	—	—	29
Total locations, end of period	485	19	34	538
Total:				
Total locations, beginning of period	526	44	108	678
New locations opened	68	—	—	68
Locations acquired	75	—	—	75
Store format conversions	—	2	(2) —
Discontinued consumer loan operations	—	—	(7) (7
Total locations, end of period	669	46	99	814

The large format locations include retail showrooms and accept a broad array of pawn collateral including (1) electronics, appliances, tools, jewelry and other consumer hard goods. At December 31, 2012, 112 of the U.S. large format pawn stores also offered consumer loans or credit services products.

The small format locations typically have limited retail operations and primarily accept jewelry and small (2) electronic items as pawn collateral. At December 31, 2012, all of the Texas and Mexico small format pawn stores also offered consumer loans or credit services products.

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. In addition to stores shown on this (3) chart, First Cash is also an equal partner in Cash & Go, Ltd., a joint venture, which owns and operates 38 check cashing and financial services kiosks located inside convenience stores in the state of Texas. The Company's credit services operations also include an internet distribution channel for customers in the state of Texas.

The Company maintains its primary administrative offices in Texas and Nuevo Leon, Mexico.

The Company seeks to establish clusters of several stores in specific geographic areas in order to achieve certain economies of scale relative to supervision, purchasing and marketing. Financial information about geographic areas is provided in Results of Operations. As of December 31, 2012, the Company's stores were located in the following states:

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	Pawn Locations		Consumer	Total Locations
	Large Format	Small Format	Loan Locations	
United States:				
Texas	87	26	65	178
Colorado	29	—	—	29
Maryland	27	—	—	27
Indiana	9	—	—	9
Kentucky	7	—	—	7
South Carolina	7	—	—	7
Oklahoma	4	—	—	4
Missouri	4	—	—	4
Virginia	4	—	—	4
Wyoming	3	—	—	3
District of Columbia	2	1	—	3
Nebraska	1	—	—	1
	184	27	65	276
Mexico:				
Edo. De Mexico (State of Mexico)	60	4	—	64
Baja California	50	2	3	55
Tamaulipas	49	1	4	54
Nuevo Leon	43	1	2	46
Jalisco	35	3	5	43
Chihuahua	32	1	2	35
Guanajuato	25	2	7	34
Coahuila	34	—	—	34
Puebla	26	1	5	32
Sonora	23	—	—	23
Veracruz	16	1	—	17
Aguascalientes	7	1	5	13
Durango	12	—	—	12
Morelos	11	—	—	11
Distrito Federal	10	—	—	10
San Luis Potosi	8	1	—	9
Guerrero	8	—	—	8
Queretaro	7	—	1	8
Hidalgo	7	1	—	8
Michoacan	7	—	—	7
Sinaloa	7	—	—	7
Colima	5	—	—	5
Zacatecas	2	—	—	2
Quintana Roo	1	—	—	1
	485	19	34	538
Total	669	46	99	814

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Pawn Store Operations

The typical Company pawn store is a freestanding building or part of a retail shopping center with adequate, well-lit parking. Management has established a standard store design intended to distinguish the Company's stores from the competition. The design consists of a well-illuminated exterior with distinctive signage and a layout similar to a contemporary specialty retailer. The Company's stores are typically open six to seven days a week from 9:00 a.m. to between 6:00 p.m. and 9:00 p.m.

The Company's computer system permits a store manager or clerk to rapidly recall the cost of an item in inventory and the date it was purchased, as well as the prior transaction history of a particular customer. It also facilitates the timely valuation of goods by showing values assigned to similar goods in the past. The Company has networked its stores to permit the Company's headquarters to more efficiently monitor each store's operations, including merchandise sales, service charge revenue, pawns written and redeemed, and changes in inventory.

The Company attempts to attract customers primarily through the pawn stores' visibility and neighborhood presence. The Company attempts to attract retail shoppers seeking value prices through the use of seasonal promotions, special discounts for regular customers, prominent display of impulse purchase items such as jewelry, electronics and tools, tent and sidewalk sales, and a layaway purchasing plan. The Company attempts to attract and retain pawn customers by lending a competitive percentage of the estimated sale value of items presented for pledge and by providing quick financing, renewal and redemption services in an appealing atmosphere.

Each pawnshop employs a manager, one or two assistant managers, and between one and eight sales personnel, depending upon the size, sales volume and location of the store. The store manager is responsible for supervising personnel and assuring that the store is managed in accordance with Company guidelines and established policies and procedures. Each manager reports to an area supervisor, who typically oversees four to seven store managers. Area supervisors typically report to a Regional Market Manager, who in turn reports to a Regional Operations Director. Regional Operations Directors report to a Vice President of Operations and/or the Chief Operating Officer.

The Company believes that the profitability of its pawnshops is dependent, among other factors, upon its employees' ability to make pawns that achieve optimum pawn yields and merchandise sales margins, to be effective sales people and to provide prompt and courteous service. Therefore, the Company trains its employees through direct instruction and on-the-job pawn and sales experience. The new employee is introduced to the business through an orientation and training program that includes on-the-job training in lending practices, layaways, merchandise valuation, and general administration of store operations. Certain experienced employees receive training and an introduction to the fundamentals of management to acquire the skills necessary to advance into management positions within the organization. Management training typically involves exposure to income maximization, recruitment, inventory control and cost efficiency. The Company maintains a performance-based compensation plan for all store employees based on sales, gross profit and other performance criteria.

Credit Services and Consumer Loan Operations

Similar to the Company's pawn store operations, the Company's credit services and consumer loan locations are typically part of a retail strip shopping center with good visibility from a major street and easy access to parking. Management has established a standard store design intended to distinguish the Company's stores from the competition, which consists of a well-illuminated exterior with lighted signage. The interiors typically feature an ample lobby separated from employee work areas by glass teller windows. The Company's stores are typically open six to seven days a week from 9:00 a.m. to between 6:00 p.m. and 9:00 p.m.

Computer operating systems in the Company's credit services and consumer loan stores allow a store manager or clerk to rapidly recall customer check cashing histories, consumer loan histories, and other vital information. The Company attempts to attract customers primarily through the stores' visibility and advertising in certain markets.

Each store employs a manager and between one and four tellers, depending upon the size, loan volume and location of the store. The store manager is responsible for supervising personnel and assuring that the store is managed in accordance with Company guidelines and established policies and procedures. Each store manager reports to an area supervisor, who typically oversees two to five store managers. Area supervisors typically report to a Regional Market Manager, who in turn reports to a Regional Operations Director. Regional Operations Directors report to the Chief Operating Officer.

The kiosks operated by the Cash & Go, Ltd. joint venture are located inside convenience stores. Each kiosk is a physically secured area with its own counter space within the convenience store. Each kiosk is typically staffed by one or two employees at any point in time.

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The Company believes that the profitability of its credit services and consumer loan locations is dependent upon its employees' ability to make loans and extend credit services that achieve optimum loan performance, to manage credit loss expense and to provide excellent customer service. Company employees are trained through direct instruction and on-the-job lending, collections and customer service experience. New employees are introduced to the business through a training program that includes on-the-job training in lending practices, collections efforts and general administration of store operations. Certain experienced employees receive training and an introduction to the fundamentals of management, such as income maximization, recruitment and cost efficiency to acquire the skills necessary to advance into management positions throughout the Company. The Company maintains a performance-based compensation plan for all consumer loan and credit services store employees based on gross profit, net income and other performance criteria.

Competition

The Company encounters significant competition in connection with all aspects of its business operations. These competitive conditions may adversely affect the Company's revenue, profitability and ability to expand. The Company believes that the primary elements of competition in these businesses are store location, the ability to lend competitive amounts on pawns and consumer loans, customer service, and management of store employees. In addition, the Company competes with financial institutions, such as banks and consumer finance companies, which generally lend on an unsecured as well as a secured basis. Other lenders may and do lend money on terms more favorable than those offered by the Company. Many of these competitors have greater financial resources than the Company.

The Company's pawn business competes primarily with other pawn store operators, other specialty consumer finance operators and deep-value specialty retailers. There are three large publicly-held, U.S.-based pawnshop operators, all of which have significant pawn operations in the U.S. and Mexico. While First Cash has the fewest total store locations of the three companies, it had the largest market capitalization of the peer group as of December 31, 2012. The Company believes it is the largest public or private operator of full-service pawn stores in Mexico. In addition, there are many public and privately held operators of consumer/payday loan stores, some of which are significantly larger than the Company. The pawnshop and other specialty consumer finance industries are characterized by a large number of independent owner-operators, some of whom own and operate multiple locations.

In both its U.S. and Mexico retail pawn operations, the Company's competitors include numerous retail and wholesale stores, including jewelry stores, rent-to-own stores, discount retail stores, consumer electronics stores, other specialty retailers, on-line retailers, on-line auction sites, on-line classified advertising sites and other pawnshops. Competitive factors in the Company's retail operations include the ability to provide the customer with a variety of merchandise items at attractive prices. Many of the retailer competitors have significantly greater size and financial resources than the Company.

There is also significant competition in the consumer loan and credit services industries from internet-based providers of such products, many of which have significantly larger operations than the Company's.

Intellectual Property

The Company relies on a combination of copyright, trade secret, trademark, and other rights, as well as confidentiality procedures and contractual provisions to protect its proprietary technology, processes and other intellectual property. The Company's competitors may develop products that are similar to our technology. The Company enters into agreements with its employees, consultants and partners, and through these and other written agreements, the Company attempts to control access to and distribution of its software, documentation and other proprietary technology and information. Despite the Company's efforts to protect its proprietary rights, third parties may, in an authorized or unauthorized manner, attempt to use, copy or otherwise obtain and market or distribute its intellectual property rights or technology or otherwise develop a product with the same functionality as its solution. Policing all unauthorized use of the Company's intellectual property rights is nearly impossible. The Company cannot be certain

that the steps it has taken or will take in the future will prevent misappropriations of its technology or intellectual property rights.

“First Cash Financial Services” is a registered trademark in the United States. The Company has developed its own point of sale software.

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Governmental Regulation

General

The Company is subject to extensive regulation of its pawnshop, credit services, consumer loan and check cashing 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. Many statutes and regulations prescribe, among other things, the general terms of the Company's pawn and consumer loan agreements and the maximum service fees and/or interest rates that may be charged and, in many jurisdictions, the Company must obtain and maintain regulatory operating licenses. These regulatory agencies have broad discretionary authority. The Company is also subject to federal and state regulations relating to the reporting and recording of firearm pawns, purchases and sales and certain currency transactions.

In both the U.S. and Mexico, governmental action to further restrict or even prohibit, in particular, pawn loans, or small consumer loans, such as payday advances and credit services products has been advocated over the past few years by elected officials, regulators, consumer advocacy groups and by media reports and stories. The consumer groups and media typically focus on the cost to a consumer for pawn and consumer loans, which is higher than the interest generally charged by banks, credit unions and credit card issuers to a more creditworthy consumer. The consumer groups and media stories often characterize pawn and especially payday loan activities as abusive toward consumers. During the last few years, legislation has been introduced and/or enacted in the United States and Mexico federal legislative bodies, in certain state legislatures (in the United States and Mexico) and in various local jurisdictions (in the United States and Mexico) to prohibit or restrict pawn loans, payday loans, consumer loans, credit services and the related service fees. In addition, regulatory authorities in various levels of government have proposed or publicly addressed, from time to time, the possibility of proposing new or expanded regulations that would prohibit or further restrict pawn or consumer loans.

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 outlaw or inhibit the ability of the Company to profitably offer pawn loans, consumer loans and credit services, significantly decrease the service fees for lending money, or prohibit or more stringently regulate the sale or importation 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, consumer loan or credit services industries were taken at a federal, state or local jurisdiction level in the United States or Mexico, 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 operations. There can be no assurance that additional federal, state or local legislation in the United States or Mexico will not be enacted, or that existing laws and regulations will not be amended, which could have a materially adverse impact on the Company's operations and financial condition.

U.S. Federal Regulations

The U.S. government and its agencies have significant regulatory authority over consumer financial services activities. In recent years, further legislation and regulations have been enacted or proposed which would further increase such regulation of the consumer finance industry, which includes regulations and restrictions specific to pawn, credit services and consumer loan/payday advance operations.

The Consumer Financial Protection Bureau that was created by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 has announced the commencement of regulatory, supervisory and enforcement powers over non-bank providers of consumer credit such as the Company. The U.S. Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), and Title X of the Dodd-Frank Act created the

Consumer Financial Protection Bureau (the “CFPB”). The CFPB became operational in certain respects in July 2011, although it did not have the ability to oversee and exercise its full authority over non-depository institutions and implement related rules until a permanent director was installed. On January 4, 2012, President Obama appointed a Director of the CFPB in a recess appointment bypassing Senate confirmation. Although there remain doubts about the legality of this appointment and the appointment may be subject to legal challenge, the CFPB has announced that it will now exercise full regulatory, supervisory and enforcement powers over certain non-bank providers of consumer financial products and services such as the Company.

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The CFPB's powers include explicit supervisory authority to examine and require registration of such providers of consumer financial products and services, including providers of consumer loans such as the Company; the authority to adopt rules describing specified acts and practices as being "unfair," "deceptive" or "abusive," and hence unlawful; and the authority to impose recordkeeping obligations. The Company does not currently know the nature and extent of the rules the CFPB will consider for consumer loan products and services such as those offered by the Company or the timeframe in which the CFPB may consider such rules.

The CFPB has indicated that it intends to systematically gather data to obtain a complete picture of the consumer loan market and its impact on consumers, and the CFPB has also released its Short-Term, Small-Dollar Lending Procedures, which is the field guide CFPB examiners will use when examining small-dollar lenders such as the Company. The CFPB's examination authority permits CFPB examiners to inspect the Company's books and records and ask questions about its business, and the examination procedures include specific modules for examining marketing activities, loan application and origination activities, payment processing activities and sustained use by consumers, collections, defaults and consumer reporting and third-party relationships. Although the CFPB does not have the authority to regulate fees or interest rates, it is possible that at some time in the future the CFPB could propose and adopt rules making short-term consumer lending products and services materially less profitable or even impractical to offer, which could force the Company to modify or terminate certain of its product offerings in the United States. The CFPB could also adopt rules imposing new and potentially burdensome requirements and limitations with respect to other consumer loan products and services. Any such rules could have a material adverse effect on the Company's business, results of operations and financial condition or could make the continuance of all or part of the Company's current U.S. business impractical or unprofitable.

In addition to the Dodd-Frank Act's grant of regulatory and supervisory powers to the CFPB, the Dodd-Frank Act gives the CFPB authority to pursue administrative proceedings or litigation for violations of federal consumer financial laws (including the CFPB's own rules). In these proceedings, the CFPB can obtain cease and desist orders (which can include orders for restitution or rescission of contracts, as well as other kinds of affirmative relief) and monetary penalties ranging from \$5,000 per day for ordinary violations of federal consumer financial laws to \$25,000 per day for reckless violations and \$1 million per day for knowing violations. Also, where a company has violated Title X of the Dodd-Frank Act or CFPB regulations implemented under Title X of the Dodd-Frank Act, the Dodd-Frank Act empowers state attorneys general and state regulators to bring civil actions for the kind of cease and desist orders available to the CFPB. If the CFPB or one or more state officials believe that the Company has violated any of the applicable laws or regulations, they could exercise their enforcement powers in ways that could have a material adverse effect on the Company or its business. Until the Bureau begins to propose specific rules and regulations that apply to the Company's consumer credit activities, it is not possible to accurately predict what effect the Dodd-Frank Act and/or the Bureau will have on the business. There can be no assurance that the Bureau will not propose and enact rules or regulations that would have a material adverse effect on the Company's operations and financial performance. For fiscal 2012, approximately 46% of the Company's total revenue was generated from U.S.-based pawn and consumer credit products.

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

In connection with credit services/consumer loan transactions, the Company must comply with the various disclosure requirements under the Federal Truth in Lending Act (and Federal Reserve Regulation Z under that Act). These

disclosures include, among other things, the total amount of the finance charges and annualized percentage rate of the finance charges associated with consumer loan and credit services transactions.

The credit services/consumer loan business is also subject to various laws, rules and guidelines relating to the procedures and disclosures needed for debiting a debtor's checking account for amounts due via an ACH transaction. Additionally, the Company uses the Federal Fair Debt Collection Practices Act ("FDCPA") as a guide to operating its collection activities and complies with all applicable state collection practices laws. Furthermore, with respect to online consumer loans, the Company is subject to various state and federal e-signature rules mandating that certain disclosures be made and certain steps be followed in order to obtain and authenticate e-signatures. In addition, some states restrict the advertising content of marketing materials with respect to consumer loans.

Under the Bank Secrecy Act, the U.S. Department of the Treasury (the "Treasury Department") regulates transactions involving currency in an amount greater than \$10,000 and the purchase of monetary instruments for cash in amounts from \$3,000 to \$10,000 must be recorded. In general, every financial institution, including the Company, must report each deposit, withdrawal, exchange

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of currency or other payment or transfer, whether by, through or to the financial institution, that involves currency in an amount greater than \$10,000. In addition, multiple currency transactions must be treated as single transactions if the financial institution has knowledge that the transactions are by, or on behalf of, any one person and result in either cash in or cash out totaling more than \$10,000 during any one business day.

The Money Laundering Suppression Act of 1994 added a section to the Bank Secrecy Act requiring the registration of “money services businesses,” like the Company, that engage in check cashing, currency exchange, money transmission, or the issuance or redemption of money orders, traveler's checks, and similar instruments. The purpose of the registration is to enable governmental authorities to better enforce laws prohibiting money laundering and other illegal activities. The regulations require money services businesses to register with the Treasury Department by filing a form, adopted by the Financial Crimes Enforcement Network of the Treasury Department (“FinCEN”), and to re-register at least every two years thereafter. The regulations also require that a money services business maintain a list of names and addresses of, and other information about, its agents and that the list be made available to any requesting law enforcement agency (through FinCEN). The agent list must be updated annually.

In March 2000, FinCEN adopted additional regulations, implementing the Bank Secrecy Act that also addresses money services businesses. These regulations require money services businesses, such as the Company, to report suspicious transactions involving at least \$2,000 to FinCEN. The regulations generally describe three classes of reportable suspicious transactions - one or more related transactions that the money services business knows, suspects, or has reason to suspect (1) involve funds derived from illegal activity or are intended to hide or disguise such funds; (2) are designed to evade the requirements of the Bank Secrecy Act; or (3) appear to serve no business or lawful purpose.

Under the USA PATRIOT Act passed by Congress in 2001 and revised in 2006, the Company is required to maintain an anti-money laundering compliance program. The program must include (1) the development of internal policies, procedures and controls; (2) the designation of a compliance officer; (3) an ongoing employee-training program; and (4) an independent audit function to test the program.

The Gramm-Leach-Bliley Act requires the Company to generally protect the confidentiality of its customers' nonpublic personal information and to disclose to its customers its privacy policy and practices, including those regarding sharing the customers' nonpublic personal information with third parties. Such disclosure must be made to customers at the time the customer relationship is established, at least annually thereafter, and if there is a change in the Company's privacy policy. In addition, the Company adheres to strict document retention and destruction policies.

The federal Equal Credit Opportunity Act (“ECOA”) prohibits discrimination against any credit applicant on the basis of any protected category, such as race, color, religion, national origin, sex, marital status, or age, and requires the Company to notify credit applicants of any action taken on the individual's credit application. The Company must provide a loan applicant a Notice of Adverse Action (“NOAA”) when the Company denies an application for credit. The NOAA must inform the applicant of (1) the action taken regarding the credit application; (2) a statement of the ECOA's prohibition on discrimination; (3) the name and address of both the creditor and the federal agency that monitors compliance with the ECOA; and (4) the applicant's right to learn the specific reasons for the denial of credit and the contact information for the parties the applicant can contact to obtain those reasons. The Company provides NOAA letters and maintains records of all such letters as required by the ECOA and its regulations.

The Fair Credit Reporting Act requires the Company to provide certain information to customers whose credit applications are not approved on the basis of a report obtained from a consumer reporting agency and to respond to consumers who inquire regarding any adverse reporting submitted by the Company to the consumer reporting agencies.

The federal Fair and Accurate Credit Transactions Act (“FACTA”) requires the Company to adopt written guidance and procedures for detecting, preventing, and responding appropriately to mitigate identity theft and to adopt various coworker policies, procedures, and provide coworker training and materials that address the importance of protecting nonpublic personal information and aid the Company in detecting and responding to suspicious activity, including suspicious activity which may suggest a possible identity theft red flag, as appropriate.

The Company is subject to the Foreign Corrupt Practice Act (“FCPA”) and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers as defined by the statute for the purpose of obtaining or retaining business. It is the Company's policy to implement and maintain safeguards to discourage these practices by its employees and follow Company standards of conduct for its business throughout the U.S. and Mexico, including the prohibition of any direct or indirect payment or transfer of Company funds or assets to suppliers, vendors, or government officials in the form of bribes, kickbacks or other payoffs.

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Each pawn lending location that handles firearms must comply with the Brady Handgun Violence Prevention Act (the “Brady Act”). The Brady Act requires that federally licensed firearms dealers conduct a background check in connection with any disposition of handguns. In addition, the Company must comply with the regulations of the U.S. Department of Justice-Bureau of Alcohol, Tobacco and Firearms that require each pawn lending location dealing in guns to maintain a permanent written record of all receipts and dispositions of firearms. As of December 31, 2012, the Company had 44 locations in the U.S. which handle firearms.

U.S. State and Local Regulations

The Company operates pawn stores in twelve U.S. states, all of which have licensing and/or fee regulations on pawnshop operations, which include Texas, Indiana, Oklahoma, Maryland, Virginia, South Carolina, Washington, D.C., Colorado, Kentucky, Nebraska, Wyoming and Missouri. The Company is licensed in each of the states in which a license is currently required for it to operate as a pawnbroker. Certain jurisdictions restrict or prohibit the Company from transferring and/or relocating its pawn licenses and restricts or prohibits the issuance of new licenses. The Company's fee structures are at or below the applicable rate ceilings adopted by each of these states. In addition, the Company is in compliance with the net asset requirements in states where it is required to maintain certain levels of liquid assets for each pawn store it operates in the applicable state.

Under some county and municipal ordinances, pawn stores must provide local law enforcement agencies with reports of all daily transactions involving pawns and over-the-counter merchandise purchases. These daily transaction reports are designed to provide local law enforcement officials with a detailed description of the merchandise involved, including serial numbers, if any, and the name and address of the owner obtained from a valid identification card. Goods held to secure pawns or goods purchased that are determined to belong to an owner other than the borrower or seller are subject to recovery by the rightful owners. Historically, the Company has not found the volume of the claims to have a materially adverse effect upon results of operations. The Company does not maintain insurance to cover the costs of returning merchandise to its rightful owners.

The Company offers a credit services product in the state of Texas. In Texas, First Cash Credit, Ltd., a wholly-owned subsidiary of the Company, operates as a registered credit services organization as provided under Section 393 of the Texas Finance Code. As a credit services organization, First Cash Credit, Ltd. assists customers, for a fee, in obtaining a short-term extension of credit from an independent lender. A credit services organization must provide the consumer with a disclosure statement and a credit services agreement that describe in detail, among other things, the services the credit services organization will provide to the consumer, the fees the consumer will be charged by the credit services organization for these services, the details of the surety bond and the availability of the surety bond if the consumer believes the credit services organization has violated the law, the consumer's right to review his or her file, the procedures a consumer may follow to dispute information contained in his or her file, and the availability of non-profit credit counseling services. The credit services organization must also give a consumer the right to cancel the credit services agreement without penalty within three days after the agreement is signed. In addition, under the provisions of the credit services statute, each First Cash Credit, Ltd. credit services location must be registered as a credit services organization and pay a registration fee. In May of 2011, legislation in the State of Texas was enacted to further regulate credit services businesses in the state, which includes the Company's CSO Program. The 2011 law creates an expanded regulatory framework under which Credit Access Businesses (“CAB”) may provide credit services products. The regulations provide that CAB be licensed, regulated and audited by the State's Office of the Consumer Credit Commissioner. The law also provides for enhanced disclosures to customers regarding credit services products.

Local ordinances increasing the regulation of credit services products offered in the Texas cities of Austin and Dallas became effective in May and June of 2012, respectively. Among other things, these new city ordinances limit the amount of credit extended under a credit services transaction based on the customer's gross income, limit the number of refinancing, renewal or installment payments and provide for mandatory reductions of principal with each

refinancing, renewal or installment payment. As a result of the ordinances, the Company experienced a significant reduction of credit services transaction volumes beginning in the third quarter of 2012. As described in Note 5 to the Consolidated Financial Statements included herein, the Company elected to discontinue operations at seven consumer loan stores in these markets. Similar ordinances were recently enacted in the Texas cities of San Antonio and El Paso to become effective in 2013. The Company currently has nine consumer loan stores located in San Antonio which generated approximately \$1,900,000 in net revenue from credit services for the twelve months ended December 31, 2012, and seven pawn stores located in El Paso, which generated approximately \$555,000 in net revenue from credit services over the same period. The Company has not made a determination regarding the expected impact on operations or profitability of these stores when the San Antonio and El Paso ordinances become fully effective in 2013.

Legislation relating to pawn loans, credit services, installment loans and other consumer loan products has been either proposed, is still pending or has been recently enacted in several state legislatures, including jurisdictions in Texas, where the Company has pawn and credit services operations. In general, such legislation lowers the maximum allowable interest rates on loans and/or significantly restricts the ability of customers to obtain such loans by limiting the maximum number of consecutive loan transactions

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that may be provided to a customer and/or limiting the total loans a customer may have outstanding at any point in time. Any or all of these changes could make offering these products less profitable and could restrict or even eliminate the availability of consumer loan, pawn loan and credit services products in some or all of the states in which the Company offers such products.

Many local government entities also prohibit or restrict pawn and other consumer finance and check cashing activities through zoning ordinances. Such ordinances can significantly prohibit the ability of the Company to move, expand, remodel or relocate store locations, and in some cases cause existing stores to be closed. In some jurisdictions, check cashing companies or money transmission agents are required to meet minimum bonding or capital requirements and are subject to record-keeping requirements.

The Company cannot currently assess the likelihood of any other proposed legislation or regulations, such as described above, which could be enacted; however, if such legislation or regulations were enacted in certain jurisdictions, it could have a materially adverse impact on the revenue and profitability of the Company.

Mexico Regulations

The pawnshop and consumer finance industries in Mexico are subject to various general business regulations in the areas of tax compliance, customs, consumer protections, public safety and employment matters, among others, by various federal, state and local governmental agencies. In addition, federal law in Mexico provides for administrative regulation of the pawnshop industry by Federal Consumer Protection Bureau ("PROFECO"), the federal consumer protection agency. The Company's pawn and consumer lending operations in Mexico are also subject to federal regulations which require the Company to register its operations and loan contracts and provides that the Company disclose the interest rate and fees charged on pawn and consumer loan transactions. Certain state and local governmental entities in Mexico also regulate pawn and other consumer finance and retail operations through state laws and local zoning and permitting ordinances. These agencies often have authority to suspend store operations pending resolution of actual or alleged regulatory and licensing/permitting issues.

PROFECO regulates the form and terms of pawn loan contracts and defines certain operating standards and procedures for pawnshops, including the retail operations. In January 2013, federal legislation in Mexico was signed into law which conveys additional regulatory authority to PROFECO regarding the pawn industry. The new legislation requires all pawn businesses to register with and be approved by PROFECO in order to legally operate. In addition, all operators must comply with additional customer notice and disclosure provisions, bonding requirements to insure against loss or insolvency and reporting of certain types of suspicious transactions. There are significant fines and sanctions for failure to comply with the new regulations. The Company believes that it already complies with many of the requirements under the new legislation and does not believe they will have a significant impact on its operations or profitability. In fiscal 2012, approximately 54% of the Company's revenue was derived from its Mexican operations.

Employees

The Company had approximately 6,400 employees as of February 18, 2013, including approximately 500 persons employed in executive, administrative and accounting functions. In addition, Cash & Go, Ltd. had approximately 75 employees as of February 18, 2013. None of the Company's employees are covered by collective bargaining agreements. The Company considers its employee relations to be satisfactory.

First Cash Website

The Company's primary website is at www.firstcash.com. The Company makes available, free of charge, at its corporate website, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after they are electronically filed with the SEC. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

Insurance

The Company maintains property all-risk coverage and liability insurance for each of its locations in amounts management believes to be adequate. The Company maintains workers' compensation insurance in Maryland, Missouri, Virginia, South Carolina, Washington, D.C., Oklahoma, Indiana, Arkansas, Wyoming, Nebraska and Colorado, as well as excess employer's indemnification insurance in Texas. The Company is a non-subscriber under the Texas Workers' Compensation Act.

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Item 1A. Risk Factors

Important risk factors that could cause results or events to differ from current expectations are described below. These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect the operations, performance, development and results of the Company's business.

Both pawn and other consumer loan products continue to come under increased regulation and scrutiny. If changes in regulations affecting the Company's pawn, credit services and consumer loan businesses create increased restrictions, or have the effect of prohibiting loans in the countries and states where the Company offers these products, such regulations could materially impair or reduce the Company's pawn, credit services and consumer loan businesses and limit its expansion into new markets. The Company's products and services are subject to extensive regulation and supervision under various federal, state and local laws, ordinances and regulations in both the United States and Mexico. The Company faces the risk that restrictions or limitations on loan products, loan amounts, loan yields and customer acceptance of loan products resulting from the enactment, change, or interpretation of laws and regulations in the United States or Mexico could have a negative effect on the Company's business activities. Both pawn and consumer loans have come under increased scrutiny and increasingly restrictive regulation in recent years. Other enacted or recently proposed regulatory activity may limit the number of loans that customers may receive or have outstanding, and regulations adopted by some states require that all borrowers of certain loan products be listed on a database, limit the yield on pawn or consumer loans and limit the number of such loans borrowers may have outstanding. Certain consumer advocacy groups and federal and state legislators have also asserted that laws and regulations should be tightened so as to severely limit, if not eliminate, the availability of pawn loans, consumer loans and credit services products to consumers, despite the significant demand for such products. In Mexico, similar restrictions and regulations affecting the pawn and consumer loan industries, including licensing restrictions, disclosure requirements and limits on interest rates and/or loan service fees, have been and continue to be proposed from time to time. Adoption of such federal, state or local regulation or legislation in the United States and Mexico could restrict, or even eliminate, the availability of specialty consumer finance products at some or all of the Company's locations, which would adversely affect the Company's operations and financial condition. A more detailed discussion of the regulatory environment and current developments and risks to the Company is provided in Part I, Item 1.

Media reports and public perception of consumer loans, such as payday advances or pawn loans, as being predatory or abusive could materially adversely affect the Company's consumer loan, credit services and pawn businesses. In recent years, consumer advocacy groups and some media reports, in both the United States and Mexico, have advocated governmental action to prohibit or place severe restrictions on consumer loans. The consumer advocacy groups and media reports generally focus on the cost to a consumer for this type of loan, which is higher than the interest typically charged by banks to consumers with better credit histories. Though the consumer advocacy groups and media reports do not discuss the lack of viable alternatives for the Company's customers' borrowing needs, they do typically characterize pawn and/or consumer loans as predatory or abusive despite the large customer demand for payday advances or pawn loans. If the negative characterization of these types of loans becomes increasingly accepted by consumers, demand for consumer loan products could significantly decrease, which could materially affect the Company's results of operations and financial condition. Additionally, if the negative characterization of these types of loans becomes increasingly accepted by legislators and regulators, the Company could become subject to more restrictive laws and regulations that could have a materially adverse effect on the Company's financial condition and results of operations.

The Consumer Financial Protection Bureau that was created by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 has announced the commencement of regulatory, supervisory and enforcement powers over non-bank providers of consumer credit such as the Company. The U.S. Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), and Title X of the Dodd-Frank Act created the

Consumer Financial Protection Bureau (the “CFPB”). The CFPB became operational in certain respects in July 2011, although it did not have the ability to oversee and exercise its full authority over non-depository institutions and implement related rules until a permanent director was installed. On January 4, 2012, President Obama appointed a Director of the CFPB in a recess appointment bypassing Senate confirmation. Although there remain doubts about the legality of this appointment and the appointment may be subject to legal challenge, the CFPB has announced that it will now exercise full regulatory, supervisory and enforcement powers over certain non-bank providers of consumer financial products and services such as the Company.

The CFPB's powers include explicit supervisory authority to examine and require registration of such providers of consumer financial products and services, including providers of consumer loans such as the Company; the authority to adopt rules describing specified acts and practices as being “unfair,” “deceptive” or “abusive,” and hence unlawful; and the authority to impose recordkeeping obligations. The Company does not currently know the nature and extent of the rules the CFPB will consider for consumer loan products and services such as those offered by the Company or the timeframe in which the CFPB may consider such rules.

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The CFPB has indicated that it intends to systematically gather data to obtain a complete picture of the consumer loan market and its impact on consumers, and the CFPB has also released its Short-Term, Small-Dollar Lending Procedures, which is the field guide CFPB examiners will use when examining small-dollar lenders such as the Company. The CFPB's examination authority permits CFPB examiners to inspect the Company's books and records and ask questions about its business, and the examination procedures include specific modules for examining marketing activities, loan application and origination activities, payment processing activities and sustained use by consumers, collections, defaults and consumer reporting and third-party relationships. Although the CFPB does not have the authority to regulate fees or interest rates, it is possible that at some time in the future the CFPB could propose and adopt rules making short-term consumer lending products and services materially less profitable or even impractical to offer, which could force the Company to modify or terminate certain of its product offerings in the United States. The CFPB could also adopt rules imposing new and potentially burdensome requirements and limitations with respect to other consumer loan products and services. Any such rules could have a material adverse effect on the Company's business, results of operations and financial condition or could make the continuance of all or part of the Company's current U.S. business impractical or unprofitable.

In addition to the Dodd-Frank Act's grant of regulatory and supervisory powers to the CFPB, the Dodd-Frank Act gives the CFPB authority to pursue administrative proceedings or litigation for violations of federal consumer financial laws (including the CFPB's own rules). In these proceedings, the CFPB can obtain cease and desist orders (which can include orders for restitution or rescission of contracts, as well as other kinds of affirmative relief) and monetary penalties ranging from \$5,000 per day for ordinary violations of federal consumer financial laws to \$25,000 per day for reckless violations and \$1 million per day for knowing violations. Also, where a company has violated Title X of the Dodd-Frank Act or CFPB regulations implemented under Title X of the Dodd-Frank Act, the Dodd-Frank Act empowers state attorneys general and state regulators to bring civil actions for the kind of cease and desist orders available to the CFPB. If the CFPB or one or more state officials believe that the Company has violated any of the applicable laws or regulations, they could exercise their enforcement powers in ways that could have a material adverse effect on the Company or its business.

Adverse gold market fluctuations could negatively affect the Company's profits. Approximately 43% of the Company's pawn loans are collateralized with gold jewelry and the Company sells significant quantities of gold acquired through collateral forfeitures or direct purchases from customers. In addition to normal market risks associated with accepting gold as loan collateral and buying and selling gold, the global economic crisis has increased the volatility of commodity markets such as those for gold and other precious metals. A significant and sustained decline in gold and/or precious metal prices could result in decreased merchandise sales and related margins, decreased inventory valuations and sub-standard collateralization of outstanding pawn loans. In addition, a significant decline in market prices could result in a lower balance of pawn loans outstanding for the Company, as customers would receive lower loan amounts for individual pieces of jewelry.

Risks and uncertainties related to the Company's foreign operations could negatively impact the Company's operating results. The Company currently has approximately 553 store locations in Mexico, a country in which there are potential risks related to geo-political events, political instability, corruption, economic volatility, drug cartel and gang-related violence, social and ethnic unrest, enforcement of property rights, governmental regulations, public safety and security among others. As in many developing markets, there are also uncertainties as to how both local law and U.S. federal law is applied, including areas most relevant to commercial transactions and foreign investment. As a result, actions or events could occur in Mexico, which are beyond the Company's control, which could restrict or eliminate the Company's ability to operate some or all of its locations in Mexico or significantly reduce customer traffic, product demand and the expected profitability of such operations.

The Company's allowance for credit losses for credit services and consumer loans may not be sufficient to cover actual credit losses which could adversely affect its financial condition and operating results. Under the CSO

Program, the Company issues the Independent Lender a letter of credit to guarantee the repayment of the customer's extension of credit. The Company is required to recognize a liability for the fair value of the obligation undertaken by issuing the letters of credit. The Company records the estimated fair value of the liability under the letters of credit in accrued liabilities. The Company also has customer loans arising from its consumer loan operations. The Company has to recognize losses resulting from the inability of credit services and consumer loan customers and/or borrowers to repay such receivables or loans. The Company maintains an allowance for credit losses in an attempt to cover credit losses inherent in its consumer loan operations. Additional credit losses will likely occur in the future and may occur at a rate greater than the Company has experienced to date. The allowance for credit losses is based primarily upon historical credit loss experience, with consideration given to delinquency levels, collateral values, economic conditions, and underwriting and collection practices. This evaluation is inherently subjective, as it requires estimates of material factors that may be susceptible to significant change. If the Company's assumptions and judgments prove to be incorrect, its current allowance may not be sufficient and adjustments may be necessary to allow for different economic conditions or adverse developments in its loan portfolio.

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The failure of third-parties who provide products, services or support to the Company to maintain their products, services or support could disrupt Company operations or result in a loss of revenue. The Company's credit services operations depend, in part, on the willingness and ability of an unaffiliated third-party lender to make extensions of credit to its customers. The loss of the relationship with this lender, and an inability to replace it with a new lender or lenders, or the failure of the lender to fund new extensions of credit and to maintain volumes, quality and consistency in its loan programs could cause the Company to lose customers and substantially decrease the revenue and earnings of the Company's credit services business. In addition, the Company's lending and retail operations are dependent upon the Company's ability to maintain retail banking relationships with commercial banks. The Company also relies significantly on outside vendors to provide services such as utilities, store security, armored transport, data and voice networks, and other information technology products and services.

The Company's growth is subject to external factors and other circumstances over which the Company has limited control or that are beyond the Company's control. These factors and circumstances could adversely affect the Company's ability to grow through the opening of new store locations. The success of this strategy is subject to numerous external factors, such as the availability of sites with favorable customer demographics, limited competition, acceptable regulatory restrictions and suitable lease terms, the Company's ability to attract, train and retain qualified unit associates and management personnel and the ability to obtain required government permits and licenses. Some of these factors are beyond the Company's control. The failure to execute this expansion strategy would adversely affect the Company's ability to expand its business and could materially adversely affect its business, prospects, results of operations and financial condition.

Increased competition from banks, savings and loans, internet-based lenders, other short-term consumer lenders, and other entities offering similar financial services, as well as retail businesses that offer products and services offered by the Company, could adversely affect the Company's results of operations. The Company has many competitors to its core lending and merchandise sales operations. The Company's principal competitors are other pawnshops, consumer loan companies, internet-based lenders, consumer finance companies, rent-to-own stores, retail finance programs and other financial institutions that serve the Company's primary customer base. Many other financial institutions or other businesses that do not now offer products or services directed toward the Company's traditional customer base, many of whom may be much larger than the Company, could begin doing so. Significant increases in the number and size of competitors for the Company's business could result in a decrease in the number of consumer loans or pawn loans that the Company writes, resulting in lower levels of revenue and earnings in these categories. Furthermore, the Company has many competitors to its retail operations, such as retailers of new merchandise, retailers of pre-owned merchandise, other pawnshops, thrift shops, online retailers, online classified advertising sites and online auction sites. Increased competition or aggressive marketing and pricing practices by these competitors could result in decreased revenue, margins and turnover rates in the Company's retail operations. In Mexico, the Company competes directly with certain pawn stores owned by government sponsored non-profit foundations. The government could take actions that would harm the Company's ability to compete in the Mexico market. In addition, the Company's two largest U.S.-based pawn competitors, both of whom are larger than the Company, have launched significant acquisition and expansion programs in Mexico.

A sustained deterioration of economic conditions or an economic crisis could reduce demand or profitability for the Company's products and services and increase credit losses which would result in reduced earnings. In addition, business and financial results may be adversely impacted by unfavorable economic conditions associated with a global or regional economic crisis which include adverse changes in interest or tax rates, effects of government initiatives to manage economic conditions and increased volatility of commodity markets and foreign currency exchange rates. Specifically, a rapid or sustained deterioration in the economy could cause deterioration in the performance of the Company's loan portfolios and in consumer or market demand for pre-owned merchandise or gold such as that sold in the Company's pawnshops. While the credit risk for much of the Company's pawn lending is mitigated by the collateralized nature of pawn lending, a sustained deterioration in the economy could reduce the demand and resale

value of pre-owned merchandise and reduce the amount that the Company could effectively lend on an item of collateral. Such reductions could adversely affect pawn loan balances, pawn loan redemption rates, inventory balances, inventory mixes, sales volumes and gross profit margins. An economic slowdown could result in a decrease in loan demand and an increase in loan defaults on consumer loan and credit services products. During such a slowdown, the Company could be required to tighten its underwriting standards, which would reduce consumer loan balances and related revenue and credit services fees, and could face more difficulty in collecting defaulted consumer loans, which could lead to an increase in loan losses. As consumer loans and credit services customers generally have to be employed to qualify for a loan or extension of credit, an increase in the unemployment rate would reduce the number of potential customers.

The Company's financial position and results of operations may fluctuate significantly due to fluctuations in currency exchange rates in Mexico. During the global economic crisis of 2008 and the continued aftermath, the volatility of the exchange rate of the Mexican peso to the U.S. dollar has increased significantly. The Company derives significant revenue, earnings and cash flow from operations in Mexico. The Company's exposure to currency exchange rate fluctuations results primarily from the translation exposure associated with the preparation of the Consolidated Financial Statements, as well as from transaction exposure associated with transactions in currencies other than an entity's functional currency. While the Consolidated Financial Statements

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are reported in U.S. dollars, the financial statements of the Company's Mexican subsidiaries are prepared using the Mexican peso as the functional currency and translated into U.S. dollars by applying appropriate exchange rates. As a result, fluctuations in the exchange rate of the U.S. dollar relative to the Mexican peso could cause significant fluctuations in the Company's results. In addition, while expenses with respect to foreign operations are generally denominated in the same currency as corresponding sales, the Company has transaction exposure to the extent receipts and expenditures are not offsetting in the subsidiary's functional currency. In addition, changes in currency rates could negatively affect customer demand, especially in Mexico and in U.S. stores located along the Mexican border. In addition, the Company's Mexican-based subsidiaries experience foreign currency exposure to the extent monetary assets and liabilities, including debt, are in U.S. dollars, rather than the subsidiaries' functional currency, which is the Mexican peso. Moreover, the costs of doing business abroad may increase as a result of adverse exchange rate fluctuations.

A decreased demand for the Company's products and services and failure of the Company to adapt to such decreases could adversely affect results. Although the Company's products and services are a staple of its customer base, the demand for a particular product or service may decrease due to a variety of factors, such as the availability of competing products, changes in customers' financial conditions, or regulatory restrictions that increase or reduce customer access to particular products. Should the Company fail to adapt to a significant change in its customers' demand for, or regulatory access to, its products, the Company's revenue could decrease significantly. Even if the Company does make adaptations, customers may resist or may reject products whose adaptations make them less attractive or less available. In any event, the effect of any product change on the results of the Company's business may not be fully ascertainable until the change has been in effect for some time. In particular, the Company has changed, and will continue to change, some of the consumer loan products and services it offers due to regulatory developments. Demand may also fluctuate by geographic region. The current geographic concentration of the Company's stores creates exposure to local economies and regional downturns. As of December 31, 2012, the Company had store concentration in Mexico, Texas, Colorado and Maryland. As a result, the business is currently more susceptible to regional conditions than the operations of more geographically diversified competitors, and the Company is vulnerable to economic downturns in those regions. Any unforeseen events or circumstances that negatively affect these areas could materially adversely affect the Company's revenues and profitability.

Changes in the capital markets or the Company's financial condition could reduce available capital. The Company currently has \$97,500,000 outstanding on its bank line of credit, which matures in February 2015. The Company has, in the past, accessed the debt capital markets to refinance existing debt obligations and to obtain capital to finance growth. Efficient access to these markets is critical to the Company's ongoing financial success; however, the Company's future access to the debt capital markets could become restricted due to a variety of factors, including a deterioration of the Company's earnings, cash flows, balance sheet quality, regulatory restrictions or overall business or industry prospects, a significant deterioration in the state of the capital markets or a negative bias toward the Company's industry by market participants. Inability to access the credit markets on acceptable terms, if at all, would have a materially adverse effect on the Company's financial condition.

The terms of the Company's revolving bank line of credit impose financial and operating restrictions on the Company. The Company's bank line of credit contains a number of customary negative covenants and requires the Company to maintain certain financial ratios. The covenants and restrictions contained in the credit facility could limit the Company's ability to fund future operations, make capital expenditures, make acquisitions, or other investments in the future. Any failure to comply with any of these financial and other affirmative and negative covenants would constitute an event of default under our credit facility, entitling the lenders to, among other things, terminate future credit availability, increase the interest rate on outstanding debt, and/or accelerate the maturity of outstanding obligations under the credit facility. Any such default could materially adversely affect the Company's business, prospects, results of operations and financial condition and could impair the Company's ability to continue current operations.

Failure to satisfy the Company's debt obligations could have a material adverse effect on the Company's business. At December 31, 2012, the Company had \$102,500,000 outstanding on its bank line of credit. At December 31, 2012, the Company had notes payable to individuals arising from a 16-store pawn acquisition in September 2012, with a remaining balance of \$8,114,000 bearing interest at 4.0% per annum. Additionally, as of December 31, 2012, the Company had a note payable arising from a 29-store pawn acquisition in January 2012, with a remaining balance of \$3,449,000 bearing interest at 3.0% per annum. If the Company is unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments on these debt obligations or if it is in breach of the covenants contained in the debt agreements, it would default under the terms of the applicable agreement or indenture. Any such default could result in an acceleration of the repayment obligations to such lenders as well as the lenders under any of its other debt agreements under applicable cross default provisions. Any such default could materially adversely affect the Company's business, prospects, results of operations and financial condition and could impair the Company's ability to continue current operations.

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The Company's business depends on the uninterrupted operation of the Company's facilities, systems and business functions, including its information technology and other business systems. The Company's business depends highly upon its employees' ability to perform, in an efficient and uninterrupted fashion, necessary business functions such as internet support, call centers, and processing and making cash advances. Additionally, the Company's storefront operations depend on the efficiency and reliability of the Company's point-of-sale system. A shut-down of or inability to access the facilities in which the Company's online operations, storefront point-of-sale system and other technology infrastructure are based, such as a power outage, a security breach, a failure of one or more of its information technology, telecommunications or other systems, or sustained or repeated disruptions of such systems could significantly impair its ability to perform such functions on a timely basis and could result in a deterioration of the Company's ability to perform efficient storefront lending and merchandise disposition activities, provide customer service, perform collections activities, or perform other necessary business functions.

Security breaches, cyber attacks or fraudulent activity could result in damage to the Company's operations or lead to reputational damage. A security breach of the Company's computer systems could also interrupt or damage its operations or harm its reputation. In addition, the Company could be subject to liability if confidential customer information is misappropriated from its computer systems. Despite the implementation of significant security measures, these systems may still be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. Any compromise of security could deter people from entering into transactions that involve transmitting confidential information to the Company's systems, which could have a materially adverse effect on the Company's business.

The Company depends on cash management services from banks to operate its business. If banks decide to stop providing cash management services to the Company, it could have a material adverse effect on its business, results of operations and financial condition. The Company maintains deposit accounts with third-party banks, which also provide treasury management services. Certain banks have publicly stated that they will no longer maintain bank accounts for certain companies in money services businesses and other cash intensive industries due to reputational risks and increased compliance costs. While none of the Company's primary depository banks have requested that the Company close its bank accounts or placed other restrictions on how the Company uses their services, if any of its larger current or future depository banks were to take such actions, the Company could face higher costs of managing its cash and limitations on its ability to grow its business, both of which could have a material adverse effect on its business, results of operations and financial condition.

The Company is subject to goodwill impairment risk. At December 31, 2012, the Company had goodwill on its consolidated balance sheet, all of which represents assets capitalized in connection with the Company's acquisitions and business combinations. Accounting for goodwill requires significant management estimates and judgment. Management performs periodic reviews of the carrying values of goodwill to determine whether events and circumstances indicate that an impairment in value may have occurred. A variety of factors could cause the carrying value of goodwill to become impaired. Should a review indicate impairment, a write-down of the carrying value of goodwill would occur, resulting in a non-cash charge, which could have an adverse effect on the Company's results of operations.

The Company depends on its senior management and may not be able to retain those employees or recruit additional qualified personnel. The Company depends on its senior management. The loss of services of any of the members of the Company's senior management could adversely affect the Company's business until a suitable replacement can be found. There may be a limited number of persons with the requisite skills to serve in these positions, and the Company cannot ensure that it would be able to identify or employ such qualified personnel on acceptable terms.

The inability to successfully integrate acquisitions could adversely affect results. The Company has historically grown, in part, through strategic acquisitions, including the acquisition of 75 stores during 2012. The Company's

strategy is to continue to pursue attractive acquisition opportunities if and when they become available. The success of an acquisition is subject to numerous internal and external factors, such as the ability to consolidate data processing and accounting functions, the management of additional sales, administrative, operations and management personnel, overall management of a larger organization, competitive market forces, and general economic factors. Failure to successfully integrate an acquisition would have an adverse effect on the Company's business, results of operations and financial condition. Additionally, any acquisition has the risk that the Company may not realize a return on the acquisition or the Company's investment.

Current and future litigation or regulatory proceedings could have a material adverse effect on the Company's business, prospects, results of operations and financial condition. The Company has been subject to lawsuits that could cause it to incur substantial expenditures and generate adverse publicity. The Company is also likely to be subject to further litigation in the future (including class actions). The consequences of an adverse ruling in any current or future litigation could cause the Company to have to refund fees and/or interest collected, refund the principal amount of advances, pay treble or other multiple damages, pay monetary penalties and/or modify or terminate the Company's operations in particular states. Defense of any lawsuit, even if successful, could require substantial time and attention of the Company's management and could require the expenditure of

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significant amounts for legal fees and other related costs. Settlement of lawsuits may also result in significant payments and modifications to the Company's operations. The Company is also subject to regulatory proceedings, and the Company could suffer losses from interpretations of state laws in those regulatory proceedings, even if it is not a party to those proceedings. Any of these events could have a material adverse effect on the Company's business, prospects, results of operations and financial condition and could impair the Company's ability to continue current operations.

Adverse real estate market fluctuations and/or the inability to renew and extend store operating leases could affect the Company's profits. The Company leases most of its locations. A significant rise in real estate prices or real property taxes could result in an increase in store lease costs as the Company opens new locations and renews leases for existing locations, thereby negatively impacting the Company's results of operations. The Company also holds certain developed and undeveloped real estate which could be impacted by adverse market fluctuations. In addition, the inability of the Company to renew, extend or replace expiring store leases could have an adverse effect on the Company's results of operations.

Inclement weather or natural disasters can adversely impact the Company's operating results. The occurrence of weather events such as rain, cold weather, snow, wind, storms, hurricanes, or other natural disasters adversely affecting consumer traffic and collection activities at the Company's stores could have an adverse effect on the Company's results of operations. In addition, the Company may incur property, casualty or other losses not covered by insurance. The Company maintains a program of insurance coverage for various types of property, casualty and other risks. The types and amounts of insurance that the Company obtains vary from time to time, depending on availability, cost and management's decisions with respect to risk retention. The policies are subject to deductibles and exclusions that result in the Company's retention of a level of risk on a self-insurance basis. Losses not covered by insurance could be substantial and may increase the Company's expenses, which could harm the Company's results of operations and financial condition.

The Company's business may be impacted by the outbreak of certain public health issues, including epidemics, pandemics and other contagious diseases. In the event of such an outbreak, regulatory and/or public health officials could restrict store operating hours, product offerings and/or the number of customers allowed in a store at one time, which could adversely affect the Company's financial results. In addition, to the extent that the Company's customers become infected by such diseases, or feel uncomfortable visiting public locations due to a perceived risk of exposure to contagious diseases, the Company could experience a reduction in customer traffic, which could have an adverse effect on the Company's results of operations.

If the Company is unable to protect its intellectual property rights, its ability to compete could be negatively impacted. The success of the Company's business depends to a certain extent upon the value associated with its intellectual property rights. The Company owns the trademark "First Cash Financial Services," which is registered in the United States. The Company has also developed a proprietary point of sale system for use in its stores. The Company relies on a combination of copyright, trade secret, trademark, and other rights, as well as confidentiality procedures and contractual provisions to protect its proprietary technology, processes and other intellectual property. While the Company intends to vigorously protect its trademarks against infringement, it may not be successful. In addition, the laws of certain foreign countries may not protect its intellectual property rights to the same extent as the laws of the U.S. The costs required to protect the Company's intellectual property rights and trademarks could be substantial.

Other risk factors are discussed under "Item 7A. Quantitative and Qualitative Disclosures About Market Risk."

Other risks that are indicated in the Company's filings with the Securities and Exchange Commission may apply as well.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company owns the real estate and buildings for 25 of its pawn stores and owns four other parcels of real estate. The Company leases 819 store locations that are currently open or are in the process of opening. Leased facilities are generally leased for a term of three to five years with one or more options to renew. The Company's existing leases expire on dates ranging between 2013 and 2045. All current store leases provide for specified periodic rental payments ranging from approximately \$400 to \$25,000 per month.

The Company currently leases approximately 18,000 square feet of office space in Arlington, Texas for its corporate offices. The lease, which expires May 31, 2015, currently provides for monthly rental payments of approximately \$24,000. The Company leases approximately 21,400 square feet of office space in Monterrey, Mexico for its Mexico administrative offices. The lease,

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which expires May 31, 2014, currently provides for monthly rental payments of approximately \$5,000. The Company also leases approximately 12,000 square feet of office space in Euless, Texas for administrative operations. The lease, which expires February 28, 2018, currently provides for monthly rental payments of approximately \$6,500.

The Company's 50% owned joint venture, Cash & Go, Ltd., leases its kiosk locations under operating leases generally with terms ranging from one to five years, with renewal options for certain locations. The joint venture's existing leases expire on dates ranging between 2013 and 2016. All current Cash & Go, Ltd. leases provide for specified periodic rental payments ranging from approximately \$1,300 to \$2,200 per month.

Most leases require the Company to maintain the property and pay the cost of insurance and property taxes. The Company believes that termination of any particular lease would not have a materially adverse effect on the Company's operations. The Company's strategy is generally to lease, rather than purchase, space for its pawnshop and consumer loan locations, unless the Company finds what it believes is a superior location at an attractive price. The Company believes that the facilities currently owned and leased by it as pawn stores and consumer loan stores are suitable for such purposes. The Company considers its equipment, furniture and fixtures to be in good condition.

Item 3. Legal Proceedings

The Company is from time to time a defendant (actual or threatened) in certain lawsuits and arbitration claims encountered in the ordinary course of its business, the resolution of which, in the opinion of management, should not have a materially adverse effect on the Company's financial position, results of operations, or cash flows.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

General Market Information

The Company's common stock is quoted on the NASDAQ Global Select Market under the symbol "FCFS." The following table sets forth the quarterly high and low sales prices per share for the common stock, as reported by the NASDAQ Global Select Market:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2012				
High	\$47.45	\$43.97	\$47.50	\$49.64
Low	33.27	34.78	38.72	41.17
2011				
High	\$40.13	\$42.75	\$52.18	\$44.94
Low	29.71	35.60	38.16	34.29

On February 18, 2013, there were approximately 49 stockholders of record of the common stock.

No cash dividends have been paid by the Company on its common stock. The dividend and earnings retention policies are reviewed by the Board of Directors of the Company from time to time in light of, among other things, the

Company's earnings, cash flows, and financial position. The Company's revolving credit facility contains provisions that allow the Company to pay cash dividends within certain parameters.

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Recent Issuances of Common Stock

During the period from January 1, 2012, through December 31, 2012, the Company issued 474,077 shares of common stock relating to the exercise of outstanding stock options for an aggregate exercise price of \$10,137,000 (including income tax benefit). During 2012, the Company granted a total of 108,000 nonvested shares of common stock to certain executives of the Company, 31,000 shares of which vested and issued during fiscal 2012. The issuance of these stock options, warrants and nonvested shares to officers and employees was exempt under Section 4(2) of the Act, and all holders had access to and/or reviewed copies of Exchange Act filings. No sales commissions were paid with respect to these issuances.

Issuer Purchases of Equity Securities

In December 2011, the Company's Board of Directors authorized a repurchase program for up to 1,500,000 shares of First Cash's outstanding common stock. During fiscal 2012, the Company repurchased 1,500,000 shares of common stock at an aggregate cost of \$61,275,000 to complete the 2011-authorized program. 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 programs were in effect during fiscal 2012:

	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, 2012	421,837	\$37.55	421,837	1,078,163
February 1 through February 29, 2012	231,167	42.50	231,167	846,996
March 1 through March 31, 2012	309,991	42.22	309,991	537,005
April 1 through April 30, 2012	537,005	41.94	537,005	—
May 1 through May 31, 2012	—	—	—	—
June 1 through June 30, 2012	—	—	—	—
July 1 through July 31, 2012	—	—	—	—
August 1 through August 31, 2012	—	—	—	—
September 1 through September 30, 2012	—	—	—	—
October 1 through October 31, 2012	—	—	—	—
November 1 through November 30, 2012	—	—	—	—