

Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

FIRST CASH FINANCIAL SERVICES INC  
Form 10-K  
March 16, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

(Mark One)

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

For the year ended December 31, 2006, 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)

-----  
(IRS Employer Identification No.)

690 East Lamar Blvd., Suite 400  
Arlington, Texas

76011

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Registrant's telephone number, including area code: (817) 460-3947

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(b) of the Act:  
Common Stock, par value \$.01 per share

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. Large accelerated filer [ ] Accelerated filer [ X ] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  
Yes [ ] No [ X ]

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 National Market on June 30, 2006, the last trading date of registrant's most recently completed second fiscal quarter is \$530,815,000.

As of March 14, 2007, there were 32,187,504, 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 June 12, 2007, is incorporated by reference in Part III, Items 10, 11, 12 and 13.

FIRST CASH FINANCIAL SERVICES, INC.  
FORM 10-K  
For the Year Ended December 31, 2006

### TABLE OF CONTENTS

#### PART I

- Item 1. Business
- Item 1a. Risk Factors
- Item 1b. Unresolved Staff Comments
- Item 2. Properties
- Item 3. Legal Proceedings
- Item 4. Submission of Matters to a Vote of Security Holders

#### PART II

- Item 5. Market for Registrant's Common Equity and Related Stockholder Matters
- Item 6. Selected Financial Data
- Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 7a. Quantitative and Qualitative Disclosures About Market Risk
- Item 8. Financial Statements and Supplementary Data
- Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
- Item 9a. Controls and Procedures
- Item 9b. Other Information

#### PART III

- Item 10. Directors, Executive Officers and Corporate Governance

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

- Item 11. Executive Compensation
- Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
- Item 13. Certain Relationships and Related Transactions, and Director Independence
- Item 14. Principal Accounting Fees and Services

### PART IV

- Item 15. Exhibits and Financial Statement Schedules

### SIGNATURES

#### FORWARD-LOOKING INFORMATION

-----

This annual report may contain forward-looking statements about the business, financial condition and prospects of First Cash Financial Services, Inc. ("First Cash" or the "Company"). Forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, can be identified by the use of forward-looking terminology such as "believes," "projects," "expects," "may," "estimates," "should," "plans," "intends," "could," or "anticipates," or the negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy. Forward-looking statements can also be identified by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Forward-looking statements in this annual report include, without limitation, the Company's expectations of earnings per share, earnings growth, expansion strategies, earnings accretion from acquisitions, store and dealership openings, future liquidity, cash flows, debt levels, assessment of risk factors 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 consumer borrowing and repayment behaviors, changes in credit markets, credit losses, changes or increases in competition, the ability to locate, open and staff new stores and dealerships, the availability or access to sources of inventory, inclement weather, the ability to successfully integrate acquisitions, the ability to retain key management personnel, the ability to operate with limited regulation as a credit services organization in Texas, new legislative initiatives or governmental regulations (or changes to existing laws and regulations) affecting cash advance businesses, credit services organizations, pawn businesses and buy-

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

here/pay-here automotive businesses in both the U.S. and Mexico, unforeseen litigation, changes in interest rates, changes in tax rates or policies, changes in gold prices, changes in energy prices, changes in used-vehicle prices, cost of funds, changes in foreign currency exchange rates, future business decisions, and other uncertainties. These and other risks and uncertainties are further and more completely described in "Item 1a. Risk Factors."

### STOCK SPLIT

-----

In January 2006, the Company's Board of Directors approved a two-for-one stock split in the form of a stock dividend to shareholders of record on February 6, 2006. The additional shares were distributed on February 20, 2006. Common stock and all share and per share amounts (except authorized shares and par value) have been retroactively adjusted to reflect the split.

### PART I

-----

#### Item 1. Business

-----

##### General

First Cash is a leading provider of consumer financial services and related specialty retail products. The Company has over 420 locations in thirteen U.S. states and nine states in Mexico as of March 14, 2007.

The Company's pawn stores engage in both consumer finance and retail sales activities. They are a convenient source for small consumer loans, advancing money against pledged tangible personal property such as jewelry, electronic equipment, tools, sporting goods and musical equipment. The pawn stores also retail previously-owned merchandise acquired through collateral forfeitures and over-the-counter purchases from customers. In addition, many of the Company's pawn stores offer cash advances or a credit services product.

In addition, the Company operates stand-alone cash advance stores in six U.S. states. These stores provide consumer financial services products including cash advances, credit services, check cashing, money orders, money transfers and prepaid card products. The exact product mix varies by location. In addition, the Company is a 50% partner in Cash & Go, Ltd., a Texas limited partnership, which currently owns and operates kiosks located inside convenience stores that offer the credit services program and check cashing.

Through an acquisition completed in August 2006, the Company also operates automobile dealerships focused on the buy-here/pay-here segment of the used-vehicle sales and financing industry. These automotive dealerships sell used vehicles and earn finance charges from the related vehicle financing contracts.

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.

##### Industry

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

Specialty consumer finance continues to represent a growing segment of the overall financial services industry. This segment focuses on providing a quick and convenient source of short-term credit to unbanked, underbanked 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 competes directly in the specialty consumer finance industry with its pawn, cash advance and buy-here/pay-here automotive products and services.

The pawnshop industry in the United States is an established industry, with the highest concentration of pawnshops being in the Southeast 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. Management believes the U.S. pawnshop industry is fragmented, with approximately 15,000 stores in the country. The three major publicly traded pawnshop companies, which include First Cash, currently operate approximately 1,000 of the pawnshops in the United States. The Company believes that individuals operating one to three locations own the majority of pawnshops. Management further believes that the highly fragmented nature of the industry is due in part to the lack of qualified management personnel, the difficulty of developing adequate financial controls and reporting systems, and the lack of financial resources.

The pawnshop industry in Mexico is substantially less developed, as compared to the U.S., with fewer than 5,000 stores in the entire country. Management believes the Mexican pawnshop industry is also fragmented. The Company currently operates over 165 pawnshops in Mexico and is the only major publicly traded U.S. company with significant pawnshop operations in Mexico. A large percentage of the population in Mexico are unbanked or underbanked and have limited access to consumer credit. The Company sees significant opportunity for future expansion in Mexico due to the large potential consumer base and limited competition in that country.

The cash advance industry has experienced significant growth over the past decade in the U.S. A leading industry analyst estimates that there are over 24,000 cash advance locations throughout the United States and expects the number of locations to reach approximately 40,000 over the next decade. There are several privately held chains that operate from 100 to approximately 1,400 stores each. The six largest publicly held operators of cash advance stores, which include First Cash Financial Services, Inc., operate a combined total of over 4,000 stores.

The market for used car sales and related financing in the United States is significant as well. Used car retail sales typically occur through franchised new car dealerships that sell used cars or independent used car dealerships. The Company operates in the buy-here/pay-here segment of the independent used car sales and finance market. Buy-here/pay-here dealers sell and finance used cars to individuals who are unbanked, have limited credit histories or past credit problems. Buy-here/pay-here dealers typically offer their customers certain advantages over more traditional financing sources, such as broader and more flexible underwriting guidelines, flexible payment terms (including scheduling payments on a weekly or bi-weekly basis to coincide with a customer's payday), and the ability to make payments in person, an important feature to individuals who may not have a checking account.

The used automobile financing industry is served by traditional lending sources such as banks, savings and loans, and captive finance subsidiaries of automobile manufacturers, as well as by independent finance companies and buy-here/pay-here dealers. Despite significant opportunities, many of the

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

traditional lending sources do not consistently provide financing to individuals with limited credit histories or past credit problems. Management believes traditional lenders avoid this market because of the credit risk and the associated collection efforts.

### Business Strategy

The Company's primary business plan is to significantly expand its operations by opening new pawnshops, cash advance stores, and buy-here/pay-here automotive dealerships. In addition, it will continue to remain focused on increasing the revenues and operating profits in its existing stores and dealerships.

### New Store Openings

The Company has opened or acquired 162 new pawn stores, 113 new cash advance stores and 10 buy-here/pay-here automotive dealerships in the last six years and currently intends to open additional pawn stores, cash advance stores and buy-here/pay-here automotive dealerships in locations where management believes appropriate demand and other favorable conditions exist. The following chart details store openings over the past six years:

|                                  | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|----------------------------------|------|------|------|------|------|------|
|                                  | ---- | ---- | ---- | ---- | ---- | ---- |
| Pawn stores                      | 27   | 35   | 40   | 31   | 25   | 4    |
| Cash advance stores              | 43   | 15   | 12   | 16   | 13   | 14   |
| Buy-here/pay-here<br>dealerships | 10   | -    | -    | -    | -    | -    |
|                                  | ---- | ---- | ---- | ---- | ---- | ---- |
| Total                            | 80   | 50   | 52   | 47   | 38   | 18   |
|                                  | ==== | ==== | ==== | ==== | ==== | ==== |

The Company plans to continue opening new pawn stores, primarily in Mexico, and new cash advance stores and buy-here/pay-here automotive dealerships in the U.S. The Company continues to evaluate new markets in both Mexico and the U.S. with favorable demographics and regulatory environment for expansion opportunities and it believes that its organizational structure is capable of supporting a larger, multi-country and multi-state store base.

Management seeks to locate new stores and dealerships where demographics are favorable and competition is limited. It is the Company's experience that after a suitable location has been identified and a lease and licenses are obtained, a new store or dealership can be open for business within six to twelve weeks. The investment required to open a new pawn store includes store operating cash, inventory, funds available for pawn loans, leasehold improvements, store fixtures, security systems, computer equipment and start-up losses. Although the total investment varies and is difficult to predict for each location, it has been the Company's experience that approximately \$295,000 is required to fund a new pawn store located in Mexico for the first six months of operation. The Company estimates that approximately \$180,000 is required to fund a new cash advance store for the first six months of operation, which includes investments for leasehold improvements, security and computer equipment, funds available for cash advances, store operating cash, and start-up losses. The Company also estimates that approximately \$3 to \$4 million is required to fund a new buy-here/pay-here dealership for the first six months of operation, which includes investments for leasehold improvements, security and computer equipment, funds available for inventory, store operating cash, and start-up losses.

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

### 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 receivables outstanding, the volume and fees 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 cash advances, credit services, and buy-here/pay-here receivables. To increase customer traffic, which management believes is a key determinant to increasing its stores' profitability, the Company has taken several steps to distinguish its stores from traditional pawn and check cashing/cash advance stores and to make customers feel more comfortable. In addition to well-lit parking facilities, 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 stresses 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 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 with 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 highly fragmented nature of the pawn, cash advance and buy-here/pay-here automotive industries, as well as the availability of certain regional chains, the Company believes that certain 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 annual pawn transactions, outstanding receivable balances, historical redemption rates, the quality and quantity of inventory on hand, and location and condition of the facility, including lease terms. Factors involved in evaluating the acquisition of cash advance stores include the annual volume of transactions, locations and conditions of facilities, and a demographic evaluation of the surrounding area to determine the potential for the Company's cash advance and credit services products. Factors involved in evaluating the acquisition of buy-here/pay-here automotive dealerships include the annual volume of transactions, outstanding receivables balance, the quality and quantity of inventory on hand, locations and conditions of facilities, and a demographic evaluation of the surrounding area to determine the potential for the Company's retail vehicle and related financing products.

### Pawn Lending Activities

The Company's pawn stores advance money to their customers against the security of pledged goods provided by their customers. The pledged goods

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

are tangible personal property such as jewelry, electronic equipment, tools, sporting goods and musical equipment. The pledged goods provide the only security to the Company for the repayment of the pawn, as pawns cannot result in personal liability to the borrower. Accordingly, 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.

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 pawn, which is 30 days in Texas, South Carolina, Missouri, Virginia, and Oklahoma, with an automatic extension period of 15 to 60 days depending on state laws, unless the pawn is paid earlier or renewed. In Maryland, Washington, D.C., and Mexico, pledged property is held for 30 days. In the event the borrower does not pay or renew a pawn within 90 days in South Carolina and Missouri, 60 days in Texas and Oklahoma, 45 days in Virginia, and 30 days in Maryland, Washington, D.C. and Mexico, the unredeemed collateral is forfeited to the Company and becomes inventory available for general liquidation or sale in one of the Company's stores. If a pawn is not repaid prior to the expiration of the automatic extension period, if applicable, the property is forfeited to the Company and transferred to inventory at a value equal to the principal amount of the loan, exclusive of accrued interest.

The amount the Company is willing to finance 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 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. 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. It is the Company's policy to value merchandise on a conservative basis to avoid the risks associated with over-valuation. 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.

The Company contracts for a pawn service charge in lieu of interest to compensate it for the pawn loan. The statutory service fees on pawns at its Texas stores range from 12% to 240% on an annualized basis depending on the size of the pawn, and from 39% to 240% on an annualized basis at the Company's Oklahoma stores. Pawns made in the Maryland stores bear service fees of 144% to 240% on an annualized basis with a \$6 minimum charge per month, while pawns in Virginia earn 120% to 144% annually with a \$5 minimum



## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

charge per month. In Washington, D.C., a flat \$2 charge per month applies to all pawns up to \$40, and an 18% to 60% annualized service charge applies to pawns greater than \$40. In Missouri, pawns bear a total service and storage charge of 180% to 240% on an annualized basis with a \$2.50 minimum charge per month, and South Carolina rates range from 100% to 300%. In Mexico, pawns bear an annualized rate of 240%. As of December 31, 2006, the Company's average pawn per pawn ticket was approximately \$99.

### Cash Advance and Credit Services Activities

The Company's cash advance stores and many of its pawn stores generally make cash advances, also known as payday advances, for a term typically thirty-one days or less. The typical cash advance is for amounts ranging from \$100 to \$1,000 with an average advance being \$413. To qualify for a cash advance, a customer generally must have proof of steady income, a checking account with a minimum of returned items within a specified period, and valid identification. Upon completing an application and subsequent approval, the customer writes a check on his or her personal checking account for the amount of the advance, plus applicable fees. At maturity, the customer typically returns to the store to pay off the advance and related fee with cash, in which case the check is returned to the customer. If the customer fails to repay the loan, the store then deposits the customer's check. Cash advance transactions are subject to federal truth-in-lending regulations and fair debt collection practice regulations. In addition, state and local regulations exist in certain markets, which, among other things, limit the number of consecutive cash advances a customer can obtain, limit the total transactions over a specified time period, or limit the number of outstanding advances a consumer may have with any combination of lenders.

The term of the cash advances generally range from 7 to 31 days. In California, Washington, Illinois, Oregon, South Carolina, Oklahoma, Washington, D.C. and Michigan, the maximum loan term is 31, 45, 45, 60, 31, 45, 31 and 31 days, respectively. Only Illinois, Oklahoma and Michigan have a minimum term which is 13, 12 and 7 days, respectively. Fees charged for cash advances are generally regulated by state law. In California, the service fee is 15% of the check's face value. Cash advances made in Washington and Oregon bear service fees of 15% on loan amounts up to \$500 and 10% on loan amounts exceeding \$500; the maximum loan amount being \$700. Cash advances made in Oklahoma bear service fees of 15% on loan amounts up to \$300 and 10% on loan amounts exceeding \$300; the maximum loan amount being \$500. In South Carolina, the service fee is 15% on loan amounts up to \$300. In Washington, D.C., the service fee is 10% plus a flat fee of \$5 to \$20 on loans up to \$1,000. Cash advances made in Michigan bear service fees ranging from 13% to 15% on loan amounts up to \$600. Cash advances made in Illinois are limited to 15.5% per \$100 advanced. In Illinois, the Company also offers an installment loan product with terms of 14 to 180 days at fees which range from \$16 to \$35 per \$100 advanced.

The bank returns a significant number of customer cash advance checks deposited by the Company due to insufficient funds in the customers' accounts. However, the Company subsequently collects a large percentage of these bad debts by redepositing the customers' checks or subsequent cash repayments by the customers. The profitability of the Company's cash advance operations is dependent upon adequate collection of these returned items.

In the Company's Texas locations, First Cash Credit, Ltd. ("FCC"), a wholly-owned subsidiary of the Company, offers a fee-based credit services organization ("CSO") program to assist consumers in obtaining credit. Under the CSO program, FCC assists customers in applying for a cash advance from an independent, non-bank, consumer lending company (the "Independent

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

Lender") and issues the Independent Lender a letter of credit to guarantee the repayment of the loan. The loans made by the Independent Lender to credit services customers of FCC range in amount from \$50 to \$1,000, have terms of 7 to 35 days and bear interest at a rate of 9.9% on an annualized basis. FCC typically charges a credit services fee of \$20 per \$100 advanced. If the loan is not repaid prior to the expiration of the term, the customer's personal check is deposited into the Independent Lender's bank account. The bank returns a significant number of customer checks deposited into the Independent Lender's account due to insufficient funds in the customers' accounts. If the loan is unpaid after 16 days from its due date, FCC reimburses the Independent Lender, under the terms of its letter of credit, for the outstanding principal amount, accrued interest, applicable late fees and returned check fees. FCC subsequently collects a large percentage of these bad debts by redepositing the customers' checks 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.

### Pawn Merchandise Sales

The Company's pawn merchandise sales are primarily retail sales to the general public in its pawn stores. The items retailed are primarily used jewelry, consumer electronics, tools, musical instruments, and sporting goods. The Company also melts down certain quantities of scrap gold jewelry and sells the gold at market commodity prices.

The Company acquires pawn merchandise inventory primarily through forfeited pawns and, to a lesser extent, through purchases of used goods directly from the general public. Merchandise acquired by the Company through defaulted pawns 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 purchasers 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.

### Buy-Here/Pay-Here Automotive Sales and Financing Activities

The Company's buy-here/pay-here merchandise sales are retail sales of used vehicles to the general public at its automotive dealerships. The Company purchases vehicles primarily through wholesalers, new car dealers and from auctions. The majority of vehicle purchasing is performed by the Company's buyers. Senior management monitors the quantity and quality of vehicles purchased and compares the cost of similar vehicles purchased among different buyers. Vehicles acquired by the Company are carried in inventory at the amount of the purchase price plus vehicle reconditioning costs.

The Company provides financing to substantially all of its customers who purchase a vehicle at one of its dealerships. The Company only provides financing to its customers for the purchase of its vehicles, and the Company does not provide any type of financing to non-customers. The Company's finance contracts typically include down payments and/or trade-in allowances ranging from 5% to 10% of the purchase price, and an average term of 30 months. Missouri, Oklahoma and Arkansas state regulations limit interest rates to 22.99%, 21.99% and the Federal Reserve Discount Window Primary Rate (approx 6%) plus 5%, respectively. In Missouri and Oklahoma, the Company charges rates that are lower than those allowed by law and those charged by many of its competitors. Currently, the Company charges 10.9% interest on all new sales in Arkansas and 16.99% on all sales in Oklahoma and Missouri.

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

The Company requires payments be made on a weekly, bi-weekly, semi-monthly or monthly basis to coincide with the day the customer is paid by his or her employer. Upon the customer and the Company reaching a preliminary agreement as to financing terms, the Company obtains a credit application from the customer which includes information regarding employment, residency and credit history, personal references and a detailed budget itemizing the customer's monthly income and expenses, which is then verified by the Company's underwriting personnel. After the verification process, the store manager makes the decision to accept, reject or modify (perhaps obtain a greater down payment or require an acceptable co-buyer) the proposed transaction. In general, the store manager and underwriters attempt to assess the stability and character of the applicant.

### Financial Information about Segments

Additional financial information regarding the Company's revenues and assets by each of its two operating segments is provided in Note 14 of "Notes to Consolidated Financial Statements."

### Financial Information about Geographic Areas

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

### Locations and Operations

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 and Note 15 of the "Notes to Consolidated Financial Statements." Of the Company's 252 pawn stores, 69 pawn stores also offer the cash advance or credit services product. As of December 31, 2006, the Company's stores were located in the following states:

|                       | Pawn<br>Stores | Cash<br>Advance<br>Stores | Buy-Here/<br>Pay-Here<br>Automotive<br>Dealerships | Total<br>Locations |
|-----------------------|----------------|---------------------------|--|--------------------|
|                       | -----          | -----                     | -----  | -----              |
| <b>United States:</b> |                |                           |  |                    |
| Texas                 | 58             | 95                        | -  | 153                |
| Maryland              | 21             | -                         | -  | 21                 |
| California            | -              | 15                        | -  | 15                 |
| Illinois              | -              | 10                        | -  | 10                 |
| District of Columbia  | 2              | 7                         | -  | 9                  |
| Michigan              | -              | 8                         | -  | 8                  |
| Oregon                | -              | 7                         | -  | 7                  |
| Arkansas              | -              | -                         | 6  | 6                  |
| South Carolina        | 6              | -                         | -  | 6                  |
| Missouri              | 3              | -                         | 2  | 5                  |
| Oklahoma              | 3              | -                         | 2  | 5                  |
| Washington            | -              | 3                         | -  | 3                  |
| Virginia              | 2              | -                         | -  | 2                  |
| <b>Mexico:</b>        |                |                           |  |                    |
| Tamaulipas            | 39             | -                         | -  | 39                 |
| Chihuahua             | 30             | -                         | -  | 30                 |
| Coahuila              | 28             | -                         | -  | 28                 |
| Nuevo Leon            | 27             | -                         | -  | 27                 |
| Baja California       | 26             | -                         | -  | 26                 |

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|         |       |       |       |       |
|---------|-------|-------|-------|-------|
| Jalisco | 3     | -     | -     | 3     |
| Durango | 3     | -     | -     | 3     |
| Sonora  | 1     | -     | -     | 1     |
|         | ----- | ----- | ----- | ----- |
| Total   | 252   | 145   | 10    | 407   |
|         | ===== | ===== | ===== | ===== |

In addition, at December 31, 2006, the Company's 50% owned joint venture, Cash & Go, Ltd., operated a total of 40 staffed kiosks located inside convenience stores in the state of Texas. These kiosks offer credit services and check cashing. No kiosks were opened or closed during the year ended December 31, 2006, although subsequent to December 31, 2006, one Cash & Go, Ltd. kiosk was closed.

### Pawn Store Operations

The typical Company pawn store is a freestanding building or part of a small retail strip 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, 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 revenues, pawns written and redeemed, and changes in inventory.

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 one of the Company's two Vice-Presidents of Operations.

The Company believes that profitability of its pawnshops is dependent, among other factors, upon its employees' ability to make pawns that achieve optimum redemption rates, 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

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

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 special promotional contests.

### Cash Advance and Credit Services Operations

The Company's cash advance 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. The design 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 cash advance stores allow a store manager or clerk to rapidly recall customer check cashing histories, cash advance histories, and other vital information. The Company attempts to attract customers primarily through the stores' visibility and television and yellow page advertisements in certain markets.

Each cash advance store employs a manager, and between one and eight tellers, 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 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 one of the Company's two Vice-Presidents of Operations.

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.

The Company believes that profitability of its cash advance locations is dependent upon its employees' ability to make loans and extend credit services that achieve optimum loan performance, to manage bad debt expense and to provide excellent customer service. Company employees are trained through direct instruction and on-the-job lending, collections and customer service experience. The new employee is 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 cash advance and credit services store employees based on gross profit, net income and other seasonal contests.

### Buy-Here/Pay-Here Automotive Operations

The typical Company buy-here/pay-here automotive dealership is a freestanding building 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 other automobile retailers. The Company's dealerships are typically open six days a week from 9:00 a.m. to between 6:00 p.m. and 8:00 p.m. All stores are located on leased property between one and three acres in size.

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

Computer operating systems in the Company's buy-here/pay-here dealerships allow a store manager or clerk to rapidly recall the cost of a vehicle in inventory, the date it was purchased as well as the prior transaction history of a particular customer and other vital information. The Company attempts to attract customers primarily through its stores' visibility, television, radio and Internet advertisements. Another significant source of customers is repeat customers and referrals. As a result, the Company offers special promotions to customers nearing the end of their current contract or to previous customers that have paid out contracts. The Company also actively manages a website, network of billboards, and a toll-free hotline, all of which drive traffic to individual stores.

Each dealership employs a manager, a team captain, and between three and eight sales personnel, depending upon the size, sales volume and location of the dealership. 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 a regional sales manager who typically oversees three to five store managers. Regional sales managers report to Auto Master's Vice-President of Operations.

The Company believes that profitability of its buy-here/pay-here dealerships is dependent upon its employees' ability to sell vehicles and extend credit that achieves optimum loan performance, to manage bad debt expense and to provide excellent customer service. Company employees are trained through direct instruction and on-the-job sales, collections and customer service experience. New employees are introduced to the business through a training program that includes on-the-job sales training in selling and financing practices and general administration of store operations. The Company maintains a performance-based compensation plan for a substantial portion of all buy-here/pay-here employees based on gross profit, net income and other types of programs related to the advancement of functional and organizational goals and objectives.

The Company utilizes a highly centralized operating model. Key functions such as inventory purchasing, inventory management, reconditioning, pricing, underwriting, marketing and collections are managed and executed at a corporate and/or regional level. The Company believes it gains certain economies of scale and greater consistency in operations by centralizing its operations.

The Company employs a full-time staff of buyers who purchase used cars from vehicle auctions, wholesalers, and new vehicle dealers in a ten state area. The ability to purchase vehicles from multiple regions of the country protects the Company from local and regional supply shortages while allowing it to showcase a much greater selection of quality vehicles.

Vehicle quality is important as it impacts front end sales, customer satisfaction and referrals, repeat business and loan quality; a customer is more likely to make payments on a vehicle that is operational. Each vehicle purchased by the Company is sent to a centralized reconditioning facility for inspection, necessary repairs, and detailing. This is in contrast to many competitors, whose vehicles go directly from the auction or wholesaler to the retail location. Adjacent to the Auto Master headquarters, a 12,000 square foot facility is equipped with skilled technicians, 20 double bays, and a parts shop stocked with most commonly needed items. Upon arrival, each vehicle is thoroughly inspected to determine the level of reconditioning necessary for the unit to meet the Company's retail standards. Approximately 10% of vehicles purchased do not pass this inspection, and are therefore wholesaled. Each remaining vehicle is assigned to a technician who completes the work mandated by the inspection.

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

The most common modifications are tune-ups and the replacement of parts which routinely wear down such as brakes and tires; however, the Company's technicians are equipped to handle most major repairs as well. Upon completion of all necessary repairs, each vehicle is then sent to the Company's adjacent 10,000 square foot detail facility, where it is cleaned, inside and out, by the detail staff.

Corporate management monitors and controls inventory by working directly with the Company's buyers as well as its retail location managers to ensure that each retail location has the appropriate mix of vehicle models and price ranges. Based on each location's needs, management assigns the newly reconditioned vehicles to an individual retail location.

The Company's loan approval process begins as soon as the customer arrives at the retail location. Applications which meet initial qualifications are sent to underwriting. The Company has a staff of full-time underwriters, all of which are based in the Auto Master corporate office. Upon receipt of a credit application, an underwriter verifies that it is within the Company's loan underwriting guidelines, checks the customer's credit and contacts the customer's references. The Company has developed standardized loan underwriting guidelines which make the approval process objective rather than subjective. Following approval from underwriting, sales management closes the transaction, and the customer takes delivery of the vehicle.

Following a sale, each customer is assigned an account manager who works with the customer to ensure payments are made on time, typically on a weekly or bi-weekly basis when the customer gets paid. The Company has over 20 account managers who are spread across its four regional collection centers.

### Competition

The Company encounters significant competition in connection with all aspects of its business operations. These competitive conditions may adversely affect the Company's revenues, profitability, and ability to expand.

The Company competes primarily with other pawn store operators, cash advance operators and buy-here/pay-here dealership operators. There are three publicly-held pawnshop operators, six publicly-held cash advance/check cashing operators and two publicly-held buy-here/pay-here operators, all of which have more locations than the Company. There are many privately held operators of cash advance stores and buy-here/pay-here dealerships, some of which are significantly larger than the Company. In addition, the pawnshop, cash advance and buy-here/pay-here industries are characterized by a large number of independent owner-operators, some of whom own and operate multiple locations. The Company believes that the primary elements of competition in these businesses are store location, the ability to lend competitive amounts on pawns and cash advances, 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.

In its retail operations, the Company's competitors include numerous retail and wholesale stores, including jewelry stores, discount retail stores, consumer electronics stores, on-line retailers, on-line auction 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 retailers have significantly

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

greater financial resources than the Company.

In the used automotive retail industry, the Company competes principally with other independent buy-here/pay-here dealers, and to a lesser degree with used vehicle retail operations of franchised automobile dealerships, national or regional, independent used vehicle dealers, and individuals who sell used vehicles in private transactions. The Company competes for both the purchase and resale of used vehicles.

### Governmental Regulation

#### General

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

Governmental action to further prohibit or restrict, in particular, cash or payday advances and credit services products has been advocated over the past few years by consumer advocacy groups and by media reports and stories. The consumer groups and media stories typically focus on the cost to a consumer for cash advances, which is higher than the interest generally charged by credit card issuers to a more creditworthy consumer. The consumer groups and media stories often characterize cash advance activities as abusive toward consumers. During the last few years, legislation has been introduced and/or enacted in the United States Congress, in certain state legislatures and in various local jurisdictions to prohibit or restrict cash advances and the related service charges. 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 cash advances.

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



## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

materially adverse impact on the Company's operations and financial condition.

### U.S. State and Local Regulations

The Company operates pawn stores in seven U.S. states, all of which have licensing and/or fee regulations on pawnshop operations, which includes Texas, Oklahoma, Maryland, Virginia, South Carolina, Washington, D.C., 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. 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 copies of all daily transactions involving pawns and over-the-counter purchases. These daily transaction reports are designed to provide the local law enforcement officials with a detailed description of the goods 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 these claims to have a material, 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 currently provides cash advances, also known as payday advances, in eight U.S. states that have licensing and/or fee and operating regulations related to its payday advance operations, which includes California, Washington, Oklahoma, South Carolina, Oregon, Illinois and Washington, D.C and Michigan. The Company is licensed in each of the states in which a license is currently required for it to operate as a payday advance provider. The Company's fee structures are at or below the applicable rate ceilings adopted by each of these states. Regulations in certain states limit the maximum number of consecutive payday advances that may be provided to a customer and/or limit the total advances a customer may have outstanding at any point in time. As an example of such restrictive regulation, states such as Illinois and Michigan have enacted payday advance laws that require payday advance lenders to report their customers' payday advance activities to a state-wide database. Cash advance lenders operating in conjunction with a state-wide database are generally restricted from making payday advance loans to customers who may have a certain number of payday advances outstanding with other lenders. These database restrictions can have the effect of preventing customers from obtaining the cash advances they need and want. It is possible that legislators and regulators could pursue database or other restrictive legislation in other states, despite the increasing consumer demand for cash, or payday advance products. In 2006, the state of Oregon enacted legislation that provides for significantly more restrictive regulation of the payday advance industry beginning in July 2007. The implementation of these more restrictive regulations, as currently enacted, is expected to have a significant negative effect on the revenues and profitability of the Company's operations in Oregon, beginning in July 2007, where the Company currently has seven cash advance locations. Additional restrictive legislative and regulatory activity in other states surrounding cash advance products, if passed, could also adversely affect the Company's cash advance business. In addition, 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.

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

The laws in the state of Texas permit licensed payday advance operations; however, restrictions on the maximum fees that can be charged do not permit the Company to operate profitably as a payday advance lender. Accordingly, in the state of Texas, the Company provides a credit services program to customers seeking cash advances. First Cash Credit, Ltd., a wholly-owned subsidiary of the Company, operates a registered credit services organization in the state of Texas 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 cash advance 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.'s credit services location must be registered as a credit services organization and pay a registration fee. There can be no assurance that new legislative or regulatory initiatives will not be enacted which would eliminate or restrict the Company's ability to operate as a credit services organization in the state of Texas.

The Company's buy-here/pay-here operations are subject to various state and local laws, ordinances and regulations pertaining to the sale and financing of vehicles. Under these state laws, the Company's dealerships must obtain a license in order to operate or relocate. These laws also regulate advertising and sales practices. The Company's financing activities are subject to state and local motor vehicle finance laws, installment finance laws, usury laws and other installment sales laws. Among other things, these laws require that the Company limit or prescribe terms of the contracts it originates, require specified disclosures to customers, restrict collection practices, limit the Company's right to repossess and sell collateral, and prohibit discrimination against customers on the basis of certain characteristics including age, race, gender and marital status.

The states in which the Company operates impose limits on interest rates the Company can charge on its loans. These limits are generally based on either (i) a specified margin above the federal primary credit rate, (ii) the age of the vehicle, or (iii) a fixed rate. Management believes the Company is in compliance in all material respects with all applicable federal, state and local laws, ordinances and regulations. However, the adoption of additional laws, changes in the interpretation of existing laws, or the Company's entrance into jurisdictions with more stringent regulatory requirements could have a material adverse effect on the Company's used vehicle sales and finance business.

### U.S. Federal Regulations

Direct federal regulation of the pawn, cash advance and buy-here/pay-here automotive retailing/financing industries is generally limited. The federal government regulates, and generally prohibits, the ability of state and nationally chartered banks to participate in the cash advance industry through regulations established by both the U.S. Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

During 2006, the United States Congress enacted legislation that caps

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

the annual percentage rate charged on loans made to active military personnel at 36%; this legislation becomes effective in October 2007. As of the date of this report, the 36% annual percentage rate cap applies to most loan products, including cash advances and pawn loans. The Company does not have any cash advance or pawn loan products bearing an interest rate of 36% per annum or less, nor does the Company intend to develop any such product, 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. The Company does not expect this new legislation to have a material adverse effect on the Company's financial condition or results of operations.

In connection with cash advance and automobile finance 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 each cash advance and vehicle financing transaction.

Under the Bank Secrecy Act regulations of the U.S. Department of the Treasury (the "Treasury Department"), transactions involving currency in an amount greater than \$10,000 or 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 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 is also addressed to 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

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

compliance officer; (3) an ongoing employee-training program; and (4) an independent audit function to test the program. The Treasury Department is expected to issue regulations specifying the appropriate features and elements of the anti-money laundering compliance programs for the pawn brokering and cash advance industries.

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.

### Mexico Regulations

The pawnshop industry in Mexico is subject to various general business regulations in the areas of tax compliance, customs, consumer protections and employment matters, among others, by various federal, state and local governmental agencies in Mexico. In addition, federal legislation in Mexico was recently enacted which provides for administrative regulation of the pawnshop industry by PROFECO, the federal consumer protection agency. Under these regulations, PROFECO regulates the form of pawn loan contracts and certain operating procedures of pawnshops. PROFECO does not currently have regulatory authority over the interest rates and fees charged to pawn customers. There can be no assurance that additional federal, state or local statutes or regulations in 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.

### Employees

The Company had approximately 2,900 employees as of March 14, 2007, including approximately 200 persons employed in executive, administrative and accounting functions. In addition, Cash & Go, Ltd., had approximately 80 employees as of March 14, 2007. 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 <http://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.

### Insurance

The Company maintains property 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, California, Virginia, Washington, Oregon, South Carolina, Illinois, Washington, D.C., Oklahoma, Michigan, Arkansas, as well as excess employer's indemnification insurance in Texas and equivalent coverage in Mexico. The Company is a non-subscriber under the Texas Workers' Compensation Act.

### Item 1a. Risk Factors

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

-----

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.

Short-term consumer loan products have come under increased regulation and scrutiny. If changes in regulations affecting the Company's pawn, cash advance, automotive finance and credit services businesses create increased restrictions, or have the effect of prohibiting loans in the countries and states where the Company offers short-term consumer loans, such regulations could materially reduce the Company's pawn, cash advance, automotive finance and credit services 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 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. In particular, short-term consumer loans, including cash and payday advances, have come under increased scrutiny and increasingly restrictive regulation in recent years. Some regulatory activity may limit the number of cash advances that customers may receive or have outstanding and regulations adopted by some states requiring that all borrowers of certain cash advance loan products be listed on a database, limiting the yield on cash advances and limiting the number of such loans they 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 the cash advance and credit services products to consumers, despite the significant demand for it. In Mexico, similar restrictions and regulations affecting the pawn industry, including limits on loan service fees, have been 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.

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 revenues depend in part on the willingness and ability of an unaffiliated third-party lender to make loans 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 loans and to maintain quality and consistency in its loan programs, could cause the Company to lose customers and substantially decrease the revenues and earnings of the Company's credit services business.

Media reports and public perception of short-term consumer loans, such as cash or payday advances, as being predatory or abusive could materially adversely affect the Company's cash advance and credit services 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 short-term 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 our customers' borrowing needs, they do typically

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

characterize these short-term consumer loans as predatory or abusive despite the large customer demand for these loans. If the negative characterization of these types of loans becomes increasingly accepted by consumers, demand for the cash advance 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 materially adversely affect the Company's financial condition and results of operations.

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 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, 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, cash advance companies, automotive retailers, consumer finance companies 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 cash advances or pawn loans that the Company writes, resulting in lower levels of revenues and earnings in these categories. Furthermore, the Company has many competitors to its retail operations, such as retailers of new merchandise and automobiles, retailers of pre-owned merchandise and automobiles, other pawnshops, thrift shops, online retailers and online auction sites. Increased competition or aggressive marketing and pricing practices by these competitors could result in decreased revenues, margins and turnover rates in the Company's retail operations. In Mexico, the Company competes directly with certain pawn stores owned by a governmental entity. The government could take actions that would harm the Company's ability to compete in the Mexico market.

A sustained deterioration of economic conditions could reduce demand for the Company's products and services and result in reduced earnings. While the credit risk for some of the Company's consumer lending is mitigated by the collateralized nature of pawn lending, a sustained deterioration in the economy could adversely affect the Company's operations through deterioration in performance of its pawn loan or cash advance portfolios, or by reducing consumer demand for the purchase of pre-owned merchandise.

Adverse gold market fluctuations could affect the Company's profits. The Company holds significant gold inventories and a significant portion

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

of its pawn receivables are secured by gold jewelry collateral. A significant decline in gold prices could result in decreased merchandise sales margins, decreased inventory valuations and sub-standard collateralization of outstanding pawn loans. In addition, a decline in gold 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 has a significant number of locations in Mexico, a country in which there are potential risks related to geo-political events, enforcement of property rights, public safety and security among others. Actions or events could occur in Mexico that are beyond the Company's control, which could restrict or eliminate the Company's ability to operate its locations in Mexico or significantly reduce the profitability of such operations. In addition, the Company conducts a significant number of transactions in pesos, the national currency in Mexico, and holds significant financial assets that are denominated in pesos. Significant fluctuations in the value of the peso compared to the U.S. dollar could negatively impact the Company's operating results.

The inability to successfully integrate acquisitions could adversely affect results. The success of the Auto Master 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, the ability to manage a longer-maturing portfolio of customer receivables, competitive market forces, and general economic factors.

The Company's success depends upon the continued contributions of the Auto Master management team and key employees of Auto Master. The Company is dependent upon the continued contributions of key Auto Master employees. The loss of the services of key employees could have a material adverse effect on the Company's results of operations. In addition, as Auto Master opens new dealerships, the Company will need to hire additional personnel. The market for qualified employees in the industry and in the regions Auto Master operates is highly competitive and may subject the Company to increased labor costs during periods of low unemployment.

The Company's allowance for credit losses may not be sufficient to cover actual credit losses which could adversely affect its financial condition and operating results. From time to time, the Company has to recognize losses resulting from the inability of certain borrowers to repay loans and the insufficient realizable value of the collateral securing the loans. The Company maintains an allowance for credit losses in an attempt to cover credit losses inherent in its loan portfolio. 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.

The Company is dependent on the availability of used vehicle inventory and access to such inventory. Auto Master acquires vehicles primarily through auction wholesalers and new car dealers. There can be no assurance

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

that sufficient inventory will continue to be available to the Company or will be available at comparable costs. Any reduction in the availability of inventory or increases in the cost of vehicles would adversely affect gross profit percentages as the Company focuses on keeping payments affordable to its customer base. The Company could have to absorb cost increases.

A decreased demand for the Company's products and services and failure of the Company to adapt to such decrease 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 reduce customer access to particular products. Should the Company fail to adapt to a significant change in its customers' demand for, or access to, its products, the Company's revenues 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 cash advance products and services it offers due to regulatory developments.

Inclement weather 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 and dealerships, could negatively impact the Company's operating results.

Other risk factors are discussed under 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

-----

As of December 31, 2006, the Company had no unresolved SEC staff comments.

### Item 2. Properties

-----

The Company owns the real estate and buildings for three of its pawn stores and leases 443 pawn, cash advance and buy-here/pay-here automotive dealership 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 2007 and 2017. All current store and dealership leases provide for specified periodic rental payments ranging from approximately \$740 to \$10,600 per month.

The Company currently leases approximately 19,500 square feet of office space in Arlington, Texas for its corporate offices. The lease, which expires April 30, 2010, currently provides for monthly rental payments of approximately \$29,000. The Company also leases approximately 7,500 square feet of office space in Monterrey, Mexico for its Mexico administrative offices. The lease, which expires July 30, 2009, currently provides for monthly rental payments of approximately \$3,500. The Company also leases



## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

approximately 13.5 acres and buildings in Tontitown, Arkansas for the Auto Master corporate offices, reconditioning facility and detail center of approximately 5,500, 11,800 and 9,600 square feet, respectively. The lease, which expires December 31, 2010, currently provides for monthly rental payments of approximately \$22,800.

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 2007 and 2009. All current Cash & Go, Ltd., leases provide for specified periodic rental payments ranging from approximately \$1,100 to \$1,700 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, cash advance and buy-here/pay-here automotive 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, cash advance stores and buy-here/pay-here automotive dealerships 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. Submission of Matters to a Vote of Security Holders

-----

No matter was submitted to a vote of the Company's security holders during the fourth quarter of fiscal 2006.

## PART II

-----

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

-----

#### 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 closing sales prices per share for the common stock, as reported by the Nasdaq National Market:

|      | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|------|------------------|-------------------|------------------|-------------------|
|      | -----            | -----             | -----            | -----             |
| 2006 |                  |                   |                  |                   |
| High | \$21.00          | \$22.37           | \$21.70          | \$26.12           |
| Low  | 14.39            | 18.60             | 16.85            | 19.66             |

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|      |         |         |         |         |  |
|------|---------|---------|---------|---------|--|
| 2005 |         |         |         |         |  |
| High | \$13.32 | \$11.36 | \$13.16 | \$14.89 |  |
| Low  | 10.08   | 8.45    | 10.53   | 12.01   |  |

On March 14, 2007, the closing sales price for the common stock as reported by the Nasdaq National Market was \$20.78 share. On March 14, 2007, there were approximately 59 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.

### Recent Issuances of Common Stock

During the period from January 1, 2006, through December 31, 2006, the Company issued 1,020,000 shares of common stock relating to the exercise of outstanding stock options for an aggregate exercise price of \$14,899,000 (including income tax benefit). During the period from January 1, 2006, through December 31, 2006, the Company issued 418,000 shares of common stock relating to the exercise of outstanding stock warrants for an aggregate price of \$3,415,000 (including income tax effect). The issuance of the derivative securities 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 July 2004, the Company's Board of Directors authorized an open-ended stock repurchase plan, with no dollar limitation, to permit future repurchases of up to 3,200,000 shares of the Company's outstanding common stock. During the second quarter of 2006, First Cash repurchased approximately 802,000 shares to close out the 2004-authorized program. The repurchase price of the 3,200,000 shares repurchased under this plan was \$39,425,000 or a weighted-average of \$12.32 per share.

In June 2006, the Company's Board of Directors authorized a repurchase program for up to 2,000,000 shares of First Cash's outstanding common stock. During the second quarter of 2006, the Company repurchased a total of 461,000 common shares under the new stock repurchase plan for an aggregate purchase price of \$8,848,000 or \$19.21 per share. There were no shares repurchased during the third and fourth quarters of 2006. There are 1,539,000 total remaining shares available for repurchase under the 2006-authorized plan.

### Item 6. Selected Financial Data

-----

The information below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 and the Company's Consolidated Financial Statements and related notes thereto required by Item 8.

Year Ended December 31,

-----

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|  | 2006       | 2005       | 2004       | 2003       | 2002       |
|--|------------|------------|------------|------------|------------|
|  | -----      | -----      | -----      | -----      | -----      |
| (in thousands, except per share amounts and certain operating data)                                    |            |            |            |            |            |
| <b>Income Statement Data:</b>  |            |            |            |            |            |
| Total revenues   | \$ 269,722 | \$ 207,775 | \$ 179,813 | \$ 145,468 | \$ 118,793 |
| Cost of revenues   | 106,132    | 75,768     | 63,867     | 51,222     | 41,817     |
| Net revenues   | 163,590    | 132,007    | 115,946    | 94,246     | 76,976     |
| Total expenses and other income  | 113,990    | 92,329     | 83,079     | 69,517     | 59,585     |
| Income before income taxes   | 49,600     | 39,678     | 32,867     | 24,729     | 17,391     |
| Provision for income taxes   | 17,856     | 14,295     | 12,161     | 9,397      | 6,451      |
| Income before change in accounting principle   | 31,744     | 25,383     | 20,706     | 15,332     | 10,940     |
| Cumulative effect of change in accounting principle, net of taxes                                      | -          | -          | -          | (357)      | -          |
| Net income   | 31,744     | 25,383     | 20,706     | 14,975     | 10,940     |
| <b>Net income per share:</b>   |            |            |            |            |            |
| <b>Basic:</b>  |            |            |            |            |            |
| Income before change in accounting principle   | \$ 1.01    | \$ 0.81    | \$ 0.66    | \$ 0.55    | \$ 0.42    |
| Net income   | 1.01       | 0.81       | 0.66       | 0.54       | 0.42       |
| <b>Diluted:</b>  |            |            |            |            |            |
| Income before change in accounting principle   | 0.97       | 0.76       | 0.61       | 0.49       | 0.38       |
| Net income   | 0.97       | 0.76       | 0.61       | 0.48       | 0.38       |
| <b>Unaudited pro forma amounts assuming retroactive application of change in accounting principle:</b> |            |            |            |            |            |
| Revenues   | \$ 269,722 | \$ 207,775 | \$ 179,813 | \$ 152,162 | \$ 125,886 |
| Net income   | 31,744     | 25,383     | 20,706     | 15,362     | 10,790     |
| Basic earnings per share   | 1.01       | 0.81       | 0.66       | 0.55       | 0.42       |
| Diluted earnings per share   | 0.97       | 0.76       | 0.61       | 0.49       | 0.38       |
| <b>Balance Sheet Data:</b>   |            |            |            |            |            |
| Working capital  | \$ 93,653  | \$ 93,506  | \$ 81,389  | \$ 60,840  | \$ 47,187  |
| Total assets   | 233,842    | 185,954    | 162,343    | 140,064    | 130,999    |
| Long-term liabilities  | 23,485     | 8,616      | 8,755      | 11,955     | 33,525     |
| Total liabilities  | 45,246     | 23,246     | 18,297     | 22,841     | 44,479     |
| Stockholders' equity   | 188,596    | 162,708    | 144,046    | 117,223    | 86,520     |
| <b>End of Year Location Counts:</b>  |            |            |            |            |            |
| Pawn-only stores   | 183        | 157        | 127        | 89         | 57         |
| Pawn stores offering cash advances (1)   | 69         | 69         | 70         | 71         | 74         |
| Cash advance stores (1)  | 145        | 102        | 87         | 75         | 59         |
| Buy-here/pay-here dealerships  | 10         | -          | -          | -          | -          |
|  | -----      | -----      | -----      | -----      | -----      |
|  | 407        | 328        | 284        | 235        | 190        |
|  | =====      | =====      | =====      | =====      | =====      |

(1) Includes locations where cash advances are provided through the CSO program.

Item 7. Management's Discussion and Analysis of Financial Condition and

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

-----  
 Results of Operations  
 -----

General

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

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

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

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

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2006                    | 2005      | 2004      |
| Total receivable balances at end<br>of period, in thousands: |                         |           |           |
| Pawn receivables   | \$ 32,459               | \$ 27,314 | \$ 23,429 |



## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|   |       |       |       |
|---|-------|-------|-------|
| Buy-here/pay-here finance receivables<br>in dealerships | 3,430 | -     | -     |
| Average inventories per location,<br>in thousands:      |       |       |       |
| Pawn stores   | \$ 99 | \$ 97 | \$ 90 |
| Buy-here/pay-here dealerships                           | 373   | -     | -     |
| Average outstanding loan at December 31, 2006:          |       |       |       |
| Pawn receivables  | \$ 99 | \$ 95 | \$ 85 |
| Cash advance receivables                                | 381   | 364   | 391   |
| CSO loans held by independent<br>third-party lender (1) | 439   | 454   | -     |
| Buy-here/pay-here receivables                           | 6,335 | -     | -     |

- (1) Cash advance amount includes cash advances recorded on the Company's balance sheet and the principal portion of active CSO loans outstanding from the independent third-party lender, the balance of which is not included on the Company's balance sheet.
  
- (2) The annualized yield on pawn receivables is calculated by dividing total pawn service fees by the average quarterly pawn receivable balance for the year. The annualized yield, net of loss provision, for cash advances is calculated by dividing total cash advance service fees, net of the cash advance loss provision, by the average quarterly cash advance receivable balance for the year. The annualized yield calculation for cash advances does not include credit services fees or the related credit services loss provision. The annualized yield on buy-here/pay-here receivables is calculated by dividing total buy-here/pay-here finance fees (annual amount estimated) by the average quarterly buy-here/pay-here receivable balance for the period August 25, 2006 through December 31, 2006.
  
- (3) Includes locations where cash advances are provided through the CSO program.

Stores included in the same-store revenue calculations are those stores that were opened prior to the beginning of the prior year comparative fiscal period and are still open. Also included are stores that were relocated during the year within a specified distance serving the same market, where there is not a significant change in store size and where there is not a significant overlap or gap in timing between the opening of the new store and the closing of the existing store. During the third quarter of 2006, the Company relocated one pawn store that involved a significant change in the size of its retail showroom, and accordingly, the expanded store has been excluded from the same-store calculations. Non-retail sales of scrap jewelry are included in same-store revenue calculations. The Auto Master buy-here/pay-here automotive dealerships, acquired in August 2006, were not included in the same-store revenue calculations.

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

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

insurance, outside legal and accounting fees and stockholder-related expenses.

|  | Year Ended December 31, |       |       |
|--|-------------------------|-------|-------|
|  | 2006                    | 2005  | 2004  |
| Income statement items as a percent of total revenues: |                         |       |       |
| Revenues:  |                         |       |       |
| Merchandise sales                                      | 55.4%                   | 49.2% | 48.2% |
| Finance and service charges                            | 43.1                    | 48.9  | 49.4  |
| Other  | 1.5                     | 1.9   | 2.4   |
| Cost of revenues:                                      |                         |       |       |
| Cost of goods sold                                     | 31.2%                   | 29.7% | 29.0% |
| Credit loss provision                                  | 8.0                     | 6.6   | 6.4   |
| Other  | 0.2                     | 0.1   | 0.1   |
| Net revenues   | 60.7%                   | 63.5% | 64.5% |
| Expenses and other income:                             |                         |       |       |
| Store operating expenses                               | 30.1%                   | 32.5% | 34.0% |
| Administrative expenses                                | 9.1                     | 9.3   | 9.9   |
| Depreciation   | 2.9                     | 2.8   | 2.3   |
| Amortization   | -                       | -     | -     |
| Interest expense                                       | 0.3                     | -     | -     |
| Interest income  | (0.3)                   | (0.2) | -     |
| Merchandise sales gross profit                         | 43.6%                   | 39.6% | 40.0% |

### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related revenues and expenses, and disclosure of gain and loss contingencies at the date of the financial statements. Such estimates and assumptions are subject to a number of risks and uncertainties, which may cause actual results to differ materially from the Company's estimates. The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

**Principles of consolidation** - The accompanying consolidated financial statements of the Company include the accounts of its wholly-owned subsidiaries. The Company is a 50% partner in Cash & Go, Ltd., a Texas limited partnership, and in accordance with FASB Interpretation No. 46(R) - Consolidation of Variable Interest Entities, the consolidated operating results include those of Cash & Go, Ltd. On August 25, 2006, the Company acquired Guaranteed Auto Finance, Inc. and SHAC, Inc. (collectively doing business as "Auto Master"). Accordingly, the operating results of Auto Master are included in consolidated operating results for the period August 26, 2006 through December 31, 2006. See Note 4. All significant intercompany accounts and transactions have been eliminated.

**Receivables and income recognition** - Receivables on the balance sheet consist of pawn, cash advances and buy-here/pay-here automotive customer receivables. Pawns are made on the pledge of tangible personal property. The Company accrues pawn service charge revenue on a constant-yield basis over the life of the pawn for all pawns that the Company deems collection to

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

be probable based on historical pawn redemption statistics. The typical pawn loan has a term of thirty days. If the pawn is not repaid, the principal amount pawned becomes the carrying value of the forfeited collateral (inventory), which is held for sale. The Company accrues cash advance service fees on a constant-yield basis over the term of the cash advance. Cash advances have terms that range from seven to thirty-one days. The Company recognizes credit services fees, which are collected from the customer at the inception of the credit services agreement, ratably over the life of the loan made by the Independent Lender. The loans made by the Independent Lender to credit services customers have terms of seven to thirty-five days. The Company records a liability for collected, but unearned, credit services fees received from its customers. The Company's buy-here/pay-here revenues are primarily from retail sales of used vehicles to the general public in its automotive dealerships. The Company provides financing to substantially all of its customers who purchase a vehicle at one of its dealerships. The Company's vehicle sales and finance contracts typically include down payments ranging from 5% to 10%, an average term of 30 months, and typical annual finance charges ranging from 8% to 16%.

Cash advance and credit services loss provision - An allowance is provided for losses on active cash advances and service fees receivable based upon expected default rates, net of estimated future recoveries of previously defaulted cash advances and service fees receivable. The Company considers cash advances to be in default if they are not repaid on the due date, and writes off the principal amount and service fees receivable as of the default date, leaving only active advances in the reported balance. Net defaults and changes in the cash advance allowance are charged to the cash advance loss provision. Under the CSO program, letters of credit issued by FCC to the Independent Lender constitute a guarantee for which the Company is required to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken by issuing the letters of credit. The Independent Lender may present the letter of credit to FCC for payment if the customer fails to repay the full amount of the loan and accrued interest after the due date of the loan. Each letter of credit expires within 60 days from the inception of the associated lending transaction. FCC's maximum loss exposure under all of the outstanding letters of credit issued on behalf of its customers to the Independent Lender as of December 31, 2006 was \$14,239,000. According to the letter of credit, if the borrower defaults on the loan, the Company will pay the Independent Lender the principal, accrued interest, insufficient funds fees, and late fees, all of which the Company records in the cash advance and credit services loss provision. FCC is entitled to seek recovery directly from its customers for amounts it pays the Independent Lender in performing under the letters of credit. The Company records the estimated fair value of the liability under the letters of credit in accrued liabilities. This fair value estimate is based in part upon the Company's historical credit losses for the cash advance product, which the Company considers to be a similar credit risk.

Buy-here/pay-here credit loss provision - The Company maintains an allowance for credit losses on an aggregate basis at a level it considers sufficient to cover estimated losses in the collection of its finance receivables. The allowance for credit losses is based primarily upon historical credit loss experience, with consideration given to recent credit loss trends and changes in loan characteristics (i.e., average amount financed and term), delinquency levels, collateral values, economic conditions, age of dealership and underwriting and collection practices. The allowance for credit losses is regularly reviewed by management with any changes reflected in current operations. Although it is at least reasonably possible that events or circumstances could occur in the future that are not presently foreseen which could cause actual credit losses to be materially different from the recorded allowance for credit losses, the Company



## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

believes that it has given appropriate consideration to all relevant factors and has made reasonable assumptions in determining the allowance for credit losses.

Inventories - Pawn inventories represent merchandise purchased directly from the public and merchandise acquired from forfeited pawns. Inventories purchased directly from customers are recorded at cost. Inventories from forfeited pawns are recorded at the amount of the pawn principal on the unredeemed goods. Vehicle inventories consist of used vehicles acquired from auctions, new car dealerships and trade-ins. Vehicle transportation and reconditioning costs are capitalized as a component of inventory. Repossessed vehicles are recorded at fair value, which approximates wholesale value. The cost of pawn and vehicle inventories is determined on the specific identification method. Pawn and vehicle inventories are stated at the lower of cost or market; accordingly, inventory valuation allowances are established when inventory carrying values are in excess of estimated selling prices, net of direct costs of disposal. Management has evaluated inventories and determined that a valuation allowance is not necessary.

Long-lived assets - Property, plant and equipment and non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the net book value of the asset may not be recoverable. An impairment loss is recognized if the sum of the expected future cash flows (undiscounted and before interest) from the use of the asset is less than the net book value of the asset. Generally, the amount of the impairment loss is measured as the difference between the net book value of the asset and the estimated fair value of the related asset. Management does not believe any of these assets have been impaired at December 31, 2006. Goodwill is reviewed annually for impairment based upon its fair value, or more frequently if certain indicators arise. Management has determined that goodwill has not been impaired at December 31, 2006.

Stock-based compensation - Prior to January 1, 2006, the Company accounted for its share-based employee compensation plans under the recognition and measurement provisions of APB 25, as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation." Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), as described in Note 12, "Equity Compensation Plans and Share-Based Compensation."

### Results of Operations

Twelve Months Ended December 31, 2006 Compared to Twelve Months Ended December 31, 2005

The following table (amounts shown in thousands) details the components of revenues for the fiscal year ended December 31, 2006 ("Fiscal 2006"), as compared to the fiscal year ended December 31, 2005 ("Fiscal 2005"):

|                                       | Fiscal Year Ended<br>December 31, |           |                   |     |
|---------------------------------------|-----------------------------------|-----------|-------------------|-----|
|                                       | 2006                              | 2005      |                   |     |
| Domestic revenues:                    |                                   |           | Increase/Decrease |     |
| Pawn retail merchandise sales         | \$ 60,097                         | \$ 57,174 | \$ 2,923          | 5%  |
| Pawn scrap jewelry sales              | 11,337                            | 7,230     | 4,107             | 57% |
| Pawn service charges                  | 27,847                            | 25,429    | 2,418             | 10% |
| Cash advance and credit services fees | 66,167                            | 60,881    | 5,286             | 9%  |
| Buy-here/pay-here retail              |                                   |           |                   |     |

Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|                                   |            |            |           |     |
|-----------------------------------|------------|------------|-----------|-----|
| automobile sales                  | 22,507     | -          | 22,507    | -   |
| Buy-here/pay-here wholesale       |            |            |           |     |
| automobile sales                  | 530        | -          | 530       | -   |
| Buy-here/pay-here finance charges | 1,348      | -          | 1,348     | -   |
| Other                             | 4,062      | 3,935      | 127       | 3%  |
|                                   | -----      | -----      | -----     |     |
|                                   | \$ 193,895 | \$ 154,649 | \$ 39,246 | 25% |
|                                   | =====      | =====      | =====     |     |
| Foreign revenues:                 |            |            |           |     |
| Pawn retail merchandise sales     | \$ 34,667  | \$ 24,165  | \$ 10,502 | 43% |
| Pawn scrap jewelry sales          | 20,335     | 13,570     | 6,765     | 50% |
| Pawn service charges              | 20,825     | 15,391     | 5,434     | 35% |
|                                   | -----      | -----      | -----     |     |
|                                   | \$ 75,827  | \$ 53,126  | \$ 22,701 | 43% |
|                                   | =====      | =====      | =====     |     |
| Total revenues:                   |            |            |           |     |
| Pawn retail merchandise sales     | \$ 94,764  | \$ 81,339  | \$ 13,425 | 17% |
| Pawn scrap jewelry sales          | 31,672     | 20,800     | 10,872    | 52% |
| Pawn service charges              | 48,672     | 40,820     | 7,852     | 19% |
| Cash advance and credit           |            |            |           |     |
| services fees                     | 66,167     | 60,881     | 5,286     | 9%  |
| Buy-here/pay-here retail          |            |            |           |     |
| automobile sales                  | 22,507     | -          | 22,507    | -   |
| Buy-here/pay-here wholesale       |            |            |           |     |
| automobile sales                  | 530        | -          | 530       | -   |
| Buy-here/pay-here finance charges | 1,348      | -          | 1,348     | -   |
| Other                             | 4,062      | 3,935      | 127       | 3%  |
|                                   | -----      | -----      | -----     |     |
|                                   | \$ 269,722 | \$ 207,775 | \$ 61,947 | 30% |
|                                   | =====      | =====      | =====     |     |

The Company introduced its credit services program in its Texas locations in July 2005. Credit services fees, which are included in reported cash advance and credit services fees, totaled \$43,344,000 and \$18,657,000 for Fiscal 2006 and Fiscal 2005, respectively.

Same-store revenues (stores that were in operation during all of the year of both Fiscal 2005 and Fiscal 2006) increased 9% or \$18,890,000 for Fiscal 2006 as compared to Fiscal 2005. Revenues generated by the 62 new pawn stores and the 58 new cash advance stores which have opened since January 1, 2005 increased by \$19,534,000, compared to Fiscal 2005. Revenues from the eight buy-here/pay-here automobile dealerships acquired in August 2006 and the two dealerships opened in November 2006 totaled \$24,466,000.

The following table (amounts shown in thousands) details pawn receivables, cash advance receivables, active CSO loans outstanding from an independent third-party lender and buy/here-pay/here automotive receivables as of December 31, 2006, as compared to December 31, 2005:

|  | Balance at December 31, |           |                   |     |
|--|-------------------------|-----------|-------------------|-----|
|  | 2006                    | 2005      | Increase/Decrease |     |
|  | -----                   | -----     | -----             |     |
| Domestic customer receivables & CSO loans outstanding: |                         |           |                   |     |
| Pawn receivables                                       | \$ 21,350               | \$ 18,603 | \$ 2,747          | 15% |
| Cash advance receivables, net of allowance             | 7,510                   | 6,488     | 1,022             | 16% |
| CSO loans held by independent third-party lender (1)   | 12,732                  | 10,724    | 2,008             | 19% |
| Buy-here/pay-here receivables, net of allowance        | 34,295                  | -         | 34,295            | -   |

Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|  |           |           |           |      |
|--|-----------|-----------|-----------|------|
|  | \$ 75,887 | \$ 35,815 | \$ 40,072 | 112% |
|  | =====     | =====     | =====     |      |
| Foreign customer receivables:                            |           |           |           |      |
| Pawn receivables   | \$ 11,109 | \$ 8,711  | \$ 2,398  | 28%  |
|  | -----     | -----     | -----     |      |
| Total customer receivables and<br>CSO loans outstanding: |           |           |           |      |
| Pawn receivables   | \$ 32,459 | \$ 27,314 | \$ 5,145  | 19%  |
| Cash advance receivables,<br>net of allowance            | 7,510     | 6,488     | 1,022     | 16%  |
| CSO loans held by independent<br>third-party lender (1)  | 12,732    | 10,724    | 2,008     | 19%  |
| Buy-here/pay-here receivables,<br>net of allowance       | 34,295    | -         | 34,295    | -    |
|  | -----     | -----     | -----     |      |
|  | \$ 86,996 | \$ 44,526 | \$ 42,470 | 95%  |
|  | =====     | =====     | =====     |      |

- (1) CSO loans outstanding are comprised of the principal portion of active CSO loans outstanding from an independent third-party lender, which are not included on the Company's balance sheet.

Of the \$5,145,000 total increase in pawn receivables, \$3,799,000 was attributable to the growth at the stores that were in operation as of December 31, 2006 and 2005, and \$1,346,000 was attributable to the 27 new pawn stores opened since December 31, 2005, all of which were located in Mexico. Of the \$3,030,000 total increase in cash advance and CSO loan receivables, \$1,413,000 was attributable to the growth at the stores that were in operation as of December 31, 2006 and 2005, and \$1,617,000 was attributable to the 43 new cash advance stores opened since December 31, 2005. The Company's credit services customers had current loans outstanding with the Independent Lender in the amount of \$12,732,000 at December 31, 2006, compared to \$10,724,000 at December 31, 2005. The Company's loss reserve on cash advance receivables decreased from \$242,000 at December 31, 2005, to \$230,000 at December 31, 2006. Under the CSO program, letters of credit issued by FCC to the Independent Lender constitute a guarantee for which the Company is required to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken by issuing the letters of credit. The estimated loss reserve under the letters of credit, net of anticipated recoveries from customers, was \$569,000 at December 31, 2006 compared to \$508,000 at December 31, 2005. This reserve is included as a component of the Company's accrued expenses on its consolidated balance sheets.

The gross profit margin on total pawn merchandise sales was 42% during Fiscal 2006, compared to 40% during Fiscal 2005, primarily as a result of improved margins on wholesale scrap jewelry revenues. Retail pawn merchandise margins, which exclude scrap jewelry sales, were 44% during Fiscal 2006 and Fiscal 2005. The gross margin on wholesale scrap jewelry sales was 34% during Fiscal 2006, compared to 22% during Fiscal 2005. This difference was primarily the result of increased selling prices for gold during the applicable periods. The volume-weight of scrap jewelry sold during Fiscal 2006 increased approximately 13% compared to Fiscal 2005. The gross profit margin, before the credit loss provision, on buy-here/pay-here retail automobile sales was 57% for the period August 26, 2006 through December 31, 2006.

The Company's cash advance and credit services loss provision for Fiscal 2006 was unchanged from Fiscal 2005 at 23% of cash advance and credit services fee revenues. The Company realized approximately \$1,883,000 and \$1,569,000 from sales of charged off cash advance and credit services

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

receivables during Fiscal 2006 and 2005, respectively. These amounts were recorded as a reduction to the cash advance and credit services loss provision. The buy-here/pay-here automotive credit loss provision was \$6,137,000 for the period August 26, 2006 through December 31, 2006, which represented 27% of retail automobile sales.

Store operating expenses increased 20% to \$81,089,000 during Fiscal 2006 compared to \$67,430,000 during Fiscal 2005, primarily as a result of the net addition of 113 pawn and cash advance stores since January 1, 2005, which is a 40% increase in the store count. Administrative expenses increased 27% to \$24,671,000 during Fiscal 2006 compared to \$19,412,000 during Fiscal 2005, which is primarily attributable to increased management and supervisory compensation expense, additional administrative expenses related to new store openings, the Auto Master acquisition and a non-cash charge of approximately \$583,000 for share-based compensation expense as a result of the adoption of SFAS 123(R), effective January 1, 2006. The Company incurred interest expense on acquisition-related debt in the third and fourth quarters of 2006 of \$916,000. There was no debt outstanding during Fiscal 2005. Interest income increased from \$317,000 in Fiscal 2005 to \$727,000 in Fiscal 2006, due primarily to interest income earned on increased levels of invested cash and cash equivalents.

For both Fiscal 2006 and 2005, the Company's effective federal income tax rate of 36% differed from the statutory tax rate of approximately 35%, primarily as a result of state income taxes.

Net income increased 25% to \$31,744,000 during Fiscal 2006 compared to \$25,383,000 during Fiscal 2005.

Twelve Months Ended December 31, 2005 Compared to Twelve Months Ended December 31, 2004

The following table (amounts shown in thousands) details the components of revenues for the fiscal year ended December 31, 2005, as compared to the fiscal year ended December 31, 2004 ("Fiscal 2004"):

|                                       | Fiscal Year Ended<br>December 31, |            |                   |      |
|---------------------------------------|-----------------------------------|------------|-------------------|------|
|                                       | 2005                              | 2004       | Increase/Decrease |      |
| Domestic revenues:                    |                                   |            |                   |      |
| Pawn retail merchandise sales         | \$ 57,174                         | \$ 55,307  | \$ 1,867          | 3%   |
| Pawn scrap jewelry sales              | 7,230                             | 7,787      | (557)             | (7%) |
| Pawn service charges                  | 25,429                            | 23,887     | 1,542             | 6%   |
| Cash advance and credit services fees | 60,881                            | 54,123     | 6,758             | 12%  |
| Other                                 | 3,935                             | 4,282      | (347)             | (8%) |
|                                       | \$ 154,649                        | \$ 145,386 | \$ 9,263          | 6%   |
|                                       | =====                             | =====      | =====             |      |
| Foreign revenues:                     |                                   |            |                   |      |
| Pawn retail merchandise sales         | \$ 24,165                         | \$ 14,774  | \$ 9,391          | 64%  |
| Pawn scrap jewelry sales              | 13,570                            | 8,877      | 4,693             | 53%  |
| Pawn service charges                  | 15,391                            | 10,776     | 4,615             | 43%  |
|                                       | \$ 53,126                         | \$ 34,427  | \$ 18,699         | 54%  |
|                                       | =====                             | =====      | =====             |      |
| Total revenues:                       |                                   |            |                   |      |
| Pawn retail merchandise sales         | \$ 81,339                         | 70,081     | 11,258            | 16%  |
| Pawn scrap jewelry sales              | 20,800                            | 16,664     | 4,136             | 25%  |
| Pawn service charges                  | 40,820                            | 34,663     | 6,157             | 18%  |

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|                                       |            |            |           |      |
|---------------------------------------|------------|------------|-----------|------|
| Cash advance and credit services fees | 60,881     | 54,123     | 6,758     | 12%  |
| Other                                 | 3,935      | 4,282      | (347)     | (8%) |
|                                       | -----      | -----      | -----     |      |
|                                       | \$ 207,775 | \$ 179,813 | \$ 27,962 | 16%  |
|                                       | =====      | =====      | =====     |      |

The Company introduced its credit services program in its Texas locations in July 2005. Credit services fees, which are included in reported cash advance and credit services fees, totaled \$18,657,000 for Fiscal 2005.

Same-store revenues (stores that were in operation during all of the year of both Fiscal 2004 and Fiscal 2005) increased 6% or \$10,885,000 for Fiscal 2005 as compared to Fiscal 2004. Revenues generated by the 102 new pawn and cash advance stores that have opened since January 1, 2004 increased by \$18,175,000, compared to Fiscal 2004.

The following table (amounts shown in thousands) details pawn receivables, cash advance receivables and active CSO loans outstanding from an independent third-party lender as of December 31, 2005, as compared to December 31, 2004:

|  | Balance at December 31, |           |                   |       |
|--|-------------------------|-----------|-------------------|-------|
|  | 2005                    | 2004      | Increase/Decrease |       |
|  | -----                   | -----     | -----             |       |
| Domestic customer receivables & CSO loans outstanding: |                         |           |                   |       |
| Pawn receivables                                       | \$ 18,603               | \$ 16,707 | \$ 1,896          | 11%   |
| Cash advance receivables, net of allowance             | 6,488                   | 15,465    | (8,977)           | (58%) |
| CSO loans held by independent third-party lender (1)   | 10,724                  | -         | 10,724            | -     |
|  | -----                   | -----     | -----             |       |
|  | \$ 35,815               | \$ 32,172 | \$ 3,643          | 11%   |
|  | =====                   | =====     | =====             |       |
| Foreign customer receivables:                          |                         |           |                   |       |
| Pawn receivables                                       | \$ 8,711                | \$ 6,722  | \$ 1,989          | 30%   |
|  | -----                   | -----     | -----             |       |
| Total customer receivables and CSO loans outstanding:  |                         |           |                   |       |
| Pawn receivables                                       | \$ 27,314               | \$ 23,429 | \$ 3,885          | 17%   |
| Cash advance receivables, net of allowance             | 6,488                   | 15,465    | (8,977)           | (58%) |
| CSO loans held by independent third-party lender (1)   | 10,724                  | -         | 10,724            | -     |
|  | -----                   | -----     | -----             |       |
|  | \$ 44,526               | \$ 38,894 | \$ 5,632          | 14%   |
|  | =====                   | =====     | =====             |       |

(1) CSO loans outstanding are comprised of the principal portion of active CSO loans outstanding from an independent third-party lender, which are not included on the Company's balance sheet.

Of the \$3,885,000 total increase in pawn receivables, \$2,639,000 was attributable to the growth at the stores that were in operation as of December 31, 2005 and 2004, and \$1,246,000 was attributable to the 35 new pawn stores opened since December 31, 2004, all of which were located in Mexico. The decrease in short-term advance receivables was due primarily to the introduction of the credit services program in the Company's Texas

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

locations, and the resulting discontinuation of the short-term advance product in Texas during the second half of Fiscal 2005. As a result, short-term advance receivables in the Company's Texas locations, including the Cash & Go, Ltd., joint venture kiosks, decreased from \$8,826,000 at December 31, 2004, to zero at December 31, 2005. As of December 31, 2005, the Company's credit services customers had current loans outstanding with the Independent Lender in the amount of \$10,724,000. Short-term advance receivables in the Company's non-Texas locations decreased from \$6,638,000 at December 31, 2004, to \$6,488,000 at December 31, 2005. The Company's loss reserve on short-term advance receivables decreased from \$552,000 at December 31, 2004, to \$242,000 at December 31, 2005 as a result of the decrease in outstanding short-term advance receivables. Under the CSO program, letters of credit issued by FCC to the Independent Lender constitute a guarantee for which the Company is required to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken by issuing the letters of credit. The estimated loss reserve under the letters of credit, net of anticipated recoveries from customers, was \$508,000 at December 31, 2005, which is included as a component of the Company's accrued expenses on its consolidated balance sheets.

Gross profit margins on total merchandise sales were 40% during Fiscal 2005 and Fiscal 2004. Retail merchandise margins, which exclude scrap jewelry sales, were 44% during Fiscal 2005 and Fiscal 2004. Profit margins on scrap jewelry sales were 22% during Fiscal 2005 and Fiscal 2004. The Company's payday advance and credit services loss provision increased from 21% of cash advance and credit services fee revenues during Fiscal 2004 to 23% during Fiscal 2005. During the second quarter of 2005, the Company initiated a program to sell selected payday advance receivables which had been previously written-off. The Company realized approximately \$1,569,000 from sales of receivables written-off in 2004 and prior during Fiscal 2005. This amount was recorded as a reduction to the short-term advance and credit services loss provision.

Store operating expenses increased 10% to \$67,430,000 during Fiscal 2005 compared to \$61,063,000 during Fiscal 2004, primarily as a result of the net addition of 93 pawn and cash advance stores since January 1, 2004, which is a 40% increase in the store count. Administrative expenses increased 9% to \$19,412,000 during Fiscal 2005 compared to \$17,837,000 during Fiscal 2004, which is primarily attributable to increased costs related to variable management and supervisory compensation expense and increased professional services fees. The Company had no interest expense during Fiscal 2005 as it had no interest-bearing debt outstanding during the year. Interest income increased from \$67,000 in Fiscal 2004 to \$317,000 in Fiscal 2005, due primarily to interest income earned on increased levels of invested cash and cash equivalents.

For Fiscal 2005 and 2004, the Company's effective federal income tax rates of 36% and 37%, respectively, differed from the statutory tax rate of approximately 35% and 34%, respectively, primarily as a result of state income taxes.

Net income increased 23% to \$25,383,000 during Fiscal 2005 compared to \$20,706,000 during Fiscal 2004.

### Liquidity and Capital Resources

As of December 31, 2006, the Company's primary sources of liquidity were \$15,535,000 in cash and cash equivalents, \$79,230,000 in receivables, \$28,761,000 in inventories and \$42,000,000 of available and unused funds under the Company's line of credit. The Company had working capital of \$93,653,000 as of December 31, 2006, and total equity exceeded total

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

liabilities by a ratio of 4 to 1. The Company's operations and store openings have been financed with funds generated primarily from operations.

The Company maintains a long-term line of credit with two commercial lenders ("the Credit Facility") which was amended during the third quarter of 2006 to increase the amount available under the line of credit from \$25,000,000 to \$50,000,000 and to extend the term of the facility until April 2009. The Credit Facility bears interest at the prevailing LIBOR rate (which was approximately 5.3% at December 31, 2006) plus a fixed interest rate margin of 1.375%. Amounts available under the Credit Facility are limited to 300% of the Company's earnings before income taxes, interest, depreciation and amortization for the trailing twelve months. At December 31, 2006, the Company had \$8,000,000 outstanding under the Credit Facility and the Company had \$42,000,000 available for borrowings. Under the terms of the Credit Facility, the Company is required to maintain certain financial ratios and comply with certain technical covenants. The Company was in compliance with the requirements and covenants of the Credit Facility as of December 31, 2006, and March 14, 2007. The Company is required to pay an annual commitment fee of 1/8 of 1% on the average daily-unused portion of the Credit Facility commitment. The Company's Credit Facility contains provisions that allow the Company to repurchase stock and/or pay cash dividends within certain parameters. Substantially all of the unencumbered assets of the Company have been pledged as collateral against indebtedness under the Credit Facility.

At December 31, 2006, the Company had notes payable to individuals arising from the Auto Master acquisition which total \$9,438,000 in aggregate and bear interest at 7%, with quarterly payments of principal and interest scheduled over the next four years. Of the \$9,438,000 in notes payable, \$2,250,000 is classified as a current liability and \$7,188,000 is classified as long-term debt. One of the notes payable, in the principal amount of \$1,000,000, is convertible after one year into 55,555 shares of the Company's common stock at a conversion price of \$18.00 per share.

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

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2006                    | 2005      | 2004      |
|  | (in thousands)          |           |           |
| Cash flows from operating activities:  |                         |           |           |
| Net income   | \$ 31,744               | \$ 25,383 | \$ 20,706 |
| Adjustments to reconcile net income to net cash flows from operating activities: |                         |           |           |
| Depreciation and amortization  | 8,041                   | 5,804     | 4,173     |
| Share-based compensation   | 583                     | -         | -         |
| Non-cash portion of credit loss provision  | 9,920                   | 7,118     | 11,559    |
| Stock option and warrant income tax benefit                                      | -                       | 2,066     | 8,736     |
| Changes in operating assets and liabilities:                                     |                         |           |           |
| Buy-here/pay-here automotive customer receivables                                | (11,939)                | -         | -         |
| Finance and service fees receivable  | (790)                   | 336       | (594)     |
| Inventories  | (1,936)                 | (1,563)   | (720)     |
| Prepaid expenses and other assets  | 438                     | (2,832)   | (530)     |
| Accounts payable and accrued liabilities   | 2,360                   | 5,088     | (1,344)   |
| Current and deferred income taxes  | (1,868)                 | 695       | 2,142     |
|  | 36,553                  | 42,095    | 44,128    |
| Cash flows from investing activities:  |                         |           |           |

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|   |           |           |           |
|---|-----------|-----------|-----------|
| Pawn customer receivables   | (7,095)   | (6,665)   | (4,728)   |
| Cash advance customer receivables                                   | (4,805)   | 1,859     | (13,265)  |
| Purchases of property and equipment                                 | (14,716)  | (11,993)  | (7,131)   |
| Acquisition of Auto Master buy-here/pay-here<br>automotive division | (23,652)  | -         | -         |
|   | -----     | -----     | -----     |
| Net cash flows from investing activities                            | (50,268)  | (16,799)  | (25,124)  |
|   | -----     | -----     | -----     |
| Cash flows from financing activities:                               |           |           |           |
| Proceeds from debt  | 31,000    | -         | 10,000    |
| Payments of debt  | (38,052)  | -         | (16,000)  |
| Purchase of treasury stock  | (24,753)  | (11,404)  | (13,463)  |
| Proceeds from exercise of stock options<br>and warrants             | 13,570    | 2,617     | 10,844    |
| Stock option and warrant income tax benefit                         | 4,744     | -         | -         |
|   | -----     | -----     | -----     |
| Net cash flows from financing activities                            | (13,491)  | (8,787)   | (8,619)   |
|   | -----     | -----     | -----     |
| Change in cash and cash equivalents                                 | (27,206)  | 16,509    | 10,385    |
| Cash and cash equivalents at beginning<br>of the period             | 42,741    | 26,232    | 15,847    |
|   | -----     | -----     | -----     |
| Cash and cash equivalents at end<br>of the period                   | \$ 15,535 | \$ 42,741 | \$ 26,232 |
|   | =====     | =====     | =====     |

During the second quarter of 2006, the Company completed its 3,200,000 share repurchase plan authorized in July 2004 at an average repurchase price of \$12.32 per share. The Board of Directors subsequently authorized an additional 2,000,000 share repurchase. During Fiscal 2006, the Company utilized excess cash flows to repurchase \$24,753,000 of common stock for a total of 1,262,000 shares under the two authorizations.

For purposes of its internal liquidity assessments, the Company considers net cash changes in pawn and cash advance customer receivables to be closely related to operating cash flows. For Fiscal 2006, net cash flows from operations were \$36,553,000, while net cash outflows related to pawn receivables activity was \$7,095,000 and the net cash outflows related to cash advance receivables activity was \$4,805,000. The combined net cash flows from operations and pawn and cash advance receivables totaled \$24,653,000 during Fiscal 2006. For the comparable prior year period, net cash flows from operations were \$42,095,000 and net cash outflows related to pawn receivables activity was \$6,665,000 and the net cash inflows related to cash advance receivables activity was \$1,859,000. The combined net cash flows from operations and pawn and cash advance receivables totaled \$37,289,000 during Fiscal 2005, which included a non-recurring operating cash flow benefit of approximately \$7,454,000 related to the replacement of the short-term advance product with the credit services product in Texas during the third quarter of 2005. For Fiscal 2004, total cash flows from operations were \$44,128,000 while net cash outflows related to pawn receivables activity was \$4,728,000 and the net cash outflows related to cash advance receivables activity was \$13,265,000. The combined net cash flows from operations and pawn and cash advance receivables totaled \$26,135,000 for Fiscal 2004.

The profitability and liquidity of the Company is affected by the amount of customer receivables outstanding and related collections of such receivables. In general, revenue growth is dependent upon the Company's ability to fund the growth of customer receivable balances and inventories and the ability to absorb related credit losses. At the current time, the majority of this growth is funded from operating cash flows. In addition to these factors, merchandise sales and the pace of store and dealership



## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

expansions affect the Company's liquidity.

Management believes that the Credit Facility and cash generated from operations will be sufficient to accommodate the Company's current operations and planned growth for Fiscal 2007.

The Company currently intends to continue to engage in a plan of expansion primarily through new store and dealership openings. With 80 stores opened during Fiscal 2006 (including the eight acquired Auto Master dealerships), the Company attained its target of 60 to 70 new store openings for the year. The Company intends to continue its new store expansion program in 2007, with a total of 75 to 80 new pawn and cash advance stores anticipated for opening. In addition, the Company expects to open 3 to 5 new Auto Master buy-here/pay-here automotive dealerships during Fiscal 2007. All capital expenditures, working capital requirements and start-up losses related to this expansion are expected to be funded through operating cash flows. While the Company continually looks for, and is presented with potential acquisition opportunities, the Company currently has no definitive plans or commitments for acquisitions. The Company will evaluate potential acquisitions, if any, based upon growth potential, purchase price, strategic fit and quality of management personnel, among other factors. If the Company encounters an attractive acquisition opportunity or additional expansion opportunity in the near future, the Company may seek additional financing, the terms of which will be negotiated on a case-by-case basis. The Company has no significant capital commitments.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") for Fiscal 2006 totaled \$57,830,000, an increase of 28% compared to \$45,165,000 for Fiscal 2005. The EBITDA margin, which is EBITDA as a percentage of revenues, for Fiscal 2006 was 21.4%, compared to 21.7% for the comparable prior year period.

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

|  | Twelve Months Ended December 31, |           |
|--|----------------------------------|-----------|
|  | 2006                             | 2005      |
| Net income   | \$ 31,744                        | \$ 25,383 |
| Adjustments:   |                                  |           |
| Interest expense   | 916                              | -         |
| Interest income  | (727)                            | (317)     |
| Income taxes   | 17,856                           | 14,295    |
| Depreciation and amortization  | 8,041                            | 5,804     |
|  | \$ 57,830                        | \$ 45,165 |
| Earnings before interest, income taxes,<br>depreciation and amortization | \$ 57,830                        | \$ 45,165 |
|  | =====                            | =====     |

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

### Contractual Commitments

A tabular disclosure of contractual obligations at December 31, 2006, including Cash & Go, Ltd., is as follows:

|  | Payments Due by Period |                        |                 |                 |                         |
|--|------------------------|------------------------|-----------------|-----------------|-------------------------|
|  | (in thousands)         |                        |                 |                 |                         |
|  | Total                  | Less<br>than 1<br>year | 1 -- 3<br>years | 3 -- 5<br>years | More<br>than 5<br>years |
|  | -----                  | -----                  | -----           | -----           | -----                   |
| Operating leases   | \$62,588               | \$17,582               | \$26,794        | \$13,401        | \$ 4,811                |
| Employment and consulting<br>contracts for officers<br>and directors | 6,900                  | 1,300                  | 2,600           | 1,200           | 1,800                   |
| Revolving credit facility (1)  | 8,000                  | -                      | 8,000           | -               | -                       |
| Notes payable  | 9,438                  | 2,250                  | 5,125           | 2,063           | -                       |
| Interest on notes payable  | 1,384                  | 602                    | 710             | 72              | -                       |
|  | -----                  | -----                  | -----           | -----           | -----                   |
| Total  | \$88,310               | \$21,734               | \$43,229        | \$16,736        | \$ 6,611                |
|  | =====                  | =====                  | =====           | =====           | =====                   |

(1) Excludes interest obligations under the line of credit agreement. See Note 8 of Notes to Consolidated Financial Statements.

### Off-Balance Sheet Arrangements

In the Company's Texas locations, First Cash Credit, Ltd. ("FCC"), a wholly-owned subsidiary of the Company, offers a fee-based credit services organization ("CSO") program to assist consumers in obtaining credit. Under the CSO program, FCC assists customers in applying for a cash advance from an independent, non-bank, consumer lending company (the "Independent Lender") and issues the Independent Lender a letter of credit to guarantee the repayment of the loan. When a consumer executes a credit services agreement with the Company, the Company agrees, for a fee payable to the Company by the consumer, to provide a variety of credit services to the consumer, one of which is to guarantee the consumer's obligation to repay the loan received by the consumer from the Independent Lender if the consumer fails to do so.

For cash advance products originated by the Independent Lender, the Independent Lender is responsible for evaluating each of its customers' applications, determining whether to approve a cash advance based on an application and determining the amount of the cash advance. The Company is not involved in the Independent Lender's cash advance approval processes or in determining the lenders' approval procedures or criteria. At December 31, 2006, the outstanding amount of active cash advances originated by the Independent Lender was \$12.7 million.

Since the Company may not be successful in collection of these delinquent accounts, the Company's cash advance loss provision includes amounts estimated to be adequate to absorb credit losses from cash advances in the aggregate cash advance portfolio, including those expected to be assigned to the Company or acquired by the Company as a result of its guaranty obligations. Accrued losses of \$569,000 on portfolios owned by the Independent Lender are included in "accrued liabilities" in the consolidated balance sheets. The Company believes that this amount is adequate to absorb credit losses from cash advances expected to be assigned to the Company or

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

acquired by the Company as a result of its guaranty obligations.

### Inflation

The Company does not believe that inflation has had a material effect on the volume of customer receivables originated, merchandise sales, or results of operation.

### Seasonality

The Company's retail pawn business is seasonal in nature with its highest volume of merchandise sales occurring during the first and fourth calendar quarters of each year which coincides with Valentine's Day and Christmas. The Company's pawn lending and cash advance activities are also seasonal, with the highest volume of lending activity occurring during the third and fourth calendar quarters of each year. The Company's buy-here/pay-here automotive business is less seasonal, although the Company expects that it will experience stronger sales and collection activities in the first quarter as a result of customers receiving tax refunds.

### Recent Accounting Pronouncements

See discussion in Note 2 of Notes to Consolidated Financial Statements.

### Item 7a. Quantitative and Qualitative Disclosures About Market Risk

-----

Market risks relating to the Company's operations result primarily from changes in interest rates, foreign exchange rates, and gold prices. The Company does not engage in speculative or leveraged transactions, nor does it hold or issue financial instruments for trading purposes.

#### Interest Rate Risk

The Company is potentially exposed to market risk in the form of interest rate risk in regards to its long-term line of credit. At December 31, 2006, the Company had \$8,000,000 outstanding under its revolving line of credit. This revolving line is priced with a variable rate based on LIBOR or a base rate, plus an applicable margin based on a defined leverage ratio for the Company. See "Note 8 - Revolving Credit Facility and Notes Payable." Based on the average outstanding indebtedness during the year ended December 31, 2006, a 10% increase in interest rates would have increased the Company's interest expense by approximately \$62,000 for the year ended December 31, 2006.

The Company's cash and cash equivalents are invested in money market accounts. Accordingly, the Company is subject to changes in market interest rates. However, the Company does not believe a change in these rates would have a materially adverse effect on the Company's operating results, financial condition, or cash flows.

#### Foreign Currency Risk

The Company bears certain exchange rate risks from its operations in Mexico as approximately \$4,337,000 of the Company's pawn loans in Mexico at December 31, 2006 were contracted and expected to be settled in Mexican pesos. The Company also maintained certain peso-denominated bank balances at December 31, 2006, which converted to a U.S. dollar equivalent of \$600,000. A 10% increase in the peso to U.S. dollar exchange rate would increase the Company's foreign currency translation exposure on its pawn loan balance and cash by approximately \$385,000 and \$55,000, respectively.

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

### Gold Price Risk

A significant and sustained decline in the price of gold would negatively impact the value of jewelry inventories held by the Company and the value of jewelry pledged as collateral by pawn customers. As a result, the Company's profit margins on existing jewelry inventories would be negatively impacted, as would be the potential profit margins on jewelry currently pledged as collateral by pawn customers in the event it is forfeited by the pawn customer. In addition, a decline in gold 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. The Company believes that many customers would be willing to add additional items of value to their pledge in order to obtain the desired loan amount, thus mitigating a portion of this risk.

### Item 8. Financial Statements and Supplementary Data

-----

The financial statements prepared in accordance with Regulation S-X are included in a separate section of this report. See the index to Financial Statements at Item 15(a)(1) and (2) of this report.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

-----

Not applicable.

### Item 9a. Controls and Procedures

-----

#### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, management of the Company has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2006 ("Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective (i) to ensure that information required to be disclosed by us in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms; and (ii) to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to our management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

The Report of Management on Internal Control Over Financial Reporting is included in Item 9a of this annual report on Form 10-K. There was no change in the Company's internal control over financial reporting during the quarter ended December 31, 2006, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Management's assessment of the Company's internal control over financial reporting excluded the buy-here/pay-here operating

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

assets acquired from Guaranteed Auto Finance, Inc. and SHAC, Inc., collectively doing business as "Auto Master," because they were acquired by the Company in a purchase transaction during 2006.

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

### Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. This internal control system has been designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of the Company's published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. To make this assessment, management used the criteria for effective internal control over financial reporting described in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2006, the Company's internal control over financial reporting is effective based on those criteria.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by Hein & Associates LLP, an independent registered public accounting firm, as stated in their report which appears herein.

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
of First Cash Financial Services, Inc.

We have audited management's assessment, included in the accompanying management's report on internal controls, that First Cash Financial Services, Inc., maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Company management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

We also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of First Cash Financial Services, Inc., as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for the three years in the period ended December 31, 2006 and our report dated March 14, 2007 expressed an unqualified opinion thereon.

Hein & Associates LLP  
Dallas, Texas  
March 14, 2007

Item 9b. Other Information

-----

None.

PART III

-----

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

### Item 10. Directors, Executive Officers and Corporate Governance

-----

The information required by this item with respect to the directors, executive officers and compliance with Section 16(a) of the Exchange Act is incorporated by reference from the information provided under the headings "Election of Directors," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance," respectively, contained in the Company's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the Company's Annual Meeting of Stockholders.

The Company has adopted a Code of Ethics that applies to all of its directors, officers, and employees. This Code is publicly available on the Company's website at [www.firstcash.com](http://www.firstcash.com). Copies of the Company's Code of Ethics are available, free of charge, by submitting a written request to First Cash Financial Services, Inc., Investor Relations, 690 E. Lamar Blvd., Suite 400, Arlington, Texas 76011.

### Item 11. Executive Compensation

-----

The information required by this item is incorporated by reference from the information provided under the heading "Executive Compensation" of the Company's Proxy Statement.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

-----

#### Equity Compensation Plan Information

The following table gives information about the Company's common stock that may be issued upon the exercise of options under shareholder-approved plans, including its 1990 Stock Option Plan, its 1999 Stock Option Plan, and its 2004 Long-Term Incentive Plan as of December 31, 2006. Additionally, the Company issues warrants to purchase shares of common stock to certain key members of management, members of the Board of Directors that are not employees or officers, and to other third parties. The issuance of warrants is not approved by shareholders, and each issuance is generally negotiated between the Company and such recipients.

| Plan Category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights<br>(A) | Weighted average exercise price of outstanding options, warrants and rights<br>(B) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A)<br>(C) |
|--|--|--|--|
| -----  | ---  | ---  | ---  |
| Equity Compensation Plans Approved by Security Holders     | 4,193,500  | \$ 14.50   | 374,288  |
| Equity Compensation Plans Not Approved by Security Holders | 839,000  | 3.00   | -  |
| -----  | -----  | -----  | -----  |

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|       |           |          |         |
|-------|-----------|----------|---------|
| Total | 5,032,500 | \$ 12.58 | 374,288 |
|       | =====     |          | =====   |

Other information required by this item is incorporated herein by reference from the information provided under the heading "Security Ownership of Certain Beneficial Owners and Management" of the Company's Proxy Statement.

### Item 13. Certain Relationships and Related Transactions, and Director ----- Independence -----

The information required by this item is incorporated herein by reference from the information provided in the Company's Proxy Statement.

### Item 14. Principal Accounting Fees and Services -----

The information required by this item is incorporated by reference from the information provided in the Company's Proxy Statement under the discussion of the Company Audit Committee and under the item regarding shareholder ratification of the Company's independent accountants.

## PART IV -----

### Item 15. Exhibits and Financial Statement Schedules -----

(a) The following documents are filed as a part of this report:

- (1) Consolidated Financial Statements:  
Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets  
Consolidated Statements of Income  
Consolidated Statements of Cash Flows  
Consolidated Statements of Changes in Stockholders' Equity  
Notes to Consolidated Financial Statements
- (2) All schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.
- (3) Exhibits:
  - 3.1(7) Amended Certificate of Incorporation
  - 3.2(5) Amended Bylaws
  - 4.1(2) Common Stock Specimen
  - 10.1(1) First Cash, Inc. 1990 Stock Option Plan
  - 10.2(8) Consulting Agreement - Phillip E. Powell
  - 10.3(8) Employment Agreement - Rick L. Wessel
  - 10.4(3) Acquisition Agreement - Miraglia, Inc.
  - 10.5(4) Acquisition Agreement for Twelve Pawnshops  
in South Carolina
  - 10.6(4) Acquisition Agreement for One Iron Ventures, Inc.
  - 10.7(4) First Cash Financial Services, Inc. 1999 Stock  
Option Plan
  - 10.8(6) Executive Incentive Compensation Plan
  - 10.9(7) 2004 Long-Term Incentive Plan



Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

- 10.10(9) Stock Purchase Agreement - Auto Master
- 10.11(9) Third Amendment to the Credit Agreement
- 10.12(10) Amendment to Consulting Agreement - Phillip E. Powell
- 10.13(10) Amendment to Employment Agreement - Rick L. Wessel
- 14.1(8) Code of Ethics
- 21.1(10) Subsidiaries
- 23.1(10) Consent of Independent Registered Public Accounting Firm, Hein & Associates LLP
- 31.1(10) Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2(10) Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1(10) Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- (1) Filed as an exhibit to the Company's Registration Statement on Form S-18 (No. 33-37760-FW) and incorporated herein by reference.
- (2) Filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-48436) and incorporated herein by reference.
- (3) Filed as an exhibit to the Annual Report on Form 10-K for the fiscal year ended July 31, 1998 (File No. 0 - 19133) and incorporated herein by reference.
- (4) Filed as an exhibit to the Company's Registration Statement on Form S-3 dated January 22, 1999 (File No. 333-71077) and incorporated herein by reference.
- (5) Filed as an exhibit to the Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 0 - 19133) and incorporated herein by reference.
- (6) Filed as Exhibit A to the Company's Definitive Proxy Statement filed on April 30, 2003.
- (7) Filed as Exhibit A to the Company's Definitive Proxy Statement filed on April 29, 2004.
- (8) Filed as an exhibit to the Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 0 - 19133) and incorporated herein by reference.
- (9) Filed as an exhibit to the Current Report on Form 8-K dated August 22, 2006 (File No. 0 - 19133) and incorporated herein by reference.
- (10) Filed herewith.

SIGNATURES

-----

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 14, 2007

FIRST CASH FINANCIAL SERVICES, INC.  
(Registrant)

/s/ RICK L. WESSEL

-----  
Rick L. Wessel  
Chief Executive Officer  
(Principal Executive Officer)

/s/ R. DOUGLAS ORR

-----  
R. Douglas Orr

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

Executive Vice President and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature<br>-----                                  | Capacity<br>-----  | Date<br>----   |
|---|--|----------------|
| /s/ PHILLIP E. POWELL<br>-----<br>Phillip E. Powell | Chairman of the Board  | March 14, 2007 |
| /s/ RICK L. WESSEL<br>-----<br>Rick L. Wessel       | Vice Chairman of the Board,<br>President, Chief Executive<br>Officer | March 14, 2007 |
| /s/ JOE R. LOVE<br>-----<br>Joe R. Love             | Director   | March 14, 2007 |
| /s/ RICHARD T. BURKE<br>-----<br>Richard T. Burke   | Director   | March 14, 2007 |
| /s/ TARA MACMAHON<br>-----<br>Tara MacMahon         | Director   | March 14, 2007 |

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
First Cash Financial Services, Inc.

We have audited the accompanying consolidated balance sheets of First Cash Financial Services, Inc., and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of First Cash Financial Services, Inc., and subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and cash flows for the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 14, 2007, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Hein & Associates LLP  
 Dallas, Texas  
 March 14, 2007

### FIRST CASH FINANCIAL SERVICES, INC. CONSOLIDATED BALANCE SHEETS

|  | December 31,                          |           |
|--|---------------------------------------|-----------|
|  | 2006                                  | 2005      |
|  | -----                                 | -----     |
|  | (in thousands, except per share data) |           |
| <b>ASSETS</b>  |                                       |           |
| Cash and cash equivalents  | \$ 15,535                             | \$ 42,741 |
| Finance and service charges receivable   | 4,966                                 | 4,176     |
| Customer receivables, net of allowances of<br>\$5,867 and \$242, respectively                        | 60,251                                | 33,802    |
| Inventories  | 28,761                                | 21,987    |
| Prepaid expenses and other current assets  | 5,901                                 | 5,430     |
|  | -----                                 | -----     |
| Total current assets   | 115,414                               | 108,136   |
| Customer receivables with long-term maturities,<br>net of allowance of \$3,895 and \$0, respectively | 14,013                                | -         |
| Property and equipment, net  | 30,643                                | 23,565    |
| Goodwill and other intangible assets, net  | 72,544                                | 53,237    |
| Other  | 1,228                                 | 1,016     |
|  | -----                                 | -----     |
| Total assets   | \$ 233,842                            | 185,954   |
|  | =====                                 | =====     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                       |           |
| Current portion of notes payable   | \$ 2,250                              | -         |
| Accounts payable   | 1,535                                 | 908       |
| Accrued liabilities  | 17,976                                | 13,722    |
|  | -----                                 | -----     |
| Total current liabilities  | 21,761                                | 14,630    |
| Revolving credit facility  | 8,000                                 | -         |

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|  |            |            |
|--|------------|------------|
| Notes payable, net of current portion  | 7,188      | -          |
| Deferred income taxes payable  | 8,297      | 8,616      |
|  | -----      | -----      |
| Total liabilities  | 45,246     | 23,246     |
|  | -----      | -----      |
| Commitments and contingencies (Notes 2 and 10)   |            |            |
| Stockholders' equity:  |            |            |
| Preferred stock; \$.01 par value; 10,000,000 shares authorized; no shares issued or outstanding  | -          | -          |
| Common stock; \$.01 par value; 90,000,000 shares authorized; 35,756,960 and 33,900,860 shares issued, respectively; 32,096,304 and 31,502,472 shares outstanding, respectively | 353        | 340        |
| Additional paid-in capital   | 101,949    | 83,065     |
| Retained earnings  | 134,567    | 102,823    |
| Common stock held in treasury, 3,660,656 and 2,398,388 shares at cost, respectively  | (48,273)   | (23,520)   |
|  | -----      | -----      |
| Total stockholders' equity   | 188,596    | 162,708    |
|  | -----      | -----      |
| Total liabilities and stockholders' equity   | \$ 233,842 | \$ 185,954 |
|  | =====      | =====      |

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

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

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2006                    | 2005      | 2004      |
|  | -----                   | -----     | -----     |
| (in thousands, except per share amounts) |                         |           |           |
| Revenues:                                |                         |           |           |
| Merchandise sales                        | \$149,473               | \$102,139 | \$ 86,745 |
| Finance and service charges              | 116,187                 | 101,701   | 88,786    |
| Other                                    | 4,062                   | 3,935     | 4,282     |
|  | -----                   | -----     | -----     |
|  | 269,722                 | 207,775   | 179,813   |
|  | -----                   | -----     | -----     |
| Cost of revenues:                        |                         |           |           |
| Cost of goods sold                       | 84,229                  | 61,659    | 52,056    |
| Credit loss provision                    | 21,463                  | 13,808    | 11,559    |
| Other                                    | 440                     | 301       | 252       |
|  | -----                   | -----     | -----     |
|  | 106,132                 | 75,768    | 63,867    |
|  | -----                   | -----     | -----     |
| Net revenues                             | 163,590                 | 132,007   | 115,946   |
|  | -----                   | -----     | -----     |
| Expenses and other income:               |                         |           |           |
| Store operating expenses                 | 81,089                  | 67,430    | 61,063    |
| Administrative expenses                  | 24,671                  | 19,412    | 17,837    |
| Depreciation                             | 7,929                   | 5,804     | 4,173     |
| Amortization                             | 112                     | -         | -         |
| Interest expense                         | 916                     | -         | 73        |
| Interest income                          | (727)                   | (317)     | (67)      |

Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|                                |           |           |           |
|--------------------------------|-----------|-----------|-----------|
|                                | -----     | -----     | -----     |
|                                | 113,990   | 92,329    | 83,079    |
|                                | -----     | -----     | -----     |
| Income before income taxes     | 49,600    | 39,678    | 32,867    |
| Provision for income taxes     | 17,856    | 14,295    | 12,161    |
|                                | -----     | -----     | -----     |
| Net income                     | \$ 31,744 | \$ 25,383 | \$ 20,706 |
|                                | =====     | =====     | =====     |
| Net income per share (Note 3): |           |           |           |
| Basic                          | \$ 1.01   | \$ 0.81   | \$ 0.66   |
|                                | =====     | =====     | =====     |
| Diluted                        | \$ 0.97   | \$ 0.76   | \$ 0.61   |
|                                | =====     | =====     | =====     |

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

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

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | -----                   | -----     | -----     |
|  | 2006                    | 2005      | 2004      |
|  | -----                   | -----     | -----     |
|  | (in thousands)          |           |           |
| Cash flows from operating activities:  |                         |           |           |
| Net income   | \$ 31,744               | \$ 25,383 | \$ 20,706 |
| Adjustments to reconcile net income to net cash flows from operating activities: |                         |           |           |
| Depreciation and amortization  | 8,041                   | 5,804     | 4,173     |
| Share-based compensation   | 583                     | -         | -         |
| Non-cash portion of credit loss provision  | 9,920                   | 7,118     | 11,559    |
| Stock option and warrant income tax benefit                                      | -                       | 2,066     | 8,736     |
| Changes in operating assets and liabilities:                                     |                         |           |           |
| Buy-here/pay-here automotive customer receivables                                | (11,939)                | -         | -         |
| Finance and service fees receivable  | (790)                   | 336       | (594)     |
| Inventories  | (1,936)                 | (1,563)   | (720)     |
| Prepaid expenses and other assets  | 438                     | (2,832)   | (530)     |
| Accounts payable and accrued liabilities   | 2,360                   | 5,088     | (1,344)   |
| Current and deferred income taxes  | (1,868)                 | 695       | 2,142     |
|  | -----                   | -----     | -----     |
| Net cash flows from operating activities   | 36,553                  | 42,095    | 44,128    |
|  | -----                   | -----     | -----     |
| Cash flows from investing activities:  |                         |           |           |
| Pawn customer receivables  | (7,095)                 | (6,665)   | (4,728)   |
| Cash advance customer receivables  | (4,805)                 | 1,859     | (13,265)  |
| Purchases of property and equipment  | (14,716)                | (11,993)  | (7,131)   |
| Acquisition of Auto Master buy-here/pay-here automotive division                 | (23,652)                | -         | -         |
|  | -----                   | -----     | -----     |
| Net cash flows from investing activities   | (50,268)                | (16,799)  | (25,124)  |
|  | -----                   | -----     | -----     |
| Cash flows from financing activities:  |                         |           |           |
| Proceeds from debt   | 31,000                  | -         | 10,000    |
| Payments of debt   | (38,052)                | -         | (16,000)  |
| Purchase of treasury stock   | (24,753)                | (11,404)  | (13,463)  |
| Proceeds from exercise of stock  |                         |           |           |

Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|  |           |           |           |
|--|-----------|-----------|-----------|
| options and warrants                                 | 13,570    | 2,617     | 10,844    |
| Stock option and warrant income tax benefit          | 4,744     | -         | -         |
|  | -----     | -----     | -----     |
| Net cash flows from financing activities             | (13,491)  | (8,787)   | (8,619)   |
|  | -----     | -----     | -----     |
| Change in cash and cash equivalents                  | (27,206)  | 16,509    | 10,385    |
| Cash and cash equivalents at beginning of the period | 42,741    | 26,232    | 15,847    |
|  | -----     | -----     | -----     |
| Cash and cash equivalents at end of the period       | \$ 15,535 | \$ 42,741 | \$ 26,232 |
|  | =====     | =====     | =====     |

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

FIRST CASH FINANCIAL SERVICES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2006                    | 2005      | 2004      |
|  | -----                   | -----     | -----     |
|  | (in thousands)          |           |           |
| Supplemental disclosure of cash flow information:  |                         |           |           |
| Cash paid during the period for:   |                         |           |           |
| Interest   | \$ 738                  | \$ -      | \$ 70     |
|  | =====                   | =====     | =====     |
| Income taxes   | \$ 14,576               | \$ 11,380 | \$ 1,356  |
|  | =====                   | =====     | =====     |
| Supplemental disclosure of non-cash operating activity:  |                         |           |           |
| Inventory acquired in repossession   | \$ 310                  | \$ -      | \$ -      |
|  | =====                   | =====     | =====     |
| Supplemental disclosure of non-cash investing activity:  |                         |           |           |
| Non-cash transactions in connection with pawn receivables settled through forfeitures of collateral transferred to inventories | \$ 49,138               | \$ 42,241 | \$ 35,173 |
|  | =====                   | =====     | =====     |
| Supplemental disclosure of non-cash financing activity:  |                         |           |           |
| Notes payable issued in connection with the acquisition of Auto Master   | \$ 10,000               | \$ -      | \$ -      |
|  | =====                   | =====     | =====     |

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

FIRST CASH FINANCIAL SERVICES, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

|  | Year Ended December 31, |       |       |
|--|-------------------------|-------|-------|
|  | 2006                    | 2005  | 2004  |
|  | -----                   | ----- | ----- |

Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|   | -----              | -----              | -----              |
|---|--------------------|--------------------|--------------------|
|   | (in thousands)     |                    |                    |
| Preferred Stock   | -                  | -                  | -                  |
| Common stock:   |                    |                    |                    |
| Balance at beginning of year  | \$ 340             | \$ 332             | \$ 318             |
| Exercise of stock options and warrants  | 13                 | 8                  | 30                 |
| Cancellation of treasury stock  | -                  | -                  | (16)               |
| Balance at end of year  | 353                | 340                | 332                |
| Additional paid-in capital:   |                    |                    |                    |
| Balance at beginning of year  | 83,065             | 78,390             | 63,179             |
| Exercise of stock options and warrants,<br>including income tax benefit of \$4,744,<br>\$2,066, \$8,736, respectively | 18,301             | 4,675              | 19,557             |
| Cancellation of treasury stock  | -                  | -                  | (4,346)            |
| Stock option expense  | 583                | -                  | -                  |
| Balance at end of year  | 101,949            | 83,065             | 78,390             |
| Retained earnings:  |                    |                    |                    |
| Balance at beginning of year  | 102,823            | 77,440             | 56,734             |
| Net income  | 31,744             | 25,383             | 20,706             |
| Balance at end of year  | 134,567            | 102,823            | 77,440             |
| Treasury stock:   |                    |                    |                    |
| Balance at beginning of year  | (23,520)           | (12,116)           | (3,015)            |
| Repurchases of treasury stock   | (24,753)           | (11,404)           | (13,463)           |
| Cancellation of treasury stock  | -                  | -                  | 4,362              |
| Balance at end of year  | (48,273)           | (23,520)           | (12,116)           |
| Total stockholders' equity  | \$188,596<br>===== | \$162,708<br>===== | \$144,046<br>===== |

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

FIRST CASH FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND NATURE OF THE COMPANY

First Cash Financial Services, Inc., (the "Company") was incorporated in Texas on July 5, 1988, and was reincorporated in Delaware in April 1991. The Company is engaged in the operation of pawn stores, which lend money on the collateral of pledged personal property and retail previously owned merchandise acquired through pawn forfeitures and purchases directly from the general public. In addition to making short-term secured pawns, many of the Company's pawn stores offer cash advances and credit services. The Company also operates cash advance stores that provide cash advances, credit services, check cashing, and other related financial services. On August 25, 2006, the Company acquired Guaranteed Auto Finance, Inc. and SHAC, Inc. (collectively doing business as "Auto Master"), which operates automobile dealerships in the buy-here/pay-here segment of the used-vehicle sales and

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

financing market. The automotive dealerships sell used vehicles and earn finance charges from the related vehicle financing contracts. As of December 31, 2006, the Company owned and operated 252 pawn stores, 145 cash advance stores and 10 buy-here/pay-here automotive dealerships. The Company is also a 50% owner of Cash & Go, Ltd., a Texas limited partnership that owns and operates 40 financial services kiosks inside convenience stores.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of these financial statements:

Principles of consolidation - The accompanying consolidated financial statements of the Company include the accounts of its wholly-owned subsidiaries. The Company is a 50% partner in Cash & Go, Ltd., a Texas limited partnership, and in accordance with FASB Interpretation No. 46(R) - Consolidation of Variable Interest Entities, the consolidated operating results include those of Cash & Go, Ltd. The operating results of Auto Master are included in consolidated operating results for the period August 26, 2006 through December 31, 2006. See Note 4. All significant intercompany accounts and transactions have been eliminated.

Cash and cash equivalents - The Company considers any highly liquid investments with an original maturity of three months or less at date of acquisition to be cash equivalents.

Customer receivables and revenue recognition - Pawn receivables are short-term loans secured by the customer's pledge of tangible personal property. The Company accrues pawn service charge revenue on a constant-yield basis over the life of the pawn loan for all pawns that the Company deems collection to be probable based on historical pawn redemption statistics. If the pawn is not repaid, the principal amount loaned becomes the carrying value of the forfeited collateral ("inventory"), which is recovered through sale. Cash advances are short-term loans with terms that range from seven to thirty-one days. The Company accrues cash advance service fees on a constant-yield basis over the term of the cash advance. In its Texas markets, the Company offers a credit services product ("CSO Program") to assist customers in obtaining a short-term loan from an independent, non-bank, consumer lending company (the "Independent Lender"). The Company recognizes credit services fees, which are collected from the customer at the inception of the credit services agreement, ratably over the life of the loan made by the Independent Lender. The loans made by the Independent Lender to credit services customers of FCC have terms of seven to thirty-one days. The Company records a liability for collected, but unearned, credit services fees received from its customers. The Company originates installment loan contracts from the sale of used vehicles at its dealerships. Such automotive receivables are collateralized by vehicles sold and consist of contractually scheduled payments from installment contracts, net of unearned finance charges and an allowance for credit losses. Unearned finance charges represent the balance of interest income remaining from the total interest to be earned over the term of the related installment contract.

Credit loss provisions - The Company maintains an allowance for credit losses on an aggregate basis at a level it considers sufficient to cover estimated losses in the collection of its cash advance and automobile finance receivables. The allowance for credit losses is based primarily upon historical credit loss experience, with consideration given to recent credit loss trends and changes in loan characteristics (i.e., average amount financed and term), delinquency levels, collateral values, economic conditions and underwriting and collection practices. The allowances for



## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

credit losses are periodically reviewed by management with any changes reflected in current operations. Although it is at least reasonably possible that events or circumstances could occur in the future that are not presently foreseen which could cause actual credit losses to be materially different from the recorded allowance for credit losses, the Company believes that it has given appropriate consideration to all relevant factors and has made reasonable assumptions in determining the allowance for credit losses. The Company considers cash advances to be in default if they are not repaid on the due date, and writes off the principal amount and service charge receivable as of the default date. Net defaults and changes in the cash advance allowance are charged to the cash advance loss provision. Under the CSO program, the Company issues the Independent Lender a letter of credit to guarantee the repayment of the loan. These letters of credit constitute a guarantee for which the Company is required to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken by issuing the letters of credit. According to the letter of credit, if the borrower defaults on the loan, the Company will pay the Independent Lender the principal, accrued interest, insufficient funds fee, and late fees, all of which the Company records as bad debt in the cash advance and credit services loss provision. FCC is entitled to seek recovery directly from its customers for amounts it pays the Independent Lender in performing under the letters of credit. The Company records the estimated fair value of the liability under the letters of credit in accrued liabilities. An automotive finance receivable account is considered delinquent when a contractually scheduled payment has not been received by the scheduled payment date. The Company considers automotive finance receivables to be in default when a contractually scheduled payment is 90 days past due.

Store operating expenses - Costs incurred in operating the pawn stores, cash advance stores and buy-here/pay-here dealerships have been classified as store operating expenses. Operating expenses include salary and benefit expense of store employees, rent and other occupancy costs, bank charges, security, insurance, utilities, cash shortages and other costs incurred by the stores.

Layaway and deferred revenue - 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.

Inventories - Pawn inventories represent merchandise purchased directly from the public and merchandise acquired from forfeited pawns. Certain pawn inventories are purchased directly from customers and are recorded at cost. Inventories from forfeited pawns are recorded at the amount of the pawn principal on the unredeemed goods. Vehicle inventories consist of used vehicles acquired from auctions, new car dealerships and trade-ins. Vehicle transportation and reconditioning costs are capitalized as a component of inventory. Repossessed vehicles are recorded at fair value, which approximates wholesale value. The cost of pawn and vehicle inventories is determined on the specific identification method. Pawn and vehicle inventories are stated at the lower of cost or market; accordingly, inventory valuation allowances are established when inventory carrying values are in excess of estimated selling prices, net of direct costs of disposal. Management has evaluated inventories and determined that a valuation allowance is not necessary.

Property and equipment - Property and equipment are recorded at cost. Depreciation is determined on the straight-line method based on estimated useful lives of fifteen years for buildings and three to five years for equipment. The costs of improvements on leased stores are capitalized as leasehold improvements and are amortized on the straight-line method over the applicable lease period, or useful life, if shorter.

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

Maintenance and repairs are charged to expense as incurred; renewals and betterments are charged to the appropriate property and equipment accounts. Upon sale or retirement of depreciable assets, the cost and related accumulated depreciation is removed from the accounts, and the resulting gain or loss is included in the results of operations in the period the assets are sold or retired.

Long-lived assets - Property, plant and equipment and non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the net book value of the asset may not be recoverable. An impairment loss is recognized if the sum of the expected future cash flows (undiscounted and before interest) from the use of the asset is less than the net book value of the asset. Generally, the amount of the impairment loss is measured as the difference between the net book value of the assets and the estimated fair value of the related assets. Management does not believe any of these assets have been impaired at December 31, 2006. Goodwill is reviewed annually for impairment based upon its fair value, or more frequently if certain indicators arise. Management has determined that goodwill has not been impaired at December 31, 2006.

Fair value of financial instruments - The fair value of financial instruments is determined by reference to various market data and other valuation techniques, as appropriate. Unless otherwise disclosed, the fair values of financial instruments approximate their recorded values, due primarily to their cash nature.

Income taxes - The Company uses the liability method of computing deferred income taxes on all material temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases.

Advertising - The Company expenses the costs of advertising the first time the advertising takes place. Advertising expense for the fiscal years ended December 31, 2006, 2005 and 2004, was \$2,489,000, \$1,964,000 and \$2,302,000, respectively.

Share-based compensation - Prior to January 1, 2006, the Company applied the recognition and measurement principles of APB 25, Accounting for Stock Issued to Employees, and related interpretations, as permitted by SFAS 123, Accounting for Stock-Based Compensation, in accounting for awards of stock options and warrants, whereby at the date of grant, no compensation expense was reflected in income, as all stock options and warrants granted had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. Effective January 1, 2006, the Company adopted SFAS No. 123(R), Share-Based Payments, which replaces SFAS 123 and supersedes APB 25 (see Note 12).

Earnings per share - Basic net income per share is computed by dividing net income by the weighted average number of shares outstanding during the year. Diluted net income per share is calculated by giving effect to the potential dilution that could occur if securities or other contracts to issue common shares were exercised and converted into common shares during the year. All share amounts have been retroactively adjusted to give effect to a two-for-one split and three-for-two split of the Company's common stock in February 2006 and March 2004, respectively (see Note 3).

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

Year Ended December 31,  
-----

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|   | 2006      | 2005      | 2004      |
|---|-----------|-----------|-----------|
|   | -----     | -----     | -----     |
| Numerator:  |           |           |           |
| Net income for calculating basic and diluted earnings per share           | \$ 31,744 | \$ 25,383 | \$ 20,706 |
|   | =====     | =====     | =====     |
| Denominator:  |           |           |           |
| Weighted-average common shares for calculating basic earnings per share   | 31,448    | 31,506    | 31,507    |
| Effect of dilutive securities:  |           |           |           |
| Stock options and warrants  | 1,411     | 1,719     | 2,560     |
| Weighted-average common shares for calculating diluted earnings per share | 32,859    | 33,225    | 34,067    |
|   | =====     | =====     | =====     |
| Basic earnings per share  | \$ 1.01   | \$ 0.81   | \$ 0.66   |
|   | =====     | =====     | =====     |
| Diluted earnings per share  | \$ 0.97   | \$ 0.76   | \$ 0.61   |
|   | =====     | =====     | =====     |

Pervasiveness of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and related revenues and expenses, and the disclosure of gain and loss contingencies at the date of the financial statements. Such estimates and assumptions are subject to a number of risks and uncertainties, which may cause actual results to differ materially from the Company's estimates.

Reclassification - Certain amounts for the years ended December 31, 2004 and 2005 have been reclassified in order to conform to the 2006 presentation.

Recent accounting pronouncements - In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 requires that a more-likely-than-not threshold be met before the benefit of a tax position may be recognized in the financial statements and prescribes how such benefit should be measured. It requires that the new standard be applied to the balances of assets and liabilities as of the beginning of the period of adoption and that a corresponding adjustment be made to the opening balance of retained earnings. FIN 48 will be effective for fiscal years beginning after December 15, 2006. The Company is evaluating the potential effect of FIN 48, but does not expect it to have a material effect on the Company's consolidated financial position or results of operations.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It establishes a fair value hierarchy and expands disclosures about fair value measurements in both interim and annual periods. SFAS 157 will be effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect SFAS 157 to have a material effect on the Company's consolidated financial position or results of operations but anticipates additional disclosures when it becomes effective.

NOTE 3 - CAPITAL STOCK

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

In January 2006, the Company's Board of Directors approved a two-for-one stock split in the form of a stock dividend to shareholders of record on February 6, 2006. The additional shares were distributed on February 20, 2006. Common stock and all share and per share amounts (except authorized shares and par value) have been retroactively adjusted to reflect the split.

In March 2004, the Company's Board of Directors approved a three-for-two stock split in the form of a stock dividend to shareholders of record on March 22, 2004. The additional shares were distributed on April 6, 2004. All share and per share amounts (except authorized shares and par value) have been retroactively adjusted to reflect the split.

In June 2006, the Company's Board of Directors authorized the repurchase of up to 2,000,000 shares of First Cash's outstanding common stock. During the second quarter of 2006, the Company repurchased a total of 461,000 common shares under the 2006-authorized stock repurchase plan for an aggregate purchase price of \$8,848,000 or \$19.21 per share. There were no shares repurchased during the second half of 2006. There are 1,539,000 total remaining shares available for repurchase under the 2006-authorized plan.

In July 2004, the Company's Board of Directors authorized the repurchase of up to 3,200,000 shares of the Company's outstanding common stock. During 2005 and 2004, the Company repurchased a total of 1,153,000 and 1,245,000 common shares, respectively, under the stock repurchase program for an aggregate purchase price of \$11,404,000 and \$12,116,000. During 2006, First Cash repurchased approximately 802,000 shares for an aggregate purchase price of \$15,905,000 to close out the 2004-authorized program. The weighted average repurchase price of the 3,200,000 shares repurchased under this plan was \$12.32 per share or a total of \$39,425,000.

### NOTE 4 - ACQUISITION

Pursuant to the Company's strategic initiative to grow and diversify its product suite within the specialty consumer finance and retail industries, the Company acquired two affiliated companies, collectively doing business as Auto Master, an automotive retailer and related finance company focused exclusively on the "buy-here/pay-here" segment of the retail used vehicle market. Auto Master, based in Northwest Arkansas, owns and operates buy-here/pay-here automobile dealerships located in Arkansas, Missouri and Oklahoma, which specialize in the sale of clean, moderately-priced used vehicles. The definitive stock purchase agreement for the privately-held Auto Master group of companies was signed and closed on August 25, 2006. The purchase price, in the amount of \$33.7 million, was funded through a combination of \$23.7 million in cash and notes payable to the sellers in the amount of \$10 million. In addition, the Company retired approximately \$14 million of the outstanding interest-bearing debt of Auto Master subsequent to closing the purchase transaction.

The acquisition has been accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to assets and liabilities acquired based upon their estimated fair market values at the date of acquisition. The excess purchase price over the estimated fair market value of the net tangible assets acquired and identifiable intangible assets has been recorded as goodwill. The total amount of goodwill and identified intangible assets, of approximately \$19.4 million, is expected to be deductible for tax purposes. The results of operations of the acquired company are included in the consolidated financial statements from its date of acquisition.

The allocation of the purchase price is as follows (in thousands):

Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|  |    |          |
|--|----|----------|
| Cash                                     | \$ | 7        |
| Fair market value of net tangible assets |    | 28,723   |
| Goodwill                                 |    | 13,637   |
| Trade name                               |    | 4,360    |
| Customer relationships                   |    | 1,423    |
| Less: assumed debt                       |    | (14,490) |
|  |    | -----    |
| Purchase price                           | \$ | 33,660   |
|  |    | =====    |

NOTE 5 - CUSTOMER RECEIVABLES AND VALUATION ACCOUNTS

Customer receivables, net of unearned finance charges, consist of the following (in thousands):

|  | Pawn      | Cash<br>Advance | Buy-Here/<br>Pay-Here<br>Automotive | Total     |
|--|-----------|-----------------|-------------------------------------|-----------|
|  | -----     | -----           | -----                               | -----     |
| December 31, 2006                              |           |                 |                                     |           |
| -----  |           |                 |                                     |           |
| Customer receivables with current maturities   | \$ 32,459 | \$ 7,740        | \$ 25,919                           | \$ 66,118 |
| Less allowance for doubtful accounts           | -         | (230)           | (5,637)                             | (5,867)   |
|  | -----     | -----           | -----                               | -----     |
|  | 32,459    | 7,510           | 20,282                              | 60,251    |
| Customer receivables with long-term maturities | -         | -               | 17,908                              | 17,908    |
| Less allowance for doubtful accounts           | -         | -               | (3,895)                             | (3,895)   |
|  | -----     | -----           | -----                               | -----     |
|  | -         | -               | 14,013                              | 14,013    |
| Total customer receivables                     | 32,459    | 7,740           | 43,827                              | 84,026    |
| Less allowance for doubtful accounts           | -         | (230)           | (9,532)                             | (9,762)   |
|  | -----     | -----           | -----                               | -----     |
|  | \$ 32,459 | \$ 7,510        | \$ 34,295                           | \$ 74,264 |
|  | =====     | =====           | =====                               | =====     |
| December 31, 2005                              |           |                 |                                     |           |
| -----  |           |                 |                                     |           |
| Customer receivables with current maturities   | \$ 27,314 | \$ 6,730        | \$ -                                | \$ 34,044 |
| Less allowance for doubtful accounts           | -         | (242)           | -                                   | (242)     |
|  | -----     | -----           | -----                               | -----     |
|  | 27,314    | 6,488           | -                                   | 33,802    |
| Customer receivables with long-term maturities | -         | -               | -                                   | -         |
| Less allowance for doubtful accounts           | -         | -               | -                                   | -         |
|  | -----     | -----           | -----                               | -----     |
|  | -         | -               | -                                   | -         |
| Total customer receivables                     | 27,314    | 6,730           | -                                   | 34,044    |
| Less allowance for doubtful accounts           | -         | (242)           | -                                   | (242)     |
|  | -----     | -----           | -----                               | -----     |
|  | \$ 27,314 | \$ 6,488        | \$ -                                | \$ 33,802 |
|  | =====     | =====           | =====                               | =====     |

Changes in the customer receivables allowance for credit losses are as follows (in thousands):

Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|                                    | Cash<br>Advance | Buy-Here/<br>Pay-Here<br>Automotive | Total    |
|------------------------------------|-----------------|-------------------------------------|----------|
|                                    | -----           | -----                               | -----    |
| December 31, 2006                  |                 |                                     |          |
| -----                              |                 |                                     |          |
| Balance, beginning of the year (1) | \$ 242          | \$ 9,299                            | \$ 9,541 |
| Provision for credit losses        | 2,658           | 6,137                               | 8,795    |
| Charge-offs, net of recoveries     | (2,670)         | (5,904)                             | (8,574)  |
|                                    | -----           | -----                               | -----    |
| Balance at end of year             | \$ 230          | \$ 9,532                            | \$ 9,762 |
|                                    | =====           | =====                               | =====    |
| December 31, 2005                  |                 |                                     |          |
| -----                              |                 |                                     |          |
| Balance, beginning of the year     | \$ 552          | \$ -                                | 552      |
| Provision for credit losses        | 7,118           | -                                   | 7,118    |
| Charge-offs, net of recoveries     | (7,428)         | -                                   | (7,428)  |
|                                    | -----           | -----                               | -----    |
| Balance at end of year             | \$ 242          | \$ -                                | \$ 242   |
|                                    | =====           | =====                               | =====    |

(1) Buy-here/pay-here beginning balance is as of August 25, 2006, the date of acquisition.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in thousands):

|  | Year Ended December 31, |           |
|--|-------------------------|-----------|
|  | 2006                    | 2005      |
|  | -----                   | -----     |
| Land   | \$ 715                  | \$ 672    |
| Buildings  | 1,002                   | 1,002     |
| Furniture, fixtures, equipment and<br>leasehold improvements | 62,611                  | 46,870    |
|  | -----                   | -----     |
|  | 64,328                  | 48,544    |
|  | -----                   | -----     |
| Less: accumulated depreciation                               | (33,685)                | (24,979)  |
|  | -----                   | -----     |
|  | \$ 30,643               | \$ 23,565 |
|  | =====                   | =====     |

NOTE 7 - ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

|  | Year Ended December 31, |          |
|--|-------------------------|----------|
|  | 2006                    | 2005     |
|  | -----                   | -----    |
| Accrued compensation   | \$ 5,476                | \$ 3,857 |
| Deferred revenue   | 4,102                   | 3,306    |
| Third-party lending settlements payable                              | 2,909                   | 1,914    |
| Sales and property taxes payable                                     | 1,289                   | 1,284    |
| Money order and money transfer settlements payable                   | 743                     | 673      |
| Reserves for expected losses on outstanding CSO<br>letters of credit | 569                     | 508      |

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|                          |           |           |
|--------------------------|-----------|-----------|
| Vehicle warranty reserve | 523       | -         |
| Other                    | 2,365     | 2,180     |
|                          | -----     | -----     |
|                          | \$ 17,976 | \$ 13,722 |
|                          | =====     | =====     |

### NOTE 8 - REVOLVING CREDIT FACILITY AND NOTES PAYABLE

The Company maintains a long-term line of credit with two commercial lenders ("the Credit Facility") which was amended during the third quarter of 2006 to increase the amount available under the line of credit from \$25,000,000 to \$50,000,000 and to extend the term of the facility until April 2009. The Credit Facility bears interest at the prevailing LIBOR rate (which was approximately 5.3% at December 31, 2006) plus a fixed interest rate margin of 1.375%. Amounts available under the Credit Facility are limited to 300% of the Company's earnings before income taxes, interest, depreciation and amortization for the trailing twelve months. At December 31, 2006, the Company had \$8,000,000 outstanding under the Credit Facility and the Company had \$42,000,000 available for borrowings. Under the terms of the Credit Facility, the Company is required to maintain certain financial ratios and comply with certain technical covenants. The Company was in compliance with the requirements and covenants of the Credit Facility as of December 31, 2006, and March 14, 2007. The Company is required to pay an annual commitment fee of 1/8 of 1% on the average daily-unused portion of the Credit Facility commitment. The Company's Credit Facility contains provisions that allow the Company to repurchase stock and/or pay cash dividends within certain parameters. Substantially all of the unencumbered assets of the Company have been pledged as collateral against indebtedness under the Credit Facility.

At December 31, 2006, the Company has notes payable to individuals arising from the Auto Master acquisition which total \$9,438,000 in aggregate and bear interest at 7%, with quarterly payments of principal and interest scheduled over the next four years. Of the \$9,438,000 in notes payable, \$2,250,000 is classified as a current liability and \$7,188,000 is classified as long-term debt. One of the notes payable, in the principal amount of \$1,000,000, is convertible after one year into 55,555 shares of the Company's common stock at a conversion price of \$18.00 per share.

### NOTE 9 - INCOME TAXES

Components of the provision for income taxes consist of the following (in thousands):

|                   | Year Ended December 31, |           |           |
|-------------------|-------------------------|-----------|-----------|
|                   | 2006                    | 2005      | 2004      |
|                   | -----                   | -----     | -----     |
| Current:          |                         |           |           |
| Federal           | \$ 16,012               | \$ 12,003 | \$ 9,874  |
| State and foreign | 2,992                   | 2,465     | 891       |
|                   | -----                   | -----     | -----     |
|                   | 19,004                  | 14,468    | 10,765    |
| Deferred          | (1,148)                 | (173)     | 1,396     |
|                   | -----                   | -----     | -----     |
|                   | \$ 17,856               | \$ 14,295 | \$ 12,161 |
|                   | =====                   | =====     | =====     |

The principal current and non-current deferred tax assets and liabilities consist of the following (in thousands):

Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|   | Year Ended December 31, |          |
|---|-------------------------|----------|
|   | 2006                    | 2005     |
| Deferred tax assets:                            |                         |          |
| Inventory tax-basis difference                  | \$ 1,385                | \$ 1,291 |
| Foreign tax credits                             | 2,580                   | 1,146    |
| Other   | 1,566                   | 701      |
| Total deferred tax assets                       | 5,531                   | 3,138    |
| Deferred tax liabilities:                       |                         |          |
| Intangible asset amortization                   | 9,984                   | 8,655    |
| Depreciation                                    | 745                     | 872      |
| State income taxes, net                         | 324                     | 386      |
| Other   | 508                     | 404      |
| Total deferred tax liabilities                  | 11,561                  | 10,317   |
| Net deferred tax liabilities                    | 6,030                   | 7,179    |
| Reported as:                                    |                         |          |
| Other current assets                            | 2,267                   | 1,437    |
| Non-current liabilities - deferred income taxes | (8,297)                 | (8,616)  |
| Total deferred tax liabilities                  | \$ 6,030                | \$ 7,179 |

The provision for income taxes differs from the amounts determined by applying the expected federal statutory tax rate to income before income taxes. The following is a reconciliation of such differences (in thousands):

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2006                    | 2005      | 2004      |
| Tax at the federal statutory rate  | \$ 17,360               | \$ 13,887 | \$ 11,175 |
| State and foreign income taxes, net of federal tax benefit for state taxes of \$396, \$312 and \$220, respectively, and foreign tax credits of \$1,861, \$1,574 and \$83, respectively | 735                     | 579       | 588       |
| Other, net   | (239)                   | (171)     | 398       |
|  | \$ 17,856               | \$ 14,295 | \$ 12,161 |

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Leases - The Company leases certain of its facilities and equipment under operating leases with terms generally ranging from three to five years. Most facility leases contain renewal options. Remaining future minimum rentals due under non-cancelable operating leases, including Cash & Go, Ltd., are as follows (in thousands):

| Fiscal |           |
|--------|-----------|
| 2007   | \$ 17,582 |
| 2008   | 15,014    |



## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|            |           |
|------------|-----------|
| 2009       | 11,780    |
| 2010       | 8,808     |
| 2011       | 4,593     |
| Thereafter | 4,811     |
|            | -----     |
|            | \$ 62,588 |
|            | =====     |

Rent expense under such leases was \$15,268,000, \$12,513,000 and \$10,923,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

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.

Guarantees - First Cash Credit, Ltd. ("FCC"), a wholly-owned subsidiary of the Company, offers a fee-based credit services program ("CSO program") to assist consumers in its Texas markets in obtaining credit. Under the CSO program, FCC assists customers in applying for a short-term loan from an independent, non-bank, consumer lending company (the "Independent Lender") and issues the Independent Lender a letter of credit to guarantee the repayment of the loan. The loans made by the Independent Lender to credit services customers of FCC range in amount from \$50 to \$1,000, have terms of 7 to 35 days and bear interest at a rate of less than 10% on an annualized basis.

These letters of credit constitute a guarantee for which the Company is required to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken by issuing the letters of credit. The Independent Lender may present the letter of credit to FCC for payment if the customer fails to repay the full amount of the loan and accrued interest after the due date of the loan. Each letter of credit expires within 60 days from the inception of the associated lending transaction. FCC's maximum loss exposure under all of the outstanding letters of credit issued on behalf of its customers to the Independent Lender as of December 31, 2006 was \$14,239,000 compared to \$11,969,000 at December 31, 2005. According to the letter of credit, if the borrower defaults on the loan, the Company will pay the Independent Lender the principal, accrued interest, insufficient funds fee, and late fees, all of which the Company records as bad debt in the short-term advance and credit services loss provision. FCC is entitled to seek recovery directly from its customers for amounts it pays the Independent Lender in performing under the letters of credit. The Company records the estimated fair value of the liability under the letters of credit in accrued liabilities.

### NOTE 11 - GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets having an indefinite useful life are tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. An impairment loss is recognized if the sum of the expected future cash flows (undiscounted and before interest) from the use of the asset is less than the net book value of the asset. Management does not believe any of these assets have been impaired at December 31, 2006. Goodwill is reviewed annually for impairment based upon its fair value, or more frequently if certain indicators arise. Management has determined that goodwill has not been impaired at December 31, 2006.

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

Changes in the carrying value of goodwill and other intangible assets were as follows (in thousands):

|   | Pawn and<br>Cash<br>Advance<br>----- | Buy-Here/<br>Pay-Here<br>Automotive<br>----- | Total<br>-----     |
|---|--------------------------------------|--|--------------------|
| December 31, 2006<br>-----                                    |                                      |  |                    |
| Balance, beginning of year,<br>net of amortization of \$8,461 | \$ 53,237                            | \$ -   | \$ 53,237          |
| Acquisitions, net of amortization<br>of \$112                 | -                                    | 19,307                                       | 19,307             |
| Adjustments   | -                                    | -  | -                  |
|   | -----                                | -----  | -----              |
| Balance, end of year  | \$ 53,237<br>=====                   | \$ 19,307<br>=====                           | \$ 72,544<br>===== |
| December 31, 2005<br>-----                                    |                                      |  |                    |
| Balance, beginning of year,<br>net of amortization of \$8,461 | \$ 53,237                            | \$ -   | \$ 53,237          |
| Acquisitions  | -                                    | -  | -                  |
| Adjustments   | -                                    | -  | -                  |
|   | -----                                | -----  | -----              |
| Balance, end of year  | \$ 53,237<br>=====                   | \$ -<br>=====                                | \$ 53,237<br>===== |

Acquired intangible assets that are subject to amortization were as follows (in thousands):

|                        | 2006<br>----- |                                      |              | 2005<br>----- |                                      |              |
|------------------------|---------------|--------------------------------------|--------------|---------------|--------------------------------------|--------------|
|                        | Cost<br>----- | Accumulated<br>Depreciation<br>----- | Net<br>----- | Cost<br>----- | Accumulated<br>Depreciation<br>----- | Net<br>----- |
| Customer relationships | \$ 1,423      | \$ (112)                             | \$ 1,311     | \$ -          | \$ -                                 | \$ -         |

Customer relationships are generally amortized over six years based on the pattern of economic benefits provided. At December 31, 2006, the trade name obtained in the acquisition of Auto Master, valued at \$4,360,000, was not subject to amortization.

Amortization expense for acquired intangible assets was \$112,000 and \$0 for Fiscal 2006 and 2005, respectively. Estimated future amortization expense is approximately \$200,000 annually over the next five years.

### NOTE 12 - EQUITY COMPENSATION PLANS AND SHARE-BASED COMPENSATION

The Company has adopted equity compensation plans to attract and retain executives, directors and key employees. Under these plans, including the board-approved 1990 Stock Option Plan, the shareholder-approved 1999 Stock Option Plan and the shareholder-approved 2004 Long-Term Incentive Plan (collectively described as the "Plans"), it has granted qualified and non-qualified stock options to officers, directors and other key employees. In addition, the Company has previously issued warrants to purchase shares of common stock to certain key members of management, directors and other third parties.

At December 31, 2006, 374,000 shares were reserved for future grants under the Plans. Historically, stock options and warrants have been granted

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

to purchase the Company's common stock at an exercise price equal to or greater than the fair market value at the date of grant and generally have a maximum duration of ten years. The Company typically issues shares of common stock to satisfy option and warrant exercises.

Options and warrants outstanding as of December 31, 2006, are as follows (in thousands, except exercise price and life):

| Ranges of<br>Exercise Prices | Total Warrants<br>and Options | Weighted-Average<br>Remaining Life | Currently<br>Exercisable |
|------------------------------|-------------------------------|------------------------------------|--------------------------|
| -----                        | -----                         | -----                              | -----                    |
| \$ 0.67 - \$ 5.00            | 1,259                         | 5.4                                | 1,088                    |
| \$ 5.01 - \$10.00            | 448                           | 7.0                                | 448                      |
| \$10.01 - \$15.00            | 1,325                         | 8.4                                | 1,325                    |
| \$15.01 - \$20.00            | 1,997                         | 8.6                                | 1,912                    |
| \$20.01 - \$22.00            | 4                             | 9.9                                | -                        |
|                              | -----                         |                                    | -----                    |
|                              | 5,033                         |                                    | 4,773                    |
|                              | =====                         |                                    | =====                    |

A summary of stock option and warrant activity for the years ended December 31, 2006, 2005 and 2004 is as follows (in thousands, except exercise price):

|  | 2006                 |   | 2005                 |   | 2004                 |   |
|--|----------------------|---|----------------------|---|----------------------|---|
|  | Underlying<br>Shares | Weighted-<br>Average<br>Exercise<br>Price | Underlying<br>Shares | Weighted-<br>Average<br>Exercise<br>Price | Underlying<br>Shares | Weighted-<br>Average<br>Exercise<br>Price |
|  | -----                | -----                                     | -----                | -----                                     | -----                | -----                                     |
| Outstanding<br>at beginning<br>of year | 6,631                | \$12.04                                   | 3,367                | \$ 4.87                                   | 5,543                | \$ 3.33                                   |
| Granted                                | 89                   | 20.09                                     | 5,858                | 19.14                                     | 910                  | 9.67                                      |
| Exercised                              | (1,438)              | 9.43                                      | (677)                | 3.87                                      | (3,086)              | 3.52                                      |
| Canceled or<br>forfeited               | (249)                | 19.11                                     | (1,917)              | 24.01                                     | -                    | -   |
|  | -----                |   | -----                |   | -----                |   |
| Outstanding<br>at end<br>of year       | 5,033                | 12.58                                     | 6,631                | 12.04                                     | 3,367                | 4.87                                      |
|  | =====                |   | =====                |   | =====                |   |
| Exercisable<br>at end<br>of year       | 4,773                | \$12.13                                   | 6,243                | \$12.47                                   | 2,790                | \$ 4.71                                   |
|  | =====                |   | =====                |   | =====                |   |

The tax benefit realized from share options exercised during the year ended December 31, 2006 was \$4,744,000. At December 31, 2006, the aggregate intrinsic value for the options outstanding was \$66,863,000, of which \$62,421,000 million was exercisable at the end of the year.

The total intrinsic value of options and warrants exercised for Fiscal 2006, 2005 and 2004 was \$13,829,000 \$5,870,000 and \$24,640,000, respectively. The aggregate intrinsic value reflects the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the period and the exercise price of the options and warrants, multiplied by the number of in-the-money options and warrants) that would have been received by the option and warrant holders had all

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

option and warrant holders exercised their options and warrants on December 31, 2006, 2005 and 2004, respectively. The intrinsic value of the stock options and warrants exercised are based on the closing price of the Company's stock on the date of exercise. The Company typically issues shares of common stock to satisfy option and warrant exercises.

Prior to January 1, 2006, the Company applied the recognition and measurement principles of APB 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for awards of stock options and warrants, whereby at the date of grant, no compensation expense was reflected in income, as all stock options and warrants granted had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. Pro forma information regarding net income and earnings per share was provided in accordance with Statement of Financial Accounting Standards ("SFAS") 148, Accounting for Stock-Based Compensation - Transition and Disclosure, as if the fair value method defined by SFAS 123, Accounting for Stock-Based Compensation had been applied to stock-based compensation. For purposes of the pro forma disclosures, the estimated fair value of stock options was amortized to expense over the options' vesting period.

Effective January 1, 2006, the Company adopted SFAS No. 123(R), Share-Based Payments, which replaces SFAS 123 and supersedes APB 25. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The Company adopted SFAS 123(R) using the modified-prospective transition method, which requires the Company, beginning January 1, 2006 and thereafter, to expense the grant-date fair value of all share-based awards over their remaining vesting periods to the extent the awards were not fully vested as of the date of adoption and to expense the fair value of all share-based awards granted subsequent to December 31, 2005 over their requisite service periods. Stock-based compensation expense for all share-based payment awards granted after January 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). The Company recognizes compensation cost net of a forfeiture rate and recognizes the compensation cost for only those awards expected to vest on a straight-line basis over the requisite service period of the award, which is generally the vesting term. The Company estimated the forfeiture rate based on its historical experience and its expectations of future forfeitures. As required under the modified-prospective transition method, prior periods have not been restated. The Company records share-based compensation cost as an administrative expense. The Company applied the alternative transition method in calculating its pool of excess tax benefits available to absorb future tax deficiencies as provided by FSP FAS 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards.

The Company's income before income taxes and net income for Fiscal 2006 were approximately \$583,000 and \$379,000, respectively, less than if it had continued to account for share-based compensation under the recognition and measurement provisions of APB 25. Basic and diluted net income per share for Fiscal 2006 would have each increased by \$0.01, to \$1.02 and \$0.98, respectively, if the Company had not adopted SFAS 123(R). SFAS 123(R) requires that cash flows from tax benefits resulting from tax deductions in excess of the compensation cost recognized for stock-based awards (excess tax benefits) be classified as financing cash flows prospectively from January 1, 2006. Prior to the adoption of SFAS 123(R), such excess tax benefits were presented as operating cash flows. Accordingly, \$4,744,000 of excess tax benefits has been classified as a financing cash inflow in the Fiscal 2006 Consolidated Statement of Cash Flows. For Fiscal 2005 and 2004, such excess tax benefits amounted to \$2,066,000 and \$8,736,000, respectively, and were classified as an operating activity cash inflow. As

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

of December 31, 2006, the total compensation cost related to nonvested awards not yet recognized was \$556,000, and is expected to be recognized over the weighted-average period of 2.2 years.

Stock options and warrants granted prior to January 1, 2006 were either fully vested and exercisable on the grant date, or vested and become exercisable ratably over a five year period beginning five years from the date of grant. In addition, certain options granted prior to January 1, 2006 included accelerated vesting provisions. As of December 31, 2006, there were no outstanding, unvested options with accelerated vesting features. Of the total share-based compensation expense (before tax benefit) of \$583,000 for Fiscal 2006, approximately \$490,000 related to accelerated vesting of previously issued options as a result of an increase in the market value of the Company's common stock during the first quarter of 2006.

Prior to the adoption of SFAS 123(R), the Company accounted for share-based compensation plans under the provisions of APB 25, Accounting for Stock Issued to Employees, and related interpretations. If compensation cost for stock-based compensation plans had been determined based on the fair value method (estimated using the Black-Scholes option pricing model) recognized over the vesting period in accordance with SFAS 123, pro forma net income and earnings per share would have been as follows (in thousands, except per share amounts):

|   | Year Ended December 31, |           |
|---|-------------------------|-----------|
|   | 2005                    | 2004      |
| Net income, as reported   | \$ 25,383               | \$ 20,706 |
| Less: Pro forma stock-based employee<br>compensation determined under the fair<br>value requirements of SFAS 123, net of<br>income tax benefits | 11,178                  | 2,716     |
| Adjusted net income   | \$ 14,205               | \$ 17,990 |
| Earnings per share:   |                         |           |
| Basic, as reported  | \$ 0.81                 | \$ 0.66   |
| Basic, adjusted   | \$ 0.45                 | \$ 0.57   |
| Diluted, as reported  | \$ 0.76                 | \$ 0.61   |
| Diluted, adjusted   | \$ 0.43                 | \$ 0.53   |

The fair value of each option grant was estimated at the date of the grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

|   | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2006                    | 2005      | 2004      |
| Dividend yield                                    | -                       | -         | -         |
| Volatility  | 32.5 %                  | 44.1 %    | 52.7 %    |
| Risk-free interest rate                           | 4.0 %                   | 3.5 %     | 3.5 %     |
| Expected term of options                          | 6.8 years               | 4.4 years | 5.5 years |
| Weighted-average fair value<br>of options granted | \$ 6.79                 | \$ 3.72   | \$ 3.69   |

## Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

### NOTE 13 - FIRST CASH 401(k) PROFIT SHARING PLAN

The First Cash 401(k) Profit Sharing Plan (the "Plan") is provided by the Company for all full-time, U.S.-based, employees who have been employed with the Company for one year or longer. Under the Plan, a participant may contribute up to 100% of earnings, with the Company matching the first 3% at a rate of 50%. The employee and Company contributions are paid to a corporate trustee and invested in various funds. Contributions made to participants' accounts become fully vested upon completion of six years of service. The total Company matching contributions to the Plan were \$279,000, \$257,000 and \$250,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

### NOTE 14 - OPERATING SEGEMENT INFORMATION

The Company manages its business on the basis of two reportable segments: the pawn and cash advance segment and the buy-here/pay-here automotive segment. There are no intersegmental sales and each segment is supervised separately. The following tables detail revenues, cost of revenues, net revenues, certain expenses, expenditures on property and equipment and total assets by operating segment for Fiscal 2006, 2005 and 2004 (in thousands):

|  | Pawn and<br>Cash<br>Advance<br>----- | Buy-Here/<br>Pay-Here<br>Automotive<br>----- | Total<br>----- |
|--|--------------------------------------|--|----------------|
| Year Ended December 31, 2006<br>-----  |                                      |  |                |
| Revenues:                              |                                      |  |                |
| Merchandise sales                      | \$126,436                            | \$ 23,037                                    | \$149,473      |
| Finance and service charges            | 114,839                              | 1,348  | 116,187        |
| Other                                  | 3,981                                | 81   | 4,062          |
|  | -----                                | -----  | -----          |
|  | 245,256                              | 24,466                                       | 269,722        |
|  | -----                                | -----  | -----          |
| Cost of revenues:                      |                                      |  |                |
| Cost of goods sold                     | 73,731                               | 10,498                                       | 84,229         |
| Credit loss provision                  | 15,326                               | 6,137  | 21,463         |
| Other                                  | 440                                  | -  | 440            |
|  | -----                                | -----  | -----          |
|  | 89,497                               | 16,635                                       | 106,132        |
|  | -----                                | -----  | -----          |
| Net revenues                           | 155,759                              | 7,831  | 163,590        |
|  | -----                                | -----  | -----          |
| Expenses and other income:             |                                      |  |                |
| Store operating expenses               | 78,228                               | 2,861  | 81,089         |
| Store depreciation and amortization    | 7,163                                | 17   | 7,180          |
|  | -----                                | -----  | -----          |
|  | 85,391                               | 2,878  | 88,269         |
|  | -----                                | -----  | -----          |
| Net store contribution                 | \$ 70,368                            | \$ 4,953                                     | \$ 75,321      |
|  | =====                                | =====  | =====          |
| Expenditures on property and equipment | \$ 14,512                            | \$ 204                                       | \$ 14,716      |
|  | =====                                | =====  | =====          |
| As of December 31, 2006                |                                      |  |                |

Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

| -----                                  |                             |                                     |           |
|--|-----------------------------|-------------------------------------|-----------|
| Total assets                           | \$195,478                   | \$ 38,364                           | \$233,842 |
|  | =====                       | =====                               | =====     |
|  | Pawn and<br>Cash<br>Advance | Buy-Here/<br>Pay-Here<br>Automotive | Total     |
|  | -----                       | -----                               | -----     |
| Year Ended December 31, 2005           |                             |                                     |           |
| -----                                  |                             |                                     |           |
| Revenues:                              |                             |                                     |           |
| Merchandise sales                      | \$102,139                   | \$ -                                | \$102,139 |
| Finance and service charges            | 101,701                     | -                                   | 101,701   |
| Other                                  | 3,935                       | -                                   | 3,935     |
|  | -----                       | -----                               | -----     |
|  | 207,775                     | -                                   | 207,775   |
|  | -----                       | -----                               | -----     |
| Cost of revenues:                      |                             |                                     |           |
| Cost of goods sold                     | 61,659                      | -                                   | 61,659    |
| Credit loss provision                  | 13,808                      | -                                   | 13,808    |
| Other                                  | 301                         | -                                   | 301       |
|  | -----                       | -----                               | -----     |
|  | 75,768                      | -                                   | 75,768    |
|  | -----                       | -----                               | -----     |
| Net revenues                           | 132,007                     | -                                   | 132,007   |
|  | -----                       | -----                               | -----     |
| Expenses and other income:             |                             |                                     |           |
| Store operating expenses               | 67,430                      | -                                   | 67,430    |
| Store depreciation and amortization    | 5,206                       | -                                   | 5,206     |
|  | -----                       | -----                               | -----     |
|  | 72,636                      | -                                   | 72,636    |
|  | -----                       | -----                               | -----     |
| Net store contribution                 | \$ 59,371                   | \$ -                                | \$ 59,371 |
|  | =====                       | =====                               | =====     |
| Expenditures on property and equipment | \$ 11,993                   | \$ -                                | \$ 11,993 |
|  | =====                       | =====                               | =====     |
| As of December 31, 2005                |                             |                                     |           |
| -----                                  |                             |                                     |           |
| Total assets                           | \$185,954                   | \$ -                                | \$185,954 |
|  | =====                       | =====                               | =====     |
|  | Pawn and<br>Cash<br>Advance | Buy-Here/<br>Pay-Here<br>Automotive | Total     |
|  | -----                       | -----                               | -----     |
| Year Ended December 31, 2004           |                             |                                     |           |
| -----                                  |                             |                                     |           |
| Revenues:                              |                             |                                     |           |
| Merchandise sales                      | \$ 86,745                   | \$ -                                | \$ 86,745 |
| Finance and service charges            | 88,786                      | -                                   | 88,786    |
| Other                                  | 4,282                       | -                                   | 4,282     |
|  | -----                       | -----                               | -----     |
|  | 179,813                     | -                                   | 179,813   |
|  | -----                       | -----                               | -----     |
| Cost of revenues:                      |                             |                                     |           |
| Cost of goods sold                     | 52,056                      | -                                   | 52,056    |
| Credit loss provision                  | 11,559                      | -                                   | 11,559    |

Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|  |           |       |           |
|--|-----------|-------|-----------|
| Other                                  | 252       | -     | 252       |
|  | -----     | ----- | -----     |
|  | 63,867    | -     | 63,867    |
|  | -----     | ----- | -----     |
| Net revenues                           | 115,946   | -     | 115,946   |
|  | -----     | ----- | -----     |
| Expenses and other income:             |           |       |           |
| Store operating expenses               | 61,063    | -     | 61,063    |
| Store depreciation and amortization    | 3,849     | -     | 3,849     |
|  | -----     | ----- | -----     |
|  | 64,912    | -     | 64,912    |
|  | -----     | ----- | -----     |
| Net store contribution                 | \$ 51,034 | \$ -  | \$ 51,034 |
|  | =====     | ===== | =====     |
| Expenditures on property and equipment | \$ 7,131  | \$ -  | \$ 7,131  |
|  | =====     | ===== | =====     |
| As of December 31, 2004                |           |       |           |
| -----                                  |           |       |           |
| Total assets                           | \$162,343 | \$ -  | \$162,343 |
|  | =====     | ===== | =====     |

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

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2006                    | 2005      | 2004      |
|  | -----                   | -----     | -----     |
| Total net store contribution for reportable segments | \$ 75,321               | \$ 59,371 | \$ 51,034 |
| Administrative depreciation and amortization         | (861)                   | (598)     | (324)     |
| Administrative expenses                              | (24,671)                | (19,412)  | (17,837)  |
| Interest expense                                     | (916)                   | -         | (73)      |
| Interest income                                      | 727                     | 317       | 67        |
| Provision for income taxes                           | (17,856)                | (14,295)  | (12,161)  |
|  | -----                   | -----     | -----     |
| Net income   | \$ 31,744               | \$ 25,383 | \$ 20,706 |
|  | =====                   | =====     | =====     |

NOTE 15 - GEOGRAPHIC AREAS

The following table shows revenues, selected current assets and long-lived assets (all non-current assets except goodwill) by geographic area (in thousands):

|                       | Year Ended December 31, |           |           |
|-----------------------|-------------------------|-----------|-----------|
|                       | 2006                    | 2005      | 2004      |
|                       | -----                   | -----     | -----     |
| Revenues:             |                         |           |           |
| United States         | \$193,895               | \$154,649 | \$145,386 |
| Mexico                | 75,827                  | 53,126    | 34,427    |
|                       | -----                   | -----     | -----     |
|                       | \$ 269,722              | \$207,775 | \$179,813 |
|                       | =====                   | =====     | =====     |
| Customer receivables: |                         |           |           |
| United States         | \$ 63,155               | \$ 25,091 | \$ 32,172 |



Edgar Filing: FIRST CASH FINANCIAL SERVICES INC - Form 10-K

|                    |           |           |           |
|--------------------|-----------|-----------|-----------|
| Mexico             | 11,109    | 8,711     | 6,722     |
|                    | -----     | -----     | -----     |
|                    | \$ 74,264 | \$ 33,802 | \$ 38,894 |
|                    | =====     | =====     | =====     |
| Inventories:       |           |           |           |
| United States      | \$ 20,002 | \$ 14,751 | \$ 13,393 |
| Mexico             | 8,759     | 7,236     | 4,251     |
|                    | -----     | -----     | -----     |
|                    | \$ 28,761 | \$ 21,987 | \$ 17,644 |
|                    | =====     | =====     | =====     |
| Long-lived assets: |           |           |           |
| United States      | \$ 16,804 | \$ 13,689 | \$ 11,183 |
| Mexico             | 15,067    | 10,892    | 6,992     |
|                    | -----     | -----     | -----     |
|                    | \$ 31,871 | \$ 24,581 | \$ 18,175 |
|                    | =====     | =====     | =====     |

NOTE 16 - QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data (in thousands, except per share data) for the fiscal years ended December 31, 2006 and 2005, are set forth below. The Company's operations are subject to seasonal fluctuations.

|                                 | Quarter Ended |           |              |             |
|---------------------------------|---------------|-----------|--------------|-------------|
|                                 | March 31      | June 30   | September 30 | December 31 |
|                                 | -----         | -----     | -----        | -----       |
| 2006                            |               |           |              |             |
| ----                            |               |           |              |             |
| Total revenues                  | \$ 55,700     | \$ 56,375 | \$ 69,472    | \$ 88,175   |
| Cost of revenues                | 18,394        | 20,868    | 27,692       | 39,178      |
| Net revenues                    | 37,306        | 35,507    | 41,780       | 48,997      |
| Total expenses and other income | 25,309        | 25,278    | 29,285       | 34,118      |
| Net income                      | 7,622         | 6,495     | 7,935        | 9,692       |
| Diluted net income per share    | 0.23          | 0.20      | 0.25         | 0.30        |
| Diluted weighted average shares | 33,797        | 33,209    | 32,283       | 32,785      |
| 2005                            |               |           |              |             |
| ----                            |               |           |              |             |
| Total revenues                  | \$ 46,999     | \$ 46,328 | \$ 54,307    | \$ 60,141   |
| Cost of revenues                | 16,257        | 16,446    | 19,964       | 23,101      |
| Net revenues                    | 30,742        | 29,882    | 34,343       | 37,040      |
| Total expenses and other income | 21,185        | 21,656    | 24,312       | 25,176      |
| Net income                      | 6,069         | 5,223     | 6,370        | 7,721       |
| Diluted net income per share    | 0.18          | 0.16      | 0.19         | 0.23        |
| Diluted weighted average shares | 34,025        | 32,834    | 32,866       | 33,174      |