

FIRST CASH FINANCIAL SERVICES INC
Form 10-K
February 22, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

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

For the transition period from _____ to _____

Commission file number 0-19133

FIRST CASH FINANCIAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware

75-2237318

(State or other jurisdiction of incorporation or organization)

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

690 East Lamar Blvd., Suite 400

76011

Arlington, Texas

(Zip Code)

(Address of principal executive offices)

(817) 460-3947

(Registrant's telephone number, including area code)

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

Title of Each Class

Name of Exchange on Which Registered

Common Stock, par value \$.01 per share

The NASDAQ Global Select Market

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

None

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

Yes No

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Table of Contents

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (C232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

Table of Contents

FIRST CASH FINANCIAL SERVICES, INC.
 FORM 10-K
 For the Year Ended December 31, 2012

TABLE OF CONTENTS

PART I

<u>Item 1.</u>	<u>Business</u>	<u>2</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>16</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	<u>21</u>
<u>Item 2.</u>	<u>Properties</u>	<u>21</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>	<u>22</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>22</u>

PART II

<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>22</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>25</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>41</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>42</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>42</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>42</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>45</u>

PART III

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>45</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>45</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>45</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>45</u>
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	<u>45</u>

PART IV

<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	<u>46</u>
-----------------	---	-----------

<u>SIGNATURES</u>	<u>49</u>
-------------------	-----------

Table of Contents

FORWARD-LOOKING INFORMATION

This annual report may contain forward-looking statements about the business, financial condition and prospects of the Company. Forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, can be identified by the use of forward-looking terminology such as “believes,” “projects,” “expects,” “may,” “estimates,” “should,” “plans,” “targets,” “intends,” “could,” or “anticipates,” or the negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy or objectives. Forward-looking statements can also be identified by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Forward-looking statements in this annual report include, without limitation, the Company’s expectations of earnings per share, earnings growth, expansion strategies, regulatory exposures, store openings, liquidity (including the availability of capital under existing credit facilities), cash flow, consumer demand for the Company’s products and services, currency exchange rates, future share repurchases and the impact thereof, completion of disposition transactions and expected gains or losses from the disposition of such operations, earnings from acquisitions, the ability to successfully integrate acquisitions and other performance results. These statements are made to provide the public with management’s current assessment of the Company’s business. Although the Company believes that the expectations reflected in forward-looking statements are reasonable, there can be no assurances that such expectations will prove to be accurate. Security holders are cautioned that such forward-looking statements involve risks and uncertainties. The forward-looking statements contained in this annual report speak only as of the date of this statement, and the Company expressly disclaims any obligation or undertaking to report any updates or revisions to any such statement to reflect any change in the Company’s expectations or any change in events, conditions or circumstances on which any such statement is based. Certain factors may cause results to differ materially from those anticipated by some of the statements made in this annual report. Such factors are difficult to predict and many are beyond the control of the Company and may include changes in regional, national or international economic conditions, changes in the inflation rate, changes in the unemployment rate, changes in consumer purchasing, borrowing and repayment behaviors, changes in credit markets, the ability to renew and/or extend the Company’s existing bank line of credit, credit losses, changes in the market value of pawn collateral and merchandise inventories, changes or increases in competition, the ability to locate, open and staff new stores, the availability or access to sources of inventory, inclement weather, the ability to successfully integrate acquisitions, the ability to hire and retain key management personnel, the ability to operate with limited regulation as a credit services organization, new federal, state or local legislative initiatives or governmental regulations (or changes to existing laws and regulations, including recently enacted federal pawn legislation in Mexico and ordinances in the Texas cities of San Antonio and El Paso) affecting consumer loan businesses, credit services organizations and pawn businesses (in both the United States and Mexico), changes in import/export regulations and tariffs or duties, changes in anti-money laundering regulations, unforeseen litigation, changes in interest rates, monetary inflation, changes in tax rates or policies, changes in gold prices, changes in energy prices, cost of funds, changes in foreign currency exchange rates, future business decisions, public health issues, changes in demand for the Company’s services and products, changes in the Company’s ability to satisfy its debt obligations or to obtain new capital to finance growth, a prolonged interruption in the Company’s operations of its facilities, systems, and business functions, including its information technology, cash management and other business systems, the implementation of new, or changes in the interpretation of existing accounting principles or financial reporting requirements, and other uncertainties. These and other risks, uncertainties and regulatory developments are further and more completely described in “Item 1A. Risk Factors.” These risks and uncertainties are beyond the ability of the Company to control, nor can the Company predict, in many cases, all of the risks and uncertainties that could cause its actual results to differ materially from those indicated by the forward-looking statements.

Table of Contents

PART I

Item 1. Business

General

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

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

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

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

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

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

Pawn Industry

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

Table of Contents

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

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

Business Strategy

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

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

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

New Store Openings

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

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

