FIRST CASH FINANCIAL SERVICES INC
Form 10-Q
October 28, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from __________ to ___________

Commission file number 0-19133

FIRST CASH FINANCIAL SERVICES, INC.
(Exact name of registrant as specified in its charter)

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

(817) 460-3947
(Registrant's telephone number, including area code)
NONE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. xYes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). xYes o No

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

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

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

As of October 26, 2015, there were 27,806,440 shares of common stock outstanding.

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FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2015

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CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE RESULTS

Forward-Looking Information

This quarterly report contains forward-looking statements about the business, financial condition and prospects of First Cash Financial Services, Inc. and its wholly owned subsidiaries (together, the “Company”). 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,” “in “could,” or “anticipates,” or the negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy or objectives. Forward-looking statements can also be identified by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties.

Forward-looking statements in this quarterly report include, without limitation, the Company’s expectations of earnings per share, earnings growth, expansion strategies, the impact of new or existing regulations, store openings, liquidity (including the availability of capital under existing credit facilities), cash flow, consumer demand for the Company’s products and services, income tax rates, currency exchange rates, future share repurchases and the price of gold and the impacts thereof, earnings and related transaction expenses from acquisitions and mergers, 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 the expectations reflected in forward-looking statements are reasonable, there can be no assurances such expectations will prove to be accurate. Security holders are cautioned such forward-looking statements involve risks and uncertainties. Certain factors may cause results to differ materially from those anticipated by the forward-looking statements made in this quarterly report. Such factors are difficult to predict and many are beyond the control of the Company and may include, without limitation, the following:

- changes in regional, national or international economic conditions, including inflation rates, unemployment rates and energy prices;
- changes in foreign currency exchange rates and the Mexican peso to U.S. dollar exchange rate in particular;
- changes in consumer demand, including purchasing, borrowing and repayment behaviors;
- changes in pawn forfeiture rates and credit loss provisions;
- changes in the market value of pawn collateral and merchandise inventories, including gold prices and the value of consumer electronics and other products;
- changes or increases in competition;
- the ability to locate, open and staff new stores and successfully integrate acquisitions;
- the availability or access to sources of used merchandise inventory;
- changes in credit markets, interest rates and the ability to establish, renew and/or extend the Company’s debt financing;
- the ability to maintain banking relationships for treasury services and processing of certain consumer lending transactions;
- the ability to hire and retain key management personnel;
- new federal, state or local legislative initiatives or governmental regulations (or changes to existing laws and regulations) affecting pawn businesses, consumer loan businesses and credit services organizations (in both the United States and Mexico), including administrative or legal interpretations thereto;
- risks and uncertainties related to foreign operations in Mexico;
- changes in import/export regulations and tariffs or duties;
- changes in banking, anti-money laundering or gun control regulations;
- unforeseen litigation or regulatory investigations;
- changes in tax rates or policies in the U.S. and Mexico;
- inclement weather, natural disasters and public health issues;

- security breaches, cyber attacks or fraudulent activity;
- a prolonged interruption in the Company’s operations of its facilities, systems, and business functions, including its information technology and other business systems;
- the implementation of new, or changes in the interpretation of existing, accounting principles or financial reporting requirements; and
- future business decisions.

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These and other risks, uncertainties and regulatory developments are further and more completely described in the Company's 2014 annual report on Form 10-K filed with the Securities and Exchange Commission on February 12, 2015, including the risks described in Part 1, Item 1A, "Risk Factors" of the Company's annual report. Many of these risks and uncertainties are beyond the ability of the Company to control, nor can the Company predict, in many cases, all of the risks and uncertainties that could cause its actual results to differ materially from those indicated by the forward-looking statements. The forward-looking statements contained in this quarterly report speak only as of the date of this quarterly report, and the Company expressly disclaims any obligation or undertaking to report any updates or revisions to any such statement to reflect any change in the Company's expectations or any change in events, conditions or circumstances on which any such statement is based, except as required by law.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST CASH FINANCIAL SERVICES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands)

	September 30, 2015	2014	December 31, 2014
ASSETS			
Cash and cash equivalents	$72,523	$42,760	$67,992
Pawn loan fees and service charges receivable	18,116	19,481	16,926
Pawn loans	128,370	136,981	118,536
Consumer loans, net	1,114	1,510	1,241
Inventories	98,188	94,890	91,088
Prepaid expenses and other current assets	5,815	6,292	4,970
Deferred tax assets	6,632	6,299	7,122
Total current assets	330,758	308,213	307,875
Property and equipment, net	110,285	115,115	113,750
Goodwill	291,777	264,875	276,882
Other non-current assets	14,297	16,464	16,168
Deferred tax assets	8,085	—	—
Total assets	$755,202	$704,667	$714,675
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable and accrued liabilities	$46,129	$50,178	$42,559
Income taxes payable	843	—	—
Total current liabilities	46,972	50,178	42,559
Revolving unsecured credit facilities	68,500	17,500	22,400
Senior unsecured notes	200,000	200,000	200,000
Deferred tax liabilities	—	7,535	1,165
Total liabilities	315,472	275,213	266,124
Stockholders' equity:			
Preferred stock	—	—	—
Common stock	399	395	397
Additional paid-in capital	192,787	182,119	188,062
Retained earnings	624,194	555,953	582,894
Accumulated other comprehensive loss from cumulative foreign currency translation adjustments	(49,042)	(12,379)	(26,168)
Common stock held in treasury, at cost	(328,608)	(296,634)	(296,634)
Total stockholders' equity	439,730	429,454	448,551
Total liabilities and stockholders' equity	$755,202	$704,667	$714,675

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

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FIRST CASH FINANCIAL SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited, in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Retail merchandise sales	$ 104,937	$ 101,950	$ 321,016	$ 297,846
Pawn loan fees	49,882	51,778	146,119	146,971
Consumer loan and credit services fees	6,995	9,474	21,300	27,674
Wholesale scrap jewelry revenue	7,718	11,798	24,743	37,612
Total revenue	169,532	175,000	513,178	510,103
Cost of revenue:				
Cost of retail merchandise sold	64,875	62,780	198,757	182,363
Consumer loan and credit services loss provision	2,368	2,913	5,074	6,892
Cost of wholesale scrap jewelry sold	6,847	10,444	21,088	31,608
Total cost of revenue	74,090	76,137	224,919	220,863
Net revenue	95,442	98,863	288,259	289,240
Expenses and other income:				
Store operating expenses	50,995	49,293	155,062	146,719
Administrative expenses	11,733	13,406	40,240	40,350
Depreciation and amortization	4,637	4,404	13,651	13,001
Goodwill impairment - U.S. consumer loan operations	7,913	—	7,913	—
Interest expense	4,336	4,059	12,482	9,405
Interest income	(406)	(179)	(1,143)	(522)
Total expenses and other income	79,208	70,983	228,205	208,953
Income from continuing operations before income taxes	16,234	27,880	60,054	80,287
Provision for income taxes	5,061	8,352	18,754	21,790
Income from continuing operations	11,173	19,528	41,300	58,497
Loss from discontinued operations, net of tax	—	—	—	(272)
Net income	$ 11,173	$ 19,528	$ 41,300	$ 58,225
Basic income per share:				
Income from continuing operations	$ 0.40	$ 0.69	$ 1.46	$ 2.03
Loss from discontinued operations	—	—	—	(0.01)
Net income per basic share	$ 0.40	$ 0.69	$ 1.46	$ 2.02
Diluted income per share:				
Income from continuing operations	$ 0.40	$ 0.68	$ 1.45	$ 2.01

Loss from discontinued operations	—	—	—	(0.01)
Net income per diluted share	$ 0.40	$ 0.68	$ 1.45	$ 2.00

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

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FIRST CASH FINANCIAL SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$ 11,173	$ 19,528	$ 41,300	$ 58,225
Other comprehensive income (loss):				
Currency translation adjustment, gross	(21,536)	(7,600)	(35,191)	(7,120)
Tax benefit	7,538	2,660	12,317	2,492
Comprehensive income (loss)	$ (2,825)	$ 14,588	$ 18,426	$ 53,597

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

FIRST CASH FINANCIAL SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited, in thousands)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accum-ulated Other Compre-hensive Loss	Common Stock Held in Treasury		Total Stock-holders' Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance at 12/31/2014	—	$—	39,708	$ 397	$ 188,062	$ 582,894	$ (26,168)	11,200	$ (296,634)	$ 448,551
Shares issued under share-based com-pensation plan	—	—	5	—	—	—	—	—	—	—
Exercise of stock options	—	—	145	2	2,899	—	—	—	—	2,901
Income tax benefit from exercise of stock options	—	—	—	—	1,617	—	—	—	—	1,617
Share-based compensation expense	—	—	—	—	209	—	—	—	—	209
Net income	—	—	—	—	—	41,300	—	—	—	41,300
Currency translation adjustment, net of tax	—	—	—	—	—	—	(22,874)	—	—	(22,874)
	—	—	—	—	—	—	—	661	(31,974)	(31,974)

Repurchases of treasury stock										
Balance at 9/30/2015	—	$—	39,858	$399	$192,787	$624,194	$(49,042)	11,861	$(328,608)	$439,730

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

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FIRST CASH FINANCIAL SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY CONTINUED
(unaudited, in thousands)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accum-ulated Other Compre-hensive Loss	Common Stock Held in Treasury		Total Stock-holders' Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance at 12/31/2013	—	$—	39,377	$394	$176,675	$497,728	$(7,751)	10,429	$(252,687)	$414,359
Shares issued under share-based com-pensation plan	—	—	5	—	—	—	—	—	—	—
Exercise of stock options	—	—	125	1	2,261	—	—	—	—	2,262
Income tax benefit from exercise of stock options	—	—	—	—	1,813	—	—	—	—	1,813
Share-based compensation expense	—	—	—	—	1,370	—	—	—	—	1,370
Net income	—	—	—	—	—	58,225	—	—	—	58,225
Currency translation adjustment, net of tax	—	—	—	—	—	—	(4,628)	—	—	(4,628)
Repurchases of treasury stock	—	—	—	—	—	—	—	771	(43,947)	(43,947)
Balance at 9/30/2014	—	$—	39,507	$395	$182,119	$555,953	$(12,379)	11,200	$(296,634)	$429,454

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

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FIRST CASH FINANCIAL SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Nine Months Ended September 30,	
	2015	2014
Cash flow from operating activities:		
Net income	$41,300	$58,225
Adjustments to reconcile net income to net cash flow provided by operating activities:		
Non-cash portion of credit loss provision	466	797
Share-based compensation expense	209	1,370
Depreciation and amortization expense	13,651	13,001
Amortization of debt issuance costs	715	633
Impairment of goodwill - U.S. consumer loan operations	7,913	—
Deferred income taxes	2,293	1,488
Changes in operating assets and liabilities, net of business combinations:		
Pawn fees and service charges receivable	(2,203)	(3,084)
Merchandise inventories	(3,310)	(3,548)
Prepaid expenses and other assets	(1,731)	(906)
Accounts payable and accrued expenses	4,428	10,502
Income taxes payable, current	1,391	(9,150)
Net cash flow provided by operating activities	65,122	69,328
Cash flow from investing activities:		
Loan receivables, net of cash repayments	(22,299)	(24,324)
Purchases of property and equipment	(15,528)	(17,801)
Acquisitions of pawn stores, net of cash acquired	(33,015)	(34,873)
Net cash flow used in investing activities	(70,842)	(76,998)
Cash flow from financing activities:		
Borrowings from revolving credit facilities	82,055	25,500
Repayments of revolving credit facilities	(35,955)	(190,000)
Repayments of notes payable	—	(8,352)
Issuance of senior unsecured notes	—	200,000
Debt issuance costs paid	—	(6,601)
Purchases of treasury stock	(31,974)	(43,947)
Proceeds from exercise of share-based compensation awards	2,901	2,262
Income tax benefit from exercise of stock options	1,617	1,813
Net cash flow provided by (used in) financing activities	18,644	(19,325)
Effect of exchange rates on cash	(8,393)	(888)
Change in cash and cash equivalents	4,531	(27,883)
Cash and cash equivalents at beginning of the period	67,992	70,643
Cash and cash equivalents at end of the period	$72,523	$42,760

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

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

Note 1 - Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated balance sheet at December 31, 2014, which is derived from audited financial statements, and the unaudited condensed consolidated financial statements, including the notes thereto, include the accounts of First Cash Financial Services, Inc. and its wholly-owned subsidiaries (together, the "Company"). All significant intercompany accounts and transactions have been eliminated.

These unaudited consolidated financial statements are condensed and do not include all disclosures and footnotes required by generally accepted accounting principles in the United States of America for complete financial statements. These interim period financial statements should be read in conjunction with the Company's consolidated financial statements, which are included in the Company's annual report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission (the "SEC") on February 12, 2015. The condensed consolidated financial statements as of September 30, 2015 and 2014, and for the three month and nine month periods ended September 30, 2015 and 2014, are unaudited, but in management's opinion include all adjustments (consisting of only normal recurring adjustments) considered necessary to present fairly the financial position, results of operations and cash flow for such interim periods. Operating results for the periods ended September 30, 2015 are not necessarily indicative of the results that may be expected for the full fiscal year.

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

The Company has significant operations in Mexico where the functional currency for the Company's operating subsidiaries is the Mexican peso. Accordingly, the assets and liabilities of these subsidiaries are translated into U.S. dollars at the exchange rate in effect at each balance sheet date, and the resulting adjustments are accumulated in other comprehensive income (loss) as a separate component of stockholders' equity. Revenue and expenses are translated at the average exchange rates occurring during the three month and nine month periods ended September 30, 2015.

Certain amounts in prior year comparative presentations have been reclassified in order to conform to the 2015 presentation.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)" ("ASU 2014-08"). ASU 2014-08 requires a disposal representing a strategic shift that has (or will have) a major effect on an entity's financial results or a business activity classified as held for sale should be reported as discontinued operations. ASU 2014-08 also expands the disclosure requirements for discontinued operations and adds new disclosures for individually significant dispositions that do not qualify as discontinued operations. ASU 2014-08 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014. The adoption of ASU 2014-08 did not have a material effect on the Company's current financial position, results of operations or financial statement disclosures, however, it may impact the reporting of future discontinued operations if and when they occur.

In May 2014, the Financial Accounting Standards Board issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the Financial Accounting Standards Board issued ASU 2015-14, which delayed the effective date of ASU 2014-09 by one year resulting in it becoming effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2017 for public companies. Early adoption is permitted but not before annual reporting periods beginning after December 15, 2016. The Company is currently assessing the potential impact of ASU 2014-09 on its consolidated financial statements.

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In April 2015, the Financial Accounting Standards Board issued ASU No. 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”). ASU 2015-03 requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. In August 2015, the Financial Accounting Standards Board issued ASU No. 2015-15, which clarified the guidance in ASU 2015-03 regarding presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. The SEC Staff announced they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-03 requires retrospective application and represents a change in accounting principle. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect ASU 2015-03 to have a material effect on the Company’s results of operations, however, it will impact future balance sheet presentation and financial statement disclosures related to the Company’s debt issuance costs, upon adoption.

In July 2015, the Financial Accounting Standards Board issued ASU No. 2015-11, “Simplifying the Measurement of Inventory” (“ASU 2015-11”). ASU 2015-11 requires inventory be measured at the lower of cost or net realizable value. ASU 2015-11 defines net realizable value as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Inventory measured using last-in, first-out (“LIFO”) or the retail inventory method are excluded from the scope of this update. ASU 2015-11 requires prospective application and is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years, with early adoption permitted. The Company does not expect ASU 2015-11 to have a material effect on the Company’s current financial position, results of operations or financial statement disclosures.

In September 2015, the Financial Accounting Standards Board issued ASU No. 2015-16, “Simplifying the Accounting for Measurement-Period Adjustments” (“ASU 2015-16”). ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. ASU 2015-16 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning on or after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The adoption of ASU 2015-16 did not have a material effect on the Company’s current financial position, results of operations or financial statement disclosures.

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Note 2 - Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Income from continuing operations for calculating basic and diluted earnings per share	$11,173	$19,528	$41,300	$58,497
Loss from discontinued operations	—	—	—	(272)
Net income for calculating basic and diluted earnings per share	$11,173	$19,528	$41,300	$58,225
Denominator:				
Weighted-average common shares for calculating basic earnings per share	28,019	28,397	28,206	28,762
Effect of dilutive securities:				
Stock options and nonvested awards	205	408	212	398
Weighted-average common shares for calculating diluted earnings per share	28,224	28,805	28,418	29,160
Basic earnings per share:				
Income from continuing operations	$0.40	$0.69	$1.46	$2.03
Loss from discontinued operations	—	—	—	(0.01)
Net income per basic share	$0.40	$0.69	$1.46	$2.02
Diluted earnings per share:				
Income from continuing operations	$0.40	$0.68	$1.45	$2.01
Loss from discontinued operations	—	—	—	(0.01)
Net income per diluted share	$0.40	$0.68	$1.45	$2.00

Note 3 - Acquisitions

The Company completed acquisitions during the nine months ended September 30, 2015 as described below consistent with its strategy to continue its expansion of pawn stores in selected markets. The purchase price of each acquisition 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 assets acquired has been recorded as goodwill. The goodwill arising from these acquisitions consists largely of the synergies and economies of scale expected from combining the operations of the Company and the pawn stores acquired.

During the nine months ended September 30, 2015, 30 pawn stores located in five U.S. states were acquired by the Company in five separate asset purchase transactions (“U.S. Acquisitions”) for an aggregate purchase price of $33,240,000, net of cash acquired, and was composed of $32,090,000 in cash and payables to the sellers of $1,150,000. During the nine months ended September 30, 2015, the Company also paid $925,000 of purchase price amounts payable related to prior-year acquisitions.

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The preliminary allocations of the purchase prices for the U.S. Acquisitions are as follows (in thousands):

	U.S. Acquisitions
Pawn loans	$ 3,438
Pawn loan fees and service charges receivable	204
Inventory	2,608
Other current assets	9
Property and equipment	310
Goodwill (1)	26,506
Intangible assets (2)	513
Other non-current assets	5
Current liabilities	(353)
Purchase price	$ 33,240

(1) Substantially all of the goodwill is expected to be deductible for U.S. income tax purposes.

(2) Intangible assets primarily consist of customer relationships, which are included in other non-current assets in the accompanying condensed consolidated balance sheets. Customer relationships are generally amortized over five years.

During the nine months ended September 30, 2015, revenue from the U.S. Acquisitions since the acquisition dates was $5,498,000. During the nine months ended September 30, 2015, the net loss from the U.S. Acquisitions since the acquisition dates (including acquisition and integration costs) was $349,000. Combined transaction and integration costs related to acquisitions during the nine months ended September 30, 2015 were approximately $1,175,000, which are primarily included in administrative expenses in the accompanying condensed consolidated statements of income.

Note 4 - Long-Term Debt

Senior Unsecured Notes

On March 24, 2014, the Company issued $200,000,000 of 6.75% senior notes due on April 1, 2021 (the “Notes”). Interest on the Notes is payable semi-annually in arrears on April 1 and October 1. The Notes permit the Company to make certain restricted payments, such as repurchasing shares of its stock and paying cash dividends, within certain parameters, the most restrictive of which generally limits such restricted payments to 50% of adjusted net income.

Revolving Credit Facilities

At September 30, 2015, the Company maintained a line of credit with a group of U.S. based commercial lenders (the “2014 Credit Facility”) in the amount of $160,000,000, which matures in February 2019. At September 30, 2015, the Company had $68,500,000 outstanding under the 2014 Credit Facility and $91,500,000 was available for borrowings. The 2014 Credit Facility bears interest, at the Company’s option, at either (i) the prevailing London Interbank Offered Rate (“LIBOR”) (with interest periods of 1, 2, 3 or 6 months at the Company’s option) plus a fixed spread of 2.5% or (ii) the prevailing prime or base rate plus a fixed spread of 1.5%. The interest rate on amounts outstanding under the 2014 Credit Facility at September 30, 2015 was 2.75% based on the prevailing 30-day LIBOR rate. The 2014 Credit Facility requires the Company to maintain certain financial ratios and comply with certain financial covenants and allows the Company to make certain restricted payments, such as repurchasing shares of its stock and paying cash dividends, within certain parameters, provided the Company maintains compliance with those financial ratios and covenants after giving effect to such restricted payments. The Company was in compliance with the requirements and covenants of the 2014 Credit Facility as of September 30, 2015. During the nine months ended September 30, 2015, the Company had net proceeds of $46,100,000 from borrowings pursuant to the 2014 Credit Facility.

On March 9, 2015, the Company entered into an agreement with a bank in Mexico to establish a revolving credit facility (the “Mexico Credit Facility”) in the amount of $10,000,000. The Mexico Credit Facility bears interest at the prevailing 30-day LIBOR rate plus a fixed spread of 2.0% and matures in December 2017. Under the terms of the Mexico Credit Facility, the Company is required to maintain certain financial ratios and comply with certain financial covenants. The Company was in compliance with the requirements and covenants of the Mexico Credit Facility as of September 30, 2015. The Company is required to pay a one-time commitment fee of $25,000 due when the first amount is drawn/borrowed. At September 30, 2015, the Company had no amount outstanding under the Mexico Credit Facility and $10,000,000 was available for borrowings.

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Note 5 - 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. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels. The three fair value levels are (from highest to lowest):

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

As cash and cash equivalents have maturities of less than three months, the carrying values of cash and cash equivalents approximate fair value (Level 1 of the fair value hierarchy). Due to their short-term maturities, pawn loans, consumer loans (net), pawn loan fees and service charges receivable approximate fair value (Level 3 of the fair value hierarchy).

The carrying value of the 2014 Credit Facility and the Mexico Credit Facility approximated fair value for all periods presented. The fair value of the Notes was approximately $201,000,000, $209,000,000 and $207,000,000 as of September 30, 2015, 2014 and December 31, 2014, respectively, compared to a carrying value of $200,000,000. These fair values have been estimated based on a discounted cash flow analysis using a discount rate representing the Company’s estimate of the rate that would be used by market participants (Level 2 of the fair value hierarchy). Changes in assumptions or estimation methodologies may have a material effect on these estimated fair values.

Note 6 - Goodwill

Changes in the carrying value of goodwill for the nine months ended September 30, 2015 were as follows:

Balance at December 31, 2014	$ 276,882
Acquisitions (Note 3)	26,506
Goodwill impairment - U.S. consumer loan operations	(7,913)
Effect of foreign currency translation	(4,621)
Other adjustments	923
Balance at September 30, 2015	$ 291,777

The Company performs its goodwill impairment assessment annually as of December 31, and between annual assessments if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The Company’s reporting units, which are tested for impairment, are U.S. pawn operations, U.S. consumer loan operations and Mexico pawn and consumer loan operations. The Company assesses goodwill for impairment at a reporting unit level by initially assessing a range of qualitative factors, including, but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for the Company’s products and services, regulatory and political developments, entity specific factors, such as strategy and changes in key personnel, and overall financial performance. If, after completing this assessment, it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, the Company proceeds to the two-step impairment testing methodology.

The first step is a comparison of the reporting unit's fair value to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than its carrying value, there is an indication that impairment may exist and the second step must be performed to measure the amount of impairment loss. In the second step, the fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill is less than its carrying value, the difference is recorded as an impairment charge.

During the third quarter of 2015, the Company determined that sufficient indicators of potential impairment existed to require an interim goodwill impairment analysis for the U.S. consumer loan operations reporting unit. These indicators included, among others, the impacts of recently enacted and additional proposed local, state and federal regulatory restrictions affecting short-term and long-term profitability expectations for payday and title lending products, the Company’s long-term ongoing strategy to reduce

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non-core consumer lending operations along with significant deterioration in payday lending market conditions. Due to the aforementioned indicators, the Company concluded that it was more likely than not that the fair value of the U.S. consumer loan operations reporting unit was less than the carrying value.

The Company estimated fair value of the U.S. consumer loan operations reporting unit by applying a multiple to the reporting units' forecast earnings before interest, taxes, depreciation and amortization, as this is a common valuation technique within the consumer loan industry (the inputs used in the fair value calculation are significant unobservable inputs, or Level 3 inputs, in the fair value hierarchy). The resulting estimated fair value of the reporting unit was less than its carrying value and after performing the second step in the goodwill impairment testing methodology, the Company determined there was no material implied goodwill.

As a result, a $7,913,000 goodwill impairment charge was recorded in the third quarter of fiscal 2015, which is included as goodwill impairment - U.S. consumer loan operations in the accompanying condensed consolidated statements of operations. As of September 30, 2015, the Company has no remaining goodwill or other intangible assets associated with its U.S. consumer loan operations reporting unit.

Note 7 - Condensed Consolidating Guarantor Financial Statements

In connection with the issuance of the Notes, certain of the Company's domestic subsidiaries (collectively, "Guarantor Subsidiaries"), fully, unconditionally, jointly and severally guaranteed the payment obligations under the Notes. Each of the Guarantor Subsidiaries is 100% owned, directly or indirectly, by the Company. The following supplemental financial information sets forth, on a consolidating basis, the balance sheets, statements of comprehensive income (loss) and statements of cash flows of First Cash Financial Services, Inc. (the "Parent Company"), the Guarantor Subsidiaries and the Parent Company's other subsidiaries (the "Non-Guarantor Subsidiaries").

The supplemental condensed consolidating financial information has been prepared pursuant to SEC rules and regulations for interim condensed financial information and does not include the more complete disclosures included in annual financial statements. Investments in consolidated subsidiaries have been presented under the equity method of accounting. The principal eliminating entries eliminate investments in subsidiaries, intercompany balances and intercompany revenues and expenses. The condensed financial information may not necessarily be indicative of the results of operations or financial position had the Guarantor Subsidiaries or Non-Guarantor Subsidiaries operated as independent entities.

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Condensed Consolidating Balance Sheet
September 30, 2015
(unaudited, in thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$9,581	$2,628	$60,314	$—	$72,523
Pawn loan fees and service charges receivable	—	6,435	11,681	—	18,116
Pawn loans	—	55,029	73,341	—	128,370
Consumer loans, net	—	580	534	—	1,114
Inventories	—	37,495	60,693	—	98,188
Prepaid expenses and other current assets	4,420	—	1,785	(390)	5,815
Deferred tax assets	1,069	—	5,563	—	6,632
Total current assets	15,070	102,167	213,911	(390)	330,758
Property and equipment, net	3,490	51,318	55,477	—	110,285
Goodwill	—	151,671	140,106	—	291,777
Other non-current assets	5,261	4,038	4,998	—	14,297
Deferred tax assets	—	—	29,187	(21,102)	8,085
Intercompany receivable	—	—	176,223	(176,223)	—
Investments in subsidiaries	879,924	—	—	(879,924)	—
Total assets	$903,745	$309,194	$619,902	$(1,077,639)	$755,202
LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable and accrued liabilities	$19,616	$7,272	$19,241	$—	$46,129
Income taxes payable	—	—	1,233	(390)	843
Total current liabilities	19,616	7,272	20,474	(390)	46,972
Revolving unsecured credit facilities	68,500	—	—	—	68,500
Senior unsecured notes	200,000	—	—	—	200,000
Deferred tax liabilities	244	14,647	6,211	(21,102)	—
Intercompany payable	176,223	—	—	(176,223)	—
Total liabilities	464,583	21,919	26,685	(197,715)	315,472
Stockholders' equity:					
Preferred stock	—	—	—	—	—
Common stock	399	—	—	—	399
Additional paid-in capital	192,787	—	—	—	192,787
Retained earnings	574,584	287,275	642,259	(879,924)	624,194
Accumulated other comprehensive loss	—	—	(49,042)	—	(49,042)
Common stock held in treasury, at cost	(328,608)	—	—	—	(328,608)

Total stockholders’ equity	439,162	287,275	593,217	(879,924	) 439,730
Total liabilities and stockholders’ equity	$ 903,745	$ 309,194	$ 619,902	$ (1,077,639	) $ 755,202

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Condensed Consolidating Balance Sheet
September 30, 2014
(unaudited, in thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$ 17,380	$ 2,809	$ 22,571	$ —	$ 42,760
Pawn loan fees and service charges receivable	—	7,480	12,001	—	19,481
Pawn loans	—	57,116	79,865	—	136,981
Consumer loans, net	—	842	668	—	1,510
Inventories	—	34,915	59,975	—	94,890
Prepaid expenses and other current assets	3,708	—	2,584	—	6,292
Deferred tax assets	906	—	5,393	—	6,299
Total current assets	21,994	103,162	183,057	—	308,213
Property and equipment, net	4,050	50,094	60,971	—	115,115
Goodwill	—	158,308	106,567	—	264,875
Other non-current assets	6,354	4,981	5,129	—	16,464
Deferred tax assets	—	—	10,106	(10,106)	—
Intercompany receivable	—	—	169,711	(169,711)	—
Investments in subsidiaries	804,310	—	—	(804,310)	—
Total assets	$ 836,708	$ 316,545	$ 535,541	$ (984,127)	$ 704,667
LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable and accrued liabilities	$ 19,979	$ 6,684	$ 23,515	$ —	$ 50,178
Total current liabilities	19,979	6,684	23,515	—	50,178
Revolving unsecured credit facility	17,500	—	—	—	17,500
Senior unsecured notes	200,000	—	—	—	200,000
Deferred tax liabilities	64	14,761	2,816	(10,106)	7,535
Intercompany payable	169,711	—	—	(169,711)	—
Total liabilities	407,254	21,445	26,331	(179,817)	275,213
Stockholders' equity:					
Preferred stock	—	—	—	—	—
Common stock	395	—	—	—	395
Additional paid-in capital	182,119	—	—	—	182,119
Retained earnings	543,877	295,100	521,286	(804,310)	555,953
Accumulated other comprehensive loss	(303)	—	(12,076)	—	(12,379)
Common stock held in treasury, at cost	(296,634)	—	—	—	(296,634)
Total stockholders' equity	429,454	295,100	509,210	(804,310)	429,454
	$ 836,708	$ 316,545	$ 535,541	$ (984,127)	$ 704,667

Total liabilities and stockholders' equity

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Condensed Consolidating Balance Sheet
December 31, 2014
(unaudited, in thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$7,799	$2,906	$57,287	$—	$67,992
Pawn loan fees and service charges receivable	—	7,120	9,806	—	16,926
Pawn loans	—	55,709	62,827	—	118,536
Consumer loans, net	—	655	586	—	1,241
Inventories	—	35,206	55,882	—	91,088
Prepaid expenses and other current assets	1,881	—	3,089	—	4,970
Deferred tax assets	1,069	—	6,053	—	7,122
Total current assets	10,749	101,596	195,530	—	307,875
Property and equipment, net	3,997	50,184	59,569	—	113,750
Goodwill	—	158,308	118,574	—	276,882
Other non-current assets	5,967	4,744	5,457	—	16,168
Deferred tax assets	—	—	17,127	(17,127)	—
Intercompany receivable	—	—	170,132	(170,132)	—
Investments in subsidiaries	837,486	—	—	(837,486)	—
Total assets	$858,199	$314,832	$566,389	$(1,024,745)	$714,675
LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable and accrued liabilities	$16,940	$6,459	$19,160	$—	$42,559
Total current liabilities	16,940	6,459	19,160	—	42,559
Revolving unsecured credit facility	22,400	—	—	—	22,400
Senior unsecured notes	200,000	—	—	—	200,000
Deferred tax liabilities	176	14,069	4,047	(17,127)	1,165
Intercompany payable	170,132	—	—	(170,132)	—
Total liabilities	409,648	20,528	23,207	(187,259)	266,124
Stockholders' equity:					
Preferred stock	—	—	—	—	—
Common stock	397	—	—	—	397
Additional paid-in capital	188,062	—	—	—	188,062
Retained earnings	556,726	294,304	569,350	(837,486)	582,894
Accumulated other comprehensive loss	—	—	(26,168)	—	(26,168)
Common stock held in treasury, at cost	(296,634)	—	—	—	(296,634)
Total stockholders' equity	448,551	294,304	543,182	(837,486)	448,551
	$858,199	$314,832	$566,389	$(1,024,745)	$714,675

Total liabilities and stockholders' equity

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Condensed Consolidating Statement of Comprehensive Income (Loss)
Three Months Ended September 30, 2015
(unaudited, in thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated
Revenue:					
Retail merchandise sales	$—	$32,454	$72,483	$—	$104,937
Pawn loan fees	—	18,765	31,117	—	49,882
Consumer loan and credit services fees	—	6,374	621	—	6,995
Wholesale scrap jewelry revenue	—	4,044	3,674	—	7,718
Total revenue	—	61,637	107,895	—	169,532
Cost of revenue:					
Cost of retail merchandise sold	—	18,698	46,177	—	64,875
Consumer loan and credit services loss provision	—	2,240	128	—	2,368
Cost of wholesale scrap jewelry sold	—	3,783	3,064	—	6,847
Total cost of revenue	—	24,721	49,369	—	74,090
Net revenue	—	36,916	58,526	—	95,442
Expenses and other income:					
Store operating expenses	—	20,064	30,931	—	50,995
Administrative expenses	5,318	—	6,415	—	11,733
Depreciation and amortization	176	1,748	2,713	—	4,637
Goodwill impairment - U.S. consumer loan operations	—	7,913	—	—	7,913
Interest expense	4,336	—	—	—	4,336
Interest income	(1)	—	(405)	—	(406)
Total expenses and other income	9,829	29,725	39,654	—	79,208
Income (loss) before income taxes	(9,829)	7,191	18,872	—	16,234
Provision for income taxes	(3,288)	2,660	5,689	—	5,061
Net income (loss)	$(6,541)	$4,531	$13,183	$—	$11,173
Other comprehensive income (loss):					
Currency translation adjustment, net of tax expense or benefit	—	—	(13,998)	—	(13,998)
Comprehensive income (loss)	$(6,541)	$4,531	$(815)	$—	$(2,825)

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Condensed Consolidating Statement of Comprehensive Income (Loss)
Three Months Ended September 30, 2014
(unaudited, in thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated
Revenue:					
Retail merchandise sales	$—	$ 30,698	$ 71,252	$—	$ 101,950
Pawn loan fees	—	18,837	32,941	—	51,778
Consumer loan and credit services fees	—	8,636	838	—	9,474
Wholesale scrap jewelry revenue	—	5,988	5,810	—	11,798
Total revenue	—	64,159	110,841	—	175,000
Cost of revenue:					
Cost of retail merchandise sold	—	17,264	45,516	—	62,780
Consumer loan and credit services loss provision	—	2,756	157	—	2,913
Cost of wholesale scrap jewelry sold	—	5,381	5,063	—	10,444
Total cost of revenue	—	25,401	50,736	—	76,137
Net revenue	—	38,758	60,105	—	98,863
Expenses and other income:					
Store operating expenses	—	18,767	30,526	—	49,293
Administrative expenses	5,598	—	7,808	—	13,406
Depreciation and amortization	218	1,488	2,698	—	4,404
Interest expense	4,059	—	—	—	4,059
Interest income	—	—	(179)	—	(179)
Total expenses and other income	9,875	20,255	40,853	—	70,983
Income (loss) before income taxes	(9,875)	18,503	19,252	—	27,880
Provision for income taxes	(5,021)	6,477	6,896	—	8,352
Net income (loss)	$ (4,854)	$ 12,026	$ 12,356	$—	$ 19,528
Other comprehensive income (loss):					
Currency translation adjustment, net of tax expense or benefit	—	—	(4,940)	—	(4,940)
Comprehensive income (loss)	$ (4,854)	$ 12,026	$ 7,416	$—	$ 14,588

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Condensed Consolidating Statement of Comprehensive Income (Loss)
Nine Months Ended September 30, 2015
(unaudited, in thousands)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated
Revenue:					
Retail merchandise sales	$—	$ 102,233	$ 218,783	$—	$ 321,016
Pawn loan fees	—	55,874	90,245	—	146,119
Consumer loan and credit services fees	—	19,358	1,942	—	21,300
Wholesale scrap jewelry revenue	—	12,683	12,060	—	24,743
Total revenue	—	190,148	323,030	—	513,178
Cost of revenue:					
Cost of retail merchandise sold	—	58,579	140,178	—	198,757
Consumer loan and credit services loss provision	—	4,777	297	—	5,074
Cost of wholesale scrap jewelry sold	—	11,461	9,627	—	21,088
Total cost of revenue	—	74,817	150,102	—	224,919
Net revenue	—	115,331	172,928	—	288,259
Expenses and other income:					
Store operating expenses	—	60,381	94,681	—	155,062
Administrative expenses	19,190	—	21,050	—	40,240
Depreciation and amortization	581	4,831	8,239	—	13,651
Goodwill impairment - U.S. consumer loan operations	—	7,913	—	—	7,913
Interest expense	12,482	—	—	—	12,482
Interest income	(4)	—	(1,139)	—	(1,143)
Total expenses and other income	32,249	73,125	122,831	—	228,205
Income (loss) before income taxes	(32,249)	42,206	50,097	—	60,054
Provision for income taxes	(11,147)	15,616	14,285	—	18,754