AMERICAN NATIONAL BANKSHARES INC.
Form EFFECT
October 28, 2014

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61,377

78%

Foreign revenues:

Pawn retail merchandise sales

$

21,480

$

14,393

$

7,087

49%

Pawn scrap jewelry sales

9,197

10,093

(896)

(9%)

Pawn service charges

12,510

9,273

3,237

35%

	$
	43,187
	$
	33,759
	$
	9,428
	28%
Total revenues:	
Pawn retail merchandise sales	
	$
	52,613
	$
	43,771
	$
	8,842
	20%
Pawn scrap jewelry sales	
	15,835
	15,091
	744
	5%
Pawn service charges	

	27,345
	22,400
	4,945
	22%
Short-term loan and credit services fees	
	34,662
	28,806
	5,856
	20%
Buy-here/pay-here retail automobile sales	
	45,902
	-
	45,902
	-
Buy-here/pay-here wholesale automobile sales	
	1,148
	-
	1,148
	-
Buy-here/pay-here finance charges	
	3,143
	-
	3,143
	-
Other	
	2,232

2,007

225

11%

$

182,880

$

112,075

$

70,805

63%

Year-over-year revenue increases for pawn retail merchandise sales, pawn scrap jewelry sales, pawn service fees, short-term loan/credit services fees and other revenues were due to a combination of same-store revenue growth and the opening of new stores. Same-store revenues (stores that were in operation during all of the first six months of both 2006 and 2007) increased 10% or $11,046,000 for the Six-Month 2007 Period as compared to the same period last year. Revenues generated by the 44 new pawn stores and the 67 new short-term loan stores opened since January 1, 2006 increased by $9,819,000, compared to the same quarter last year.

The consolidated increase in scrap jewelry sales during the Six-Month Period of 2007, as compared to the Six-Month 2006 Period, was primarily due to higher selling prices of gold in the first half of 2007, compared to the prior-year period.

The Company acquired Auto Master on August 25, 2006, and accordingly, the buy-here/pay-here automotive revenues represent the results of the twelve Auto Master dealerships for the period January 1, 2007 through June 30, 2007. During this period, Auto Master sold approximately 4,600 vehicles to retail customers for an average selling price of $10,300 per vehicle.

The gross profit margin on total pawn merchandise sales was 41.4% during the Six-Month 2007 Period, compared to 41.3% during the Six-Month 2006 Period. The retail pawn merchandise margin, which excludes scrap jewelry sales, was 43.8% during the Six-Month 2007 Period, compared to 44.4% in the Six-Month 2006 Period. Gross margins on sales of scrap jewelry increased to 33.5% in the Six-Month 2007 Period compared to 32.5% in the Six-Month 2006 Period, due primarily to increased selling prices of scrap gold. The margin on buy-here/pay-here retail automobile sales, net of credit losses, was 27.3% for the Six-Month 2007 Period.

The Company's short-term loan and credit services loss provision increased from 15.8% of short-term loan and credit services fee revenues during the Six-Month 2006 Period to 21.7% during the Six-Month 2007 Period. During the Six-Month 2007 Period, the Company sold certain bad debt portfolios generated from short-term loan and credit services guarantees for an aggregate price of $338,000, compared to proceeds of $1,444,000 for a similar transaction in the prior year period. The sales were recorded as reductions of the short-term loan and credit services loss provision. The decline in bad debt portfolio sales accounted for 400 basis points of the increase in the short-term loan and credit services loss provision ratio. The remainder of the increase in the provision was related to an increased proportion of new stores, which typically have greater early credit losses and higher charge-offs associated with new customers and employees. The buy-here/pay-here automotive credit loss provision was $14,078,000 for the Six-Month 2007 Period, which represented 30.7% of retail automobile sales.

Pawn and short-term loan store operating expenses increased 19% to $43,850,000 during the Six-Month 2007 Period, compared to $36,767,000 during the Six-Month 2006 Period, primarily as a result of the net addition of 108 pawn and check cashing/short-term loan stores since January 1, 2006, which is a 33% increase in the store count. Buy-here/pay-here automotive dealership operating expenses totaled $5,204,000 for the Six-Month 2007 Period. Administrative expenses increased 37% to $14,768,000 during the Six-Month 2007 Period compared to $10,770,000 during the Six-Month 2006 Period, which is primarily attributable to increased management and supervisory compensation expense and to additional administrative expenses related to new store openings and the Auto Master acquisition. The Company incurred interest expense in the Six-Month 2007 Period of $709,000. There was no debt outstanding during the Six-month 2006 Period. Interest income decreased from $550,000 in the Six-Month 2006 Period to $38,000 in the Six-Month 2007 Period due primarily to lower levels of invested cash.

For the Six-Month 2007 Period and Six-Month 2006 Period, the Company's effective income tax rates of 36.7% and 36.5%, respectively, differed from the federal statutory tax rate of 35% primarily as a result of state income taxes.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2007, the Company's primary sources of liquidity were $18,779,000 in cash and cash equivalents, $100,634,000 in receivables, $32,168,000 in inventories and $27,100,000 of available and unused funds under the Company's long-term line of credit with two commercial lenders (the "Credit Facility"). The Company had working capital of $114,507,000 as of June 30, 2007.

The Company's $50,000,000 Credit Facility matures in April 2009. The Credit Facility bears interest at the prevailing LIBOR rate (which was approximately 5.3% at June 30, 2007) plus a fixed interest rate margin of 1.375%. Amounts available under the Credit Facility are limited to 300% of the Company's earnings before income taxes, interest, and depreciation for the trailing twelve months. At June 30, 2007, the Company had $22,900,000 outstanding under the Credit Facility and $27,100,000 available for borrowings. Under the terms of the Credit Facility, the Company is required to maintain certain financial ratios and comply with certain technical covenants. The Company was in compliance with the requirements and covenants of the Credit Facility as of June 30, 2007, and August 6, 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 June 30, 2007, the Company has notes payable to individuals arising from the Auto Master acquisition that total $8,313,000 in aggregate and bear interest at 7%, with quarterly payments of principal and interest. Of the $8,313,000 in notes payable, $2,250,000 is classified as a current liability, and $6,063,000 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:

	Six Months Ended June 30,	
	2007	2006
	(unaudited, in thousands)	

Cash flows from operating activities:				
Net income	$	19,164	$	14,117
Adjustments to reconcile net income to net cash flows from operating activities:				
Depreciation and amortization		5,257		3,600
Share-based compensation expense		136		522
Non-cash portion of credit loss provision		16,389		494
Changes in operating assets and liabilities:				
Buy-here/pay-here automotive customer receivables		(30,306)		-
Finance and service fees receivable		(744)		(323)
Inventories		(1,573)		192
Prepaid expenses and other assets		(661)		(459)
Accounts payable and accrued liabilities		(1,616)		(2,533)
Current and deferred income taxes		(2,325)		(929)
Net cash flows from operating activities		3,721		14,681
Cash flows from investing activities:				
Pawn customer receivables		(6,282)		(3,043)
Short-term loan customer receivables		(2,295)		642
Purchases of property and equipment		(13,517)		(7,039)
Net cash flows from investing activities		(22,094)		(9,440)
Cash flows from financing activities:				
Proceeds from debt		37,200		-
Payments of debt		(23,425)		-
Purchase of treasury stock		-		(24,753)
Proceeds from exercise of stock options and warrants		5,789		3,284
Stock option and warrant income tax benefit		2,053		2,257
Net cash flows from financing activities		21,617		(19,212)
Change in cash and cash equivalents		3,244		(13,971)
Cash and cash equivalents at beginning of the period		15,535		42,741
Cash and cash equivalents at end of the period	$	18,779	$	28,770

During the Second Quarter of 2006, the Company utilized excess cash flows to repurchase approximately $24,753,000 of common stock for a total of 1,262,000 shares under two repurchase authorizations. There were no shares repurchased during the Second Quarter of 2007.

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

Management believes that the Credit Facility and cash generated from operations will be sufficient to accommodate the Company's current operations and store expansion for fiscal 2007. The Company anticipates that capital expenditures will range from $24 million to $26 million for the year. The Company currently has no written commitments for additional borrowings or future acquisitions; however, the Company intends to continue to grow and may seek additional capital to facilitate expansion. The Company will evaluate acquisitions, if any, based upon opportunities, acceptable financing, purchase price, strategic fit and qualified management personnel.

The Company intends to continue expansion primarily through new store openings. During fiscal 2007, the Company plans to open approximately 75 to 80 pawn and short-term loan locations and 3 to 5 Auto Master dealerships. The majority of capital expenditures, working capital requirements and start-up losses related to this expansion are expected to be funded primarily 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 opportunity to acquire new stores in the near future, the Company may seek additional financing, the terms of which will be negotiated on a case-by-case basis.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") for the twelve month period ended June 30, 2007 totaled $68,742,000, an increase of 37% compared to $50,167,000 for the twelve month period ended June 30, 2006. The EBITDA margin (EBITDA as a percentage of revenues) for the twelve month period ended June 30, 2007 was 20%, compared to 22% 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 (in thousands):

	Twelve Months Ended June 30,	
	2007	2006
Net income	$ 36,791	$ 28,208
Adjustments:		
Income taxes	20,843	15,913
Depreciation and amortization	9,698	6,742
Interest expense	1,625	-
Interest income	(215)	(696)
Earnings before interest, income taxes, depreciation and amortization	$ 68,742	$ 50,167

CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE RESULTS

Forward-Looking Information

This quarterly report may contain forward-looking statements about the business, financial condition and prospects of First Cash Financial Services, Inc. ("First Cash" or the "Company"). Forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, can be identified by the use of forward-looking terminology such as "believes," "projects," "expects," "may," "estimates," "should," "plans," "intends," "could," or "anticipates," or the negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy. Forward-looking statements can also be identified by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Forward-looking statements in this quarterly report include, without limitation, the Company's expectations of earnings per share, earnings growth, expansion strategies, store and dealership openings, future liquidity, cash flows, credit loss provisions, debt repayments, consumer demand for the Company's products and services, competition, and other performance results. These statements are made to provide the public with management's current assessment of the Company's business. Although the Company believes that the expectations reflected in forward-looking statements are reasonable, there can be no assurances that such expectations will prove to be accurate. Security holders are cautioned that such forward-looking statements involve risks and uncertainties. The forward-looking statements contained in this quarterly report speak only as of the date of this statement, and the Company expressly disclaims any obligation or undertaking to report any updates or revisions to any such statement to reflect any change in the Company's expectations or any change in events, conditions or circumstances on which any such statement is based. Certain factors may cause results to differ materially from those anticipated by some of the statements made in this quarterly report. Such factors are difficult to predict and many are beyond the control of the Company and may include changes in regional, national or international economic conditions, changes in consumer borrowing and repayment behaviors, changes in credit markets, credit losses, changes or increases in competition, the ability to locate, open and staff new stores and dealerships, the availability or access to sources of inventory, inclement weather, the ability to successfully integrate acquisitions, the ability to retain key management personnel, the ability to operate with limited regulation as a credit services organization in Texas, new legislative initiatives or governmental regulations (or changes to existing laws and regulations) affecting short-term loan/payday advance businesses, credit services organizations, pawn businesses and buy-here/pay-here automotive businesses in both the U.S. and Mexico, unforeseen litigation, changes in interest rates, changes in tax rates or policies, changes in gold prices, changes in energy prices, changes in used-vehicle prices, cost of funds, changes in foreign currency exchange rates, future business decisions, and other uncertainties. These and other risks and uncertainties are further and more completely described in the Company's 2006 Annual Report on Form 10-K (see "Item 1A. Risk Factors").

Regulatory Developments

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

Existing regulations and recent regulatory developments are described in greater detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. The State of Oregon recently enacted legislation that provides for significantly more restrictive regulation of the short-term loan industry beginning in July 2007. The implementation of these more restrictive regulations is expected to have a significant negative effect on the Company's short-term loan revenues in Oregon, beginning in July 2007. In July, the Company closed two of its locations in Oregon, and currently has five remaining locations in Oregon. During 2006, the United States Congress enacted legislation that caps 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 certain loan products, including short-term/payday loans and credit services transactions. The Company does not have any short-term/payday loan or credit services 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 the District of Columbia, where the Company operates nine locations that offer short-term/payday loans, legislation has been proposed which would potentially cap the maximum annual percentage rate charged on loans. If such legislation was enacted which significantly reduced the rate currently charged by the Company, it would have a significant negative effect on the Company's revenues in the District of Columbia.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to the Company's operations result primarily from changes in interest rates, gold prices and foreign currency exchange rates and are described in detail in the Company's 2006 Annual Report on Form 10-K. The Company does not engage in speculative or leveraged transactions, nor does it hold or issue financial instruments for trading purposes. There have been no material changes to the Company's exposure to market risks since December 31, 2006.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, management of the Company has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of June 30, 2007 ("Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective (i) to ensure that information required to be disclosed by us in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms; and (ii) to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to our management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

There was no change in the Company's internal control over financial reporting during the quarter ended June 30, 2007, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes in the status of legal proceedings previously reported in the Company's 2006 Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors previously reported in the Company's 2006 Annual Report on Form 10-K.

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

During the period from January 1, 2007 through June 30, 2007, the Company issued 442,000 shares of common stock relating to the exercise of outstanding stock options for an aggregate exercise price of $7,340,000 (including income tax benefit). During the period from January 1, 2007 through June 30, 2007, the Company issued 57,000 shares of common stock relating to the exercise of outstanding stock warrants for an aggregate exercise price of $564,000 (including income tax benefit).

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

In June 2006, the Company's Board of Directors authorized an open-ended stock repurchase plan, with no dollar limitation, to permit future repurchases 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 this repurchase plan for an aggregate purchase price of $8,848,000 or $19.21 per share. No shares have been repurchased since the Second Quarter of 2006. There are 1,539,000 total remaining shares available for repurchase under the 2006-authorized plan.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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

On June 12, 2007, the Company held the annual meeting of its stockholders. Of the 32,006,754 issued and outstanding common shares entitled to vote at the meeting, 29,788,569 of the common shares voted in person or by proxy. The shareholders voted affirmatively on the following two proposals:

1. The stockholders ratified the election of two directors:

	FOR	%	WITHHELD	%
Tara MacMahon	29,173,734	97.9	614,835	2.1
R. Neil Irwin	29,169,464	97.9	619,105	2.1

2. The stockholders ratified the selection of Hein & Associates LLP as independent auditors of the Company for the year ended December 31, 2007:

FOR	%	AGAINST	%	ABSTAIN	%

29,648,920	99.8	57,257	0.2	82,392	-

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibits:

31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act provided by Rick L. Wessel, Chief Executive Officer

31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act provided by R. Douglas Orr, Chief Financial Officer

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 provided by Rick L. Wessel, Chief Executive Officer

32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 provided by R. Douglas Orr, Chief Financial Officer

SIGNATURES

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

Dated: August 6, 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
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

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