FIRST CASH FINANCIAL SERVICES INC
Form 10-K
February 29, 2012

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-K**

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

**For the fiscal year ended December 31, 2011**

**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**

**Arlington, Texas**

(Address of principal executive offices)

**76011**

(Zip Code)

**(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.

x 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 x 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.

x Yes ¨ 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 (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).

x 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.

x

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

¨ 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 x 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 on June 30, 2011, is $1,211,141,000.

As of February 28, 2012, there were 29,476,954 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

The Company s Proxy Statement in connection with its Annual Meeting of Stockholders to be held on June 12, 2012, is incorporated by reference in Part III, Items 10, 11, 12 and 13.

**FIRST CASH FINANCIAL SERVICES, INC.**

**FORM 10-K**

For the Year Ended December 31, 2011

## 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, estin should, plans, targets, intends, could, or anticipates, or the negative thereof, or other variations thereon, or cc 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, cash flow, consumer demand for the Company s products and services, currency exchange rates, future share repurchases and the impact thereof, 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) 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 and other uncertainties. These and other risks and uncertainties are further and more completely described in Item 1A. Risk Factors.

**PART I**

**Item 1. Business**

**General**

First Cash is a leading operator of retail-based pawn and consumer finance stores in the United States and Mexico. As of February 28, 2012, the Company has over 720 locations in eight U.S. states and 23 states in Mexico.

The Company s primary business is the operation of pawn stores, which engage in retail sales, purchasing of second hand goods and consumer finance activities. Pawn stores are 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. The pawn stores also generate significant retail sales from the merchandise acquired through collateral forfeitures and over-the-counter purchases from customers. 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 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, money transfers and prepaid card products. The product mix varies by market.

Revenue for the twelve months ended December 31, 2011, 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 which 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 customer loans to unbanked, underbanked and credit-challenged customers. These consumers are typically not effectively or efficiently served by traditional lenders such as banks, credit unions or credit card providers. First Cash competes directly in both the specialty retail and consumer finance industries, primarily with its pawn operations.

The pawn industry in the United States is an established industry, 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 2,100 of the estimated 12,000 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 pawn industry in Mexico is less developed, as compared to the U.S., with approximately 5,000 to 6,000 stores estimated country-wide. While the Company operates mostly large, full-service stores in Mexico, most of the competitors pawnshops in Mexico are much smaller than those in the U.S. and typically only make loans collateralized by gold jewelry and have limited, if any, retail operations. The Company currently operates over 490 pawn and consumer lending locations in Mexico. A large percentage of the population in Mexico is unbanked or underbanked 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 and to remain focused on 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 355 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 openings over the past five years:

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| Mexico stores | **61** | 58 | 60 | 64 (4) | 52 |
| U.S. stores | **21 (1)** | 12 (2) | 5 (3) | 7 | 15 |
| Total | **82** | 70 | 65 | 71 | 67 |

(1)

Includes acquisitions of six stores in February 2011 and five stores in November 2011.

(2)

Includes acquisition of six stores in July 2010.

(3)

Includes acquisition of two stores in June 2009.

(4)

Includes acquisition of 16 stores in December 2008.

Subsequent to December 31, 2011, the Company opened 18 new stores and completed a 29-store acquisition in Mexico, resulting in 47 additions as of February 28, 2012.

*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 markets 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.

*Enhance Productivity of Existing and Newly Opened Stores*

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

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

*Acquisitions*

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

**Pawn Merchandise Sales**

The Company s pawn merchandise sales are primarily retail sales to the general public from its pawn stores. The items retailed are primarily used jewelry, consumer electronics, household appliances, tools, musical instruments, and sporting goods. The Company also melts down certain quantities of scrap gold jewelry and sells the gold in commodity markets. These merchandise sales accounted for approximately 66% of the Company s revenue from continuing operations during fiscal 2011.

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

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

**Pawn Lending Activities**

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

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

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

The Company contracts for pawn loan fees and service charges as compensation for the use of the funds loaned and to cover direct operating expenses related to the transaction. The pawn loan fees and service charges are typically calculated as a percentage of the pawn loan amount based on the size and duration of the transaction and generally range from 12% to 300% annually, as permitted by applicable laws. As required by applicable laws, the amounts of these charges are disclosed to the customer on the pawn ticket. These pawn loan fees and service charges accounted for approximately 23% of the Company s revenue from continuing operations during fiscal 2011.

The amount the Company is willing to finance typically is based on a percentage of the estimated sale value of the collateral. There are no minimum or maximum pawn to fair market value restrictions in connection with the Company s lending activities. The basis for the Company s determination of the sale value includes such sources as precious metals spot markets, catalogs, blue books, on-line auction sites and newspapers. The Company also utilizes its integrated computer information system to recall recent selling prices of similar merchandise in its own stores and to review the customer s previous transaction history with the Company. These sources, together with the employees experience in selling similar items of merchandise in particular stores, influence the determination of the estimated sale value of such items. The Company does not utilize a standard or mandated percentage of estimated sale value in determining the amount to be financed. Rather, the employee has the authority to set the percentage for a particular item and to determine the ratio of pawn amount to estimated sale value with the expectation that, if the item is forfeited to the pawnshop, its subsequent sale should yield a gross profit margin consistent with the Company s historical experience. The recovery of the principal and realization of gross profit on sales of inventory is dependent on the Company s initial assessment of the property s estimated sale value. Improper assessment of the sale value of the collateral in the lending function can result in reduced marketability of the property and sale of the property for an amount less than the principal amount pawned. As of December 31, 2011, the Company s average pawn loan was approximately $102 on a consolidated basis, approximately $178 in its U.S. stores and approximately $66 in its Mexico stores.

**Credit Services and Consumer Loan Activities**

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

The Company offers a fee-based credit services organization program ( CSO Program ) to assist consumers, in Texas markets, in obtaining extensions of credit. The Company s consumer loan and pawn stores in Texas offer the CSO Program, and, in Texas, credit services are also offered via an internet platform. The Company s CSO Program in Texas is licensed as a Credit Access Business ( CAB ) under Texas Finance Code Chapter 393 and regulated by the Texas Office of the Consumer Credit Commissioner. Under the CSO Program, the Company assists customers in applying for a short-term extension of credit from an independent, non-bank, consumer lending company (the Independent Lender ) and issues the Independent Lender a letter of credit to guarantee the repayment of the extension of credit. The extensions of credit made by the Independent Lender to credit services customers of the Company range in amount from $50 to $1,500, with an average loan of $516, terms of 7 to 35 days and bear interest at a rate of 10% on an annualized basis. The Company typically charges a credit services fee of $22 per $100 advanced. If the extension of credit is not repaid prior to the expiration of the term, the customer s personal check or ACH withdrawal is deposited into the Independent Lender s bank account. Banks return a significant number of customer checks deposited into the Independent Lender s account due to insufficient funds in the customers accounts. If the extension of credit is unpaid after 16 days from its due date, the Company reimburses the Independent Lender, under the terms of its letter of credit, for the outstanding principal amount, accrued interest, applicable late fees and returned check fees. The Company subsequently collects a large percentage of these bad debts by redepositing the customers checks, ACH collections or subsequent cash repayments by the customers. The profitability of the Company s credit services operations is dependent upon adequate collection of these returned items. The Company also offers an automobile title lending product under the CSO Program, however, its results were not significant in fiscal 2011. These credit services fees accounted for approximately 9% of the Company s revenue from continuing operations during fiscal 2011.

The Company s consumer loan stores in Mexico make small consumer loans with an average loan amount of approximately $78. To qualify for a consumer loan, a customer generally must have proof of steady income, residence and valid identification. At maturity, the customer typically returns to the store to pay off the loan and related fee with cash. If the customer fails to repay the loan, the Company initiates collection procedures, which can include collection calls and home visits. Consumer loans in Mexico are not secured by a personal check. The term of the consumer loan in Mexico ranges from 7 to 15 days. Consumer loans made in Mexico bear weekly service fees of 10% on the loan amount; the maximum loan amount is $400. In Mexico, the Company also offers an installment loan product with a term of 365 days and bears weekly service fees of 7% on the loan amount; the maximum loan amount is $400. These consumer loan fees accounted for approximately 1% of the Company s revenue from continuing operations during fiscal 2011.

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

**Financial Information about Geographic Areas**

Additional financial information regarding the Company s revenue and long-lived assets by geographic areas is provided in Note 16 of Notes to Consolidated Financial Statements.

**Locations and Operations**

The following table details store openings and closings for the twelve months ended December 31, 2011:

| | Pawn Locations | Consumer |
|---|---|---|

| | Large Format (1) | Small Format (2) | Loan Locations (3) | Total Locations |
|---|---|---|---|---|
| United States: | | | | |
| Total locations, beginning of period | 111 | 24 | 91 | 226 |
| New locations opened or acquired | 20 | 1 | - | 21 |
| Store format conversions | 1 | - | (1) | - |
| Locations closed or consolidated | - | - | (6) | (6) |
| Discontinued operations | - | - | (10) | (10) |
| Total locations, end of period | 132 | 25 | 74 | 231 |
| Mexico: | | | | |
| Total locations, beginning of period | 333 | 20 | 33 | 386 |
| New locations opened or acquired | 61 | - | - | 61 |
| Store format conversions | - | (1) | 1 | - |
| Total locations, end of period | 394 | 19 | 34 | 447 |
| Total: | | | | |
| Total locations, beginning of period | 444 | 44 | 124 | 612 |
| New locations opened or acquired | 81 | 1 | - | 82 |
| Store format conversions | 1 | (1) | - | - |
| Locations closed or consolidated | - | - | (6) | (6) |
| Discontinued operations | - | - | (10) | (10) |
| Total locations, end of period | 526 | 44 | 108 | 678 |

(1)

The large format locations include retail showrooms and accept a broad array of pawn collateral including jewelry, electronics, appliances, tools and other consumer hard goods. At December 31, 2011, 79 of the U.S. large format pawn stores also offered consumer loans or credit services products.

(2)

The small format locations typically have limited retail operations and primarily accept jewelry and small electronic items as pawn collateral. At December 31, 2011, all of the Texas and Mexico small format pawn stores also offered consumer loans or credit services products.

(3)

The U.S. consumer loan locations offer a credit services product and are all located in Texas. The Mexico locations offer small, short-term consumer loans. In addition to stores shown on this chart, First Cash is also an equal partner in Cash & Go, Ltd., a joint venture, which owns and operates 39 check cashing and financial services kiosks located inside convenience stores in the state of Texas. The Company s credit services operations also include an internet distribution channel for customers in the state of Texas.

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

The Company seeks to establish clusters of several stores in specific geographic areas in order to achieve certain economies of scale relative to supervision, purchasing and marketing. Financial information about geographic areas is provided in Results of Operations. As of December 31, 2011, the Company s stores were located in the following states:

| | Pawn Locations | | Credit Services/ Consumer | |
|---|---|---|---|---|
| | Large Format | Small Format | Loan Locations | Total Locations |
| United States: | | | | |
| Texas | 80 | 24 | 74 | 178 |
| Maryland | 26 | - | - | 26 |
| Indiana | 9 | - | - | 9 |
| South Carolina | 6 | - | - | 6 |
| Missouri | 4 | - | - | 4 |
| District of Columbia | 2 | 1 | - | 3 |
| Oklahoma | 3 | - | - | 3 |
| Virginia | 2 | - | - | 2 |
| | 132 | 25 | 74 | 231 |
| Mexico: | | | | |
| Tamaulipas | 49 | 1 | 4 | 54 |
| Edo. De Mexico (State of Mexico) | 49 | 4 | - | 53 |
| Baja California | 43 | 2 | 3 | 48 |
| Nuevo Leon | 34 | 1 | 2 | 37 |
| Jalisco | 27 | 3 | 5 | 35 |
| Chihuahua | 31 | 1 | 2 | 34 |
| Coahuila | 34 | - | - | 34 |
| Guanajuato | 23 | 2 | 7 | 32 |
| Puebla | 22 | 1 | 5 | 28 |
| Aguascalientes | 7 | 1 | 5 | 13 |
| Durango | 12 | - | - | 12 |
| San Luis Potosi | 8 | 1 | - | 9 |
| Veracruz | 8 | 1 | - | 9 |
| Queretaro | 7 | - | 1 | 8 |
| Distrito Federal | 7 | - | - | 7 |
| Guerrero | 7 | - | - | 7 |
| Hidalgo | 6 | 1 | - | 7 |
| Morelos | 7 | - | - | 7 |
| Colima | 5 | - | - | 5 |

| | | | | |
|---|---|---|---|---|
| Michoacan | 5 | - | - | 5 |
| Zacatecas | 2 | - | - | 2 |
| Sonora | 1 | - | - | 1 |
| | 394 | 19 | 34 | 447 |
| Total | 526 | 44 | 108 | 678 |

*Pawn Store Operations*

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

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

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

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

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

*Credit Services and Consumer Loan Operations*

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

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

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

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

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

**Competition**

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

The Company competes primarily with other pawn store operators, other specialty consumer finance operators and deep-value specialty retailers. There are three large publicly-held pawnshop operators, based in the U.S., of which First Cash is the smallest. There are many public and privately held operators of consumer loan stores, some of which are significantly larger than the Company.

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

There is also significant competition in the consumer loan and credit services industries from internet-based providers of such products, many of which have significantly larger operations than the Company s. In addition, the pawnshop and other specialty consumer finance industries are characterized by a large number of independent owner-operators, some of whom own and operate multiple locations. The Company believes that the primary elements of competition in these businesses are store location, the ability to lend competitive amounts on pawns and consumer loans, customer service, and management of store employees. In addition, the Company competes with financial institutions, such as banks and consumer finance companies, which generally lend on an unsecured as well as a secured basis. Other lenders may and do lend money on terms more favorable than those offered by the Company. Many of these competitors have greater financial resources than the Company.

**Governmental Regulation**

*General*

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

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

There can be no assurance that additional local, state or federal statutes or regulations in either the United States or Mexico will not be enacted or that existing laws and regulations will not be amended at some future date that could outlaw or inhibit the ability of the Company to profitably offer pawn loans, consumer loans and credit services, significantly decrease the service fees for lending money, or prohibit or more stringently regulate the sale or importation of certain goods, any of which could cause a significant, adverse effect on the Company's future results. If legislative or regulatory actions that had negative effects on the pawn, consumer loan or credit services industries were taken at a federal, state or local jurisdiction level in the United States or Mexico, where the Company has a significant number of stores, those actions could have a materially adverse effect on the Company s lending, credit services and retail activities operations. There can be no assurance that additional federal, state or local legislation in the United States or Mexico will not be enacted, or that existing laws and regulations will not be amended, which could have a materially adverse impact on the Company's operations and financial condition.

*U.S. Federal Regulations*

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

In July 2010, the United States Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act. Among other things, this legislation establishes a Bureau of Consumer Financial Protection (the Bureau ) which will have broad regulatory powers over providers of consumer credit products in the United States, such as those offered by the Company. The provisions of this legislation are still in the implementation phase, and the Bureau has only recently become fully operative. Until it begins to propose specific rules and regulations that apply to consumer credit activities, it is not possible to accurately predict what effect the Bureau will have on the business. There can be no assurance that the Bureau will not propose and enact rules or regulations that would have a material adverse effect on the Company s operations and financial performance. For fiscal 2011, approximately 19% of the Company s total revenue was generated from U.S.-based pawn and consumer credit products.

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

In connection with credit services/consumer loan transactions, the Company must comply with the various disclosure requirements under the Federal Truth in Lending Act (and Federal Reserve Regulation Z under that Act). These disclosures include, among other things, the total amount of the finance charges and annualized percentage rate of the finance charges associated with consumer loan and credit services transactions.

Under the Bank Secrecy Act, the U.S. Department of the Treasury (the Treasury Department ) regulates transactions involving currency in an amount greater than $10,000 and the purchase of monetary instruments for cash in amounts from $3,000 to $10,000 must be recorded. In general, every financial institution, including the Company, must report each deposit, withdrawal, exchange of currency or other payment or transfer, whether by, through or to the financial institution, that involves currency in an amount greater than $10,000. In addition, multiple currency transactions must be treated as single transactions if the financial institution has knowledge that the transactions are by, or on behalf of, any one person and result in either cash in or cash out totaling more than $10,000 during any one business day.

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

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

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

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

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

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

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

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

*U.S. State and Local Regulations*

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

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

The Company offers a credit services product in the state of Texas. In Texas, First Cash Credit, Ltd., a wholly-owned subsidiary of the Company, operates as a registered credit services organization as provided under Section 393 of the Texas Finance Code. As a credit services organization, First Cash Credit, Ltd. assists customers, for a fee, in obtaining a short-term extension of credit from an independent lender. A credit services organization must provide the consumer with a disclosure statement and a credit services agreement that describe in detail, among other things, the services the credit services organization will provide to the consumer, the fees the consumer will be charged by the credit services organization for these services, the details of the surety bond and the availability of the surety bond if the consumer believes the credit services organization has violated the law, the consumer s right to review his or her file, the procedures a consumer may follow to dispute information contained in his or her file, and the availability of non-profit credit counseling services. The credit services organization must also give a consumer the right to cancel the credit services agreement without penalty within three days after the agreement is signed. In addition, under the provisions of the credit services statute, each First Cash Credit, Ltd. credit services location must be registered as a credit services organization and pay a registration fee.

Legislation relating to pawn loans, credit services, installment loans and other consumer loan products has been either proposed, is still pending or has been recently enacted in several state legislatures, including jurisdictions in Texas, where the Company has pawn and credit services operations. In general, such legislation lowers the maximum allowable interest rates on loans and/or significantly restricts the ability of customers to obtain such loans by limiting the maximum number of consecutive loan transactions that may be provided to a customer and/or limiting the total loans a customer may have outstanding at any point in time. Any or all of these changes could make offering these products less profitable and could restrict or even eliminate the availability of consumer loan, pawn loan and credit services products in some or all of the states in which the Company offers such products. In May of 2011, legislation in the State of Texas was passed and signed by the governor to further regulate credit services businesses in the state, which includes the Company s CSO Program. The new law creates an expanded regulatory framework under which Credit Access Businesses ( CAB ) may provide credit services products. The regulations provided that CAB be licensed, regulated and audited by the State s Office of the Consumer Credit Commissioner. The law also provides for enhanced disclosures to customers regarding credit services products. The Company does not currently believe that the legislation, which became effective on January 1, 2012, will have a material impact on the revenue and profitability of the Company s CSO Program in Texas. In the cities of Dallas and Austin, Texas, local ordinances were recently passed which restrict customer access to credit services products. The ability of these cities to regulate credit services has been challenged in lawsuits filed by an industry trade association. The Company s total revenue from credit services operations in these two cities is less than 1% of consolidated revenue and is not considered material to the Company s overall revenue and profitability.

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

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

*Mexico Regulations*

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

Both federal and state legislation in Mexico has recently been proposed which would further regulate or potentially restrict the ability of the Company to provide pawn loans or other consumer loans. Such proposals typically contain restrictions on contract terms, interest rates and/or service fees, potentially restrict or eliminate the ability of for profit entities to offer these services and provide for new or greater overall regulatory oversight by PROFECO and/or CONDUSEF (the federal banking and financial services regulator). The Company cannot currently assess the probability of such legislation being enacted nor the potential impact of such legislation. There can be no assurance that additional federal, state or local statutes or regulations in Mexico will not be enacted, or that existing laws and regulations will not be amended. In fiscal 2011, approximately 54% of the Company s revenue was derived from its Mexican operations. Legislation which significantly regulates contract terms, restricts service fees/rates or restricts customer access to the Company s pawn and consumer finance products could have a materially adverse impact on the Company's results of operations and financial condition.

**Employees**

The Company had approximately 5,300 employees as of February 28, 2012, including approximately 400 persons employed in executive, administrative and accounting functions. In addition, Cash & Go, Ltd. had approximately 75 employees as of February 28, 2012. None of the Company s employees are covered by collective bargaining agreements. The Company considers its employee relations to be satisfactory.

**First Cash Website**

The Company s primary website is at **www.firstcash.com**. The Company makes available, free of charge, at its corporate website, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act ), as soon as reasonably practicable after they are electronically filed with the SEC.

**Insurance**

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

**Item 1A. Risk Factors**

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

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

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

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

**Risks and uncertainties related to the Company s foreign operations could negatively impact the Company s operating results.** The Company currently has over 490 store locations in Mexico, a country in which there are potential risks related to geo-political events, political instability, corruption, economic volatility, drug cartel and gang-related violence, social and ethnic unrest, enforcement of property rights, governmental regulations, public safety and security among others. As in many developing markets, there are also uncertainties in how local law is applied, including areas most relevant to commercial transactions and foreign investment. As a result, actions or events could occur in Mexico, which are beyond the Company s control, which could restrict or eliminate the Company s ability to operate some or all of its locations in Mexico or significantly reduce customer traffic, product demand and the expected profitability of such operations.

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

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

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

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

**A sustained deterioration of economic conditions or an economic crisis could reduce demand or profitability for the Company's products and services and increase credit losses which would result in reduced earnings.** In addition, business and financial results may be adversely impacted by unfavorable economic conditions associated with a global or regional economic crisis which include adverse changes in interest or tax rates, effects of government initiatives to manage economic conditions and increased volatility of commodity markets and foreign currency exchange rates. Specifically, a rapid or sustained deterioration in the economy could cause deterioration in the performance of the Company s loan portfolios and in consumer or market demand for pre-owned merchandise or gold such as that sold in the Company s pawnshops. While the credit risk for much of the Company s pawn lending is mitigated by the collateralized nature of pawn lending, a sustained deterioration in the economy could reduce the demand and resale value of pre-owned merchandise and reduce the amount that the Company could effectively lend on an item of collateral. Such reductions could adversely affect pawn loan balances, pawn loan redemption rates, inventory balances, inventory mixes, sales volumes and gross profit margins. An economic slowdown could result in a decrease in loan demand and an increase in loan defaults on consumer loan and credit services products. During such a slowdown, the Company could be required to tighten its underwriting standards, which would reduce consumer loan balances and related revenue and credit services fees, and could face more difficulty in collecting defaulted consumer loans, which could lead to an increase in loan losses. As consumer loans and credit services customers generally have to be employed to qualify for a loan or extension of credit, an increase in the unemployment rate would reduce the number of potential customers.

**The Company s financial position and results of operations may fluctuate significantly due to fluctuations in currency exchange rates in Mexico.** During the global economic crisis and the continued aftermath, the volatility of the exchange rate of the Mexican peso to the U.S. dollar has increased significantly. The Company derives significant revenue, earnings and cash flow from operations in Mexico. The Company s exposure to currency exchange rate fluctuations results primarily from the translation exposure associated with the preparation of the Consolidated Financial Statements, as well as from transaction exposure associated with transactions in currencies other than an entity's functional currency. While the Consolidated Financial Statements are reported in U.S. dollars, the financial statements of the Company s Mexican subsidiaries are prepared using the Mexican peso as the functional currency and translated into U.S. dollars by applying appropriate exchange rates. As a result, fluctuations in the exchange rate of the U.S. dollar relative to the Mexican peso could cause significant fluctuations in the Company s results. In addition, while expenses with respect to foreign operations are generally denominated in the same currency as corresponding sales, the Company has transaction exposure to the extent receipts and expenditures are not offsetting in the subsidiary's functional currency. In addition, changes in currency rates could negatively affect customer demand, especially in Mexico and in U.S. stores located along the Mexican border. In addition, the Company s Mexican-based subsidiaries experience foreign currency exposure to the extent monetary assets and liabilities, including debt, are in U.S. dollars, rather than the subsidiaries functional currency, which is the Mexican peso. Moreover, the costs of doing business abroad may increase as a result of adverse exchange rate fluctuations.

**A decreased demand for the Company's products and services and failure of the Company to adapt to such decreases could adversely affect results.** Although the Company's products and services are a staple of its customer base, the demand for a particular product or service may decrease due to a variety of factors, such as the availability of competing products, changes in customers' financial conditions, or regulatory restrictions that increase or reduce customer access to particular products. Should the Company fail to adapt to a significant change in its customers' demand for, or regulatory access to, its products, the Company's revenue could decrease significantly. Even if the Company does make adaptations, customers may resist or may reject products whose adaptations make them less attractive or less available. In any event, the effect of any product change on the results of the Company's business may not be fully ascertainable until the change has been in effect for some time. In particular, the Company has changed, and will continue to change, some of the consumer loan products and services it offers due to regulatory developments.

**Changes in the capital markets or the Company s financial condition could reduce available capital.** The Company currently has $1,200,000 outstanding on its bank line of credit, which matures in February 2015. The Company has, in the past, accessed the debt capital markets to refinance existing debt obligations and to obtain capital to finance growth. Efficient access to these markets is critical to the Company s ongoing financial success; however, the Company s future access to the debt capital markets could become restricted due to a variety of factors, including a deterioration of the Company s earnings, cash flows, balance sheet quality, regulatory restrictions or overall business or industry prospects, a significant deterioration in the state of the capital markets or a negative bias toward the Company s industry by market participants. Inability to access the credit markets on acceptable terms, if at all, would have a materially adverse effect on the Company s financial condition.

**The terms of the Company s revolving bank line of credit impose financial and operating restrictions on the Company.** The Company s bank line of credit contains a number of customary negative covenants and requires the

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

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

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

**The Company is subject to goodwill impairment risk.** At December 31, 2011, the Company had goodwill on its consolidated balance sheet, all of which represents assets capitalized in connection with the Company s acquisitions and business combinations. Accounting for goodwill requires significant management estimates and judgment. Management performs periodic reviews of the carrying values of goodwill to determine whether events and circumstances indicate that an impairment in value may have occurred. A variety of factors could cause the carrying value of goodwill to become impaired. Should a review indicate impairment, a write-down of the carrying value of goodwill would occur, resulting in a non-cash charge, which could have an adverse effect on the Company s results of operations.

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

**The inability to successfully integrate acquisitions could adversely affect results.** The Company has historically grown, in part, through strategic acquisitions, including the acquisition of eleven stores during 2011 and a 29-store chain in Mexico in January 2012. The Company s strategy is to continue to pursue attractive acquisition opportunities if and when they become available. The success of an acquisition is subject to numerous internal and external factors, such as the ability to consolidate data processing and accounting functions, the management of additional sales, administrative, operations and management personnel, overall management of a larger organization, competitive market forces, and general economic factors. Failure to successfully integrate an acquisition would have an adverse effect on the Company s business, results of operations and financial condition. Additionally, any acquisition has the risk that the Company may not realize a return on the acquisition or the Company s investment.

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

**Inclement weather can adversely impact the Company s operating results.** The occurrence of weather events such as rain, cold weather, snow, wind, storms, hurricanes, or other natural disasters adversely affecting consumer traffic and collection activities at the Company s stores could have an adverse effect on the Company s results of operations.

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

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

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

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

The Company owns the real estate and buildings for 20 of its pawn stores. The Company leases 694 store locations that are currently open or are in the process of opening. Leased facilities are generally leased for a term of three to five years with one or more options to renew. The Company s existing leases expire on dates ranging between 2012 and 2045. All current store leases provide for specified periodic rental payments ranging from approximately $702 to $10,411 per month.

The Company also currently owns five other parcels of real estate. Two of the parcels are leased to a buy-here/pay-here car lot operation, one is held for sale and the remaining two parcels are being held for possible development for future pawnshop operations.

The Company currently leases approximately 18,000 square feet of office space in Arlington, Texas for its corporate offices. The lease, which expires May 31, 2015, currently provides for monthly rental payments of approximately $24,000. The Company leases approximately 21,400 square feet of office space in Monterrey, Mexico for its Mexico administrative offices. The lease, which expires May 31, 2014, currently provides for monthly rental payments of approximately $4,000. The Company also leases approximately 12,000 square feet of office space in Euless, Texas for administrative operations. The lease, which expires February 28, 2013, currently provides for monthly rental payments of approximately $3,500.

The Company s 50% owned joint venture, Cash & Go, Ltd., leases its kiosk locations under operating leases generally with terms ranging from one to five years, with renewal options for certain locations. The joint venture s existing leases expire on dates ranging between 2012 and 2014. All current Cash & Go, Ltd. leases provide for specified periodic rental payments ranging from approximately $1,300 to $1,900 per month.

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

**Item 3. Legal Proceedings**

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

**Item 4. Removed and Reserved**

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# PART II

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

**General Market Information**

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

| | | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|---|
| **2011** | | | | | |
| | **High** | **$ 39.75** | **$ 41.99** | **$ 51.29** | **$ 44.16** |
| | **Low** | **29.74** | **36.04** | **39.98** | **34.47** |
| 2010 | | | | | |
| | High | $ 23.23 | $ 23.63 | $ 27.75 | $ 32.00 |
| | Low | 20.64 | 20.40 | 21.17 | 26.71 |

On February 28, 2012, the closing sales price for the common stock as reported by the Nasdaq Global Select Market was $42.50 per share. On February 28, 2012, there were approximately 53 stockholders of record of the common stock.

No cash dividends have been paid by the Company on its common stock. The dividend and earnings retention policies are reviewed by the Board of Directors of the Company from time to time in light of, among other things, the Company s earnings, cash flows, and financial position. The Company s revolving credit facility contains provisions that allow the Company to pay cash dividends within certain parameters.

**Recent Issuances of Common Stock**

During the period from January 1, 2011, through December 31, 2011, the Company issued 167,000 shares of common stock relating to the exercise of outstanding stock options for an aggregate exercise price of $3,261,000 (including income tax benefit). During the period from January 1, 2011, through December 31, 2011, the Company issued 106,000 shares of common stock relating to the exercise of outstanding stock warrants for an aggregate exercise price of $1,305,000 (including income tax benefit). During 2011, the Company granted a total of 59,000 nonvested shares to certain executives of the Company, while 16,400 shares were vested and issued during the year. The issuance of these stock options, warrants and nonvested shares to officers and employees was exempt under Section 4(2) of the Act, and all holders had access to and/or reviewed copies of Exchange Act filings. No sales commissions were paid with respect to these issuances.

**Issuer Purchases of Equity Securities**

In November 2007, the Company s Board of Directors authorized a repurchase program for up to 1,000,000 shares of First Cash s outstanding common stock. In March 2008, the Company s Board of Directors authorized an amendment to the 2007-authorized program which allows the Company to repurchase up to 3,000,000 shares of its common stock. In August 2011, the Company completed the share repurchase program. In December 2011, the Company s Board of Directors authorized a repurchase program for up to 1,500,000 shares of First Cash s outstanding common stock. Under its share repurchase program, the Company can purchase common stock in open market transaction, block or privately negotiated transactions, and may from time to time purchase shares pursuant to a trading plan in accordance with Rule 10b5-1 and Rule 10b-18 under the Securities Exchange Act of 1934, as amended, or by any combination of such methods. The number of shares to be purchased and the timing of the purchases are based on a variety of factors, including, but not limited to, the level of cash balances, general business conditions, regulatory requirements, and the availability of alternative investment opportunities. No time limit was set for completion of repurchases under the new authorization and the program may be suspended or discontinued at any time. Subsequent to December 31, 2011, the Company repurchased approximately 632,000 shares of common stock at an aggregate cost of $24,786,000 and an average cost per share of $39.20. The following table provides the information with respect to purchases made by the Company of shares of its common stock during each month that the programs were in effect during fiscal 2011:

| | Total Number | Average Price | Total Number Of Shares Purchased | Maximum Number Of Shares That May |
|---|---|---|---|---|

| | Of Shares Purchased | Paid Per Share | As Part Of Publicly Announced Plans | Yet Be Purchased Under The Plans |
|---|---|---|---|---|
| January 1 through January 31, 2011 | - | $ - | - | 1,359,581 |
| February 1 through February 28, 2011 | - | - | - | 1,359,581 |
| March 1 through March 31, 2011 | 35,300 | 35.73 | 35,300 | 1,324,281 |
| April 1 through April 30, 2011 | 64,715 | 37.92 | 64,715 | 1,259,566 |
| May 1 through May 31, 2011 | 422,963 | 38.26 | 422,963 | 836,603 |
| June 1 through June 30, 2011 | 65,263 | 38.32 | 65,263 | 771,340 |
| July 1 through July 31, 2011 | 310,572 | 43.10 | 310,572 | 460,768 |
| August 1 through August 31, 2011 | 460,768 | 42.37 | 460,768 | - |
| September 1 through September 30, 2011 | - | - | - | - |
| October 1 through October 31, 2011 | - | - | - | - |
| November 1 through November 30, 2011 | - | - | - | - |
| December 1 through December 31, 2011 | - | - | - | 1,500,000 |
| Total | 1,359,581 | $ 40.68 | 1,359,581 | |

**Performance Graph**

The Stock Price Performance Graph set forth below compares the cumulative total stockholder return on the common stock of the Company for the period from December 31, 2006, through December 31, 2011, with the cumulative total return on the Nasdaq Composite Index and a peer group index (whose returns are weighted according to their respective market capitalizations) over the same period (assuming the investment of $100 in the Company s common stock, the Nasdaq Composite Index, and the peer group). The 2011 peer group selected by the Company includes Cash America International, Inc., EZCORP, Inc., World Acceptance Corporation, Rent-A-Center, Inc., and Aaron Rents, Inc.

**Item 6. Selected Financial Data**

The information below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 and the Company s Consolidated Financial Statements and related notes thereto required by Item 8. The information below has been audited for balance sheet dates December 31, 2011, and 2010 and statement of operations for the years ending December 31, 2011, 2010 and 2009.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | (in thousands, except per share amounts and certain operating data) | | | | |
| **Income Statement Data:** | | | | | |
| Total revenue | **$ 521,302** | $ 423,262 | $ 355,278 | $ 310,902 | $ 259,266 |
| Cost of revenue | **226,552** | 175,959 | 150,686 | 126,156 | 103,411 |
| Net revenue | **294,750** | 247,303 | 204,592 | 184,746 | 155,855 |
| Total expenses and other income | **186,547** | 167,261 | 143,417 | 131,220 | 114,294 |
| Income from continuing operations before income taxes | **108,203** | 80,042 | 61,175 | 53,526 | 41,561 |
| Provision for income taxes | **37,338** | 28,668 | 22,879 | 19,905 | 15,128 |

| | | | | | |
|---|---|---|---|---|---|
| Income from continuing operations | **70,865** | 51,374 | 38,296 | 33,621 | 26,433 |
| Income (loss) from discontinued operations, net of tax | **6,917** | 6,284 | 11,468 | (55,157) | 8,855 |
| Net income (loss) | **$ 77,782** | $ 57,658 | $ 49,764 | $ (21,536) | $ 35,288 |
| | | | | | |
| Net income per share: | | | | | |
| Basic: | | | | | |
| Income from continuing operations | **$ 2.31** | $ 1.70 | $ 1.30 | $ 1.14 | $ 0.84 |
| Net income (loss) | **2.53** | 1.90 | 1.68 | (0.73) | 1.12 |
| Diluted: | | | | | |
| Income from continuing operations | **2.25** | 1.65 | 1.27 | 1.11 | 0.81 |
| Net income (loss) | **2.47** | 1.86 | 1.65 | (0.71) | 1.08 |
| | | | | | |
| **Balance Sheet Data:** | | | | | |
| Net working capital | **$ 175,073** | $ 170,376 | $ 101,295 | $ 95,577 | $ 121,750 |
| Total assets | **357,096** | 342,446 | 256,285 | 265,343 | 291,548 |
| Long-term liabilities | **6,319** | 9,820 | 8,555 | 78,075 | 69,291 |
| Total liabilities | **41,724** | 44,442 | 43,846 | 110,893 | 90,339 |
| Stockholders' equity | **315,372** | 298,004 | 212,439 | 154,450 | 201,209 |
| | | | | | |
| **End of Year Location Counts:** | | | | | |
| Pawn stores (1) | **570** | 488 | 393 | 330 | 283 |
| Credit services/consumer loan stores (excluding Cash & Go, Ltd.) (1) | **108** | 114 | 143 | 142 | 124 |
| | **678** | 602 | 536 | 472 | 407 |

(1)

Includes locations where consumer loans are provided through the CSO Program.

**Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations**

**General**

Pawn operations accounted for 90% of the Company s revenue from continuing operations during fiscal 2011. The Company s pawn revenue is derived primarily from service fees on pawn loans and merchandise sales of forfeited pawn collateral and used goods purchased directly from the general public. The Company accrues pawn loan fee revenue on a constant-yield basis over the life of the pawn loan for all pawns that the Company deems collection to be probable based on historical pawn redemption statistics. If a pawn loan is not repaid prior to the expiration of the automatic extension period, if applicable, the property is forfeited to the Company and transferred to inventory at a value equal to the principal amount of the loan, exclusive of accrued interest.

The Company s consumer loan and credit services revenue, which is approximately 10% of consolidated year-to-date revenue from continuing operations, is derived primarily from credit services fees. The Company recognizes service fee income on consumer loans and credit services transactions on a constant-yield basis over the life of the loan or credit extension, which is generally thirty-five days or less. The net defaults on consumer loans and credit services transactions and changes in the valuation reserve are charged to the consumer loan credit loss provision. The credit loss provision associated with the CSO Program and consumer loans are based primarily upon historical credit loss experience, with consideration given to recent credit loss trends, delinquency rates, economic conditions and management s expectations of future credit losses. See additional discussion of the credit loss provision and related allowances and accruals in the section titled "Results of Continuing Operations."

The following table details selected operating metrics regarding the Company s loan products, inventories, and store locations (1):

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| Pawn loan balances at end of period, in thousands: | | | |
| Large format pawn stores - U.S. | **$ 40,877** | $ 35,220 | $ 31,277 |
| Large format pawn stores - Mexico | **31,748** | 34,823 | 22,412 |
| Small format pawn stores - Mexico | **418** | 346 | 30 |
| Small format pawn stores - U.S. | **244** | 99 | - |
| CSO extensions of credit at end of period, in thousands (2): | | | |
| Consumer loan stores - U.S. | **$ 7,901** | $ 8,024 | $ 8,415 |
| Pawn stores - U.S. | **6,450** | 5,760 | 2,758 |
| Cash & Go, Ltd. joint venture kiosks - U.S. | **1,196** | 1,247 | 1,338 |
| Internet operations - U.S. | **431** | 291 | 216 |
| Pawn store inventories at end of period, in thousands: | | | |
| U.S. stores | **$ 23,745** | $ 19,730 | $ 17,285 |
| Mexico stores | **20,667** | 27,676 | 17,152 |
| Pawn store annualized inventory turnover | **4.2x** | 4.1x | 4.3x |
| Annualized service/finance fee yield (3): | | | |
| Pawn loan receivables | **164%** | 163% | 159% |
| Consumer loan receivables, net of credit loss provision | **416%** | 397% | 364% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net consumer loan and credit services loss provision as a percentage of service fees (4) | | **24%** | | 27% | | 28% |
| Average pawn loans per location at end of period, in thousands: | | | | | | |
| Large format pawn stores - U.S. | **$** | **310** | $ | 317 | $ | 322 |
| Large format pawn stores - Mexico | | **81** | | 105 | | 78 |
| Average inventories per location, in thousands: | | | | | | |
| Large format pawn stores - U.S. | **$** | **178** | $ | 176 | $ | 178 |
| Large format pawn stores - Mexico | | **52** | | 82 | | 60 |
| Average outstanding customer loan amount at end of period: | | | | | | |
| Pawn loan receivables - U.S. | **$** | **178** | $ | 172 | $ | 169 |
| Pawn loan receivables - Mexico | | **66** | | 74 | | 65 |
| Consumer loan receivables - Mexico | | **78** | | 82 | | 88 |
| CSO extensions of credit held by independent third-party lender - U.S. (5) | | **516** | | 495 | | 446 |

(1)

Inventory and loan amounts for stores in Mexico are based on translating the Mexican peso to the U.S. dollar at the exchange rate as of each year end. The exchange rates used for December 31, 2011, 2010, and 2009 were 14.0 to 1, 12.4 to 1, and 13.1 to 1, respectively.

(2)

Amounts shown represent the gross amount owed by customers before allowances. Active CSO extensions of credit outstanding from the independent third-party lender are not included on the Company s balance sheet.

(3)

The annualized yield on pawn loans is calculated by dividing total pawn service fees by the average quarterly pawn loan balance for the year. The annualized yield, net of loss provision, for consumer loans is calculated by dividing total consumer loan service fees, net of the consumer loan loss provision, by the average quarterly consumer loan balance for the year. The annualized yield calculation for consumer loans does not include credit services fees or the related credit services loss provision.

(4)

Consumer loan amount includes consumer loans recorded on the Company s balance sheet and active CSO extensions of credit by the independent third-party lender, which are not included on the Company s balance sheet, net of the Company's estimated fair value of its liability under the letters of credit guaranteeing the extensions of credit.

(5)

Amounts shown represent the gross amount owed by customers before allowances. Excludes title loan amounts.

Stores included in the same-store revenue calculations are those stores that were opened prior to the beginning of the prior-year comparative fiscal period and are still open. Also included are stores that were relocated during the year within a specified distance serving the same market, where there is not a significant change in store size and where there is not a significant overlap or gap in timing between the opening of the new store and the closing of the existing store. Non-retail sales of scrap jewelry are included in same-store revenue calculations. Same-store revenue calculations for prior periods do not reflect the reclassification of discontinued operations.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2011** | 2010 | 2009 |
| Income statement items as a percent of total revenue: | | | |
| Revenue: | | | |
| Merchandise sales | **66.1%** | 63.8% | 64.7% |
| Pawn loan fees | **23.5** | 24.1 | 22.7 |
| Consumer loan and credit services fees | **10.2** | 11.9 | 12.3 |
| Other revenue | **0.2** | 0.2 | 0.3 |
| Cost of revenue: | | | |
| Cost of goods sold | **41.0%** | 38.3% | 38.9% |
| Consumer loan and credit services loss provision | **2.5** | 3.3 | 3.5 |
| Net revenues | **56.5%** | 58.4% | 57.6% |
| Expenses and other income: | | | |
| Store operating expenses | **25.0%** | 27.4% | 27.7% |
| Administrative expenses | **8.7** | 9.5 | 9.7 |
| Depreciation and amortization | **2.1** | 2.5 | 2.8 |
| Interest expense, net | **-** | 0.1 | 0.2 |
| Income from continuing operations before income taxes | **20.7%** | 18.9% | 17.2% |
| Provision for income taxes | **7.1** | 6.8 | 6.4 |
| Income from continuing operations | **13.6** | 12.1 | 10.8 |
| Merchandise sales gross profit margin | **38.1%** | 40.0% | 39.8% |
| Store operating profit margin | **29.8%** | 28.9% | 27.5% |

**Discontinued Operations**

The Company sold all ten of its Illinois consumer loan stores in March 2011. The Company recorded a gain of $5,979,000, net of tax, or $0.19 per share, during fiscal 2011 from the sale of these stores. The after-tax earnings from operations for the Illinois stores were an additional $514,000, or $0.02 per share in fiscal 2011. Comparable after-tax earnings were $2,881,000, or $0.10 per share in fiscal 2010 and $2,860,000, or $0.09 per share in 2009.

In September 2010, the Company discontinued its internet-based credit services product offered in Maryland due to a change in state law which significantly restricts the offering of such products. The after-tax earnings from operations for the Maryland credit services operation were $887,000, or $0.03 per share in fiscal 2010 and $695,000, or $0.03 per share in 2009.

In December 2009, the Company sold all 22 of its West Coast stores to a privately-held payday lending operator. The after-tax loss for all of the West Coast stores was $101,000 in fiscal 2010. The Company recorded a gain of $901,000, or $0.03 per share, net of tax, from the sale of these stores in fiscal 2009. The after-tax earnings from operations for all of the West Coast stores were $1,376,000, or $0.05 per share in fiscal 2009. In addition, the Company sold its consumer loan operations in Michigan effective March 2009, and certain Texas consumer loan/credit services stores were discontinued in both the first and second quarters of 2009. Associated with these store closings, the Company recorded year-to-date after-tax charges in fiscal 2009 of $1,111,000, or $0.04 per share.

The Company discontinued its Auto Master buy-here/pay-here automotive operation in the third quarter of 2008 and subsequently sold the inventory and retail operations to a third party. Under a collection services agreement associated with the sale, the purchaser collected the Company s outstanding Auto Master customer notes receivable, which were reported by the Company as a discontinued asset. After-tax net income from the discontinued Auto Master operation was $424,000, or $0.01 per share in fiscal 2011. Comparable after-tax earnings were $2,617,000, or $0.08 per share in fiscal 2010 and $6,747,000, or $0.22 per share in fiscal 2009. These earnings reflect collections of the remaining customer receivable portfolio in excess of estimated liquidation fair value. The Company realized net cash collections of $1,263,000 and $5,240,000 on these accounts during 2011 and 2010, respectively, and recorded a pre-tax benefit of approximately $763,000 and $3,102,000, respectively, from these cash collections as compared to the estimated fair value of the receivables recorded on the Company s balance sheet. The collection of these Auto Master receivables was completed during 2011, as the outstanding receivable balances were fully collected and/or written-off.

All revenue, expenses and income reported in these financial statements have been adjusted to reflect reclassification of these discontinued operations.

**Critical Accounting Policies**

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

*Principles of consolidation* - The accompanying consolidated financial statements of the Company include the accounts of its wholly-owned subsidiaries. In February 2011, the Company acquired six pawn stores located in Indiana and Missouri. In November 2011, the Company acquired five pawn stores located in Indiana. The results of operations for these acquired stores have been consolidated with the Company s results of operations since the acquisitions. In July 2010, the Company acquired six pawn stores located in Maryland and Texas. The results of operations for the acquired stores have been consolidated with the Company s results of operations since the acquisitions beginning in the third quarter of 2010. In June 2009, the Company acquired two pawn stores located in Dallas, Texas. The results of operations for the acquired stores have been consolidated with the Company s results of operations since the acquisition. All significant intercompany accounts and transactions have been eliminated.

*Customer loans and revenue recognition* - Receivables on the balance sheet consist of pawn loans, consumer loans and receivables from discontinued operations. Pawn loans are collateralized by pledged tangible personal property. The Company accrues pawn loan fee revenue on a constant-yield basis over the life of the pawn for all pawns that the Company deems collection to be probable based on historical pawn redemption statistics. The typical pawn loan has an initial term of 30 days, which, depending on state law, can generally be extended from 15 to 60 days. If the pawn is not repaid, the principal amount loaned becomes the carrying value of the forfeited collateral, which is recovered through sales to other customers.

The Company s pawn merchandise sales are primarily retail sales to the general public in its pawn stores. The Company acquires pawn merchandise inventory through forfeited pawns and through purchases of used goods directly from the general public. The Company records sales revenue at the time of the sale. The Company presents merchandise sales net of any sales or value-added taxes collected. The Company does not provide financing to customers for the purchase of its merchandise, but does permit its customers to purchase merchandise on an interest-free layaway plan. Should the customer fail to make a required payment, the previous payments are forfeited to the Company. Interim payments from customers on layaway sales are recorded as deferred revenue and subsequently recorded as income during the period in which final payment is received or when previous payments are forfeited to the Company. The Company melts some jewelry and sells the precious metal content at either prevailing market commodity prices or a previously agreed upon price with a commodity buyer. The Company records revenue from these transactions when a price has been agreed upon and the Company ships the jewelry to the buyer.

The Company recognizes credit services fees ratably over the life of the extension of credit made by the Independent Lender. The extensions of credit made by the Independent Lender to credit services customers have terms of 7 to 35 days. The Company records a liability for any collected, but unearned, credit services fees received from its customers. The Company accrues consumer loan service fees on a constant-yield basis over the term of the consumer loan. Consumer loans have terms that range from 7 to 365 days.

*Credit loss provisions* - The Company has determined no allowance related to credit losses on pawn loans is required, as the fair value of the collateral is significantly in excess of the pawn loan amount. Under the CSO Program, letters of credit issued by the Company to the Independent Lender constitute a guarantee for which the Company is required to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken by issuing the letters of credit. The Independent Lender may present the letter of credit to the Company for payment if the customer fails to repay the full amount of the extension of credit and accrued interest after the due date of the extension of credit. Each letter of credit expires approximately 30 days after the due date of the extension of credit. The Company s maximum loss exposure under all of the outstanding letters of credit issued on behalf of its customers to the Independent Lender as of December 31, 2011, was $17,645,000. According to the letter of credit, if the borrower defaults on the extension of credit, the Company will pay the Independent Lender the principal, accrued interest, insufficient funds fees, and late fees, all of which the Company records in the consumer loan and credit services loss provision. The Company is entitled to seek recovery directly from its customers for amounts it pays the Independent Lender in performing under the letters of credit. The Company records the estimated fair value of the liability under the letters of credit in accrued liabilities.

An allowance is provided for losses on active consumer loans and service fees receivable based upon expected default rates, net of estimated future recoveries of previously defaulted consumer loans and service fees receivable. The Company considers consumer loans to be in default if they are not repaid on the due date and writes off the principal amount and service fees receivable as of the default date, leaving only active advances in the reported balance. Net defaults and changes in the consumer loan allowance are charged to the consumer loan loss provision.

*Inventories* - Inventories represent merchandise acquired from forfeited pawns and merchandise purchased directly from the public. Inventories from forfeited pawns are recorded at the amount of the pawn principal on the unredeemed goods, exclusive of accrued interest. Inventories purchased directly from customers are recorded at cost. The cost of inventories is determined on the specific identification method. Inventories are stated at the lower of cost or market; accordingly, inventory valuation allowances are established, if necessary, when inventory carrying values are in excess of estimated selling prices, net of direct costs of disposal. Management has evaluated inventories and determined that a valuation allowance is not necessary.

*Goodwill* - Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in each business combination. 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 amount. The Company's reporting units, which are tested for impairment, are U.S. Pawn Operations, U.S. Consumer Loan Operations and Mexico Operations. The Company assesses goodwill for impairment at a reporting unit level by first 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.

*Long-lived assets* - Property and equipment and non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the net book value of the asset may not be recoverable. An impairment loss is recognized if the sum of the expected future cash flows (undiscounted and before interest) from the use of the asset is less than the net book value of the asset. Generally, the amount of the impairment loss is measured as the difference between the net book value of the asset and the estimated fair value of the related asset. The Company has not recorded any impairment loss for the fiscal years ended December 31, 2011, 2010 and 2009.

*Stock-based compensation* - The Company follows ASC 718-10-10-01, which establishes standards for the accounting of transactions under share-based payment arrangements. All share-based payments to employees are recognized in the financial statements based on the grant-date fair value. The Company recognizes compensation cost net of estimated forfeitures and recognizes the compensation cost for only those awards expected to vest on a straight-line basis over the requisite service period of the award, which is generally the vesting term.

*Guarantees* - In accordance with the provisions of ASC 460-10, Guarantees, the Company has determined that the letters of credit issued by the Company to the Independent Lender as part of the CSO Program constitute a guarantee for which the Company is required to recognize a liability for the fair value of the obligation undertaken by issuing the letters of credit. Each letter of credit is issued at the time that the Company s credit services customer enters into an extension of credit agreement with the Independent Lender. The Independent Lender may present the letter of credit to the Company for payment if the customer fails to repay the full amount of the loan and accrued interest after the due date of the extension of credit. Each letter of credit expires approximately 30 days after the due date of the extension of credit. The Company is entitled to seek recovery directly from its customers for amounts it pays the Independent Lender in performing under the letters of credit. The Company records the estimated fair value of the liability under the letters of credit as a component of accrued liabilities.

As defined by ASC 810-10-65, the Independent Lender is considered a variable interest entity of the Company. The net loans outstanding represent less than 50% of the Independent Lender s total assets. In addition, the Company does not have any ownership interest in the Independent Lender, does not exercise control over it, and, therefore, is not deemed to be the primary beneficiary and does not consolidate the Independent Lender s results with its results.

*Foreign Currency Transactions* - The Company has significant operations in Mexico, where the functional currency for the Company s Mexican subsidiaries is the Mexican peso. In accordance with the provisions of ASC 830-10-45-07, which establishes standards for the changes in a functional currency, 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 monthly average exchange rates occurring during each period. Prior to translation, any U.S. dollar-denominated transactions of the Mexican-based subsidiaries are re-measured into Mexican pesos using current rates of exchange for monetary assets and liabilities and historical rates of exchange for non-monetary assets and liabilities. Gains and losses from re-measurement of dollar-denominated monetary assets and liabilities in Mexico are included in store operating expenses.

The Company s management reviews and analyzes certain operating results, in Mexico, on a constant currency basis because the Company believes this better represents the Company s underlying business trends. See additional discussion of constant currency operating results provided in the section titled Non-GAAP Financial Information.

**Results of Continuing Operations**

*Twelve Months Ended December 31, 2011, Compared to Twelve Months Ended December 31, 2010.*

The following table details the components of revenue for the fiscal year ended December 31, 2011, as compared to the fiscal year ended December 31, 2010 (in thousands). Constant currency results exclude the effects of foreign currency translation and are calculated by translating current-year results at prior-year average exchange rates. The Company s management reviews and analyzes business results in a constant currency because the Company believes this is a meaningful indicator of the Company s underlying business trends.

| | Year Ended December 31, | | | | Increase/(Decrease) Constant Currency Basis |
|---|---|---|---|---|---|
| | **2011** | 2010 | Increase/(Decrease) | | |
| United States revenue: | | | | | |
| Retail merchandise sales | **$ 82,508** | $ 70,980 | $ 11,528 | 16 % | 16 % |
| Scrap jewelry sales | **56,134** | 39,416 | 16,718 | 42 % | 42 % |
| Pawn loan fees | **52,098** | 44,071 | 8,027 | 18 % | 18 % |
| Credit services fees | **48,170** | 45,384 | 2,786 | 6 % | 6 % |
| Consumer loan fees | **193** | 178 | 15 | 8 % | 8 % |
| Other revenue | **1,064** | 1,009 | 55 | 5 % | 5 % |
| | **240,167** | 201,038 | 39,129 | 19 % | 19 % |
| Mexico revenue: | | | | | |
| Retail merchandise sales | **154,300** | 117,556 | 36,744 | 31 % | 29 % |
| Scrap jewelry sales | **51,913** | 41,957 | 9,956 | 24 % | 24 % |
| Pawn loan fees | **70,235** | 58,074 | 12,161 | 21 % | 19 % |
| Consumer loan fees | **4,685** | 4,625 | 60 | 1 % | - |
| Other revenue | **2** | 12 | (10) | (83)% | (84)% |
| | **281,135** | 222,224 | 58,911 | 27 % | 25 % |
| Total revenue: | | | | | |
| Retail merchandise sales | **236,808** | 188,536 | 48,272 | 26 % | 24 % |
| Scrap jewelry sales | **108,047** | 81,373 | 26,674 | 33 % | 33 % |
| Pawn loan fees | **122,333** | 102,145 | 20,188 | 20 % | 19 % |
| Credit services fees | **48,170** | 45,384 | 2,786 | 6 % | 6 % |
| Consumer loan fees | **4,878** | 4,803 | 75 | 2 % | - |
| Other revenue | **1,066** | 1,021 | 45 | 4 % | 4 % |
| | **$ 521,302** | $ 423,262 | $ 98,040 | 23 % | 22 % |

Foreign revenue accounted for 54% of the total revenue for fiscal 2011, while domestic revenue accounted for 46% of total revenue.

The following table details customer loans and inventories held by the Company and active CSO credit extensions from an independent third-party lender as of December 31, 2011, as compared to December 31, 2010 (in thousands). Constant currency results exclude the effects of foreign currency translation and are calculated by translating current-year balances at the prior-year end-of-period exchange rate.

| | Balance at December 31, | | Increase/(Decrease) | | Increase/(Decrease) Constant Currency |
|---|---|---|---|---|---|
| | **2011** | 2010 | Increase/(Decrease) | | Basis |
| United States: | | | | | |
| Pawn loans | **$ 41,121** | $ 35,319 | $ 5,802 | 16 % | 16 % |
| CSO credit extensions held by an independent third-party (1) | **15,147** | 14,296 | 851 | 6 % | 6 % |
| Other | **63** | 39 | 24 | 62 % | 62 % |
| | **56,331** | 49,654 | 6,677 | 13 % | 13 % |
| Mexico: | | | | | |
| Pawn loans | **32,166** | 35,169 | (3,003) | (9)% | 3 % |
| Other | **795** | 956 | (161) | (17)% | (6)% |
| | **32,961** | 36,125 | (3,164) | (9)% | 3 % |
| Total: | | | | | |
| Pawn loans | **73,287** | 70,488 | 2,799 | 4 % | 10 % |
| CSO credit extensions held by an independent third-party (1) | **15,147** | 14,296 | 851 | 6 % | 6 % |
| Other | **858** | 995 | (137) | (14)% | (3)% |
| | **$ 89,292** | $ 85,779 | $ 3,513 | 4 % | 9 % |
| Pawn inventories: | | | | | |
| U.S. pawn inventories | **$ 23,745** | $ 19,730 | $ 4,015 | 20 % | 20 % |
| Mexico pawn inventories | **20,667** | 27,676 | (7,009) | (25)% | (16)% |
| | **$ 44,412** | $ 47,406 | $ (2,994) | (6)% | (1)% |

(1)

CSO amounts outstanding are composed of the principal portion of active CSO extensions of credit by an independent third-party lender, which are not included on the Company's balance sheet, net of the Company s estimated fair value of its liability under the letters of credit guaranteeing the extensions of credit.

Store Operations

The overall increase in year-over-year revenue of 23% was due to a combination of significant same-store revenue growth and revenue from new and acquired pawn stores. Same-store revenue grew by 14% in Mexico, while same-store revenue grew by 12% in the United States. The same-store revenue growth is reflective of continued maturation of stores and increased consumer demand for pawn products. The Company believes that it will continue to experience overall growth in pawn revenue in fiscal 2012 from acquisitions, the opening of new stores and maturation of existing stores. Revenue generated by the stores opened or acquired since January 1, 2010, increased by $29,023,000 in Mexico and $16,936,000 in the United States, compared to fiscal 2010.

Total merchandise sales increased by 28% for fiscal 2011, with 29% growth in Mexico and 26% growth in the U.S. Store-based retail sales increased by 26%, primarily the result of a 31% increase in retail sales in Mexico, which reflected continued store maturation and an increased mix of consumer hard good (primarily consumer electronics and power tools) inventories. The 33% increase in scrap jewelry sales reflected a 26% increase in the weighted-average selling price per ounce of scrap gold, and a 2% increase in the quantity of scrap gold sold. The total volume of gold scrap jewelry sold in fiscal 2011 was approximately 64,000 ounces at an average cost of $1,124 per ounce and the average selling price was $1,511 per ounce. The limited increase in scrap jewelry volume was related primarily to pawn operations in Mexico, where the percentage of jewelry pawns and gold buying from customers has decreased as a percentage of the overall product mix compared to the prior year. As a result, scrap gold volumes decreased 4% in Mexico. The shift in inventory mix is the result of the Company s increased focus on hard good transactions (electronics and appliances) where there is less competition in Mexico, as compared to jewelry lending and gold buying, where there is significantly greater competition. In the U.S., scrap volume increased approximately 8%, and scrap sales grew by 42%, which was primarily due to the increased selling price of gold.

Revenue from pawn loan fees increased 20%, which was composed of an 18% increase in the United States and a 21% increase in Mexico. The U.S. increase was consistent with a 16% year-over-year increase in pawn loans. In Mexico, loan growth during the second half of 2011 was partially affected by an 8% decrease (on a constant currency basis) in northern border markets, compared to loan balance increases of almost 20% in the interior markets of Mexico. The Company attributes much of this regional loan weakness to the effects of currency fluctuations on customer behavior in these markets and reduced overall consumer traffic patterns in northern Mexico. Service fees from consumer loans and credit services transactions increased 6% compared to fiscal 2010, which was consistent with the year-over-year growth in outstanding consumer loans and CSO transaction volumes.

The gross profit margin on total merchandise sales was 38% for fiscal 2011, compared to 40% in fiscal 2010. The decrease was primarily the result of an increased percentage mix of lower margin scrap jewelry sales and a decline in retail margins. The retail merchandise margin, which excludes scrap jewelry sales, was 40% for fiscal 2011, while the margin on wholesale scrap jewelry was 34%, compared to prior-year margins of 42% and 35%, respectively. The change in retail margins related primarily to the increased mix of hard good inventories, compared to jewelry, in Mexico, which typically carry lower margins than retail jewelry. Pawn inventories decreased over the prior year by

6%, which was reflective of larger inventory turnover company-wide and a decrease in the amount of jewelry inventory held in the Mexico stores. At December 31, 2011, the Company s pawn inventories, at cost, were comprised as follows: 41% jewelry (primarily gold), 38% electronics and appliances, 8% tools and 13% other. On a cost basis, 98% of total inventories at December 31, 2011, had been held for one year or less, while 2% had been held for more than one year.

The Company s consumer loan and credit services loss provision was 24% of consumer loan and credit services fee revenue during fiscal 2011, compared to 27% in fiscal 2010, which reflected the continued maturation of the consumer loan store base and sales. During 2011, the Company sold bad debt portfolios generated from consumer loan and credit services guarantees for proceeds of $633,000. The portfolios, which were fully written-off, reduced the loss provision by this same amount. Excluding the benefit of all such sales, the year-to-date loss provision would have been 25%. The Company did not sell bad debt portfolios in fiscal 2010. The estimated fair value of liabilities under the CSO letters of credit, net of anticipated recoveries from customers, was $831,000, or 5.2% of the gross loan balance at December 31, 2011, compared to $1,026,000, or 6.7% of the gross loan balance at December 31, 2010, which is included as a component of the Company s accrued liabilities. The Company s loss reserve on consumer loans decreased to $44,000, or 4.9% of the gross loan balance at December 31, 2011, compared to $53,000, or 5.0% of the gross loan balance at December 31, 2010.

Store operating expenses of $130,294,000 during fiscal 2011 increased by 12% compared to $115,994,000 during fiscal 2010, primarily as a result of new store openings and acquisitions. As a percentage of revenue, store operating expenses declined from 27% in fiscal 2010 to 25% in fiscal 2011, primarily the result of the Company s ability to leverage same-store revenue increases.

The net store profit contribution from continuing operations for the current year was $155,236,000, which equates to a store-level operating margin of 30%, compared to 29% in 2010, which was reflective of the same-store sales revenue growth and operating leverage.

The average value of the Mexican peso to the U.S. dollar increased from 12.6 to 1 in fiscal 2010 to 12.4 to 1 in the fiscal 2011. However, the end-of-period value of the Mexican peso to the U.S. dollar decreased from 12.4 to 1 at December 31, 2010, to 14.0 to 1 at December 31, 2011. As a result, the translated revenue results of the Mexican operations into U.S. dollars were increased by this currency rate fluctuation while the translated value of peso-denominated assets at December 31, 2011, was decreased. While the strengthening of the Mexican peso positively affected the translated dollar-value of revenue, the offsetting cost of sales and operating expenses were inflated as well. The scrap jewelry generated in Mexico is exported and sold in U.S. dollars, which significantly reduces the Company s net peso-denominated earnings stream. As a result of these natural currency hedges, the impact of the currency rate fluctuation on year-to-date net income and earnings per share was not significant.

Administrative Expenses, Taxes and Income

Administrative expenses increased 12% to $45,382,000 during fiscal 2011 compared to $40,522,000 during fiscal 2010, which reflected a 14% increase in the weighted-average store count and increased general management and supervisory compensation expense related to geographic expansion and increased store count, revenue and profitability. As a percentage of revenue, administrative expenses declined from 10% in fiscal 2010 to 9% in fiscal 2011.

For fiscal 2011 and 2010, the Company s effective federal income tax rates were 34.5% and 35.8%, respectively. The decrease in the overall rate for 2011 relates primarily to an increased percentage of income being generated in Mexico, where the Company is not subject to state income taxes.

Income from continuing operations increased 38% to $70,865,000 during fiscal 2011 compared to $51,374,000 during fiscal 2010. Including the results from the discontinued operations and the gain from the sale of the Illinois stores, net income was $77,782,000 during fiscal 2011, compared to $57,658,000 during fiscal 2010.

*Twelve Months Ended December 31, 2010, Compared to Twelve Months Ended December 31, 2009.*

The following table details the components of revenue for the fiscal year ended December 31, 2010, as compared to the fiscal year ended December 31, 2009 (in thousands). Constant currency results exclude the effects of foreign currency translation and are calculated by translating current-year results at prior-year average exchange rates. The Company s management reviews and analyzes business results in a constant currency because the Company believes this is a meaningful indicator of the Company s underlying business trends.

| | Year Ended December 31, 2010 | 2009 | Increase/(Decrease) | | Increase/(Decrease) Constant Currency Basis |
|---|---|---|---|---|---|
| United States revenue: | | | | | |
| Retail merchandise sales | $ 70,980 | $ 66,376 | $ 4,604 | 7 % | 7 % |
| Scrap jewelry sales | 39,416 | 34,454 | 4,962 | 14 % | 14 % |
| Pawn loan fees | 44,071 | 38,323 | 5,748 | 15 % | 15 % |
| Credit services fees | 45,384 | 39,602 | 5,782 | 15 % | 15 % |
| Consumer loan fees | 178 | 357 | (179) | (50)% | (50)% |
| Other revenue | 1,009 | 1,120 | (111) | (10)% | (10)% |
| | 201,038 | 180,232 | 20,806 | 12 % | 12 % |
| Mexico revenue: | | | | | |
| Retail merchandise sales | 117,556 | 84,566 | 32,990 | 39 % | 30 % |
| Scrap jewelry sales | 41,957 | 44,097 | (2,140) | (5)% | (5)% |
| Pawn loan fees | 58,074 | 42,482 | 15,592 | 37 % | 28 % |
| Consumer loan fees | 4,625 | 3,840 | 785 | 20 % | 13 % |
| Other revenue | 12 | 61 | (49) | (80)% | (82)% |
| | 222,224 | 175,046 | 47,178 | 27 % | 20 % |

| | | | | | |
|---|---|---|---|---|---|
| Total revenue: | | | | | |
| Retail merchandise sales | 188,536 | 150,942 | 37,594 | 25 % | 20 % |
| Scrap jewelry sales | 81,373 | 78,551 | 2,822 | 4 % | 4 % |
| Pawn loan fees | 102,145 | 80,805 | 21,340 | 26 % | 22 % |
| Credit services fees | 45,384 | 39,602 | 5,782 | 15 % | 15 % |
| Consumer loan fees | 4,803 | 4,197 | 606 | 14 % | 7 % |
| Other revenue | 1,021 | 1,181 | (160) | (14)% | (14)% |
| | $ 423,262 | $ 355,278 | $ 67,984 | 19 % | 16 % |

Foreign revenue accounted for 53% of the total revenue for fiscal 2010, while domestic revenue accounted for 47% of total revenue.

The following table details customer loans and inventories held by the Company and active CSO credit extensions from an independent third-party lender as of December 31, 2010, as compared to December 31, 2009 (in thousands). Constant currency results exclude the effects of foreign currency translation and are calculated by translating current-year balances at the prior-year end-of-period exchange rate.

| | Balance at December 31, | | | Increase/(Decrease) Constant Currency Basis |
|---|---|---|---|---|
| | 2010 | 2009 | Increase/(Decrease) | |
| United States: | | | | |