FIRSTCASH, INC
Form 10-Q
August 01, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018
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 001-10960

FIRSTCASH, 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.) |
| 1600 West 7th Street, Fort Worth, Texas | 76102 |
| (Address of principal executive offices) | (Zip Code) |

(817) 335-1100
(Registrant’s telephone number, including area code)

NONE
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of July 25, 2018, there were 44,327,042 shares of common stock outstanding.

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FIRSTCASH, INC.
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2018

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## CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE RESULTS

### Forward-Looking Information

This quarterly report contains forward-looking statements about the business, financial condition and prospects of FirstCash, Inc. and its wholly owned subsidiaries (together, the “Company”). Forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, can be identified by the use of forward-looking terminology such as “believes,” “projects,” “expects,” “may,” “estimates,” “should,” “plans,” “targets,” “intends,” “could,” “w “anticipates,” “potential,” “confident,” “optimistic” or the negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy, objectives, estimates, guidance, expectations and future plans. Forward-looking statements can also be identified by the fact 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.

These forward-looking statements are made to provide the public with management’s current assessment of the Company’s business. Although the Company believes the expectations reflected in forward-looking statements are reasonable, there can be no assurances such expectations will prove to be accurate. Security holders are cautioned such forward-looking statements involve risks and uncertainties. Certain factors may cause results to differ materially from those anticipated by the forward-looking statements made in this quarterly report. Such factors may include, without limitation, the risks, uncertainties and regulatory developments discussed and described in (i) the Company’s 2017 annual report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on February 20, 2018, including the risks described in Part 1, Item 1A, “Risk Factors” thereof, (ii) in this quarterly report on Form 10-Q, and (iii) other reports filed with the SEC. Many of these risks and uncertainties are beyond the ability of the Company to control, nor can the Company predict, in many cases, all of the risks and uncertainties that could cause its actual results to differ materially from those indicated by the forward-looking statements. The forward-looking statements contained in this quarterly report speak only as of the date of this quarterly report, and the Company expressly disclaims any obligation or undertaking to report any updates or revisions to any such statement to reflect any change in the Company’s expectations or any change in events, conditions or circumstances on which any such statement is based, except as required by law.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
FIRSTCASH, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands)

| | June 30, | | December 31, |
|---|---|---|---|
| | 2018 | 2017 | 2017 |
| ASSETS | | | |
| Cash and cash equivalents | $83,127 | $91,434 | $114,423 |
| Fees and service charges receivable | 42,920 | 42,810 | 42,736 |
| Pawn loans | 348,295 | 353,399 | 344,748 |
| Consumer loans, net | 17,256 | 24,192 | 23,522 |
| Inventories | 249,689 | 301,361 | 276,771 |
| Income taxes receivable | 486 | 23,866 | 19,761 |
| Prepaid expenses and other current assets | 19,913 | 19,667 | 20,236 |
| Total current assets | 761,686 | 856,729 | 842,197 |
| | | | |
| Property and equipment, net | 236,434 | 237,282 | 230,341 |
| Goodwill | 857,070 | 838,111 | 831,145 |
| Intangible assets, net | 89,962 | 98,664 | 93,819 |
| Other assets | 52,193 | 61,145 | 54,045 |
| Deferred tax assets | 12,295 | 12,388 | 11,237 |
| Total assets | $2,009,640 | $2,104,319 | $2,062,784 |
| | | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Accounts payable and accrued liabilities | $79,961 | $85,684 | $84,331 |
| Customer deposits | 34,300 | 37,601 | 32,019 |
| Income taxes payable | 3,207 | 1,807 | 4,221 |
| Total current liabilities | 117,468 | 125,092 | 120,571 |
| | | | |
| Revolving unsecured credit facility | 221,500 | 97,000 | 107,000 |
| Senior unsecured notes | 295,560 | 294,804 | 295,243 |
| Deferred tax liabilities | 51,011 | 74,298 | 47,037 |
| Other liabilities | 14,057 | 21,693 | 17,600 |
| Total liabilities | 699,596 | 612,887 | 587,451 |
| | | | |
| Stockholders' equity: | | | |
| Preferred stock | — | — | — |
| Common stock | 493 | 493 | 493 |
| Additional paid-in capital | 1,221,572 | 1,218,822 | 1,220,356 |
| Retained earnings | 546,097 | 416,937 | 494,457 |
| Accumulated other comprehensive loss | (114,668) | (83,464) | (111,877) |
| Common stock held in treasury, at cost | (343,450) | (61,356) | (128,096) |
| Total stockholders' equity | 1,310,044 | 1,491,432 | 1,475,333 |
| Total liabilities and stockholders' equity | $2,009,640 | $2,104,319 | $2,062,784 |

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

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FIRSTCASH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited, in thousands, except per share amounts)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue: | | | | |
| Retail merchandise sales | $255,742 | $243,822 | $525,583 | $503,816 |
| Pawn loan fees | 123,012 | 122,632 | 252,805 | 250,883 |
| Wholesale scrap jewelry sales | 27,475 | 31,646 | 62,200 | 69,757 |
| Consumer loan and credit services fees | 13,743 | 18,529 | 29,184 | 39,749 |
| Total revenue | 419,972 | 416,629 | 869,772 | 864,205 |
| Cost of revenue: | | | | |
| Cost of retail merchandise sold | 163,574 | 156,473 | 338,071 | 322,108 |
| Cost of wholesale scrap jewelry sold | 24,076 | 30,590 | 56,571 | 65,539 |
| Consumer loan and credit services loss provision | 3,894 | 5,142 | 7,621 | 9,234 |
| Total cost of revenue | 191,544 | 192,205 | 402,263 | 396,881 |
| Net revenue | 228,428 | 224,424 | 467,509 | 467,324 |
| Expenses and other income: | | | | |
| Store operating expenses | 137,583 | 137,070 | 276,144 | 273,814 |
| Administrative expenses | 29,720 | 30,305 | 57,722 | 63,543 |
| Depreciation and amortization | 10,952 | 14,689 | 22,235 | 28,932 |
| Interest expense | 6,529 | 5,585 | 12,727 | 11,698 |
| Interest income | (740) | (393) | (1,721) | (720) |
| Merger and other acquisition expenses | 2,113 | 1,606 | 2,352 | 2,253 |
| Loss on extinguishment of debt | — | 14,094 | — | 14,094 |
| Total expenses and other income | 186,157 | 202,956 | 369,459 | 393,614 |
| Income before income taxes | 42,271 | 21,468 | 98,050 | 73,710 |
| Provision for income taxes | 12,100 | 6,229 | 26,244 | 25,826 |
| Net income | $30,171 | $15,239 | $71,806 | $47,884 |
| Net income per share: | | | | |
| Basic | $0.67 | $0.32 | $1.57 | $0.99 |
| Diluted | $0.67 | $0.32 | $1.57 | $0.99 |
| Dividends declared per common share | $0.22 | $0.19 | $0.44 | $0.38 |

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

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FIRSTCASH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, in thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | $30,171 | $15,239 | $71,806 | $47,884 |
| Other comprehensive income: | | | | |
| Currency translation adjustment | (24,625) | 13,337 | (2,791) | 36,342 |
| Comprehensive income | $5,546 | $28,576 | $69,015 | $84,226 |

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

FIRSTCASH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited, in thousands)

| | Preferred Stock | | Common Stock | | Additional Paid-In Capital | Retained Earnings | Accum-ulated Other Compre-hensive Loss | Common Stock Held in Treasury | | Total Stock-holders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | Shares | Amount | |
| Balance at 12/31/2017 | — | $ — | 49,276 | $ 493 | $1,220,356 | $494,457 | $(111,877) | 2,362 | $(128,096) | $1,475,333 |
| Shares issued under share-based com-pensation plan | — | — | — | — | (1,240) | — | — | (22) | 1,240 | — |
| Exercise of stock options | — | — | — | — | (294) | — | — | (10) | 694 | 400 |
| Share-based compensa-tion expense | — | — | — | — | 2,750 | — | — | — | — | 2,750 |
| Net income | — | — | — | — | — | 71,806 | — | — | — | 71,806 |
| Dividends paid | — | — | — | — | — | (20,166) | — | — | — | (20,166) |
| Currency translation adjustment | — | — | — | — | — | — | (2,791) | — | — | (2,791) |
| Purchases of treasury stock | — | — | — | — | — | — | — | 2,619 | (217,288) | (217,288) |
| Balance at 6/30/2018 | — | $ — | 49,276 | $ 493 | $1,221,572 | $546,097 | $(114,668) | 4,949 | $(343,450) | $1,310,044 |

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

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FIRSTCASH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY CONTINUED
(unaudited, in thousands)

| | Preferred Stock | | Common Stock | | Additional Paid-In Capital | Retained Earnings | Accum-ulated Other Compre-hensive Loss | Common Stock Held in Treasury | | Total Stock-holders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | Shares | Amount | |
| Balance at 12/31/2016 | — | $ — | 49,276 | $ 493 | $ 1,217,969 | $ 387,401 | $ (119,806) | 769 | $ (36,071) | $ 1,449,986 |
| Shares issued under share-based com-pensation plan | — | — | — | — | (440) | — | — | (10) | 440 | — |
| Exercise of stock options | — | — | — | — | (242) | — | — | (13) | 549 | 307 |
| Share-based compensa-tion expense | — | — | — | — | 1,535 | — | — | — | — | 1,535 |
| Net income | — | — | — | — | — | 47,884 | — | — | — | 47,884 |
| Dividends paid | — | — | — | — | — | (18,348) | — | — | — | (18,348) |
| Currency translation adjustment | — | — | — | — | — | — | 36,342 | — | — | 36,342 |
| Purchases of treasury stock | — | — | — | — | — | — | — | 518 | (26,274) | (26,274) |
| Balance at 6/30/2017 | — | $ — | 49,276 | $ 493 | $ 1,218,822 | $ 416,937 | $ (83,464) | 1,264 | $ (61,356) | $ 1,491,432 |

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

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FIRSTCASH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

| | Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Cash flow from operating activities: | | |
| Net income | $71,806 | $47,884 |
| Adjustments to reconcile net income to net cash flow provided by operating activities: | | |
| Non-cash portion of credit loss provision | 4,291 | 5,973 |
| Share-based compensation expense | 2,750 | 1,535 |
| Depreciation and amortization expense | 22,235 | 28,932 |
| Amortization of debt issuance costs | 963 | 864 |
| Amortization of favorable/(unfavorable) lease intangibles, net | (356) | (487) |
| Loss on extinguishment of debt | — | 14,094 |
| Deferred income taxes, net | 2,801 | 11,886 |
| Changes in operating assets and liabilities, net of business combinations: | | |
| Fees and service charges receivable | 553 | (478) |
| Inventories | 8,931 | 8,588 |
| Prepaid expenses and other assets | (1,824) | 12,379 |
| Accounts payable, accrued liabilities and other liabilities | (10,327) | (30,959) |
| Income taxes | 18,144 | 2,602 |
| Net cash flow provided by operating activities | 119,967 | 102,813 |
| Cash flow from investing activities: | | |
| Loan receivables, net of cash repayments | 30,913 | 33,963 |
| Purchases of property and equipment | (23,188) | (17,401) |
| Acquisitions of pawn stores, net of cash acquired | (36,171) | (1,115) |
| Net cash flow provided by (used in) investing activities | (28,446) | 15,447 |
| Cash flow from financing activities: | | |
| Borrowings from revolving unsecured credit facility | 220,000 | 120,000 |
| Repayments of revolving unsecured credit facility | (105,500) | (283,000) |
| Issuance of senior unsecured notes | — | 300,000 |
| Repurchase/redemption of senior unsecured notes | — | (200,000) |
| Repurchase/redemption premiums paid on senior unsecured notes | — | (10,875) |
| Debt issuance costs paid | — | (4,718) |
| Purchases of treasury stock | (217,288) | (26,274) |
| Proceeds from exercise of share-based compensation awards | 400 | 307 |
| Dividends paid | (20,166) | (18,348) |
| Net cash flow used in financing activities | (122,554) | (122,908) |
| Effect of exchange rates on cash | (263) | 6,127 |
| Change in cash and cash equivalents | (31,296) | 1,479 |
| Cash and cash equivalents at beginning of the period | 114,423 | 89,955 |
| Cash and cash equivalents at end of the period | $83,127 | $91,434 |

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

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FIRSTCASH, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 1 - Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated balance sheet at December 31, 2017, which is derived from audited financial statements, and the unaudited condensed consolidated financial statements, including the notes thereto, include the accounts of FirstCash, Inc. and its wholly-owned subsidiaries (together, the “Company”). The Company regularly makes acquisitions and the results of operations for the acquired stores have been consolidated since the acquisition dates. All significant intercompany accounts and transactions have been eliminated.

These unaudited consolidated financial statements are condensed and do not include all disclosures and footnotes required by generally accepted accounting principles in the United States of America for complete financial statements. These interim period financial statements should be read in conjunction with the Company’s consolidated financial statements, which are included in the Company’s annual report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission (the “SEC”) on February 20, 2018. The condensed consolidated financial statements as of June 30, 2018 and 2017, and for the three month and six month periods ended June 30, 2018 and 2017, are unaudited, but in management’s opinion include all adjustments (consisting of only normal recurring adjustments) considered necessary to present fairly the financial position, results of operations and cash flow for such interim periods. Operating results for the periods ended June 30, 2018 are not necessarily indicative of the results that may be expected for the full fiscal year.

The Company has significant operations in Latin America, where in Mexico, Guatemala and Colombia the functional currency is the Mexican peso, Guatemalan quetzal and Colombian peso, respectively. Accordingly, the assets and liabilities of these subsidiaries are translated into U.S. dollars at the exchange rate in effect at each balance sheet date, and the resulting adjustments are accumulated in other comprehensive income (loss) as a separate component of stockholders’ equity. Revenues and expenses are translated at the average exchange rates occurring during the three month and six month periods ended June 30, 2018 and 2017. The Company also has operations in El Salvador where the reporting and functional currency is the U.S. dollar.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 is a comprehensive revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the Financial Accounting Standards Board issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606),” which delayed the effective date of ASU 2014-09 by one year. In addition, between March 2016 and December 2016, the Financial Accounting Standards Board issued ASU No. 2016-08, “Revenue from Contracts with Customers - Principal versus Agent Considerations (Reporting revenue gross versus net)” (“ASU 2016-08”), ASU No. 2016-10, “Identifying Performance Obligations and Licensing” (“ASU 2016-10”), ASU No. 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”), and ASU No. 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers” (“ASU 2016-20”). ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 clarify certain aspects of ASU 2014-09 and provide additional implementation guidance. ASU 2014-09, ASU

2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 (collectively, “ASC 606”) became effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2017 for public companies. Entities are permitted to adopt ASC 606 using one of two methods: (a) full retrospective adoption, meaning the standard is applied to all periods presented, or (b) modified retrospective adoption, meaning the cumulative effect of applying the new standard is recognized as an adjustment to the opening retained earnings balance.

The Company adopted ASC 606 as of January 1, 2018 using the modified retrospective method. The adoption of ASC 606 did not impact the Company’s revenue recognition for pawn loan fees, consumer loan fees or credit services fees, as each of these revenue streams is outside the scope of ASC 606. Further, the Company has not identified any impacts to its consolidated financial statements that were material as a result of the adoption of ASC 606 for its retail merchandise sales or wholesale scrap jewelry sales revenue streams. The Company has not changed the presentation of its consolidated financial statements for assets, liabilities, or revenues from contracts with customers, nor has the Company recognized any cumulative effect adjustment as a result of the adoption of ASC 606.

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In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). ASU 2016-02 requires a lessee to recognize, in the statement of financial position, a liability to make lease payments (the lease liability) and a right-to-use asset representing its right to use the underlying asset for the lease term. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the income statement. Lessor accounting remains largely unchanged. In July 2018, the Financial Accounting Standards Board issued ASU No. 2018-10, “Codification Improvements to Topic 842, Leases” (“ASU 2018-10”) which updates narrow aspects of the guidance issued in ASU 2016-02. ASU 2016-02 and ASU 2018-10 are effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods, with early adoption permitted. An entity will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently assessing the potential impact of ASU 2016-02 and ASU 2018-10 on its consolidated financial statements.

In June 2016, the Financial Accounting Standards Board issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). ASU 2016-13 amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. ASU 2016-13 is effective for public entities for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently assessing the potential impact of ASU 2016-13 on its consolidated financial statements.

In August 2016, the Financial Accounting Standards Board issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). ASU 2016-15 clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing existing diversity in practice. ASU 2016-15 became effective for public entities for fiscal years beginning after December 15, 2017. The adoption of ASU 2016-15 did not have a material effect on the Company’s consolidated financial statements or financial statement disclosures.

In January 2017, the Financial Accounting Standards Board issued ASU No. 2017-01, “Business Combinations (Topic 805) - Clarifying the Definition of a Business” (“ASU 2017-01”). ASU 2017-01 provides amendments to clarify the definition of a business and affects all companies and other reporting organizations that must determine whether they have acquired or sold a business. The amendments are intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance became effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and should be applied prospectively as of the beginning of the period of adoption. The adoption of ASU 2017-01 did not have a material effect on the Company’s current financial position, results of operations or financial statement disclosures.

In January 2017, the Financial Accounting Standards Board issued ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”). These amendments eliminate step 2 from the goodwill impairment test. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017 and should be adopted on a prospective basis. The Company does not expect ASU 2017-04 to have a material effect on the Company’s current financial position, results of operations or financial statement disclosures.

In March 2018, the Financial Accounting Standards Board issued ASU No 2018-05, “Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118” (“ASU 2018-05”), which became effective immediately. ASU 2018-05 adds various SEC paragraphs pursuant to the issuance of the December 2017 SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”). See Note 6 for additional information regarding the adoption of ASU 2018-05.

In June 2018, the Financial Accounting Standards Board issued ASU No. 2018-07, “Compensation-Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting” (“ASU 2018-07”). ASU 2018-07 simplifies the accounting for nonemployee share-based payment transactions. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. ASU 2018-07 is effective for public entities for fiscal years beginning after December 15, 2018, with early adoption permitted, but no earlier than a company’s adoption of ASC 606. The Company does not expect ASU 2018-07 to have a material effect on the Company’s current financial position, results of operations or financial statement disclosures.

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In July 2018, the Financial Accounting Standards Board issued ASU No. 2018-09, “Codification Improvements” (“ASU 2018-09”). ASU 2018-09 does not prescribe any new accounting guidance, but instead makes minor improvements and clarifications of several different Financial Accounting Standards Board Accounting Standards Codification areas based on comments and suggestions made by various stakeholders. Certain updates are applicable immediately while others provide for a transition period to adopt in fiscal years beginning after December 15, 2018. The Company does not expect ASU 2018-09 to have a material effect on the Company’s current financial position, results of operations or financial statement disclosures.

Note 2 - Earnings Per Share

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Numerator: | | | | |
| Net income | $30,171 | $15,239 | $71,806 | $47,884 |
| | | | | |
| Denominator (in thousands): | | | | |
| Weighted-average common shares for calculating basic earnings per share | 44,942 | 48,261 | 45,680 | 48,324 |
| Effect of dilutive securities: | | | | |
| Stock options and nonvested common stock awards | 101 | 28 | 77 | 21 |
| Weighted-average common shares for calculating diluted earnings per share | 45,043 | 48,289 | 45,757 | 48,345 |
| | | | | |
| Net income per share: | | | | |
| Basic | $0.67 | $0.32 | $1.57 | $0.99 |
| Diluted | $0.67 | $0.32 | $1.57 | $0.99 |

Note 3 - Acquisitions

Consistent with the Company’s strategy to continue its expansion of pawn stores in selected markets, during the six months ended June 30, 2018, the Company acquired 188 pawn stores in Mexico in two separate transactions and 18 pawn stores located in the U.S. in seven separate transactions. The all-cash aggregate purchase price for these acquisitions was $44.0 million, net of cash acquired and subject to future post-closing adjustments. The purchases were composed of $36.2 million in cash paid during the six months ended June 30, 2018 and remaining payables to the sellers of approximately $7.8 million. The purchase price of each acquisition was allocated to assets and liabilities acquired based upon their estimated fair market values at the date of acquisition. The excess purchase price over the estimated fair market value of the net assets acquired and liabilities assumed has been recorded as goodwill. The goodwill arising from these acquisitions consists largely of the synergies and economies of scale expected from combining the operations of the Company and the pawn stores acquired.

The estimated fair value of the assets acquired and liabilities assumed are preliminary, as the Company is gathering information to finalize the valuation of these assets and liabilities. The preliminary allocation of the aggregate purchase price of the Company’s individually immaterial acquisitions during the six months ended June 30, 2018 is as follows:

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| | |
|---|---|
| Pawn loans | $9,072 |
| Pawn loan fees receivable | 845 |
| Inventory | 6,483 |
| Other current assets | 306 |
| Property and equipment | 1,375 |
| Goodwill [1] | 26,355 |
| Intangible assets [2] | 371 |
| Other non-current assets | 168 |
| Current liabilities | (973 ) |
| Aggregate purchase price | $44,002 |

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

(2) Intangible assets primarily consist of customer relationships, which are generally amortized over 5 years.

The results of operations for the acquired stores have been consolidated since the acquisition dates. During the six months ended June 30, 2018, revenue from the combined acquisitions since the acquisition dates was $5.9 million and the net loss from the combined acquisitions since the acquisition dates (including transaction and integration costs) was approximately $0.9 million. Combined transaction and integration costs related to the acquisitions during the six months ended June 30, 2018 were approximately $1.3 million.

Note 4 - Long-Term Debt

The following table details the Company’s long-term debt at the respective principal amounts, net of unamortized debt issuance costs (in thousands):

| | June 30, | | December 31, |
|---|---|---|---|
| | 2018 | 2017 | 2017 |
| 5.375% senior unsecured notes due 2024 [1] | $295,560 | $294,804 | $295,243 |
| Revolving unsecured credit facility, maturing 2022 | 221,500 | 97,000 | 107,000 |
| Total long-term debt | $517,060 | $391,804 | $402,243 |

(1) As of June 30, 2018, June 30, 2017 and December 31, 2017, deferred debt issuance costs of $4.4 million, $5.2 million and $4.8 million, respectively, are included as a direct deduction from the carrying amount of the senior unsecured notes due 2024 in the accompanying condensed consolidated balance sheets.

Senior Unsecured Notes

On May 30, 2017, the Company issued $300.0 million of 5.375% senior unsecured notes due on June 1, 2024 (the “Notes”), all of which are currently outstanding. Interest on the Notes is payable semi-annually in arrears on June 1 and December 1. The Notes are fully and unconditionally guaranteed on a senior unsecured basis jointly and severally by all of the Company's existing and future domestic subsidiaries that guarantee its primary revolving unsecured credit facility. The Notes will permit the Company to make restricted payments, such as purchasing shares of its stock and paying cash dividends, in an unlimited amount if, after giving pro forma effect to the incurrence of any indebtedness to make such payment, the Company's consolidated total debt ratio (“Net Debt Ratio”) is less than 2.25 to 1. The Net Debt Ratio is defined generally in the indenture governing the Notes as the ratio of (1) the total consolidated debt of the Company minus cash and cash equivalents of the Company to (2) the Company’s consolidated trailing twelve months EBITDA, as adjusted to exclude certain non-recurring expenses and giving pro forma effect to operations acquired during the measurement period.

The Company used the proceeds from the offering of the Notes to repurchase, or otherwise redeem, its previously outstanding $200.0 million, 6.75% senior unsecured notes due 2021 (the “2021 Notes”). As a result, during the six months ended June 30, 2017, the Company recognized a $14.1 million loss on extinguishment of debt related to the repurchase or redemption of the 2021 Notes.

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Revolving Unsecured Credit Facility

At June 30, 2018, the Company maintained an unsecured line of credit with a group of U.S. based commercial lenders (the “Credit Facility”) in the amount of $400.0 million, which matures on September 2, 2022. At June 30, 2018, the Company had $221.5 million in outstanding borrowings and $5.1 million in outstanding letters of credit under the Credit Facility, leaving $173.4 million available for future borrowings. The Credit Facility bears interest, at the Company’s option, at either (i) the prevailing London Interbank Offered Rate (“LIBOR”) (with interest periods of 1 week or 1, 2, 3 or 6 months at the Company’s option) plus a fixed spread of 2.5% or (ii) the prevailing prime or base rate plus a fixed spread of 1.5%. The agreement has a LIBOR floor of 0%. Additionally, the Company is required to pay an annual commitment fee of 0.50% on the average daily unused portion of the Credit Facility commitment. The weighted-average interest rate on amounts outstanding under the Credit Facility at June 30, 2018 was 4.50% based on 1 week LIBOR. Under the terms of the Credit Facility, the Company is required to maintain certain financial ratios and comply with certain financial covenants. The Credit Facility also contains customary restrictions on the Company’s ability to incur additional debt, grant liens, make investments, consummate acquisitions and similar negative covenants with customary carve-outs and baskets. The Company was in compliance with the requirements and covenants of the Credit Facility as of June 30, 2018. During the six months ended June 30, 2018, the Company received net proceeds of $114.5 million from borrowings pursuant to the Credit Facility.

Note 5 - Fair Value of Financial Instruments

The fair value of financial instruments is determined by reference to various market data and other valuation techniques, as appropriate. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels. The three fair value levels are (from highest to lowest):

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

Recurring Fair Value Measurements

As of June 30, 2018, 2017 and December 31, 2017, the Company did not have any financial assets or liabilities measured at fair value on a recurring basis.

Fair Value Measurements on a Nonrecurring Basis

The Company measures non-financial assets and liabilities, such as property and equipment and intangible assets, at fair value on a nonrecurring basis or when events or circumstances indicate that the carrying amount of the assets may be impaired.

Financial Assets and Liabilities Not Measured at Fair Value

The Company’s financial assets and liabilities as of June 30, 2018, 2017 and December 31, 2017 that are not measured at fair value in the condensed consolidated balance sheets are as follows (in thousands):

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| | Carrying Value | Estimated Fair Value | | | |
|---|---|---|---|---|---|
| | | | Fair Value Measurements Using | | |
| | June 30, | June 30, | | | |
| | 2018 | 2018 | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | | |
| Cash and cash equivalents | $83,127 | $83,127 | $83,127 | $— | $— |
| Pawn loans | 348,295 | 348,295 | — | — | 348,295 |
| Consumer loans, net | 17,256 | 17,256 | — | — | 17,256 |
| Fees and service charges receivable | 42,920 | 42,920 | — | — | 42,920 |
| | $491,598 | $491,598 | $83,127 | $— | $408,471 |
| Financial liabilities: | | | | | |
| Revolving unsecured credit facility | $221,500 | $221,500 | $— | $221,500 | $— |
| Senior unsecured notes (outstanding principal) | 300,000 | 300,000 | — | 300,000 | — |
| | $521,500 | $521,500 | $— | $521,500 | $— |

| | Carrying Value | Estimated Fair Value | | | |
|---|---|---|---|---|---|
| | | | Fair Value Measurements Using | | |
| | June 30, | June 30, | | | |
| | 2017 | 2017 | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | | |
| Cash and cash equivalents | $91,434 | $91,434 | $91,434 | $— | $— |
| Pawn loans | 353,399 | 353,399 | — | — | 353,399 |
| Consumer loans, net | 24,192 | 24,192 | — | — | 24,192 |
| Fees and service charges receivable | 42,810 | 42,810 | — | — | 42,810 |
| | $511,835 | $511,835 | $91,434 | $— | $420,401 |
| Financial liabilities: | | | | | |
| Revolving unsecured credit facility | $97,000 | $97,000 | $— | $97,000 | $— |
| Senior unsecured notes (outstanding principal) | 300,000 | 312,000 | — | 312,000 | — |
| | $397,000 | $409,000 | $— | $409,000 | $— |

| | Carrying Value | Estimated Fair Value | | | |
|---|---|---|---|---|---|
| | | | Fair Value Measurements Using | | |
| | December 31, | December 31, | | | |
| | 2017 | 2017 | Level 1 | Level 2 | Level 3 |
| Financial assets: | | | | | |
| Cash and cash equivalents | $ 114,423 | $114,423 | $114,423 | $— | $— |
| Pawn loans | 344,748 | 344,748 | — | — | 344,748 |
| Consumer loans, net | 23,522 | 23,522 | — | — | 23,522 |
| Fees and service charges receivable | 42,736 | 42,736 | — | — | 42,736 |
| | $ 525,429 | $525,429 | $114,423 | $— | $411,006 |
| Financial liabilities: | | | | | |
| Revolving unsecured credit facility | $ 107,000 | $107,000 | $— | $107,000 | $— |
| Senior unsecured notes (outstanding principal) | 300,000 | 314,000 | — | 314,000 | — |

| | | | | |
|---|---|---|---|---|
| $ 407,000 | $421,000 | $— | $421,000 | $— |

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As cash and cash equivalents have maturities of less than three months, the carrying value of cash and cash equivalents approximates fair value. Due to their short-term maturities, the carrying value of pawn loans and fees and service charges receivable approximate fair value. Consumer loans, net are carried net of the allowance for estimated loan losses, which is calculated by applying historical loss rates combined with recent default trends to the gross consumer loan balance. The unobservable inputs used to calculate the fair value of these loans include historical loss rates, recent default trends and estimated remaining loan terms. Therefore, the carrying value approximates the fair value.

The carrying value of the Company's revolving unsecured credit facility approximates fair value as of June 30, 2018, 2017 and December 31, 2017. The fair value of the senior unsecured notes have been estimated based on a discounted cash flow analysis using a discount rate representing the Company's estimate of the rate that would be used by market participants. Changes in assumptions or estimation methodologies may have a material effect on these estimated fair values.

Note 6 - Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was enacted into law. The Tax Act significantly changed U.S. corporate income tax law by, among other things, reducing the U.S. corporate income tax rate from 35% to 21% starting in 2018 and creating a territorial tax system with a one-time mandatory tax on previously deferred foreign earnings of U.S. corporations.

The Company's consolidated effective tax rate for the six months ended June 30, 2018 was 26.8% compared to 35.0%, for the six months ended June 30, 2017. The decrease in the effective tax rate for the six months ended June 30, 2018 reflects the reduced U.S. corporate income tax rate as a result of the passage of the Tax Act blended with the statutory tax rates of the Company's foreign subsidiaries which are generally 30%, 25%, 30% and 37% in Mexico, Guatemala, El Salvador and Colombia, respectively.

In December 2017, the SEC issued SAB 118 to address concerns about reporting entities' ability to timely comply with the accounting requirements to recognize all of the effects of the Tax Act in the period of enactment. SAB 118 allows disclosure that timely determination of some or all of the income tax effects from the Tax Act are incomplete by the due date of the financial statements and if possible to provide a reasonable estimate. As a result of the Tax Act, the Company recorded a provisional net income tax benefit of $27.3 million in the fourth quarter of 2017. As of June 30, 2018, no adjustments to the estimates used to determine the provisional net tax benefit have been made. Any adjustments will be included in the provision for income taxes in the reporting period in which any such adjustments are determined, which will be no later than the fourth quarter of 2018. See Note 11 in the accompanying notes to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2017 for further information on the provisional income tax benefit.

Note 7 - Segment Information

The Company organizes its operations into two reportable segments as follows:

- U.S. operations - Includes all pawn and consumer loan operations in the U.S.
- Latin America operations - Includes all pawn and consumer loan operations in Latin America, which currently includes operations in Mexico, Guatemala, El Salvador and Colombia

The following tables present reportable segment information for the three and six month periods ended June 30, 2018 and 2017 (in thousands):

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| | Three Months Ended June 30, 2018 | | | |
|---|---|---|---|---|
| | U.S. Operations | Latin America Operations | Corporate | Consolidated |
| Revenue: | | | | |
| Retail merchandise sales | $166,441 | $ 89,301 | $— | $ 255,742 |
| Pawn loan fees | 87,825 | 35,187 | — | 123,012 |
| Wholesale scrap jewelry sales | 22,133 | 5,342 | — | 27,475 |
| Consumer loan and credit services fees | 13,401 | 342 | — | 13,743 |
| Total revenue | 289,800 | 130,172 | — | 419,972 |
| | | | | |
| Cost of revenue: | | | | |
| Cost of retail merchandise sold | 105,272 | 58,302 | — | 163,574 |
| Cost of wholesale scrap jewelry sold | 18,955 | 5,121 | — | 24,076 |
| Consumer loan and credit services loss provision | 3,810 | 84 | — | 3,894 |
| Total cost of revenue | 128,037 | 63,507 | — | 191,544 |
| | | | | |
| Net revenue | 161,763 | 66,665 | — | 228,428 |
| | | | | |
| Expenses and other income: | | | | |
| Store operating expenses | 103,625 | 33,958 | — | 137,583 |
| Administrative expenses | — | — | 29,720 | 29,720 |
| Depreciation and amortization | 5,037 | 2,740 | 3,175 | 10,952 |
| Interest expense | — | — | 6,529 | 6,529 |
| Interest income | — | — | (740) | (740) |
| Merger and other acquisition expenses | — | — | 2,113 | 2,113 |
| Total expenses and other income | 108,662 | 36,698 | 40,797 | 186,157 |
| | | | | |
| Income (loss) before income taxes | $53,101 | $ 29,967 | $(40,797) | $ 42,271 |

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| | Three Months Ended June 30, 2017 | | | |
|---|---|---|---|---|
| | U.S. Operations | Latin America Operations | Corporate | Consolidated |
| Revenue: | | | | |
| Retail merchandise sales | $164,852 | $ 78,970 | $ — | $ 243,822 |
| Pawn loan fees | 90,254 | 32,378 | — | 122,632 |
| Wholesale scrap jewelry sales | 26,136 | 5,510 | — | 31,646 |
| Consumer loan and credit services fees | 18,085 | 444 | — | 18,529 |
| Total revenue | 299,327 | 117,302 | — | 416,629 |
| | | | | |
| Cost of revenue: | | | | |
| Cost of retail merchandise sold | 106,731 | 49,742 | — | 156,473 |
| Cost of wholesale scrap jewelry sold | 25,400 | 5,190 | — | 30,590 |
| Consumer loan and credit services loss provision | 5,057 | 85 | — | 5,142 |
| Total cost of revenue | 137,188 | 55,017 | — | 192,205 |
| | | | | |
| Net revenue | 162,139 | 62,285 | — | 224,424 |