FIRSTCASH, INC
Form 10-Q
August 07, 2017
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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, 2017

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 or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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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 31, 2017, there were 47,719,970 shares of common stock outstanding.

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).
Emerging growth company o

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

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FIRSTCASH, INC.
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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 2016 annual report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on March 1, 2017, including the risks described in Part 1, Item 1A, “Risk Factors” thereof, (ii) in this quarterly report, and (iii) the 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,
	2017	2016	2016
ASSETS			
Cash and cash equivalents	$91,434	$46,274	$89,955
Fees and service charges receivable	42,810	18,259	41,013
Pawn loans	353,399	134,658	350,506
Consumer loans, net	24,192	1,060	29,204
Inventories	301,361	91,861	330,683
Income taxes receivable	23,866	3,938	25,510
Prepaid expenses and other current assets	19,667	3,843	25,264
Total current assets	856,729	299,893	892,135
Property and equipment, net	237,282	123,895	236,057
Goodwill	838,111	312,488	831,151
Intangible assets, net	98,664	5,601	104,474
Other assets	61,145	4,007	71,679
Deferred tax assets	12,388	10,720	9,707
Total assets	$2,104,319	$756,604	$2,145,203
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable and accrued liabilities	$85,684	$35,566	$109,354
Customer deposits	37,601	15,490	33,536
Income taxes payable	1,807	1,559	738
Total current liabilities	125,092	52,615	143,628
Revolving unsecured credit facilities	97,000	50,500	260,000
Senior unsecured notes	294,804	196,203	196,545
Deferred tax liabilities	74,298	23,800	61,275
Other liabilities	21,693	—	33,769
Total liabilities	612,887	323,118	695,217
Stockholders' equity:			
Preferred stock	—	—	—
Common stock	493	403	493
Additional paid-in capital	1,218,822	203,414	1,217,969
Retained earnings	416,937	661,390	387,401
Accumulated other comprehensive loss	(83,464)	(95,113)	(119,806)
Common stock held in treasury, at cost	(61,356)	(336,608)	(36,071)
Total stockholders' equity	1,491,432	433,486	1,449,986
Total liabilities and stockholders' equity	$2,104,319	$756,604	$2,145,203

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,	
	2017	2016	2017	2016
Revenue:				
Retail merchandise sales	$243,822	$115,543	$503,816	$234,319
Pawn loan fees	122,632	51,878	250,883	103,311
Consumer loan and credit services fees	18,529	4,916	39,749	10,602
Wholesale scrap jewelry sales	31,646	9,642	69,757	16,950
Total revenue	416,629	181,979	864,205	365,182
Cost of revenue:				
Cost of retail merchandise sold	156,473	71,345	322,108	145,767
Consumer loan and credit services loss provision	5,142	1,320	9,234	2,367
Cost of wholesale scrap jewelry sold	30,590	7,853	65,539	13,724
Total cost of revenue	192,205	80,518	396,881	161,858
Net revenue	224,424	101,461	467,324	203,324
Expenses and other income:				
Store operating expenses	137,070	54,578	273,814	109,989
Administrative expenses	30,305	16,509	63,543	33,777
Depreciation and amortization	14,689	4,947	28,932	9,884
Interest expense	5,585	4,326	11,698	8,786
Interest income	(393)	(224)	(720)	(498)
Merger and other acquisition expenses	1,606	4,079	2,253	4,479
Loss on extinguishment of debt	14,094	—	14,094	—
Total expenses and other income	202,956	84,215	393,614	166,417
Income before income taxes	21,468	17,246	73,710	36,907
Provision for income taxes	6,229	5,573	25,826	12,060
Net income	$15,239	$11,673	$47,884	$24,847
Net income per share:				
Basic	$0.32	$0.41	$0.99	$0.88
Diluted	$0.32	$0.41	$0.99	$0.88
Dividends declared per common share	$0.190	$0.125	$0.380	$0.250

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 (LOSS)
(unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$15,239	$11,673	$47,884	$24,847
Other comprehensive income (loss):				
Currency translation adjustment	13,337	(14,214)	36,342	(16,703)
Comprehensive income (loss)	$28,576	$(2,541)	$84,226	$8,144

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	Accumulated Other Comprehensive 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
Repurchases 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 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 12/31/2015	—	$ —	40,288	$ 403	$ 202,393	$ 643,604	$ (78,410)	12,052	$ (336,608)	$ 431,382
Shares issued under share-based com-pensation plan	—	—	7	—	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	1,021	—	—	—	—	1,021
Net income	—	—	—	—	—	24,847	—	—	—	24,847
Dividends paid	—	—	—	—	—	(7,061)	—	—	—	(7,061)
Currency translation adjustment	—	—	—	—	—	—	(16,703)	—	—	(16,703)
Balance at 6/30/2016	—	$ —	40,295	$ 403	$ 203,414	$ 661,390	$ (95,113)	12,052	$ (336,608)	$ 433,486

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,	
	2017	2016
Cash flow from operating activities:		
Net income	$47,884	$24,847
Adjustments to reconcile net income to net cash flow provided by operating activities:		
Non-cash portion of credit loss provision	5,973	417
Share-based compensation expense	1,535	1,021
Depreciation and amortization expense	28,932	9,884
Amortization of debt issuance costs	864	462
Amortization of favorable/(unfavorable) lease intangibles, net	(487)	—
Loss on extinguishment of debt	14,094	—
Deferred income taxes, net	11,886	2,562
Changes in operating assets and liabilities, net of business combinations:		
Fees and service charges receivable	(478)	(1,541)
Inventories	8,588	599
Prepaid expenses and other assets	12,379	3,899
Accounts payable, accrued liabilities and other liabilities	(30,959)	(650)
Income taxes	2,602	(1,927)
Net cash flow provided by operating activities	102,813	39,573
Cash flow from investing activities:		
Loan receivables, net of cash repayments	33,963	(9,466)
Purchases of property and equipment	(17,401)	(17,073)
Acquisitions of pawn stores, net of cash acquired	(1,115)	(27,653)
Net cash flow provided by (used in) investing activities	15,447	(54,192)
Cash flow from financing activities:		
Borrowings from revolving credit facilities	120,000	29,500
Repayments of revolving credit facilities	(283,000)	(37,000)
Repayments of debt assumed from acquisitions	—	(6,532)
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)	(23)
Purchases of treasury stock	(26,274)	—
Proceeds from exercise of share-based compensation awards	307	—
Dividends paid	(18,348)	(7,061)
Net cash flow used in financing activities	(122,908)	(21,116)
Effect of exchange rates on cash	6,127	(4,945)
Change in cash and cash equivalents	1,479	(40,680)
Cash and cash equivalents at beginning of the period	89,955	86,954
Cash and cash equivalents at end of the period	$91,434	$46,274

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)
(In thousands except per share amounts, unless otherwise indicated)

Note 1 - Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated balance sheet at December 31, 2016, 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, 2016, filed with the Securities and Exchange Commission (the "SEC") on March 1, 2017. The condensed consolidated financial statements as of June 30, 2017 and 2016, and for the three month and six month periods ended June 30, 2017 and 2016, 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, 2017 are not necessarily indicative of the results that may be expected for the full fiscal year.

On September 1, 2016, the Company completed its merger with Cash America International, Inc. ("Cash America"), whereby Cash America merged with and into a wholly owned subsidiary of the Company (the "Merger"). The accompanying unaudited condensed consolidated results of operations for the three month and six month periods ended June 30, 2017 include the results of operations for Cash America, affecting comparability of 2017 and 2016 amounts. The Company has performed a valuation analysis of identifiable assets acquired and liabilities assumed and allocated the aggregate Merger consideration based on the fair values of those identifiable assets and liabilities. The purchase price allocation is subject to change as the Company finalizes the analysis of the fair value at the date of the Merger. The final determination of the fair value of assets acquired and liabilities assumed will be completed within the twelve month measurement period from the date of the Merger as required by applicable accounting guidance. Due to the significance of the Merger, the Company may use all of this measurement period to adequately analyze and assess the fair values of assets acquired and liabilities assumed.

The Company has significant operations in Latin America, where in Mexico and Guatemala the functional currency is the Mexican peso and Guatemalan quetzal, 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, 2017 and 2016. The Company also has operations in El Salvador where the reporting and functional currency is the U.S. dollar.

Certain amounts in prior year comparative presentations have been reclassified in order to conform to the 2017 presentation.

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 new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional 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

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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 become effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2017 for public companies. Early adoption is permitted but not before annual reporting periods beginning after December 15, 2016. Entities are permitted to apply ASU 2014-09, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 either retrospectively or through an alternative transition model. The Company is currently assessing the potential impact of ASU 2014-09, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 on its consolidated financial statements.

In July 2015, the Financial Accounting Standards Board issued ASU No. 2015-11, "Simplifying the Measurement of Inventory" ("ASU 2015-11"). ASU 2015-11 requires inventory be measured at the lower of cost or net realizable value. ASU 2015-11 defines net realizable value as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Inventory measured using last-in, first-out ("LIFO") or the retail inventory method are excluded from the scope of this update. ASU 2015-11 requires prospective application and is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years, with early adoption permitted. The Company adopted ASU 2015-11 as of January 1, 2017 and the guidance was applied prospectively. The Company determined there were no changes to the Company's financial position, results of operations, financial statement disclosures or valuation of inventory.

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. ASU 2016-02 is 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 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 is effective for public entities for fiscal years beginning after December 15, 2017, with early adoption permitted. The Company is currently assessing the potential impact of ASU 2016-15 on its consolidated financial statements.

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 is 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. Early adoption is permitted under certain circumstances. The Company does not expect ASU 2017-01 to 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,

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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.

Note 2 - Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income	$15,239	$11,673	$47,884	$24,847
Denominator (in thousands):				
Weighted-average common shares for calculating basic earnings per share	48,261	28,243	48,324	28,242
Effect of dilutive securities:				
Stock options and nonvested stock awards	28	—	21	—
Weighted-average common shares for calculating diluted earnings per share	48,289	28,243	48,345	28,242
Net income per share:				
Basic	$0.32	$0.41	$0.99	$0.88
Diluted	$0.32	$0.41	$0.99	$0.88

Note 3 - Long-Term Debt

The following table details the Company's long-term debt at the respective principal amounts, net of unamortized debt issuance costs:

	June 30,		December 31,
	2017	2016	2016
Senior unsecured notes:			
5.375% senior notes due 2024 (1)	$294,804	$—	$—
6.75% senior notes due 2021 (2)	—	196,203	196,545
	$294,804	$196,203	$196,545
Revolving unsecured credit facility, maturing 2022	$97,000	$50,500	$260,000

(1) As of June 30, 2017, deferred debt issuance costs of $5,196 are included as a direct deduction from the carrying amount of the senior unsecured notes due 2024 in the accompanying condensed consolidated balance sheets.

(2) As of June 30, 2016 and December 31, 2016, deferred debt issuance costs of $3,797 and $3,455, respectively, are included as a direct deduction from the carrying amount of the senior unsecured notes due 2021 in the accompanying condensed consolidated balance sheets.

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Senior Unsecured Notes

On May 30, 2017, the Company completed an offering of $300,000 of 5.375% senior notes due on June 1, 2024 (the "Notes"). Interest on the Notes will be payable semi-annually in arrears on June 1 and December 1, commencing on December 1, 2017. The Notes were sold to the placement agents as initial purchasers for resale only to qualified institutional buyers in accordance with Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and outside the United States in accordance with Regulation S under the Securities Act. The Company used the proceeds from the offering to repurchase, or otherwise redeem, its outstanding $200,000, 6.75% senior notes due 2021 (the "2021 Notes"), to pay down the Company's credit facility and to pay for related fees and expenses associated with the offering and the repurchase and redemption of the 2021 Notes. The Company is capitalizing approximately $5,200 in issuance costs, which consisted primarily of placement agent fees and legal and other professional expenses. The issuance costs are being amortized over the life of the Notes as a component of interest expense and are carried as a direct deduction from the carrying amount of the Notes in the accompanying condensed consolidated balance sheets.

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 bank credit facility. The Notes will permit the Company to make share repurchases of up to $100,000 with the net proceeds of the Notes and other available funds and 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 1.00. The Net Debt Ratio is defined generally in the indenture governing the Notes (the "Indenture") 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 may redeem the Notes at any time on or after June 1, 2020, at the redemption prices set forth in the Indenture, plus accrued and unpaid interest, if any. In addition, prior to June 1, 2020, the Company may redeem some or all of the Notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus a "make-whole" premium set forth in the Indenture. The Company may redeem up to 35% of the Notes prior to June 1, 2020, with the proceeds of certain equity offerings at a redemption price of 105.375% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any. In addition, upon a change of control, noteholders have the right to require the Company to purchase the Notes at a price equal to 101% of the principal amount of the Notes, plus accrued and unpaid interest, if any.

During the three months ended June 30, 2017, the Company repurchased through a tender offer, or otherwise redeemed, all outstanding 2021 Notes. As a result, the Company recognized a loss on extinguishment of debt of $14,094, which includes the tender or redemption premiums paid over the outstanding $200,000 principal amount of the 2021 Notes and other reacquisition costs of $10,875 and the write off of unamortized debt issuance costs of $3,219.

Revolving Credit Facilities

At June 30, 2017, the Company maintained a line of credit with a group of U.S. based commercial lenders (the "2016 Credit Facility") in the amount of $400,000. In May 2017, the term of the 2016 Credit Facility was extended through September 2, 2022. The calculation of the fixed charge coverage ratio was also amended to remove share repurchases from the calculation to provide greater flexibility for making future share repurchases and paying cash dividends.

At June 30, 2017, the Company had $97,000 in outstanding borrowings and a $4,456 outstanding letter of credit under the 2016 Credit Facility, leaving $298,544 available for future borrowings. The 2016 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 2016 Credit Facility commitment. The weighted-average interest rate on amounts outstanding under the 2016 Credit Facility at June 30, 2017 was 3.73% based on 1 week LIBOR. Under the terms of the 2016 Credit Facility, the Company is required to maintain certain financial ratios and comply with certain financial covenants. The 2016 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 2016 Credit Facility as of June 30, 2017. During the six months ended June 30, 2017, the Company made net payments of $163,000 pursuant to the 2016 Credit Facility.

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At June 30, 2017, the Company maintained a U.S. dollar denominated line of credit with a bank in Mexico (the “Mexico Credit Facility”) in the amount of $10,000. The Mexico Credit Facility bears interest at 30-day LIBOR plus a fixed spread of 2.0% and matures in December 2017. Under the terms of the Mexico Credit Facility, the Company is required to maintain certain financial ratios and comply with certain financial covenants. The Company was in compliance with the requirements and covenants of the Mexico Credit Facility as of June 30, 2017. The Company is required to pay a one-time commitment fee of $25 due when the first amount is drawn/borrowed. At June 30, 2017, the Company had no amount outstanding under the Mexico Credit Facility and $10,000 was available for borrowings.

Note 4 - 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

Prior to the Merger, Cash America had a nonqualified savings plan that was available to certain members of its management. Upon completion of the Merger, the nonqualified savings plan was terminated and during the three months ended March 31, 2017, the Company dissolved the plan and distributed the remaining assets to the participants.

As of December 31, 2016, the assets included marketable equity securities, which were classified as Level 1 and the fair values were based on quoted market prices. The nonqualified savings plan assets were included in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheet with an offsetting liability of equal amount, which is included in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheet.

The Company’s financial assets that are measured at fair value on a recurring basis as of December 31, 2016 were as follows:

	December 31,	Fair Value Measurements Using		
	2016	Level 1	Level 2	Level 3
Financial assets:				
Cash America nonqualified savings plan-related assets	$ 12,663	$ 12,663	$ —	$ —
	$ 12,663	$ 12,663	$ —	$ —

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, 2017, 2016 and December 31, 2016 that are not measured at fair value in the condensed consolidated balance sheets are as follows:

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	Carrying Value	Estimated Fair Value			
	June 30,	June 30,	Fair Value Measurements Using		
	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 facilities	$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			
	June 30,	June 30,	Fair Value Measurements Using		
	2016	2016	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$46,274	$46,274	$46,274	$—	$—
Pawn loans	134,658	134,658	—	—	134,658
Consumer loans, net	1,060	1,060	—	—	1,060
Fees and service charges receivable	18,259	18,259	—	—	18,259
	$200,251	$200,251	$46,274	$—	$153,977
Financial liabilities:					
Revolving unsecured credit facilities	$50,500	$50,500	$—	$50,500	$—
Senior unsecured notes, outstanding principal	200,000	202,000	—	202,000	—
	$250,500	$252,500	$—	$252,500	$—

	Carrying Value	Estimated Fair Value			
	December 31,	December 31,	Fair Value Measurements Using		
	2016	2016	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 89,955	$89,955	$89,955	$—	$—
Pawn loans	350,506	350,506	—	—	350,506
Consumer loans, net	29,204	29,204	—	—	29,204
Fees and service charges receivable	41,013	41,013	—	—	41,013
	$ 510,678	$510,678	$89,955	$—	$420,723
Financial liabilities:					
Revolving unsecured credit facilities	$ 260,000	$260,000	$—	$260,000	$—
Senior unsecured notes, outstanding principal	200,000	208,000	—	208,000	—

$ 460,000	$468,000	$—	$468,000	$—

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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 loan fees and service charges receivable approximate fair value. Short-term loans and installment loans, collectively, represent consumer loans, net on the accompanying condensed consolidated balance sheets and 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 prior credit facilities approximates fair value as of June 30, 2016. The carrying value of the Company's current credit facilities (the 2016 Credit Facility and the Mexico Credit Facility) approximates fair value as of June 30, 2017 and December 31, 2016. 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 5 - 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 and El Salvador

The following tables present reportable segment information for the three and six month periods ended June 30, 2017 and 2016:

	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
Consumer loan and credit services fees	18,085	444	—	18,529
Wholesale scrap jewelry sales	26,136	5,510	—	31,646
Total revenue	299,327	117,302	—	416,629
Cost of revenue:				
Cost of retail merchandise sold	106,731	49,742	—	156,473
Consumer loan and credit services loss provision	5,057	85	—	5,142
Cost of wholesale scrap jewelry sold	25,400	5,190	—	30,590
Total cost of revenue	137,188	55,017	—	192,205
Net revenue	162,139	62,285	—	224,424
Expenses and other income:				
Store operating expenses	105,521	31,549	—	137,070
Administrative expenses	—	—	30,305	30,305

Depreciation and amortization	6,421	2,622	5,646	14,689
Interest expense	—	—	5,585	5,585
Interest income	—	—	(393)	(393)
Merger and other acquisition expenses	—	—	1,606	1,606
Loss on extinguishment of debt	—	—	14,094	14,094
Total expenses and other income	111,942	34,171	56,843	202,956
Income before income taxes	$ 50,197	$ 28,114	$ (56,843)	$ 21,468

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	Three Months Ended June 30, 2016			
	U.S. Operations	Latin America Operations	Corporate	Consolidated
Revenue:				
Retail merchandise sales	$47,065	$ 68,478	$—	$ 115,543
Pawn loan fees	21,844	30,034	—	51,878
Consumer loan and credit services fees	4,419	497	—	4,916
Wholesale scrap jewelry sales	6,070	3,572	—	9,642
Total revenue	79,398	102,581	—	181,979
Cost of revenue:				
Cost of retail merchandise sold	29,043	42,302	—	71,345
Consumer loan and credit services loss provision	1,198	122	—	1,320
Cost of wholesale scrap jewelry sold	5,097	2,756	—	7,853
Total cost of revenue	35,338	45,180	—	80,518
Net revenue	44,060	57,401	—	101,461
Expenses and other income:				
Store operating expenses	26,847	27,731	—	54,578
Administrative expenses	—	—	16,509	16,509
Depreciation and amortization	1,423	2,667	857	4,947
Interest expense	—	—	4,326	4,326
Interest income	—	—	(224)	(224)
Merger and other acquisition expenses	—	—	4,079	4,079
Total expenses and other income	28,270	30,398	25,547	84,215
Income before income taxes	$15,790	$ 27,003	$(25,547)	$ 17,246

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	Six Months Ended June 30, 2017			
	U.S. Operations	Latin America Operations	Corporate	Consolidated
Revenue:				
Retail merchandise sales	$358,518	$145,298	$—	$503,816
Pawn loan fees	192,072	58,811	—	250,883
Consumer loan and credit services fees	38,900	849	—	39,749
Wholesale scrap jewelry sales	59,033	10,724	—	69,757
Total revenue	648,523	215,682	—	864,205
Cost of revenue:				
Cost of retail merchandise sold	230,228	91,880	—	322,108
Consumer loan and credit services loss provision	9,047	187	—	9,234
Cost of wholesale scrap jewelry sold	56,082	9,457	—	65,539
Total cost of revenue	295,357	101,524	—	396,881
Net revenue	353,166	114,158	—	467,324
Expenses and other income:				
Store operating expenses	213,489	60,325	—	273,814
Administrative expenses	—	—	63,543	63,543
Depreciation and amortization	12,840	5,019	11,073	28,932
Interest expense	—	—	11,698	11,698
Interest income	—	—	(720)	(720)
Merger and other acquisition expenses	—	—	2,253	2,253
Loss on extinguishment of debt	—	—	14,094	14,094
Total expenses and other income	226,329	65,344	101,941	393,614
Income before income taxes	$126,837	$48,814	$(101,941)	$73,710

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	Six Months Ended June 30, 2016			
	U.S. Operations	Latin America Operations	Corporate	Consolidated
Revenue:				
Retail merchandise sales	$102,126	$132,193	$—	$234,319
Pawn loan fees	46,089	57,222	—	103,311
Consumer loan and credit services fees	9,628	974	—	10,602
Wholesale scrap jewelry sales	10,864	6,086	—	16,950
Total revenue	168,707	196,475	—	365,182
Cost of revenue:				
Cost of retail merchandise sold	62,710	83,057	—	145,767
Consumer loan and credit services loss provision	2,105	262	—	2,367
Cost of wholesale scrap jewelry sold	8,959	4,765	—	13,724
Total cost of revenue	73,774	88,084	—	161,858
Net revenue	94,933	108,391	—	203,324
Expenses and other income:				
Store operating expenses	54,716	55,273	—	109,989
Administrative expenses	—	—	33,777	33,777
Depreciation and amortization	2,921	5,317	1,646	9,884
Interest expense	—	—	8,786	8,786
Interest income	—	—	(498)	(498)
Merger and other acquisition expenses	—	—	4,479	4,479
Total expenses and other income	57,637	60,590	48,190	166,417
Income before income taxes	$37,296	$47,801	$(48,190)	$36,907

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of financial condition, results of operations, liquidity and capital resources of FirstCash, Inc. and its wholly-owned subsidiaries (the "Company") should be read in conjunction with the Company's condensed consolidated financial statements and accompanying notes included under Part I, Item 1 of this quarterly report on Form 10-Q, as well as with the audited consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's annual report on Form 10-K for the year ended December 31, 2016. References in this quarterly report on Form 10-Q to "year-to-date" refer to the six-month period from January 1, 2017 to June 30, 2017.

On September 1, 2016, the Company completed its merger with Cash America International, Inc. ("Cash America"), whereby Cash America merged with and into a wholly owned subsidiary of the Company (the "Merger"). The accompanying unaudited condensed consolidated results of operations for the three month and six month periods ended June 30, 2017 include the results of operations for Cash America, affecting comparability of 2017 and 2016 amounts. The Company has performed a valuation analysis of identifiable assets acquired and liabilities assumed and allocated the aggregate Merger consideration based on the fair values of those identifiable assets and liabilities. The purchase price allocation is subject to change as the Company finalizes the analysis of the fair value at the date of the Merger. The final determination of the fair value of assets acquired and liabilities assumed will be completed within the twelve month measurement period from the date of the Merger as required by applicable accounting guidance. Due to the significance of the Merger, the Company may use all of this measurement period to adequately analyze and assess the fair values of assets acquired and liabilities assumed.

In thousands except share and per share amounts, unless otherwise indicated.

GENERAL

The Company is a leading operator of retail-based pawn stores with almost 2,100 store locations in the U.S. and Latin America. The Company's pawn stores generate significant retail sales primarily from the merchandise acquired through collateral forfeitures and over-the-counter purchases from customers. The stores also offer pawn loans to help customers meet small short-term cash needs. Personal property, such as consumer electronics, jewelry, power tools, household appliances, sporting goods and musical instruments, is pledged as collateral for the pawn loans and held by the Company over the life of the loan. 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 U.S. and Latin America through new store openings and strategic acquisition opportunities as they arise. Pawn operations accounted for 95% and 97% of the Company's consolidated revenue during the six month periods ended June 30, 2017 and 2016, respectively.

The Company organizes its operations into two reportable segments: the U.S. operations segment and the Latin America operations segment. The U.S. operations segment consists of all pawn and consumer loan operations in the U.S. and the Latin America operations segment consists of all pawn and consumer loan operations in Latin America, which currently includes operations in Mexico, Guatemala and El Salvador.

The Company recognizes pawn loan fee revenue on a constant-yield basis over the life of the pawn loan for all pawn loans of which the Company deems collection to be probable based on historical redemption statistics. If a pawn loan is not repaid prior to the expiration of the loan term, including any extension or grace 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 pawn fee revenue. The Company records merchandise 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 direct 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 pursuant to a layaway plan, the previous payments are typically 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. Some jewelry is melted at a third-party facility and the precious metal and diamond content is sold at either prevailing market commodity prices or a previously agreed upon price with a commodity buyer. The Company records revenue from these wholesale scrap jewelry transactions when a price has been agreed upon and the Company ships the commodity to the buyer.

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The Company operates a small number of stand-alone consumer finance stores in the U.S. and Mexico. These stores provide consumer financial services products including credit services, consumer loans and check cashing. In addition, 366 of the Company’s pawn stores also offer credit services and/or consumer loans as an ancillary product. Consumer loan and credit services revenue accounted for 5% and 3% of consolidated revenue during the six month periods ended June 30, 2017 and 2016, respectively. The increase in consumer loan and credit services revenue as a percentage of consolidated revenue was solely the result of the Merger as the Company continues to deemphasize its consumer lending operations in light of increasing regulatory constraints on these operations.

The Company recognizes service fee income on consumer loan transactions on a constant-yield basis over the life of the loan and recognizes credit services fees ratably over the life of the extension of credit made by independent third-party lenders. Changes in the valuation reserve on consumer loans and credit services transactions are charged or credited to the consumer loan credit loss provision. The credit loss provision associated with the Company’s credit services organization program and consumer loans is 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.

Stores included in the same-store calculations presented in this report are those stores that were opened or acquired prior to the beginning of the prior-year comparative period and remained open through the end of the reporting period. Also included are stores that were relocated during the applicable period 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. Unless otherwise noted, same-store calculations exclude the results of the merged Cash America stores. Legacy Cash America same-store calculations refer to Cash America stores that were opened prior to the beginning of the prior-year comparative period (although not then owned by the Company) and remained open through the end of the reporting period.

Operating expenses consist of all items directly related to the operation of the Company’s stores, including salaries and related payroll costs, rent, utilities, facilities maintenance, 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. Merger and other acquisition expenses primarily include incremental costs directly associated with the Merger and integration of Cash America, including professional fees, legal expenses, severance, retention and other employee-related costs, accelerated vesting of certain equity compensation awards, contract breakage costs and costs related to consolidation of technology systems and corporate facilities.

The Company’s business is subject to seasonal variations and operating results for the current quarter and year-to-date periods are not necessarily indicative of the results of operations for the full year. Typically, the Company experiences seasonal growth of service fees in the third and fourth quarter of each year due to loan balance growth. Service fees generally decline in the first and second quarter of each year after the heavy repayment period of pawn and consumer loans associated with statutory bonuses received by customers in the fourth quarter in Mexico and with tax refund proceeds received by customers in the first quarter in the U.S. Retail sales are seasonally higher in the fourth quarter associated with holiday shopping, and to a lesser extent, in the first quarter associated with tax refunds.

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OPERATIONS AND LOCATIONS

As of June 30, 2017, the Company had 2,097 store locations in 26 U.S. states, 32 states in Mexico, Guatemala and El Salvador, which represents a net store-count increase of 65% over the number of stores at June 30, 2016, primarily as a result of the Merger.

The following table details store count activity for the three months ended June 30, 2017:

	Pawn Locations (1)	Consumer Loan Locations (2)	Total Locations
U.S.:			
Total locations, beginning of period	1,079	45	1,124
Locations closed or consolidated	(6)	(1)	(7)
Total locations, end of period	1,073	44	1,117
Latin America:			
Total locations, beginning of period	938	28	966
New locations opened	10	—	10
Locations acquired	5	—	5
Locations closed or consolidated	(1)	—	(1)
Total locations, end of period	952	28	980
Total:			
Total locations, beginning of period	2,017	73	2,090
New locations opened	10	—	10
Locations acquired	5	—	5
Locations closed or consolidated	(7)	(1)	(8)
Total locations, end of period	2,025	72	2,097

(1) At June 30, 2017, 317 of the U.S. pawn stores, which are primarily located in Texas and Ohio, also offered consumer loans or credit services products, while 49 Mexico pawn stores offered consumer loan products.

(2) The Company's U.S. free-standing consumer loan locations offer consumer loans and/or a credit services product and are located in Ohio, Texas, California and limited markets in Mexico. The table does not include 64 check cashing locations operated by independent franchisees under franchising agreements with the Company.

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The following table details store count activity for the six months ended June 30, 2017:

	Pawn Locations (1)	Consumer Loan Locations (2)	Total Locations
U.S.:			
Total locations, beginning of period	1,085	45	1,130
New locations opened	1	—	1
Locations acquired	1	—	1
Locations closed or consolidated	(14)	(1)	(15)
Total locations, end of period	1,073	44	1,117
Latin America:			
Total locations, beginning of period	927	28	955
New locations opened	23	—	23
Locations acquired	5	—	5
Locations closed or consolidated	(3)	—	(3)
Total locations, end of period	952	28	980
Total:			
Total locations, beginning of period	2,012	73	2,085
New locations opened	24	—	24
Locations acquired	6	—	6
Locations closed or consolidated	(17)	(1)	(18)
Total locations, end of period	2,025	72	2,097

(1) At June 30, 2017, 317 of the U.S. pawn stores, which are primarily located in Texas and Ohio, also offered consumer loans or credit services products, while 49 Mexico pawn stores offer consumer loan products.

(2) The Company’s U.S. free-standing consumer loan locations offer consumer loans and/or a credit services product and are located in Ohio, Texas, California and limited markets in Mexico. The table does not include 64 check cashing locations operated by independent franchisees under franchising agreements with the Company.

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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, assumptions and judgments 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, assumptions and judgments 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 have been reported in the Company’s 2016 annual report on Form 10-K. There have been no changes to the Company’s significant accounting policies for the six months ended June 30, 2017.

Recent Accounting Pronouncements

See Note 1 - Significant Accounting Policies of the condensed consolidated financial statements contained in Part I, Item 1 of this report for a discussion of recent accounting pronouncements that the Company has adopted or will adopt in future periods.

RESULTS OF CONTINUING OPERATIONS (unaudited)

Constant Currency Results

The Company’s management reviews and analyzes certain operating results in Latin America on a constant currency basis because the Company believes this better represents the Company’s underlying business trends. Constant currency results are non-GAAP measures which exclude the effects of foreign currency translation and are calculated by translating current year results at prior year average exchange rates. The scrap jewelry generated in Latin America is sold and settled in U.S. dollars and is therefore not affected by foreign currency translation. A small percentage of the operating and administrative expenses in Latin America are also billed and paid in U.S. dollars which are not affected by foreign currency translation.

The following table provides exchange rates for the Mexican peso and Guatemalan quetzal for the current and prior year periods:

	June 30,		Increase /
	2017	2016	Decrease
Mexican peso / U.S. dollar exchange rate:			
End-of-period	17.9	18.5	3 %
Three months ended	18.6	18.1	(3)%
Six months ended	19.5	18.0	(8)%
Guatemalan quetzal / U.S. dollar exchange rate:			
End-of-period	7.3	7.6	4 %
Three months ended	7.3	7.7	5 %
Six months ended	7.4	7.7	4 %

Amounts presented on a constant currency basis are denoted as such. See “—Non-GAAP Financial Information” for additional discussion of constant currency operating results.

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Operating Results for the Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016

U.S. Operations Segment

The following table details earning assets, which consist of pawn loans, consumer loans, net and inventories as well as other earning asset metrics of the U.S. operations segment as of June 30, 2017 as compared to June 30, 2016:

	Balance at June 30,		Increase /
	2017	2016	(Decrease)
U.S. Operations Segment			
Earning assets:			
Pawn loans	$273,823	$66,457	312 %
Consumer loans, net [(1)]	23,801	653	3,545 %
Inventories	243,991	47,934	409 %
	$541,615	$115,044	371 %
Average outstanding pawn loan amount (in ones)	$148	$160	(8)%
Composition of pawn collateral:			
General merchandise	38 %	47 %	
Jewelry	62 %	53 %	
	100 %	100 %	
Composition of inventories:			
General merchandise	44 %	60 %	
Jewelry	56 %	40 %	
	100 %	100 %	
Percentage of inventory aged greater than one year	12 %	6 %	

(1) Does not include the off-balance sheet principal portion of active CSO extensions of credit made by independent third-party lenders. These amounts, net of the Company’s estimated fair value of its liability for guaranteeing the extensions of credit, totaled $9,128 and $5,161 as of June 30, 2017 and 2016, respectively.

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The following table presents segment pre-tax operating income of the U.S. operations segment for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. Store operating expenses include salary and benefit expense of store-level employees, occupancy costs, bank charges, security, insurance, utilities, supplies and other costs incurred by the stores.

	Three Months Ended June 30,		
	2017	2016	Increase
U.S. Operations Segment			
Revenue:			
Retail merchandise sales	$164,852	$47,065	250 %
Pawn loan fees	90,254	21,844	313 %
Consumer loan and credit services fees	18,085	4,419	309 %
Wholesale scrap jewelry sales	26,136	6,070	331 %
Total revenue	299,327	79,398	277 %
Cost of revenue:			
Cost of retail merchandise sold	106,731	29,043	267 %
Consumer loan and credit services loss provision	5,057	1,198	322 %
Cost of wholesale scrap jewelry sold	25,400	5,097	398 %
Total cost of revenue	137,188	35,338	288 %
Net revenue	162,139	44,060	268 %
Segment expenses:			
Store operating expenses	105,521	26,847	293 %
Depreciation and amortization	6,421	1,423	351 %
Total segment expenses	111,942	28,270	296 %
Segment pre-tax operating income	$50,197	$15,790	218 %

Retail Merchandise Sales Operations

U.S. retail merchandise sales increased 250% to $164,852 during the second quarter of 2017 compared to $47,065 for the second quarter of 2016. The increase was primarily due to the inclusion of Cash America's results for the second quarter of 2017 as a result of the Merger ("Cash America Results"), which accounted for 100% of the increase in retail merchandise sales. During the second quarter of 2017, the gross profit margin on retail merchandise sales in the U.S. was 35% compared to a margin of 38% during the second quarter of 2016, reflecting the impact of historically lower margins in the Cash America stores.

U.S. inventories increased 409% from $47,934 at June 30, 2016 to $243,991 at June 30, 2017. The increase was due to the inclusion of $196,639 of Cash America inventories partially offset by a 1% decline in legacy First Cash store inventories. Included in the Cash America inventory balance as of June 30, 2017 was $5,215 of scrap jewelry inventories in transit or held in processing locations. The shift in the composition of pawn inventories from general merchandise to jewelry was primarily due to the Cash America stores carrying a greater percentage of jewelry merchandise compared to legacy First Cash stores. The increase in inventory aged greater than one year was primarily due to the inclusion of the Cash America stores, which have historically carried higher aged balances than legacy First Cash stores, partially offset by a decrease in aged inventory at legacy First Cash stores.

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Pawn Lending Operations

U.S. pawn loan fees increased 313% totaling $90,254 during the second quarter of 2017 compared to $21,844 for the second quarter of 2016. Pawn loan receivables in the U.S. as of June 30, 2017 increased 312% compared to June 30, 2016. The increase in pawn loan fees and pawn loan receivables was due to the inclusion of the Cash America Results following the Merger, which accounted for 99% of the pawn fee and pawn receivable increases. Legacy First Cash same-store pawn receivables increased 3% while legacy Cash America same-store pawn receivables decreased 13% as of June 30, 2017 compared to June 30, 2016. Legacy First Cash same-store pawn loan fees increased 5% while legacy Cash America same-store pawn loan fees decreased 11% in the second quarter of 2017 compared to the second quarter of 2016. The decline in legacy Cash America same-store pawn receivables and pawn loan fees was primarily due to the expected impact of reducing the holding period on delinquent pawn loans, reducing loan values on general merchandise loans and a reduction in traffic and volume patterns in many of the Cash America stores. The shift in the composition of pawn receivables from general merchandise to jewelry was primarily due to the Cash America stores, which have historically carried a higher percentage of jewelry loans than legacy First Cash stores.

Consumer Lending Operations

Service fees from U.S. consumer loans and credit services transactions (collectively, consumer lending operations) increased 309% to $18,085 during the second quarter of 2017 compared to $4,419 for the second quarter of 2016. The increase in fees was due to the inclusion of the Cash America Results following the Merger. Excluding the Cash America Results, consumer loan and credit services fees decreased 29% as the Company continues to deemphasize consumer lending operations in light of increasing regulatory constraints. Revenues from consumer lending operations comprised 6% of total U.S. revenue during the second quarter of 2017 and 2016.

Wholesale Scrap Jewelry Operations

U.S. wholesale scrap jewelry revenue during the second quarter of 2017 consisted primarily of gold sales, which increased 331% to $26,136 during the second quarter of 2017 compared to $6,070 during the second quarter of 2016. The increase in wholesale scrap jewelry revenue was primarily due to the inclusion of the Cash America Results following the Merger, which accounted for 117% of the increase in wholesale scrap jewelry revenue. The scrap gross profit margin in the U.S. was 3% compared to the prior-year margin of 16%, primarily as a result of the typically higher cost basis in scrap jewelry sold by the Cash America stores. Scrap jewelry profits accounted for less than 1% of U.S. net revenue (gross profit) for the second quarter of 2017 compared to 2% in the second quarter of 2016.

Store Operating Expenses and Segment Pre-Tax Operating Income

U.S. store operating expenses increased 293% to $105,521 during the second quarter of 2017 compared to $26,847 during the second quarter of 2016, primarily as a result of the Merger. Same-store operating expenses increased 2% and decreased 2% in the legacy First Cash and Cash America stores, respectively, compared with the prior-year period.

The U.S. segment pre-tax operating income for the second quarter of 2017 was $50,197, which generated a pre-tax segment operating margin of 17% compared to $15,790 and 20% in the prior year, respectively. The decline in the segment pre-tax operating margin was primarily due to historically lower operating margins in the Cash America stores.

Depreciation and Amortization

U.S. store depreciation and amortization increased 351% to $6,421 during the second quarter of 2017 compared to $1,423 during the second quarter of 2016, primarily as a result of the Merger.

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Latin America Operations Segment

The following table details earning assets, which consist of pawn loans, consumer loans, net and inventories as well as other earning asset metrics of the Latin America operations segment as of June 30, 2017 as compared to June 30, 2016:

	Balance at June 30, 2017	Balance at June 30, 2016	Increase / (Decrease)	Constant Currency Basis Balance at June 30, 2017 (Non-GAAP)	Increase / (Decrease) (Non-GAAP)
Latin America Operations Segment					
Earning assets:					
Pawn loans	$79,576	$68,201	17 %	$77,146	13 %
Consumer loans, net	391	407	(4)%	379	(7)%
Inventories	57,370	43,927	31 %	55,610	27 %
	$137,337	$112,535	22 %	$133,135	18 %
Average outstanding pawn loan amount (in ones)	$66	$62	6 %	$64	3 %
Composition of pawn collateral:					
General merchandise	81 %	82 %			
Jewelry	19 %	18 %			
	100 %	100 %			
Composition of inventories:					
General merchandise	74 %	80 %			
Jewelry	26 %	20 %			
	100 %	100 %			
Percentage of inventory aged greater than one year	1 %	1 %			

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The following table presents segment pre-tax operating income of the Latin America operations segment for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. Store operating expenses include salary and benefit expense of store-level employees, occupancy costs, bank charges, security, insurance, utilities, supplies and other costs incurred by the stores.

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Increase / (Decrease)	Constant Currency Basis Three Months Ended June 30, 2017 (Non-GAAP)	Increase / (Decrease) (Non-GAAP)
Latin America Operations Segment					
Revenue:					
Retail merchandise sales	$78,970	$68,478	15 %	$81,129	18 %
Pawn loan fees	32,378	30,034	8 %	33,245	11 %
Consumer loan and credit services fees	444	497	(11)%	457	(8)%
Wholesale scrap jewelry sales	5,510	3,572	54 %	5,510	54 %
Total revenue	117,302	102,581	14 %	120,341	17 %
Cost of revenue:					
Cost of retail merchandise sold	49,742	42,302	18 %	51,084	21 %
Consumer loan and credit services loss provision	85	122	(30)%	88	(28)%
Cost of wholesale scrap jewelry sold	5,190	2,756	88 %	5,298	92 %
Total cost of revenue	55,017				