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Q3 2010 Financial Highlights – CFO's Review and Financial Performance

Commentary by Nancy Bland, April 29, 2010

I will now review the results for the three and nine months ending March 31, 2010. I will start with a discussion on the Q3 results.

Net income

Net income, after removing the class action settlement costs and related taxes, for the third quarter was \$4.0 million, compared to \$3.1 million in the same quarter last year. Net income for the third quarter with non-recurring costs was \$2.2 million.

The lower third quarter earnings, overall, were a result of an additional non-recurring expense being recorded during the quarter as court approval was received for the British Columbia class action settlement.

The increased income from operations was due primarily to increased revenues related to branch maturation, increased same branch revenues and record loan volumes, improved BOI margins, record revenue from other services, offset by higher expenses associated with supporting 20 new branches in the quarter or 65 new branches in the first nine months and increased costs associated with the start-up of operations in the UK although the branches did not open until after the quarter was complete.

Diluted earnings per share, before non-recurring class action settlement costs and related taxes, was \$0.23 per share compared to \$0.18 for the same quarter last year. Diluted earnings per share with non-recurring costs were \$0.13.

Diluted earnings, after removing the non-recurring class action settlement costs and related taxes, per share increased by \$0.05 per share or 29% as a result of the increased income and shares repurchased through the normal course issuers bid in the prior quarters.

EBITA

Our EBITA, after removing the class action settlement costs and related taxes, for the third quarter increased 23% to \$8.0 million, compared to \$6.5 million in the same quarter last year. EBITA with non-recurring costs was \$5.3 million in the quarter.

The higher third quarter earnings reflect the following:

- Improved revenue, BOI and loan volume as a result of maturation of existing branches and the addition of 66 new branches compared to March 31, 2009;
- A 11% increase in same branch revenues through improved staff retention, more effective bonus structures, communication of expectations at all levels of the organization, increased marketing initiatives and actions plans for our lowest-performing branches; and,
- Other revenue increased by 36% to \$8.4 million from \$6.2 million in the same quarter last year.

We achieved higher earnings, after removing the effect of the class action settlement costs and related taxes, even after taking into consideration:

- The accelerated growth to 20 new branches in the quarter compared to 10 in the same quarter last year, with 65 net new branches in the first nine months of 2010 compared to 39 in the first nine months of 2009 and still achieved higher operating margins; and

- Increased costs associated with the start-up of operations in the UK, although the UK branches did not open until after the quarter was complete.

Branch Count

At the end of the third quarter, we had a total of 489 branches in operation compared to 423 branches in the same quarter last year.

During the quarter 20 new branches were opened with no closures.

Revenue

Revenue increased 12% to \$40.8 million from \$36.3 million in the same quarter last year.

Broker fees for the third quarter increased 7% to \$32.3 million from \$30.1 million in the same quarter last year.

Loans brokered in the second quarter was a record \$178.8 million and averaged \$417 per loan, compared to \$142.5 million and an average of \$365 per loan (excluding our broker fee) in the same quarter last year.

Revenue from other services increased by 36% to a record \$8.4 million in the third quarter, up from \$6.2 million in the same quarter last year.

Same Branch Revenues

Same branch revenues for the 407 locations open since the beginning of the third quarter of fiscal 2009 increased by 11% compared to the same quarter last year, with same branch revenues averaging \$95,700 in the third quarter compared to \$86,600 in the third quarter of the previous year.

Branch Operating Income

During the quarter we have effectively managed our increased expansion and maintained our Branch operating income for the quarter at 32% of revenue or \$13.1 million compared to \$11.7 million in the third quarter of last year.

Expenses

Expenses for the quarter excluding retention payments, amortization and class action settlement costs totalled \$27.7 million, an increase from \$25.6 million in the same quarter last year, primarily due to the addition of 66 new branches, increased bonuses related to higher profitability and an increase in marketing, regional and corporate infrastructure costs.

Retention Payments

Third-party lender retention payments for the third quarter totalled \$5.3 million or 3.0% of loans brokered, compared to \$4.5 million or 3.2% of loans brokered in the same quarter last year.

As a percentage of revenue, retention payments have increased slightly to 13.0%, compared to 12.5% in the same quarter last year.

Amortization

Amortization of capital and intangible assets for the quarter was up, from \$1.5 million in Q3 2009 to \$1.7 million in the current quarter. The increase is as a result of 66 new branches and a large scale refresh program for our mature branches offset by a one-time adjustment made for the implementation of a new asset tracking system.

Income Taxes

Our effective tax rate was 35.1% in the third quarter, compared to 34.5% for the third quarter last year.

Liquidity and Capital Resources

Our cash decreased to \$17.6 million in the third quarter, compared to \$18.5 million at June 30, 2009. Significant items impacting cash in the third quarter and year-to-date include:

- Cash generated from operating activities, before non-cash operating items, of \$5.2 million during the quarter and \$20.9 million year-to-date;
- Issuance of commons shares for proceeds from exercised options of \$812,000 during the quarter and \$1.9 million year-to-date;
- BC Class action payments of \$6.5 million during the quarter;
- Capital and intangible asset expenditures of \$3.6 million during the quarter and \$11.3 million year-to-date;
- Increase in accounts receivable of \$2.8 million for the quarter, relating to changes in complimentary product lines and services;
- Dividend payments of \$1.7 million during the quarter and \$5.7 million year-to-date;
- The repurchase of our shares, year-to-date, in the amount of \$3.3 million pursuant to a normal course issuer bid; and
- Investment in RTF Financial Holdings Inc. of \$360,000, total year to date.

At the end of the third quarter, our working capital position totalled \$9.9 million.

NINE MONTHS ENDING MARCH 31, 2010

I will now review results for the nine months ending March 31, 2010.

Net income

Net income, after removing the class action settlement costs and related taxes, was \$15.1 million, compared to \$14.7 million in the same period last year. Net income was \$13.3 million.

The higher earnings, after removing the class action settlement costs and related taxes, resulted in diluted earnings per share increasing to a record \$0.88 per share for the nine months ended March 31, 2010 compared to \$0.80 for the same period last year. Including non-recurring charges diluted earnings per share were \$0.78 compared to \$0.73 for the same period last year.

EBITA

For the nine months ended March 31, 2010, the Company's adjusted EBITA was a record \$29.5 million, compared to \$26.6 million for the same period last year. This improvement is due to record revenues and BOI offset by increased regional and corporate infrastructure and marketing expenses.

Revenue and Branch Operating Income

Revenue was a record \$124.7 million up 13% compared to \$110.8 million in the same period last year.

The higher revenue reflects growth due to 66 additional branches, the maturing of existing branches, increased loans brokered and same branch revenues.

Broker fees totalled \$102.2 million, compared to \$91.7 million for the same period last year.

Year-to-date, the Company brokered \$516.8 million in loans at an average amount of \$398 per loan, compared to \$437.4 million in loans at an average amount of \$368 for the same period last year.

Other revenue was a record \$22.4 million up 19%, compared to \$19.1 million for the same period last year.

We've made significant improvements in products and services which complement our existing product lines. We will continue to progress towards our objective of diversifying our revenue stream with products which enhance and compliment our core products and increase the value generated from our existing suite of products.

Branch operating income was a record \$44.7 million, compared to \$39.8 million for the same period last year.

Branch operating income improved as a result of increased revenue partially offset by increased expenses due to the opening of 66 new branches, higher bonuses and retention payments.

Same Branch Revenues

Same branch sales for the 372 locations open since the beginning of the first quarter of fiscal 2009 increased by 7% compared to the same period last year, with same branch revenues averaging \$302,000 year-to-date compared to \$283,000 in the same period last year.

Expenses

Expenses, after removing non-recurring class action settlement costs, increased to \$80.5 million in the nine months ending March 31, 2010, compared to \$71.6 million for the same period last year.

The increase is primarily due to the addition of 66 new branches, increased bonuses related to higher profitability, an increase in marketing and regional and corporate infrastructure costs.

Retention payments totalled \$15.4 million or 3.0% of loans brokered, compared to \$13.4 million or 3.1% of loans brokered in the nine months ended March 31, 2009.

As a percentage of brokerage revenue, retention payments have increased slightly to 12.4% for the nine months ended March 31, 2010, compared to 12.1% in the same period last year.

Amortization

Amortization of capital and intangible assets was \$5.6 million, compared to \$4.3 million for the same period last year.

Income Taxes

Our effective tax rate was 34.7%, compared to 31.5% for the same period last year.

For additional information or if you have any questions, please contact:

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