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## Q4 2010 Financial Highlights – CFO's Review and Financial Performance

Commentary by Nancy Bland, July 28, 2010

I will now review the results for the three and twelve months ending June 30, 2010. I will start with a discussion on the Q4 results.

### Net income

Net income, after removing the class action settlement costs and related taxes, for the fourth quarter was \$5.5 million, compared to \$4.4 million in the same quarter last year. Net income for the fourth quarter was \$5.5 million. The higher fourth earnings were as a result of record revenues and Branch Operating Income offset by reduced operating margins associated with broker fee rate compression experienced in the regulated provinces.

The increased Branch Operating Income was due primarily to record revenues namely from record revenue from other services related to branch maturation, increased same branch revenues, the introduction of a new banking product, improved BOI margins, and increased loan volumes offset by higher expenses associated with supporting 36 new branches in the quarter or 101 new branches for the twelve months and increased costs associated with short-term increases in salaries and benefits related to incentive programs designed to smooth the effect of regulations and facilitate new product growth, one-time costs associated with our NYSE listing, and increased costs associated with the start-up of operations in the UK.

Diluted earnings per share, before non-recurring class action settlement costs and related taxes, was \$0.32 per share compared to \$0.26 for the same quarter last year. Diluted earnings per share were \$0.31.

### EBITA

Our EBITA, after removing the class action settlement costs and related taxes, for the fourth quarter increased 17.2% to \$10.4 million, compared to \$8.9 million in the same quarter last year. EBITA was \$10.3 million in the quarter.

The higher fourth quarter earnings reflect the following:

- Improved revenue, BOI and loan volume as a result of maturation of existing branches and the addition of 101 new branches compared to June 30, 2009
- A 6.7% increase in same branch revenues as a result of record other revenue namely the introduction of bank accounts. Same branch revenues, as it relates to the brokering of loans, remained consistent as a result of brokerage fee rate compression in regulated provinces offset by higher loan volumes
- Other revenue increased by 63.5% to a record \$12.0 million up from \$7.4 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:

- we accelerated our growth to 36 new branches in the quarter compared to 1 in the same quarter last year, with 101 net new branches in twelve months of 2010 compared to 40 in twelve months of 2009;
- reduced operating margins associated with broker fee rate compression experienced in the regulated provinces;
- short-term increases in salaries and benefits related to incentive programs designed to smooth the effect of regulations and facilitate new product growth;

- One-time costs associated with our NYSE listing; and
- Increased costs associated with the start-up of operations in the UK.

## Branch Count

At the end of the fourth quarter, we had a total of 525 branches in operation compared to 424 branches in the same quarter last year. During the quarter, 36 new branches were added with one closure.

## Revenue

Revenue increased 19.2% to \$47.4 million from \$39.7 million in the same quarter last year. Broker fees for the fourth quarter increased 9.2% to \$35.3 million from \$32.4 million in the same quarter last year.

During the quarter the company changed the method for reporting loan volumes to reflect the definitions outlined in the various provincial regulations. This led to removing the broker fees from loan volumes in regulated provinces as they are no longer paid to us at the beginning of the loan process nor borrowed to the customer. The impact of this led to loan volumes of \$174.9 million during the quarter, which using the same definition would have compared to \$131.7 million in Q4 2009 and \$157.7 million in Q3 2010.

Loans brokered in the fourth quarter was \$174.9 million and averaged \$461 per loan, compared to \$156.8 million and an average of \$445 per loan in the same quarter last year.

Revenue from other services increased by 63.5% to a record \$12.0 million in the fourth quarter, up from \$7.4 million in the same quarter last year.

## Same Branch Revenues

Same branch revenues for the 417 locations open since the beginning of the fourth quarter of fiscal 2009 increased by 6.7% compared to the same quarter last year, with same branch revenues averaging \$99,800 in the fourth quarter compared to \$93,600 in the fourth quarter of the previous year.

## Branch Operating Income

During the quarter our BOI was \$17.0 million or 36.0% of revenue compared to \$14.8 million or 37.3% of revenue in the fourth quarter of last year mainly as a result of broker fee rate compression.

## Expenses

Expenses for the quarter excluding retention payments, amortization and class action settlement costs totalled \$31.4 million, an increase from \$26.5 million in the same quarter last year.

Branch operating and regional expenses were higher than anticipated for the quarter as a result of an extension in short-term incentive programs designed to motivate our associates through the regulatory implementation period as well as incentives paid on the rollout of our new banking product driven by higher than anticipated take-up of the product. These two initiatives increased costs by approximately \$1.3 million during the quarter and we anticipate these costs will transition back to more normalized amounts by the end of our current quarter. In addition to these expenses corporate costs were higher than anticipated as a result of costs associated with the NYSE listing, an accrual for legal costs anticipated to occur in defending our Alberta class action law suit, and equity loss pickups for investments which are in an aggressive growth phase of their life cycles. Together these items had an additional impact on our quarterly expenses of approximately \$600,000.

## Retention Payments

Third-party lender retention payments for the fourth quarter totalled \$5.8 million or 3.3% of loans brokered, compared to \$4.6 million or 2.9% of loans brokered in the same quarter last year.

As a percentage of revenue, retention payments have increased slightly to 12.3%, compared to 11.6% in the same quarter last year.

## Amortization

Amortization of capital and intangible assets for the quarter was up, from \$1.7 million in Q4 of 2009 to \$1.9 million in the current quarter. The increase is as a result of 101 new branches and a large scale refresh program for our mature branches.

## Income Taxes

Our effective tax rate was 32.8% in the fourth quarter, compared to 36.2% for the fourth quarter last year.

## Liquidity and Capital Resources

Our cash increased to \$22.0 million in the fourth quarter, compared to \$18.5 million at June 30, 2009. Significant items impacting cash in the fourth quarter and year-to-date include:

- BC Class action payments of \$6.5 million during the year;
- Cash generated from operating activities, before non-cash operating items, of \$8.3 million during the quarter and \$29.2 million year-to-date;
- Capital and intangible asset expenditures of \$5.0 million during the quarter and \$16.3 million year-to-date;
- Acquisition of EZ cash for \$4.5 million in the quarter and Affordable Payday Loans during the year for a total of \$5.3 million year-to-date;
- Increase in accounts payable and accrued liabilities of \$5.5 million for the quarter and \$3.1 million for the year;
- Dividend payments of \$1.7 million during the quarter and \$7.4 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;
- Issuance of commons shares for proceeds from exercised options of \$380,000 during the quarter and \$2.3 million year-to-date; and
- Investment in RTF Financial Holdings Inc. of \$360,000, total year to date.

At the end of the fourth quarter, our working capital position totalled \$7.5 million.

## TWELVE MONTHS ENDING JUNE 30, 2010

I will now review results for the twelve months ending June 30, 2010.

### Net income

Net income, after removing the class action settlement costs and related taxes, was \$20.7 million, compared to \$19.4 million in the same period last year. Net income was \$18.8 million.

The higher earnings, after removing the class action settlement costs and related taxes, resulted in diluted earnings per share increasing to a record \$1.20 per share for the twelve months ended June 30, 2010 compared to \$1.07 for the same period last year. Including non-recurring charges diluted earnings per share were \$1.09 compared to \$0.81 for the same period last year.

### EBITA

For the twelve months ended June 30, 2010, the Company's adjusted EBITA was a record \$39.9 million, compared to \$35.5 million for the same period last year. This improvement is due to record revenues and BOI offset by broker fee rate compression.

## Revenue and Branch Operating Income

Revenue was a record \$172.0 million up 14.3% compared to \$150.5 million in the same period last year. The higher revenue reflects growth due to 101 additional branches, the maturing of existing branches, increased loans brokered and same branch revenues.

Broker fees totalled \$135.2 million, compared to \$122.6 million for the same period last year. Year-to-date, the Company brokered \$663.2 million in loans at an average amount of \$468 per loan, compared to \$594.2 million in loans at an average amount of \$456 for the same period last year.

Other revenue was a record \$36.9 million up 21.4%, compared to \$27.9 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 \$61.7 million, compared to \$54.6 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 101 new branches, higher bonuses and retention payments.

## Same Branch Revenues

Same branch revenues for the 371 locations open since the beginning of the first quarter of fiscal 2009 increased by 4.9% compared to the same period last year, with same branch revenues averaging \$403,000 year-to-date compared to \$384,200 in the same period last year.

## Expenses

Expenses, after removing non-recurring class action settlement costs, increased to \$111.9 million in the twelve months ending June 30, 2010, compared to \$98.1 million for the same period last year.

The increase is primarily due to the addition of 101 new branches, increased bonuses related to higher profitability, short-term incentive programs used to help us through the transition to regulations, introduction of new products, an increase in marketing and regional and corporate infrastructure costs as well as one-time costs associated with the start-up in the UK and the listing on the NYSE.

Retention payments totalled \$21.2 million or 3.2% of loans brokered, compared to \$18.0 million or 3.0% of loans brokered in the twelve months ended June 30, 2009.

As a percentage of revenue, retention payments have increased slightly to 12.3% for the twelve months ended June 30, 2010, compared to 12.0% in the same period last year.

## Amortization

Amortization of capital and intangible assets was \$7.5 million, compared to \$6.0 million for the same period last year.

## Income Taxes

Our effective tax rate was 34.1%, compared to 31.9% for the same period last year.

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

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