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Q2 2010 Financial Highlights – CFO's Review and Financial Performance

Commentary by Nancy Bland, January 28, 2010

A review of second quarter results followed by a review for the six months ending December 31, 2009.

Net income

Net income for the second quarter was \$5.5 million, compared to \$4.3 million in the same quarter of fiscal 2009. The increased income from operations was due primarily to record revenues as a result of increased same branch revenues, record Branch Operating Income or BOI, reductions in professional fees associated with the class action lawsuit and non-recurring class action settlements offset by higher expenses associated with regional infrastructure to support 54 new branches, increased expenses related to the expansion to the UK, and increased corporate and information system infrastructure costs to support future growth initiatives.

Diluted earnings per share were \$0.32 compared to \$0.23 for the same quarter last year.

EBITA

Our EBITA for the second quarter was \$10.6 million, compared to \$7.3 million in the same quarter last year.

The higher second quarter earnings reflect the following:

- Record revenue, BOI and loan volume as a result of maturation of existing branches and the addition of 54 new branches compared to December 31, 2008;
- A 7.3% 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,
- Reduction in professional fees related to class action lawsuit and non-recurring class action settlements.

Earnings were offset by increased expenses as a result of:

- the addition of 54 new branches and related higher regional infrastructure expenses to support the new branches;
- Increased expenses related to starting up operations in the UK;
- Higher corporate and information systems infrastructure costs to support future growth initiatives; and,
- Higher income taxes in the quarter as compared to the prior quarter last year.

Branch Count

At the end of the second quarter, we had a total of 469 branches in operation compared to 415 branches in the same quarter last year. During the quarter, 19 new branches were opened and one acquired branch was closed and consolidated with a nearby branch, which was in line with expectations.

Revenue

Revenue increased 14.3% to \$42.3 million from \$37.0 million in the same quarter last year. Broker fees for the second quarter increased 14.3% to \$35.1 million from \$30.7 million in the same quarter last year. Loans brokered in the second quarter was a record \$172.1 million and averaged \$401 per loan (excluding our broker fee), compared to \$147.0 million and an average of \$374 per loan in the same quarter last year. Revenue from other services increased to \$7.2 million in the second quarter, up from \$6.3 million in the same quarter last year.

Same Branch Revenues

Same branch revenues for the 383 locations open since the beginning of the second quarter of fiscal 2009 increased by 7.3% compared to the same quarter last year, with same branch revenues averaging \$99,900 in the second quarter compared to \$93,100 in the second quarter of the previous year.

Branch Operating Income

Branch operating income for the quarter was \$15.8 million or 37.3% of revenue compared to \$13.5 million or 36.5% of revenue in the second quarter of last year.

Expenses

Expenses for the quarter excluding retention payments totalled \$26.8 million, an increase from \$23.5 million in the same quarter last year, primarily due to the addition of 54 new branches, increased bonuses related to higher profitability, and an increase in information system support, marketing and corporate infrastructure costs.

Retention Payments

Third-party lender retention payments for the second quarter totalled \$5.0 million or 2.9% of loans brokered, compared to \$4.6 million or 3.1% of loans brokered in the same quarter last year. As a percentage of revenue, retention payments have decreased to 11.8%, compared to 12.4% in the same quarter last year.

Amortization

Amortization of capital and intangible assets for the quarter was up, from \$1.4 million in Q2 2009 to \$2.1 million in the current quarter. The increase is as a result of 54 new branches and a large scale refresh program for our mature branches.

Income Taxes

Our effective tax rate was 34.0% in the second quarter, compared to 23.5% for the second quarter last year; the increase is as a result of lower tax expenses incurred in the second quarter of 2009 in association with the spin out of the rental division.

Liquidity and capital resources

Our cash decreased to \$16.8 million in the second quarter, compared to \$18.5 million at June 30, 2009. Significant items impacting cash in the second quarter and year-to-date include:

- The repurchase of our shares, year-to-date, in the amount of \$3.3 million pursuant to a normal course issuer bid;
- Dividend payments of \$1.7 million during the quarter and \$4.0 million year-to-date;
- Issuance of common shares for proceeds from exercised options of \$362,000 during the quarter and \$1.1 million year-to-date;
- Cash generated from operating activities, before non-cash operating items, of \$7.8 million during the quarter and \$15.8 million year-to-date;
- Increase in accounts receivable of \$4.7 million and \$6.3 million year-to-date related to initial steps being taken to enable us to lend directly to customers as well as increases in receivables relating to changes in complimentary product lines and services;
- Capital and intangible asset expenditures of \$3.7 million during the quarter and \$7.8 million year-to-date; and,
- Investment in RTF Financial Holdings Inc. of \$360,000 during the quarter.

At the end of the second quarter, our working capital position totalled \$10.1 million.

SIX MONTHS ENDING DECEMBER 31, 2009

Net income

Net income was a record \$11.1 million, compared to \$10.3 million in the same period last year. The higher earnings resulted in diluted earnings per share from continuing operations increasing to a record \$0.65 per share for the six months ended December 31, 2009 compared to \$0.54 for the same period last year.

EBITA

For the six months ended December 31, 2009, the Company's EBITA was a record \$21.4 million, compared to \$18.2 million for the same period last year. This improvement is due to increased revenues and BOI margins offset by increased regional and corporate infrastructure, information system support and marketing expenses.

Revenue and branch operating income

Revenue was a record \$83.9 million up 12.6% compared to \$74.5 million in the same period last year. The higher revenue reflects growth due to 54 additional branches, the maturing of existing branches, increased loans brokered and same branch revenues. Broker fees totalled \$69.9 million, compared to \$61.6 million for the same period last year. Year-to-date, the Company brokered \$338.0 million in loans at an average amount of \$389 per loan (excluding our broker fee), compared to \$294.9 million in loans at an average amount of \$369 for the same period last year. Other revenue totalled \$14.0 million, compared to \$12.7 million for the same period last year.

We have seen a reduction in quarterly non-core revenue streams of approximately \$350,000 relating to the removal of the mortgage product and sale of the telephone reconnection company. This loss of revenue was more than offset by 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 \$31.5 million, compared to \$28.1 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 54 new branches, higher bonuses and retention payments.

Same Branch Revenues

Same branch revenues for the 372 locations open since the beginning of the first quarter of fiscal 2009 increased by 6.2% compared to the same period last year, with same branch revenues averaging \$203,300 year-to-date compared to \$191,400 in the same period last year.

Expenses

Expenses increased to \$52.8 million in the first half of the year, compared to \$46.1 million for the same period last year. The increase is primarily due to the addition of 54 new branches, increased bonuses related to higher profitability, an increase in information systems support, marketing and corporate infrastructure costs.

As a percentage of loans brokered, retention payments were consistent at 3% of revenue, totalling \$10.1 million for the six months ended December 31, 2009. As a percentage of brokerage revenue, retention payments have remained consistent 12.0% for the six months ended December 31, 2009, compared to 11.9% in the same period last year.

Since the economic downturn our collection experience with external third-party collectors has not met our expectations. As a result, we have initiated an increase in our internal centralized collection department's infrastructure which we believe will reduce our reliance on external parties, increase our control on the collection process and reduce the net costs associated with the collection process.

Amortization

Amortization of capital and intangible assets was \$3.9 million, compared to \$2.7 million for the same period last year due to the addition of 54 branches and an extensive refresh of our older branches.

Income Taxes

Our effective tax rate was 34.6%, compared to 30.6% for the same period last year; the increase is as a result of lower tax expenses incurred in the six months ending December 31, 2009 in association with the spin out of the rental division.

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

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