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Q2 2009 Financial Highlights – CFO's Review and Financial Performance
Commentary by Nancy Bland, January 29, 2009

Net Income

Net income for the second quarter was $4.3 million, compared to $2.5 million in the same quarter of fiscal 2008. The increased income from operations was due primarily to improved revenues and lower retention payments, offset by expenses associated with 48 new branches, increased bonuses as a result of higher profitability, increased professional fees associated with the substantial issuer bid and the class action lawsuit settlement. Diluted earnings per share were $0.23 per share compared to $0.12 for the same period last year. Diluted earnings per share increased by $0.02 per share as a result of the shares repurchased through the normal course issuer bid in the prior quarter.

Class action settlement costs of $1.9 million recorded in the second quarter reduced earnings per share by $0.07. Diluted earnings per share before the class action lawsuit settlement costs were $0.30 per share, compared to $0.12 for the same quarter last year. For the six months ending December 31, 2008, diluted earnings per share of were $0.54, compared to $0.27 for the same period last year. Diluted earnings per share before class action lawsuit settlement costs were $0.61, compared to $0.27 for the same quarter last year.

EBITA

Our EBITA for the second quarter was $7.3 million, compared to $6.6 million in the same quarter last year. Included in EBITA during the second quarter is the estimated costs related to the class action settlement of $1.9 million. The higher second quarter earnings reflect the following:

- Increased revenue as a result of 48 new branches opened compared to December 31, 2007,
- an 11.0% increase in same branch revenues through improved staff retention, more effective bonus structures, and better communication of expectations to all levels of the organization;
- action plans for our lowest-performing branches; and
- Improved collection protocols used to reduce retention payments in line with management's expectations.

Earnings were offset by increased expenses as a result of:

- the addition of 48 new branches;
- Bonus increases due to higher profitability
- increases to training and information system support; and
- Fees related to the class action lawsuit settlement and substantial issuer bid.

Branch count

At the end of the second quarter, a total of 415 branches were in operation compared to 367 branches at the end of the same quarter last year. During the quarter, eleven new branches were opened, fourteen branches were purchased, and one branch was closed and accounts transferred to a nearby location.

Revenue and same branch revenues

Revenue increased 13.4% to $37.0 million from $32.7 million in the same quarter last year. Broker fees for the second quarter increased 13.4% to $30.7 million from $27.1 million in the same quarter last year. Loans brokered in the second quarter totalled $147.0 million and averaged $374 per loan (excluding our broker fee), compared to $129.5 million and an average of $366 per loan in the same quarter last year. Revenues from other services increased to $6.3 million in the second quarter, up from $5.5 million in the same quarter last year.

Same Branch Revenues

Same branch revenues for the 353 locations open since the beginning of the second quarter of fiscal 2008 increased by 11.0% compared to the same quarter last year, with same branch revenues averaging $97,100 in the second quarter compared to $87,400 in the second quarter of the previous year.

Branch Operating Income

Branch operating income for the quarter was $13.5 million compared to $9.9 million in the second quarter of last year.

Expenses

Expenses for the quarter excluding retention payments totalled $23.5 million, an increase from $20.8 million in the same quarter last year, primarily due to the opening of 48 new branches and increased bonuses related to higher profitability.

Retention Payments

Third-party lender retention payments for the second quarter totalled $4.6 million or 3.1% of loans brokered, compared to $5.3 million or 4.1% of loans brokered in the same quarter last year. Retention payments decreased despite the fact that total loans brokered increased to $147.0 million this quarter from $129.5 million in the same quarter last year. As a percentage of revenue, retention payments have decreased to 12.4% in the second quarter of 2009, compared to 16.2% in the second quarter of 2008.

Amortization

Amortization of capital and intangible assets for the quarter remained consistent at $1.4 million in both Q2 2008 and Q2 2009.

Income Taxes

Our effective tax rate was 23.5% in the second quarter, compared to 37.9% for the second quarter last year, as a result of a decrease in federal and provincial corporate tax rates as well as utilization of substantially all of the $4.9 million in income tax offsets gained through the spin-out of the rental division.

Retention Payments

Third-party lender retention payments for the first quarter totalled $4.3 million (2.9% of loans brokered), compared to $5.8 million (4.4% of loans brokered) in the same quarter last year. As a percentage of revenue, retention payments have decreased to 11.4% in the first quarter of 2009, compared to 18.0% in the first quarter of 2008. Improved collection protocols have contributed to a continued reduction in retention payments in line with management's expectations.

Amortization

Amortization of capital and intangible assets for the quarter totalled $1.3 million, compared to $1.1 million in the first quarter last year. The increase reflects the addition of 30 new branches.

Income Taxes

Our effective tax rate was 34.8% in the first quarter, compared to 35.2% for the first quarter last year, as a result of a decrease in federal and provincial corporate tax rates.

Liquidity and capital resources

Our cash decreased slightly to $15.4 million in the second quarter, compared to $15.6 million at June 30, 2008. Significant items impacting cash in the second quarter and year-to-date include:

- The repurchase of our shares pursuant to a normal course issuer bid in the amount of $1.6 million in the quarter and $7.1 million year-to-date;
- The repurchase of our shares pursuant to a substantial issuer bid in the amount of $9.0 million in both the quarter and year-to-date;
- Dividend payments of $3.1 million in both the quarter and year-to-date;
- Cash generated from operating activities, before non-cash operating items, of $10.9 million in the quarter and $22.3 million year-to-date; and
- Capital asset expenditures of $1.7 million in the quarter and $2.6 million year-to-date.

At the end of the second quarter, our working capital position totalled $8.3 million. The $8.4 million decrease from June 30, 2008 is primarily as a result of the purchase of our common shares and dividend payments, offset by the utilization of most of the future tax benefit associated with the spin-out of the rental operations.

Six months ending December 31, 2008

Net income

Net income was $10.3 million, compared to $5.6 million in the same period last year. The higher earnings resulted in diluted earnings per share from continuing operations increasing to $0.54 per share for the six months ended December 31, 2008 compared to $0.32 for the same period last year. Diluted earnings per share before the class action lawsuit settlement costs were $0.61 per share, compared to $0.32 for the same six month period last year.

EBITA

For the six months ended December 31, 2008, the Company's EBITA was $18.2 million, compared to $13.2 million for the same period last year. This improvement is due to better execution of growth initiatives, collection protocols and risk management.

Same Branch revenues

Same branch revenues for the 341 locations open since the beginning of the first quarter of fiscal 2008 increased by 10% compared to the same period last year, with same branch revenues averaging $197,500 year-to-date compared to $179,400 in the same period last year.

Revenue and branch operating income

Revenue was $74.5 million compared to $64.9 million in the first six months of fiscal 2008.

The higher revenue reflects growth in both loans brokered and other related services. This growth is due to 48 additional branches relative to the same period last year, the maturing of existing branches and increased same branch revenues. Broker fees totalled $61.6 million, compared to $54.3 million for the six months ended December 31, 2007.

Year-to-date, the Company brokered $294.9 million in loans at an average amount of $369 per loan (excluding our broker fee), compared to $260.8 million in loans at an average amount of $360 for the six months ended December 31, 2007. Other revenue totalled $12.7 million, compared to $10.5 million for the six months ended December 31, 2007.

These improvements demonstrate the progress we continue to make against our objective of diversifying our revenue stream and increasing the value generated from our existing suite of products.

Branch operating income was $28.1 million, compared to $19.3 million for the same period last year. Branch operating income improved mainly as a result of the increased revenue.

Expenses

Expenses increased to $46.1 million in the first half of the year, compared to $40.8 million for the same period last year. The increase is primarily due to the addition of 48 new branches and increased bonuses related to higher profitability. Retention payments totalled $8.9 million or 3.0% of loans brokered, compared to $11.1 million or 4.2% of loans brokered in the six months ended December 31, 2007. As a percentage of brokerage revenue, retention payments have decreased to 11.9% for the six months ended December 31, 2008, compared to 17.1% in the same period last year. Improved collection protocols have contributed to a continued reduction in retention payments in line with management's expectations.

Amortization

Amortization of capital and intangible assets was $2.7 million, compared to $2.6 million for the six months ended December 31, 2007.

Income Taxes

Our effective tax rate was 30.6%, compared to 36.5% for the six months ended December 31, 2007, as a result of a decrease in federal and provincial corporate tax rates as well as utilization of substantially all of the $4.9 million in income tax offsets gained through the spin-out of the rental division.

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