



# Q3 2008 Highlights Chairman's Remarks and Strategic Outlook

## Highlights of Q3 2008 - Nine Months Ended and Strategic Outlook Commentary by Gordon J. Reykdal (Chairman and CEO) - May 8<sup>th</sup>, 2008

### Introduction

Cash Store Financial is Canada's leading provider of alternative financial products and services.

The Company is driven by a dynamic workforce, a performance-based culture, and a commitment to strong business fundamentals.

Cash Store Financial currently maintains a rapidly growing network of more than 380 branches in over 160 communities nationwide.

The Company operates two of the strongest branded chains in Canada's expanding payday loan services market.

The Cash Store and Instaloans chains each hold dominant positions in key markets.

By branch count, Cash Store Financial holds 25 percent of Canada's alternative financial services market and is the leading provider in Alberta, Saskatchewan, Manitoba, Atlantic and rural Canada.

Cash Store Financial is the only payday advance broker in Canada publicly traded on the Toronto Stock Exchange.

The Company currently employs 1,500 associates in nine provinces and two territories.

The third quarter is an important milestone in this Company's development, as it marks the first period for which results for brokerage operations are being reported on a stand-alone basis.

This follows the successful spin-off at the end of the quarter of the Company's rental division into a separate public Company now trading on the Toronto Venture Exchange under the symbol IRR.

This also marks the first time that the Company is reporting results under a new banner, Cash Store Financial, a name which more properly reflects the Company's concentrated focus on brokerage operations.

I'm pleased to report continued strong performance in the third quarter of fiscal 2008.

Revenues continue to increase relative to the previous year, retention payments are down as a percentage of loans brokered, and net income is up markedly from the previous year.

Subsequent to a year-long corporate-wide restructuring program, this quarter marks the fourth consecutive period of positive trending year-over-year.

### Key Highlights

#### Third quarter

Increases in same branch sales and improvements to operating margins have had a clear positive impact on the bottom line for the third quarter.

- Net income from continuing operations increased 93% to \$2.7 million from \$1.4 million for the same quarter last year.
- Diluted earnings per share from continuing operations increased 115% to \$0.13 compared to \$0.06 per share for the same quarter last year.
- Revenue increased 5% to \$31.3 million from \$29.9 million for the same quarter last year.

#### Year-To-Date Highlights (9 months)

- Net income from continuing operations increased 39% to \$9.3 million, compared to \$6.7 million for the same period last year.

- Diluted earnings per share from continuing operations increased 43 % to \$0.46 compared to \$0.32 for the same period last year.
- Revenue increased 4% to \$96.3 million, compared to \$92.1 for the same period last year.
- Building strong fundamentals to support long-term business growth is a continued focus in our overall strategy.

On November 28, 2007, the Company's shareholders approved a plan to spin-off the Company's rental operations and certain of its assets and liabilities to Insta-Rent Inc., whose common shares were, upon the completion of this transaction, owned by the shareholders of the Company.

This spin-off transaction was completed on March 31, 2008 and, accordingly the Company ceased to consolidate those assets and liabilities of the rental division transferred to Insta-Rent Inc. and have presented the results of its operations and its cash flows for the three and nine months ended March 31, 2008 and 2007 as discontinued operations.

The spin-off will provide greater clarity in operations and financial reporting as well as significant cash benefits.

Through the utilization of tax losses incurred by the rental division prior to the spin-off, Cash Store Financial will realize an additional \$5 million in cash over the next 12 months.

The Company's cash and working capital positions remain robust.

At March 31, 2008, cash increased to \$16.1 million, compared to \$12.3 million as at December 31, 2007, and \$18.2 million as at June 30, 2007.

With no debt, strong working capital, and a fully liquid cash position held in current accounts with major Canadian banks, the Company is well positioned to accelerate its product diversification and branch growth program at an appropriate time.

In the third quarter, the Company completed a normal course issuer bid that had been initiated in the first quarter of the fiscal year, successfully repurchasing 1.2 million shares at an average price of \$4.39.

Management is currently considering further share repurchasing options.

We are pleased to declare another dividend of 2.5 cents per share for the third quarter of fiscal 2008.

#### Other key highlights are:

Management's focus on training of associates and hands-on monitoring of branch level performance continues to positively impact revenue and expenses.

For the quarter, branch operating income was \$8.8 million, compared to \$7.6 million for the same quarter last year, an increase of \$1.1 million.

Same branch sales were \$86,700 compared to \$84,600 for the same quarter last year, an increase of 2 %.

Revenue increased 5% to \$31.3 million from \$29.9 million for the same quarter last year.

Retention payments decreased 16 % to \$4.8 million, from \$5.7 million for the same quarter last year.

## Industry Regulation

Several provinces continue to move ahead with regulation of the payday advance industry including British Columbia, Saskatchewan, Manitoba, Nova Scotia, New Brunswick and Ontario.

Rate-setting processes to set maximum rates for payday loans are ongoing through public utilities boards in Manitoba and Nova Scotia.

Counter to industry expectations the Manitoba Public Utilities Board recently issued an interim Order specifically designed to force inefficient operators from the market.

Cash Store Financial fully intends to continue operations in that province.

It is not possible at this time to state when the Board's order will be implemented, or if it will be implemented in its current form.

The Utility and Review Board of Nova Scotia is expected to issue an interim Order in respect of maximum rates some time in the fourth quarter.

A ban on rollovers is also expected in these jurisdictions.

Cash Store Financial continues to be actively engaged with all provinces on regulatory issues.

This Company has been a long-standing advocate of improved consumer measures for the payday loan industry and we will continue our efforts in this regard.

We believe that regulatory certainty is in the best interests of this Company.

We have built this Company in anticipation of a stable regulatory environment and our forward growth strategy reflects our belief that regulations are coming.

## Class Action Lawsuit

On April 21, 2008, the Company reached a conditional settlement in respect of a class action law suit initiated in the province of Ontario. This conditional settlement applies to all jurisdictions in which Cash Store Financial has operations, except Alberta and B.C.

The settlement is conditional upon the lawsuit being certified by the Court as a class proceeding under the *Class Proceedings Act*. The Court is expected to review the case on June 4<sup>th</sup>.

The conditional settlement does not constitute any admission of liability by the Company. Further, we consider that the settlement is reflective of the Company's long-held belief that our brokerage business model is fully compliant with existing federal and provincial laws.

The Company believes a settlement at this time is prudent and will lead to reduced legal costs and expenditures of management resources.

## Summary

Over the past several weeks, I along with the Chief Operating Officer have been conducting a country-wide series of meetings with all branch managers to review the Company's strategic priorities moving forward.

We expect to complete this tour by the end of May.

We note with some satisfaction that our network of branch managers is now beginning to mature, with many now having been with the Company in excess of five years.

There is a direct relationship between employee longevity and branch performance. Management believes that an ongoing strategic emphasis on employee retention will have long-term benefits for the Company.

Cash Store Financial was founded in April 2001.

Our primary strategy since inception has been to build shareholder value by capitalizing on unsatisfied consumer demand for alternative financial services products.

Our approach has been to grow rapidly and secure a dominant market footprint then build revenues followed by infrastructure enhancements and product diversification.

Several provinces are expected to fully implement new regulations over the next 24 to 36 month period.

In some cases this will lead to rate compression and the exit of small operators from the market.

This is expected to create growth opportunities along for Cash Store Financial.

On this basis, expansion of the branch network is expected to accelerate beyond the current rate of 2-3 per month as opportunities arise and if market conditions so warrant.

The Company currently holds 25% of market share. We have a solid footprint of branches, with half of our branches being less than 3 years of age.

As operating margins in our younger branches improve, we will expand our network to maintain and grow our overall market share.

We are taking active steps to improve same branch sales and thus grow revenue and earnings.

We are building a strong Company for the long-term and are very focused on increasing shareholder value.

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

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