

CASH AMERICA INTERNATIONAL INC

Form 10-Q

October 26, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2007**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-9733**

(Exact name of registrant as specified in its charter)

**Texas**  
(State or other jurisdiction of  
incorporation or organization)

**75-2018239**  
(I.R.S. Employer  
Identification No.)

**1600 West 7<sup>th</sup> Street**  
**Fort Worth, Texas**  
(Address of principal executive offices)

**76102**  
(Zip Code)

(817) 335-1100

(Registrant's telephone number, including area code)

NONE

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

29,202,886 common shares, \$.10 par value, were outstanding as of October 16, 2007

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**CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
*(in thousands, except share data)*

	September 30, 2007	September 30, 2006	December 31, 2006
	(Unaudited)		
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 26,412	\$ 30,241	\$ 25,723
Pawn loans	136,722	133,734	127,384
Cash advances, net	82,785	70,253	79,975
Merchandise held for disposition, net	98,751	83,179	87,060
Finance and service charges receivable	25,528	23,846	25,377
Other receivables and prepaid expenses	15,349	11,539	16,128
Deferred tax assets	22,455	14,657	16,324
Total current assets	408,002	367,449	377,971
Property and equipment, net	147,813	110,983	119,261
Goodwill	283,554	193,379	238,499
Intangible assets, net	24,569	27,078	27,477
Other assets	3,017	12,296	13,036
Total assets	\$ 866,955	\$ 711,185	\$ 776,244
<b>Liabilities and Stockholders Equity</b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 104,784	\$ 52,045	\$ 91,217
Customer deposits	8,211	7,470	7,464
Income taxes currently payable	16	2,456	2,691
Current portion of long-term debt	12,786	16,786	16,786
Total current liabilities	125,797	78,757	118,158
Deferred tax liabilities	15,854	11,688	12,770
Other liabilities	1,621	1,578	1,625
Long-term debt	251,427	200,617	202,963
Total liabilities	394,699	292,640	335,516
Stockholders equity:			
Common stock, \$.10 par value per share, 80,000,000 shares authorized, 30,235,164 shares issued	3,024	3,024	3,024
Additional paid-in capital	162,837	160,234	161,683
Retained earnings	337,909	267,004	287,962
Accumulated other comprehensive income (loss)	(4)	21	20

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Notes receivable secured by common stock		(382)		(18)
Treasury shares, at cost (1,088,493 shares, 682,800 shares and 565,840 shares at September 30, 2007 and 2006, and December 31, 2006, respectively)	(31,510)	(11,356)		(11,943)
Total stockholders' equity	472,256	418,545		440,728
Total liabilities and stockholders' equity	\$ 866,955	\$ 711,185	\$	776,244

*See notes to consolidated financial statements.*

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**CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
*(in thousands, except per share data)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Unaudited)			
<b>Revenue</b>				
Finance and service charges	\$ 41,386	\$ 39,404	\$ 117,011	\$ 109,047
Proceeds from disposition of merchandise	91,366	74,426	277,342	234,172
Cash advance fees	95,417	48,401	260,880	123,235
Check cashing fees, royalties and other	3,343	3,686	13,032	12,346
<b>Total Revenue</b>	<b>231,512</b>	<b>165,917</b>	<b>668,265</b>	<b>478,800</b>
<b>Cost of Revenue</b>				
Disposed merchandise	57,693	46,281	172,402	141,909
<b>Net Revenue</b>	<b>173,819</b>	<b>119,636</b>	<b>495,863</b>	<b>336,891</b>
<b>Expenses</b>				
Operations	74,695	58,263	221,672	177,178
Cash advance loss provision	43,612	17,503	118,688	32,738
Administration	16,450	13,580	43,976	40,447
Depreciation and amortization	8,265	6,946	23,698	19,802
<b>Total Expenses</b>	<b>143,022</b>	<b>96,292</b>	<b>408,034</b>	<b>270,165</b>
<b>Income from Operations</b>	<b>30,797</b>	<b>23,344</b>	<b>87,829</b>	<b>66,726</b>
Interest expense	(4,378)	(3,162)	(12,119)	(8,010)
Interest income	145	435	999	1,202
Foreign currency transaction gain	5	67	63	245
Gain from termination of contract				2,167
Gain on sale of foreign notes	6,260		6,260	
<b>Income before Income Taxes</b>	<b>32,829</b>	<b>20,684</b>	<b>83,032</b>	<b>62,330</b>
Provision for income taxes	12,213	7,743	29,973	23,088
<b>Net Income</b>	<b>\$ 20,616</b>	<b>\$ 12,941</b>	<b>\$ 53,059</b>	<b>\$ 39,242</b>
<b>Earnings Per Share:</b>				
Basic	\$ 0.70	\$ 0.44	\$ 1.78	\$ 1.32
Diluted	\$ 0.68	\$ 0.42	\$ 1.74	\$ 1.29
Weighted average common shares outstanding:				
Basic	29,535	29,707	29,745	29,652
Diluted	30,235	30,548	30,464	30,515
Dividends declared per common share	\$ 0.035	\$ 0.025	\$ 0.105	\$ 0.075

*See notes to consolidated financial statements.*



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**CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
*(in thousands, except share data)*

	September 30,			
	2007		2006	
	Shares	Amounts	Shares	Amounts
		(Unaudited)		
<b>Common stock</b>				
Balance at end of period	30,235,164	\$ 3,024	30,235,164	\$ 3,024
<b>Additional paid-in capital</b>				
Balance at beginning of year		161,683		156,557
Exercise of stock options		(1,201)		(813)
Issuance of shares under restricted stock units plan		(751)		(353)
Stock-based compensation		2,277		2,057
Income tax benefit from stock based compensation		829		2,786
Balance at end of period		162,837		160,234
<b>Retained earnings</b>				
Balance at beginning of year		287,962		229,975
Net income		53,059		39,242
Dividends declared		(3,112)		(2,213)
Balance at end of period		337,909		267,004
<b>Accumulated other comprehensive income (loss)</b>				
Balance at beginning of year		20		(5)
Unrealized derivatives (loss) gain		(20)		26
Foreign currency translation loss, net of taxes		(4)		
Balance at end of period		(4)		21
<b>Notes receivable secured by common stock</b>				
Balance at beginning of year		(18)		(2,488)
Payments on notes receivable		18		2,106
Balance at end of period				(382)
<b>Treasury shares, at cost</b>				
Balance at beginning of year	(565,840)	(11,943)	(999,347)	(12,347)
Purchases of treasury shares	(624,305)	(22,246)	(150,321)	(4,891)
Exercise of stock options	67,154	1,928	438,126	5,529
Issuance of shares under restricted stock units plan	34,498	751	28,742	353

Balance at end of period	(1,088,493)	(31,510)	(682,800)	(11,356)
Total Stockholders' Equity		\$ 472,256		\$ 418,545

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***(in thousands)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Unaudited)			
<b>Net income</b>	\$ 20,616	\$ 12,941	\$ 53,059	\$ 39,242
<b>Other comprehensive income (loss):</b>				
Interest rate cap valuation adjustments	(1)	(68)	(20)	41
Foreign currency translation (loss) gain, net of taxes	(11)	24	(4)	(15)
Other comprehensive (loss) income, net	(12)	(44)	(24)	26
<b>Total Comprehensive Income</b>	\$ 20,604	\$ 12,897	\$ 53,035	\$ 39,268

*See notes to consolidated financial statements.*

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**CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(in thousands)*

	Nine Months Ended September 30, 2007                      2006 (Unaudited)	
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 53,059	\$ 39,242
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,698	19,802
Cash advance loss provision	118,688	32,738
Stock-based compensation	2,277	2,057
Gain from termination of contract		(2,167)
Foreign currency transaction gain	(62)	(245)
Gain on sale of foreign notes	(6,260)	
Changes in operating assets and liabilities		
Merchandise held for disposition	1,461	2,476
Finance and service charges receivable	(845)	(1,790)
Prepaid expenses and other assets	(252)	315
Accounts payable and accrued expenses	4,159	14,270
Customer deposits, net	747	1,100
Current income taxes	(1,846)	3,793
Excess income tax benefit from stock-based compensation	(829)	(2,786)
Deferred income taxes, net	(3,036)	(3,054)
<b>Net cash provided by operating activities</b>	<b>190,959</b>	<b>105,751</b>
<b>Cash Flows from Investing Activities</b>		
Pawn loans made	(321,061)	(297,972)
Pawn loans repaid	165,141	158,983
Principal recovered through dispositions of forfeited loans	134,840	110,532
Cash advances made, assigned or purchased	(866,873)	(499,312)
Cash advances repaid	746,891	456,997
Acquisitions, net of cash acquired	(38,564)	(48,931)
Purchases of property and equipment	(48,883)	(32,004)
Proceeds from property insurance	1,316	1,247
Proceeds from termination of contract/sale of assets		2,198
Proceeds from sale of foreign notes	16,529	
<b>Net cash used by investing activities</b>	<b>(210,664)</b>	<b>(148,262)</b>
<b>Cash Flows from Financing Activities</b>		
Net borrowings under bank lines of credit	61,250	68,194
Payments on notes payable	(16,786)	(16,786)

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Loan costs paid	(282)	(12)
Proceeds from exercise of stock options	727	4,716
Excess income tax benefit from stock-based compensation	829	2,786
Repayments of notes receivable secured by common stock	18	2,106
Treasury shares purchased	(22,246)	(4,891)
Dividends paid	(3,112)	(2,213)
<b>Net cash provided by financing activities</b>	<b>20,398</b>	<b>53,900</b>
Effect of exchange rates on cash	(4)	
<b>Net increase in cash and cash equivalents</b>	<b>689</b>	<b>11,389</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>25,723</b>	<b>18,852</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 26,412</b>	<b>\$ 30,241</b>
<b>Supplemental Disclosures</b>		
<b>Non-cash investing and financing activities</b>		
Pawn loans forfeited and transferred to merchandise held for disposition	\$ 147,529	\$ 122,443
Pawn loans renewed	\$ 56,996	\$ 59,198
Cash advances renewed	\$ 221,719	\$ 20,834

*See notes to consolidated financial statements.*

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**CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Significant Accounting Policies**

**Basis of Presentation**

The consolidated financial statements include the accounts of Cash America International, Inc. and its majority-owned subsidiaries (the Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

The financial statements as of September 30, 2007 and 2006 and for the three and nine month periods then ended are unaudited but, in management's opinion, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such interim periods. Operating results for the three and nine month periods are not necessarily indicative of the results that may be expected for the full fiscal year.

Certain amounts in the consolidated financial statements for the three and nine months ended September 30, 2006 have been reclassified to conform to the presentation format adopted in 2007. These reclassifications have no effect on the net income previously reported.

These financial statements and related notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2006 Annual Report to Shareholders.

**Revenue Recognition**

***Pawn Lending*** Pawn loans are made on the pledge of tangible personal property. The Company accrues finance and service charges revenue only on those pawn loans that it deems collectible based on historical loan redemption statistics. Pawn loans written during each calendar month are aggregated and tracked for performance. The gathering of this empirical data allows the Company to analyze the characteristics of its outstanding pawn loan portfolio and estimate the probability of collection of finance and service charges. For loans not repaid, the carrying value of the forfeited collateral (merchandise held for disposition) is stated at the lower of cost (cash amount loaned) or market. Revenue is recognized at the time that merchandise is sold. Interim customer payments for layaway sales are recorded as customer deposits and subsequently recognized as revenue during the period in which the final payment is received.

***Cash Advances*** Cash advances provide customers with cash in exchange for a promissory note or other repayment agreement supported, in most cases, by that customer's personal check or authorization to debit that customer's account via an Automated Clearing House (ACH) transaction for the aggregate amount of the payment due. The customer may repay the cash advance either in cash, or, as applicable, by allowing the check to be presented for collection, or by allowing the customer's checking account to be debited through an ACH for the amount due. The Company accrues fees and interest on cash advances on a constant yield basis ratably over the period of the cash advance, pursuant to its terms. (Although cash advance transactions may take the form of loans or deferred check deposit transactions, the transactions are referred to throughout this discussion as cash advances for convenience.)

The Company provides a cash advance product in some markets under a credit services organization program, in which the Company assists in arranging loans for customers from independent third-party lenders. The Company also guarantees the customer's payment obligations in the event of default if the customer is approved for and accepts the loan. The borrower pays fees to the Company under the credit services organization program (CSO fees) for performing services on the borrower's behalf, including credit services, and for agreeing to guaranty the borrower's payment obligations to the lender. As a result of providing the guaranty, the CSO fees are deferred and amortized over the term of the loan and recorded as cash advance fees in the accompanying consolidated statements of income. The contingent loss on the guaranteed loans is accrued

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**CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

and recorded as a liability. See Note 4.

***Check Cashing Fees, Royalties and Other*** The Company records check cashing fees derived from both check cashing locations it owns and many of its lending locations in the period in which the check cashing service is provided. It records royalties derived from franchise locations on an accrual basis. Revenues derived from other financial services such as money order commissions, prepaid debit card fees, etc. are recognized when earned.

**Allowance for Losses on Cash Advances**

In order to manage the portfolio of cash advances effectively, the Company utilizes a variety of underwriting criteria, monitors the performance of the portfolio, and maintains either an allowance or accrual for losses.

The Company maintains either an allowance or accrual for losses on cash advances (including fees and interest) at a level that it estimates to be adequate to absorb credit losses inherent in the outstanding combined Company and third-party lender portfolio (the portion owned by independent third-party lenders). The allowance for losses on Company-owned cash advances offsets the outstanding cash advance amounts in the consolidated balance sheets. Active third-party lender-originated cash advances are not included in the consolidated balance sheets. An accrual for contingent losses on third-party lender-owned cash advances that are guaranteed by the Company is maintained and included in Accounts payable and accrued expenses in the consolidated balance sheets.

The Company aggregates and tracks cash advances written during each calendar month to develop a performance history. The Company stratifies the outstanding combined portfolio by age, delinquency, and stage of collection when assessing the adequacy of the allowance or accrual for losses. It uses historical collection performance adjusted for recent portfolio performance trends to develop the expected loss rates used to establish either the allowance or accrual. Increases in either the allowance or accrual are created by recording a cash advance loss provision in the consolidated statements of income. The Company charges off all cash advances that have been in default for 60 days, or sooner if deemed uncollectible. Recoveries on losses previously charged to the allowance are credited to the allowance when collected.

The Company's online distribution channel periodically sells selected cash advances that have been previously written off. Proceeds from these sales are recorded as recoveries on losses previously charged to the allowance for losses.

**Income Taxes**

Beginning January 1, 2007, the Company has accounted for uncertainty in income taxes recognized in the financial statements in accordance with Financial Accounting Standards Board ( FASB ) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ). FIN 48 requires that a more-likely-than-not threshold be met before the benefit of a tax position may be recognized in the financial statements and prescribes how such benefit should be measured. It also provides guidance on derecognition, classification, accrual of interest and penalties, accounting in interim periods, disclosure and transition. It requires that the new standard be applied to the balances of assets and liabilities as of the beginning of the period of adoption and that a corresponding adjustment be made to the opening balance of retained earnings. See Note 2.

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**CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Recent Accounting Pronouncements**

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 defines fair value to be the price that would be received to sell an asset or paid