

CASH AMERICA INTERNATIONAL INC

Form 10-Q

October 26, 2011

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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, 2011

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)

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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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

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:

29,284,933 of the Registrants common shares, \$.10 par value, were issued and outstanding as of October 13, 2011.

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**CASH AMERICA INTERNATIONAL, INC.**

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**CAUTIONARY NOTE CONCERNING FACTORS THAT MAY AFFECT FUTURE RESULTS**

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You should not place undue reliance on these statements. These forward-looking statements give current expectations or forecasts of future events and reflect the views and assumptions of senior management of Cash America International, Inc. (the Company ) with respect to the business, financial condition and prospects of the Company. When used in this report, terms such as believes, estimates, should, could, would, plans, expects, anticipates, may, forecast, project and similar expressions or variations as the Company or its management are intended to identify forward-looking statements. Forward-looking statements address matters that involve risks and uncertainties that are beyond the ability of the Company to control and, in some cases, predict. Accordingly, there are or will be important factors that could cause the Company's actual results to differ materially from those indicated in these statements. Key factors that could cause the Company's actual financial results, performance or condition to differ from the expectations expressed or implied in such forward-looking statements include, but are not limited to, the following:

changes in pawn, consumer credit, tax and other laws and government rules and regulations applicable to the Company's business,

changes in demand for the Company's services,

acceptance by consumers, legislators and regulators of the negative characterization by the media and consumer activists with respect to certain of the Company's loan products,

the continued acceptance of the online channel by the Company's online loan customers,

the actions of third parties who provide, acquire or offer products and services to, from or for the Company,

fluctuations in the price of gold,

changes in competition,

the ability of the Company to open new locations in accordance with its plans,

changes in economic conditions,

real estate market fluctuations,

interest rate fluctuations,

changes in foreign currency exchange rates,

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changes in the capital markets, including the debt and equity markets,

changes in the Company's ability to satisfy its debt obligations or to refinance existing debt obligations or obtain new capital to finance growth,

the ability to successfully integrate newly acquired businesses into the Company's operations,

the loss of services of any of the Company's executive officers,

a prolonged interruption in the Company's operations of its facilities, systems and business functions, including its information technology and other business systems,

the effect of any current or future litigation proceedings on the Company,

the implementation of new, or changes in the interpretation of existing, accounting principles or financial reporting requirements,

acts of God, war or terrorism, pandemics and other events,

the effect of any of such changes on the Company's business or the markets in which the Company operates,

risks related to the Company's previously-announced proposed initial public offering of common stock of Enova International, Inc., and

other risks and uncertainties described in this report or from time to time in the Company's filings with the Securities and Exchange Commission (the "SEC").

The foregoing list of factors is not exhaustive and new factors may emerge or changes to these factors may occur that would impact the Company's business. Additional information regarding these and other factors may be contained in the Company's filings with the SEC, especially on Forms 10-K, 10-Q and 8-K. If one or more events related to these or other risks or uncertainties materialize, or if management's underlying assumptions prove to be incorrect, actual results may differ materially from what the Company anticipates. The Company disclaims any intention or obligation to update or revise any forward-looking statements to reflect events or circumstances occurring after the date of this report. All forward-looking statements are expressly qualified in their entirety by the foregoing cautionary statements.

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS***(in thousands, except per share data)**(Unaudited)*

	September 30, 2011		December 31, 2010
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 54,364	\$ 52,427	\$ 38,324
Pawn loans	244,441	196,278	218,408
Consumer loans, net	191,642	129,480	139,377
Merchandise held for disposition, net	156,806	120,244	124,399
Pawn loan fees and service charges receivable	45,066	37,593	41,216
Prepaid expenses and other assets	41,654	48,066	32,490
Deferred tax assets	29,070	28,872	28,016
Total current assets	763,043	612,960	622,230
Property and equipment, net	236,325	203,409	222,320
Goodwill	538,169	515,345	543,324
Intangible assets, net	26,668	24,939	31,188
Other assets	13,948	6,897	8,124
Total assets	\$ 1,578,153	\$ 1,363,550	\$ 1,427,186
<b>Liabilities and Equity</b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 95,574	\$ 94,543	\$ 96,465
Customer deposits	10,588	9,619	9,146
Income taxes currently payable	10,520	8,746	888
Current portion of long-term debt	21,856	25,493	24,433
Total current liabilities	138,538	138,401	130,932
Deferred tax liabilities	88,980	50,156	56,792
Noncurrent income tax payable	2,343	2,275	2,408
Other liabilities	1,522	9,005	2,052
Long-term debt	470,124	405,233	432,271
Total liabilities	\$ 701,507	\$ 605,070	\$ 624,455
Equity:			
Cash America International, Inc. equity:			
Common stock, \$0.10 par value per share, 80,000,000 shares authorized, 30,235,164 shares issued	3,024	3,024	3,024
Additional paid-in capital	167,193	165,473	165,658
Retained earnings	739,256	610,545	644,208
Accumulated other comprehensive (loss) income	(2,352)	6,433	4,797
Treasury shares, at cost (982,735 shares, 1,060,326 shares and 685,315 shares at September 30, 2011 and 2010, and at December 31, 2010, respectively)	(35,752)	(33,097)	(21,283)
Total Cash America International, Inc. shareholders' equity	871,369	752,378	796,404
Noncontrolling interest	5,277	6,102	6,327
Total equity	876,646	758,480	802,731

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Total liabilities and equity	\$ 1,578,153	\$ 1,363,550	\$ 1,427,186
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*See notes to consolidated financial statements.*

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Revenue</b>				
Pawn loan fees and service charges	\$ 77,053	\$ 63,968	\$ 212,290	\$ 181,756
Proceeds from disposition of merchandise	144,821	116,998	435,775	372,731
Consumer loan fees	162,981	134,869	418,522	359,176
Other	3,038	3,525	10,763	10,840
<b>Total Revenue</b>	<b>387,893</b>	<b>319,360</b>	<b>1,077,350</b>	<b>924,503</b>
<b>Cost of Revenue</b>				
Disposed merchandise	91,863	73,796	270,715	234,158
Consumer loan loss provision	60,576	51,136	145,205	129,963
<b>Total Cost of Revenue</b>	<b>152,439</b>	<b>124,932</b>	<b>415,920</b>	<b>364,121</b>
<b>Net Revenue</b>	<b>235,454</b>	<b>194,428</b>	<b>661,430</b>	<b>560,382</b>
<b>Expenses</b>				
Operations	124,522	105,809	352,999	304,259
Administration	32,917	27,838	92,614	78,832
Depreciation and amortization	14,850	10,422	39,600	31,355
<b>Total Expenses</b>	<b>172,289</b>	<b>144,069</b>	<b>485,213</b>	<b>414,446</b>
<b>Income from Operations</b>	<b>63,165</b>	<b>50,359</b>	<b>176,217</b>	<b>145,936</b>
Interest expense	(6,865)	(5,647)	(18,307)	(16,510)
Interest income	14	161	56	320
Foreign currency transaction (loss) gain	(777)	74	(1,058)	(100)
Equity in loss of unconsolidated subsidiary	(34)	(61)	(70)	(61)
<b>Income before Income Taxes</b>	<b>55,503</b>	<b>44,886</b>	<b>156,838</b>	<b>129,585</b>
Provision for income taxes	20,974	17,408	59,277	49,145
<b>Net Income</b>	<b>34,529</b>	<b>27,478</b>	<b>97,561</b>	<b>80,440</b>
Net loss attributable to the noncontrolling interest	248	430	575	390
<b>Net Income Attributable to Cash America International, Inc.</b>	<b>\$ 34,777</b>	<b>\$ 27,908</b>	<b>\$ 98,136</b>	<b>\$ 80,830</b>
<b>Earnings Per Share:</b>				
Net Income attributable to Cash America International, Inc. common shareholders:				
Basic	\$ 1.18	\$ 0.95	\$ 3.31	\$ 2.73
Diluted	\$ 1.08	\$ 0.90	\$ 3.07	\$ 2.56
Weighted average common shares outstanding:				
Basic	29,535	29,462	29,626	29,601
Diluted	32,248	31,038	31,969	31,598
Dividends declared per common share	\$ 0.035	\$ 0.035	\$ 0.105	\$ 0.105

*See notes to consolidated financial statements.*



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

(Unaudited)

	Common Shares	Stock Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury shares, at cost		Total share- holders equity	Non-controlling interest	Total Equity
<b>Balance at January 1, 2010</b>	<b>30,235,164</b>	<b>\$ 3,024</b>	<b>\$ 166,761</b>	<b>\$ 532,805</b>	<b>\$ 1,181</b>	<b>(933,082)</b>	<b>\$ (26,836)</b>	<b>\$ 676,935</b>	<b>\$ 6,264</b>	<b>\$ 683,199</b>
Shares issued under stock-based plans			(6,279)			282,321	8,242	1,963		1,963
Stock-based compensation expense			2,856					2,856		2,856
Income tax benefit from stock-based compensation			2,135					2,135		2,135
Net income attributable to Cash America International, Inc.				80,830				80,830		80,830
Dividends paid				(3,090)				(3,090)		(3,090)
Unrealized derivatives loss, net of tax					(114)			(114)		(114)
Foreign currency translation gain, net of tax					3,529			3,529	228	3,757
Marketable securities unrealized gain, net of tax					1,837			1,837		1,837
Purchases of treasury shares						(409,565)	(14,503)	(14,503)		(14,503)
Loss attributable to the noncontrolling interest								-	(390)	(390)
<b>Balance at September 30, 2010</b>	<b>30,235,164</b>	<b>\$ 3,024</b>	<b>\$ 165,473</b>	<b>\$ 610,545</b>	<b>\$ 6,433</b>	<b>(1,060,326)</b>	<b>\$ (33,097)</b>	<b>\$ 752,378</b>	<b>\$ 6,102</b>	<b>\$ 758,480</b>
<b>Balance at January 1, 2011</b>	<b>30,235,164</b>	<b>\$ 3,024</b>	<b>\$ 165,658</b>	<b>\$ 644,208</b>	<b>\$ 4,797</b>	<b>(685,315)</b>	<b>\$ (21,283)</b>	<b>\$ 796,404</b>	<b>\$ 6,327</b>	<b>\$ 802,731</b>
Shares issued under stock-based plans			(2,904)			94,982	3,009	105		105
Stock-based compensation expense			3,936					3,936		3,936
Income tax benefit from stock-based compensation			503					503		503
Net income attributable to Cash America International, Inc.				98,136				98,136		98,136
Dividends paid				(3,088)				(3,088)		(3,088)
Unrealized derivatives gain, net of tax					70			70		70
Foreign currency translation loss, net of tax					(8,098)			(8,098)	(475)	(8,573)
Marketable securities unrealized gain, net of tax					879			879		879
Purchases of treasury shares						(392,402)	(17,478)	(17,478)		(17,478)
Loss attributable to the noncontrolling interest								-	(575)	(575)

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Balance at September 30,  
2011

30,235,164 \$ 3,024 \$ 167,193 \$ 739,256 \$ (2,352) (982,735) \$ (35,752) \$ 871,369 \$ 5,277 \$ 876,646

*See notes to consolidated financial statements.*

**Table of Contents****CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***(in thousands)**(Unaudited)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Net income</b>	\$ 34,529	\$ 27,478	\$ 97,561	\$ 80,440
<b>Other comprehensive gain (loss), net of tax:</b>				
Unrealized derivatives gain (loss) <sup>(a)</sup>	31	4	70	(114)
Foreign currency translation (loss) gain <sup>(b)</sup>	(14,352)	4,464	(8,573)	3,757
Marketable securities unrealized (loss) gain <sup>(c)</sup>	(29)	344	879	1,837
Total other comprehensive (loss) gain, net of tax	(14,350)	4,812	(7,624)	5,480
<b>Comprehensive income</b>	\$ 20,179	\$ 32,290	\$ 89,937	\$ 85,920
Net loss attributable to the noncontrolling interest	248	430	575	390
Foreign currency translation loss (gain), net of tax, attributable to the noncontrolling interest	803	(164)	475	(228)
Comprehensive loss attributable to the noncontrolling interest	1,051	266	1,050	162
<b>Comprehensive Income attributable to Cash America International, Inc.</b>	\$ 21,230	\$ 32,556	\$ 90,987	\$ 86,082

<sup>(a)</sup> Net of tax benefit (provision) of \$(16) and \$(2) for the three months ended September 30, 2011 and 2010 respectively, and \$(37) and \$61 for the nine months ended September 30, 2011 and 2010.

<sup>(b)</sup> Net of tax benefit (provision) of \$167 and \$(607) for the three months ended September 30, 2011 and 2010 respectively, and \$17 and \$(51) for the nine months ended September 30, 2011 and 2010.

<sup>(c)</sup> Net of tax benefit (provision) of \$16 and \$(186) for the three months ended September 30, 2011 and 2010 respectively, and \$(473) and \$(990) for the nine months ended September 30, 2011 and 2010.

*See notes to consolidated financial statements.*

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**CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(in thousands)*

(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
<b>Cash Flows from Operating Activities</b>		
Net Income	\$ 97,561	\$ 80,440
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39,600	31,355
Amortization of discount on convertible debt	2,652	2,485
Consumer loan loss provision	145,205	129,963
Stock-based compensation	3,936	2,856
Deferred income taxes, net		