ONYX ACCEPTANCE CORP
Form 10-Q
August 14, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

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: 28050

ONYX ACCEPTANCE CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| | |
|---|---|
| DELAWARE | 33-0577635 |
| (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) | (I.R.S. EMPLOYER IDENTIFICATION NO.) |

ONYX ACCEPTANCE CORPORATION
27051 TOWNE CENTRE DRIVE
FOOTHILL RANCH, CA 92610
(949) 465-3900
(ADDRESS AND TELEPHONE NUMBER OF PRINCIPAL EXECUTIVE OFFICES)

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 [X] NO [ ]

As of August 14, 2001, there were 5,071,413 shares of registrant's Common Stock, par value $.01 per share outstanding.

ONYX ACCEPTANCE CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(UNAUDITED)

ASSETS

| JUNE 30, | DECEMBER 31, |
|---|---|

| | 2001 | 2000 |
|---|---|---|
| | (DOLLARS IN THOUSANDS) | |
| Cash and cash equivalents .............................. | $ 6,024 | $ 3,130 |
| Credit enhancement assets .............................. | 169,973 | 146,013 |
| Contracts held for sale (Net of allowance) ............. | 166,960 | 170,755 |
| Other assets ........................................... | 10,290 | 11,482 |
| Total assets ............................... | $353,247 | $331,380 |
| LIABILITIES | | |
| Accounts payable ....................................... | $ 31,810 | $ 22,706 |
| Debt ................................................... | 236,854 | 233,152 |
| Other liabilities ...................................... | 24,652 | 19,929 |
| Total liabilities ............................ | 293,316 | 275,787 |
| EQUITY | | |
| Common stock<br>Par value $.01 per share; authorized 15,000,000 shares; issued and outstanding 4,989,504 as of June 30, 2001 and 4,989,504 as of December 31, 2000 .............. | 50 | 50 |
| Paid in capital ........................................ | 32,601 | 32,601 |
| Retained earnings ...................................... | 24,259 | 21,550 |
| Accumulated other comprehensive income, net of tax ...... | 3,021 | 1,392 |
| Total equity ................................ | 59,931 | 55,593 |
| Total liabilities and equity ................ | $353,247 | $331,380 |

See the accompanying notes to the condensed consolidated financial statements.

## ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

| | THREE MONTHS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| | (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) | | | |
| | (UNAUDITED) | | (UNAUDITED) | |
| REVENUES: | | | | |
| Interest income ...................... | $ 8,831 | $ 4,438 | $ 15,606 | $ 13,3 |
| Interest expense ..................... | 2,899 | 3,346 | 7,084 | 8,2 |
| Net interest income .................. | 5,932 | 1,092 | 8,522 | 5,0 |

| | | | | |
|---|---|---|---|---|
| Gain on sale of contracts ............ | 10,257 | 13,989 | 19,576 | 26,7 |
| Service fee income ................... | 12,699 | 10,278 | 25,809 | 18,9 |
| Total Revenues ....................... | 28,888 | 25,359 | 53,907 | 50,7 |
| EXPENSES: | | | | |
| Provision for credit losses ....... | 130 | 285 | 464 | 7 |
| Interest expense-other ........... | 1,523 | 1,066 | 3,063 | 2,5 |
| OPERATING EXPENSES: | | | | |
| Salaries and benefits ............ | 14,160 | 12,568 | 26,667 | 24,0 |
| Systems and servicing ............ | 1,546 | 1,488 | 3,097 | 3,0 |
| Telephone and data lines ......... | 1,329 | 1,508 | 2,479 | 3,1 |
| Depreciation ..................... | 1,220 | 1,019 | 2,474 | 2,0 |
| General and administrative expenses | 5,862 | 4,751 | 11,032 | 9,6 |
| Total Operating Expenses ............ | 24,117 | 21,334 | 45,749 | 41,9 |
| Total Expenses ....................... | 25,770 | 22,685 | 49,276 | 45,2 |
| Income before Income Taxes ........ | 3,118 | 2,674 | 4,631 | 5,5 |
| Income Taxes ..................... | 1,294 | 1,109 | 1,922 | 2,2 |
| Net Income .......................... | $ 1,824 | $ 1,565 | $ 2,709 | $ 3,2 |
| Net Income per share -- Basic ......... | $ 0.37 | $ 0.26 | $ 0.54 | $ 0. |
| Net Income per share -- Diluted ....... | $ 0.35 | $ 0.25 | $ 0.53 | $ 0. |
| Basic Shares Outstanding ............. | 4,989,504 | 6,072,656 | 4,989,504 | 6,126,2 |
| Diluted Shares Outstanding ........... | 5,156,902 | 6,224,764 | 5,144,507 | 6,287,1 |

See the accompanying notes to the condensed consolidated financial statements.

ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)
(UNAUDITED)

| | | | | | ACCUM |
|---|---|---|---|---|---|
| | | | ADDITIONAL | | COMPRE |
| | | COMMON | PAID-IN | RETAINED | GAIN |
| | SHARES | STOCK | CAPITAL | EARNINGS | NET |
| BALANCE, DECEMBER 31, 2000................. | 4,990 | $ 50 | $ 32,601 | $ 21,550 | $ |
| Comprehensive income: | | | | | |
| Unrealized gains in securitized assets, net of tax of $1.1 million....... | | | | | |
| Adoption of FAS 133, net of tax of ($596) thousand.................. | | | | | |
| Loss on derivatives reclassified to earnings net of tax of $596 thousand..... | | | | | |
| Net income................................ | | | | 2,709 | |
| Total comprehensive income................. | | | | 2,709 | |

| | | | | | |
|---|---|---|---|---|---|
| BALANCE, JUNE 30, 2001.................... | 4,990 | $ 50 | $ 32,601 | $ 24,259 | $ |

See the accompanying notes to the condensed consolidated financial statements.

ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|
| | 2001 | 2000 |
| | (DOLLARS IN THOUSANDS) (UNAUDITED) | |
| OPERATING ACTIVITIES: | | |
| Net cash provided by operating activities ...... | $ 417 | $ 25,824 |
| INVESTING ACTIVITIES: | | |
| Purchases of property and equipment ............ | (1,477) | (2,716) |
| FINANCING ACTIVITIES: | | |
| Proceeds from exercise of employee options ...... | -- | 6 |
| Repurchase of common stock ..................... | -- | (4,142) |
| Proceeds (payments) on capital lease obligations | 251 | (116) |
| Payments on residual lines of credit ........... | (13,884) | (46,054) |
| Proceeds from drawdown on residual lines of credit ............................ | 26,100 | 19,000 |
| Paydown of warehouse lines related to Securitizations ............................ | (660,310) | (746,489) |
| Proceeds from warehouse lines .................. | 653,398 | 750,215 |
| Proceeds from issuance of subordinated debt ..... | -- | 11,518 |
| Principal payments on subordinated debt ......... | (1,601) | (973) |
| Payments on other loans ........................ | -- | (199) |
| Net cash (used in) provided by financing activities | 3,954 | (17,234) |
| Increase in cash and cash equivalents .......... | 2,894 | 5,874 |
| Cash and cash equivalents at beginning of period .. | 3,130 | 5,190 |
| Cash and cash equivalents at end of period ....... | $ 6,024 | $ 11,064 |

See the accompanying notes to the condensed consolidated financial statements.

## ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

### NOTE 1 -- BASIS OF PRESENTATION

The condensed consolidated financial statements included herein are unaudited and have been prepared by Onyx Acceptance Corporation ("Onyx" or the "Company") in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the regulations. In the opinion of management, the financial statements reflect all adjustments (of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations and cash flows for the interim period. Operating results for the three and six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. The condensed consolidated financial statements should be read in conjunction with the audited financial statements and footnotes thereto for the year ended December 31, 2000 included in the Company's 2000 Annual Report on Form 10-K.

### USE OF ESTIMATES

In conformity with generally accepted accounting principles, management utilizes assumptions and estimates that affect the reported values of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for each reporting period. The more significant estimates made in the preparation of the Company's condensed consolidated financial statements relate to the credit enhancement assets and the gain on sale of motor vehicle retail installment sales and loan contracts ("Contracts"). Such assumptions include, but are not limited to, estimates of loan prepayments, defaults, recovery rates and present value discount rates. The Company uses a combination of its own historical experience and expectation of future performance to determine such estimates. Actual results may differ from the Company's estimates due to numerous factors both within and beyond the control of Company management. Changes in these factors could require the Company to revise its assumptions concerning the amount of voluntary prepayments, the frequency and/or severity of defaults and the recovery rates associated with the disposition of repossessed vehicles.

### RECLASSIFICATION

Certain amounts in the prior quarter and year to date condensed consolidated financial statements have been reclassified to conform to the corresponding 2001 presentation.

### NOTE 2 -- CONTRACTS HELD FOR SALE

Contracts held for sale consisted of the following:

| | JUNE 30, 2001 | DECEMBER 31, 2000 |
|---|---|---|
| | (IN THOUSANDS) | |
| Gross contracts held for sale | $ 172,385 | $ 177,086 |
| Less unearned interest ...... | (2,112) | (3,302) |
| Contracts held for sale ..... | 170,273 | 173,784 |

| | | |
|---|---|---|
| Allowance for credit losses . | (1,155) | (1,175) |
| Dealer participation ........ | (2,158) | (1,854) |
| Total ...................... | $ 166,960 | $ 170,755 |

ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

NOTE 3 -- CREDIT ENHANCEMENT ASSETS

Credit enhancement assets consisted of the following:

| | JUNE 30, 2001 | DECEMBER 31, 2000 |
|---|---|---|
| | (IN THOUSANDS) | |
| Trust receivable...... | $ 7,745 | $ 7,510 |
| RISA ................ | 162,228 | 138,503 |
| Total ............... | $169,973 | $146,013 |

Retained interest in securitized assets ("RISA") capitalized upon securitization of Contracts represent the present value of the estimated future earnings to be received by the Company from the excess spread created in securitization transactions. Excess spread is calculated by taking the difference between the coupon rate of the Contracts sold and the weighted average security rate paid to the investors less contractually specified servicing and guarantor fees and projected credit losses, after giving effect to estimated prepayments.

Prepayment and credit loss assumptions are utilized to project future earnings and are based on historical experience. Credit losses are estimated using cumulative loss frequency and severity estimates by management. All assumptions are evaluated each quarter and adjusted, if appropriate, to reflect the actual performance of the underlying Contracts. Future earnings are discounted at a rate management believes to be representative of market at the time of securitization.

During 1999, the Emerging Issues Task Force ("EITF") issued EITF 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets. EITF 99-20 establishes new income and impairment recognition standards for interests in certain securitized assets. Under the provisions of EITF 99-20, the holder of beneficial interests should recognize the excess of all estimated cash flows attributable to the beneficial interest estimated at the acquisition date over the initial investment (the accretable yield) as interest income over the life of the beneficial interest using the effective yield method. If the estimated cash flows change, then the holder of the beneficial interest should recalculate the accretable yield and adjust the periodic accretion recognized as income prospectively. If the fair value of a beneficial interest has declined below its carrying amount, an other-than-temporary decline is considered to exist if there has been a decline in estimated future cash flows and the difference between the carrying value and fair value of the beneficial interest is recorded as an impairment loss through the income statement.

Effective April 1, 2001, the Company adopted EITF 99-20. Prior to the adoption of EITF 99-20, the balance of RISA was amortized against actual excess spread income earned on a monthly basis over the expected repayment life of the underlying Contracts. The adoption of EITF 99-20 resulted in amounts previously recognized as service fee income being recognized as interest income.

The following table presents the balances and activity for RISA:

| | JUNE 30, 2001 | DECEMBER 31, 2000 |
|---|---|---|
| | (IN THOUSANDS) | |
| Beginning Balance ............. | $ 138,503 | $ 137,171 |
| Additions ..................... | 42,314 | 109,173 |
| Amortization .................. | (21,347) | (61,229) |
| Sale of RISA .................. | | (49,924) |
| Change in unrealized gain on Securities available for sale | 2,758 | 3,312 |
| Ending Balance ................ | $ 162,228 | $ 138,503 |

ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

In initially valuing the RISA, the Company establishes an off balance sheet allowance for probable future credit losses. The allowance is based upon historical experience and management's estimate of other factors that may affect portfolio performance. The amount is reviewed periodically and adjustments are made if actual experience or other factors indicate that future performance may differ from management's prior estimates.

The following table presents the estimated future undiscounted retained interest earnings to be received from securitizations. Estimated future undiscounted RISA earnings are calculated by taking the difference between the weighted average annual percentage rate of the Contracts sold and the weighted average security rate paid to the investors, less the contractually specified servicing fee of 1.0% and financial insurance fees, after giving effect to estimated prepayments and assuming no losses. To arrive at the RISA, this amount is reduced by the off balance sheet allowance established for probable future losses and by discounting to present value at the current market discount rates.

| | MARCH 31, 2001 | DECEMBER 31, 2000 |
|---|---|---|
| | (IN THOUSANDS) | |
| Estimated net undiscounted RISA earnings.. | $ 310,100 | $ 286,125 |
| Off balance sheet allowance for losses ... | (116,478) | (116,086) |

| | | |
|---|---|---|
| Discount to present value ............... | (31,394) | (31,536) |
| Retained interest in securitized assets... | $ 162,228 | $ 138,503 |
| Outstanding balance of contracts sold through Securitizations ............... | $ 2,634,679 | $ 2,513,407 |

NOTE 4 -- NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share ("EPS"):

| | THREE MONTHS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| | (IN THOUSANDS, EXCEPT $ PER SHARE) | | | |
| Net Income ............................... | $1,824 | $1,565 | $2,709 | $3,237 |
| Weighted average shares outstanding ....... | 4,990 | 6,073 | 4,990 | 6,126 |
| Net effect of dilutive stock options/warrants ....................... | 167 | 152 | 155 | 161 |
| Diluted weighted average shares outstanding | 5,157 | 6,225 | 5,145 | 6,287 |
| Net income per share: | | | | |
| Basic EPS ................................ | $ 0.37 | $ 0.26 | $ 0.54 | $ 0.53 |
| Diluted EPS .............................. | $ 0.35 | $ 0.25 | $ 0.53 | $ 0.51 |

NOTE 5 -- CHANGE IN ACCOUNTING PRINCIPLES

ADOPTION OF SFAS NO. 133

Effective January 1, 2001 Onyx adopted the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), as amended. SFAS No. 133 requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value. The accounting for the gain or loss due to changes in fair value of the derivative instrument depends on whether the derivative qualifies as a hedge. If the derivative instrument does not qualify as a hedge, the gains or losses are reported in earnings when they occur. If the derivative instrument qualifies as a hedge, the accounting varies based upon the type of risk being hedged.

Adopting the provisions of SFAS No. 133 on January 1, 2001 resulted in a one-time cumulative after-tax reduction in Accumulated Other Comprehensive Income as of January 1, 2001, of $840,000, representing the fair value of the derivatives net of tax.

All components of each derivative's gain or loss were included in the assessment of hedge effectiveness. The Company has reclassified to earnings $840,000 of its loss from adoption, which was recorded in Accumulated Other Comprehensive Income when the forecasted transaction occurred during the first quarter of 2001.

Cash Flow Hedges

Onyx maintains an overall risk management strategy that incorporates the use of interest rate and derivative financial instruments to mitigate its exposure to significant unplanned fluctuations in earnings caused by volatility in interest rates. Derivative instruments that are used as part of the Company's interest rate management strategy include forward interest rate swaps. These instruments are designated as cash flow hedges. Onyx does not use any of these instruments for trading or speculative purposes.

The Company uses forward interest rate swaps to hedge the variability in the forecasted future net cash flows it will receive from the RISA attributable to the risk of changing interest rates. The Company's interest rate swap agreements involve arrangements to pay a fixed interest rate and receive a floating interest rate, at specified intervals, calculated on agreed-upon amortizing notional amounts. The debt and amounts that the Company hedges are determined based on prevailing market conditions and the current shape of the yield curve. Interest rate swap agreements are executed as an integral part of specific securitization transactions.

Derivative instruments used by Onyx involve, to varying degrees, elements of credit risk in the event a counterparty should default and market risk as the instruments are subject to rate and price fluctuations. Credit risk is managed through the use of credit standard guidelines, counterparty diversification, monitoring of counterparty financial condition and International Swap Dealers Association master netting agreements in place with all derivative counterparties.

Accounting for Derivatives and Hedging Activities

All derivatives are recognized on the balance sheet at their fair value. On the date that the Company enters into a derivative contract, it designates the derivative as a hedge of a forecasted transaction of the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a "cash flow" hedge). Changes in the fair value of a derivative that are highly effective and previously designated to qualify as a cash flow hedge to the extent that the hedge is effective, are recorded in other comprehensive income until earnings are affected by the variability of cash flows of the hedged transaction (e.g., until periodic settlements of a variable asset or liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current-period earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges or specific firm commitments or forecasted transactions. The Company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not, or has ceased to be, highly effective as a hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company will discontinue hedge accounting prospectively when (1) it determines that the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item such as firm commitments or forecasted transactions; (2) it is no longer probable that the forecasted transaction will occur; (3) the derivative expires or is sold, terminated, or exercised; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

### ADOPTION OF SFAS NO. 140

In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities -- A Replacement of FAS 125." This Statement replaces FAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of FAS 125's provisions without reconsideration. This Statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. This Statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Adoption of SFAS No. 140 did not have a material effect on the Company's financial statements.

## NOTE 6 -- CONTINGENCIES

The Company is party to various legal proceedings similar to actions brought against other companies in the motor vehicle finance industry, which are or may or may not be covered under insurance policies it holds. The Company vigorously defends such proceedings; however, there is no assurance as to the results. Based upon information presently available, the Company believes that the final outcome of all such proceedings should not have a material adverse effect upon the Company's results of operations, cash flows or financial condition.

## NOTE 7 -- SUBSEQUENT EVENTS

During the third quarter of 2001 to date, the Company has securitized $400 million in Contracts. The Company has converted its loan accounting and collection systems from an external service provider to an in-house system as of July 1, 2001.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### OVERVIEW

Onyx Acceptance Corporation ("Onyx" or the "Company") is a specialized consumer finance company engaged in the purchase, securitization and servicing of Contracts originated by franchised and select independent automobile dealerships. The Company focuses its efforts on acquiring Contracts collateralized by late model used and, to a lesser extent, new motor vehicles, entered into with purchasers whom the Company believes have an acceptable credit profile.

The Company generates revenues primarily through the purchase, origination, warehousing, subsequent securitization and ongoing servicing of Contracts. The Company earns net interest income on Contracts held during the warehousing period. Upon the securitization and sale of Contracts, the Company recognizes a gain on sale of Contracts, receives future excess cash flows generated by owner and grantor trusts, and earns fees from servicing the securitized Contracts.

Prior to securitizing Contracts, the Company earns interest income on its Contracts, pays interest on funds used to purchase the Contracts and absorbs any credit losses. After securitization, the net earnings are recorded as retained interest income, which is a component of interest income.

### RESULTS OF OPERATIONS

### NET INTEREST INCOME

Net interest income consists primarily of the difference between the finance revenue earned on Contracts held on the balance sheet during the warehousing period and the interest costs associated with the Company's borrowings to purchase such Contracts.

Net interest income totaled approximately $5.9 million and $8.5 million for the three and six-month period ended June 30, 2001 compared to $1.1 million and $5.1 million for the same periods in 2000. The increase in net interest income was primarily due to the adoption of Emerging Issues Task Force ("EITF") 99-20 and a reduction in interest expense related to the Company's warehouse financing lines of credit. EITF 99-20 requires that the Company recognize income from its retained interest in securitized assets on a level yield "accrual" method over the remaining estimated life of the corresponding asset. Prior to 99-20, the Company recognized income on its credit enhancement assets as a component of service fee income.

### GAIN ON SALE OF CONTRACTS

The Company recorded a gain on sale of Contracts of $10.3 million and $19.6 million for the three and six-month periods ended June 30, 2001, compared to $14.0 million and $26.7 million for the same periods in 2000. The reduction of the gain was principally due to management's decision to target higher credit-worthy borrowers, which resulted in a reduction in the size of the securitizations, $800.0 million for such six-month period in 2001 versus $880.0 million in 2000. In addition, the Company's weighted average net interest rate spread before issuance costs and losses on securitized Contracts declined to 5.04% for the six months ended June 30, 2001 versus 5.25% for the same period in 2000. The net interest rate spread is the difference between the weighted average Contract rate of the securitized assets, and the weighted average investor rate inclusive of all costs related to the sale. The net interest rate spread is also affected by product mix, general market conditions and overall market interest rates.

SERVICE FEE INCOME

Service fee income includes contractual servicing income and other fee income. Contractual service fee income is earned at a rate of 1% per annum on the outstanding balance of Contracts securitized. Other fee income consists primarily of documentation fees, late charges and deferment fees and is dependent on the number of Contracts originated and the size of the serviced portfolio. Increased competition may also affect the amount of other fee income that the Company may earn when originating or servicing Contracts.

Service fee income increased to $12.7 million and $25.8 million for the three and six-month periods ended June 30, 2001, compared to $10.3 million and $19.0 million for the same periods in 2000. These increases are due to higher amounts of service fees as a result of the growth of the serviced portfolio.

PROVISION FOR CREDIT LOSSES

The Company maintains an allowance for credit losses to cover anticipated losses for Contracts held for sale. The allowance for credit losses is increased by adjusting the provision for credit losses to cover additional Contracts originated and increases in loss estimates and decreased by actual losses on the Contracts held for sale or by the reduction of the amount of Contracts held for sale. The level of the allowance is based principally on the outstanding balance of Contracts held for sale and the historical loss trends for the period of time the Contracts are held before being sold in a securitization. When the Company sells Contracts in a securitization transaction, it reduces its allowance for credit losses and factors probable losses into its calculation of gain on sale. The Company believes that the allowance for credit losses is currently adequate to absorb probable losses. The provision for credit losses totaled $130 thousand and $464 thousand for the three and six-month periods ended June 30, 2001, compared to $285 thousand and $718 thousand for the same periods in 2000. Provision for credit losses consists of net credit losses incurred during the warehousing period plus future provision for losses reserved against the net changes in Contracts held for sale during the period. Net credit losses accounted for $237 thousand and $460 thousand during the three and six-month periods ended June 30, 2001, compared to $390 thousand and $685 thousand for the same periods in 2000.

OPERATING EXPENSES

Total operating expenses were $24.1 million or 3.45% of the average serviced portfolio for the three months ended June 30, 2001 compared to $21.3 million or 3.53% of the average serviced portfolio for the same period in 2000. For the six months ended June 30, 2001, total operating expenses were $45.7 million or 3.30% of the average serviced portfolio, versus $42.0 million or 3.60% of the average serviced portfolio for the six months ended June 30, 2000. The dollar increase in total operating expenses is primarily attributable to an increase in the average serviced portfolio for the period. The average serviced portfolio increased to $2.8 billion for the six months ended June 30, 2001 from $2.3 billion for the same period in 2000, an increase of approximately 21%.

The Company incurred salary and benefit expenses of $14.2 million for the three months ended June 30, 2001, compared to $12.6 million for the same period in 2000. For the six months ended June 30, 2001 total salary and benefit expenses were $26.7 million, versus $24.1 million for the same period in 2000. This increase is attributable to the incremental staffing requirements related to the expansion of operations and the growth of the serviced portfolio. The number of employees at the Company, including temporary staff, increased from 1,036 at June 30, 2000, to 1,102 at June 30, 2001.

System and servicing expenses remained stable at $1.5 million for the quarters ended June 30, 2001 and 2000. For the six months ended June 30, 2001, total system and servicing expenses also remained stable at $3.1 million, as the Company renegotiated several contracts with its major service providers. The Company acquired a loan accounting and collection system during 2000, and intends to bring these processes in-house in the third quarter of 2001.

Telephone and data line charges declined to $1.3 million from $1.5 million for the second quarter of 2001 and 2000 respectively. For the six months ended June 30, 2001 total telephone and data line charges were $2.5 million, versus $3.2 million for the same period in 2000. Although these charges generally increase with the growth of the serviced portfolio, the reduction between 2001 and 2000 was primarily due to renegotiated contracts for long distance rates with certain carriers. Assuming no additional reduction in long distance rates, the Company expects these charges to increase with the continued growth of the serviced portfolio.

Depreciation expenses increased slightly to $1.2 million for the three months ended June 30, 2001 compared to $1.0 million for the same period in 2000. For the six months ended June 30, 2000 and 2001, depreciation expense amounted to $2.5 million and $2.0 million respectively, as the Company continued to invest in technology and infrastructure. General and administrative expenses increased to $5.9 million for the three months ended June 30,

2001 compared to $4.8 million for the same period in 2000. For the six months ended June 30, 2001 and 2000, general and administrative expenses were $11.0 million and $9.7 million, respectively. Higher expenses are primarily due to the growth of the average serviced portfolio.

### INCOME TAXES

The Company files federal and state tax returns. The effective tax rates for March 31, 2001 and 2000 were 41.5%.

## FINANCIAL CONDITION

### CONTRACTS HELD FOR SALE

Contracts held for sale totaled $170.2 million at June 30, 2001, compared to $173.8 million at December 31, 2000. The balance in the held for sale portfolio is largely dependent upon the timing of the origination and securitization of Contracts. The Company completed securitization transactions of $400.0 million during the first and second quarters of 2001. The Company plans to continue to securitize Contracts on a regular basis.

The following table illustrates the changes in the Company's Contract acquisition volume, securitization activity and servicing portfolio during the past five fiscal quarters:

### SELECTED QUARTERLY FINANCIAL INFORMATION

| | FOR THE QUARTERS ENDED | | | |
|---|---|---|---|---|
| | JUNE 30,<br>2000 | SEPT. 30,<br>2000 | DEC. 31,<br>2000 | MA |
| | (DOLLARS IN THOUSANDS) | | | |
| Contracts purchased/originated during period | $ 434,144 | $ 367,636 | $ 401,181 | $ |
| Average monthly volume during period ....... | 144,714 | 122,545 | 133,727 | |
| Gain on sale of Contracts .................. | 13,989 | 12,066 | 6,217 | |
| Contracts securitized during period ........ | 450,000 | 440,000 | 400,000 | |
| Servicing portfolio at period end .......... | 2,500,207 | 2,584,152 | 2,690,606 | 2, |

## ASSET QUALITY

The Company monitors and attempts to minimize delinquencies and losses through timely collections and the use of predictive dialing and other systems. At June 30, 2001, delinquencies represented 2.23% of the amount of Contracts in its serviced portfolio compared to 4.14% at December 31, 2000. Annualized net charge-offs as a percentage of the average servicing portfolio were 2.67% for the quarter ended June 30, 2001, compared to 2.23% for the same period in 2000.

Off balance sheet reserves at June 30, 2001 were 4.4%, compared to 4.6% at December 31, 2000. Off balance sheet reserves are those reserves established and maintained on Contracts sold to the grantor and owner trusts in connection with securitizations.

## DELINQUENCY EXPERIENCE OF SERVICING PORTFOLIO

| | JUNE 30, 2001 | | DECEMBER 31, 2000 | |
|---|---|---|---|---|
| | AMOUNT | NO. | AMOUNT | NO. |
| | (DOLLARS IN THOUSANDS) | | | |
| Servicing portfolio .............. | $2,807,181 | 282,892 | $2,690,606 | 269,372 |
| Delinquencies(1)(2) | | | | |
| 31-59 days ...................... | $ 42,033 | 4,683 | $ 71,681 | 7,424 |
| 60-89 days ...................... | 12,101 | 1,369 | 23,085 | 2,285 |
| 90+ days ........................ | 8,490 | 984 | 16,748 | 1,749 |
| Total ........................ | $ 62,624 | 7,036 | $ 111,514 | 11,458 |
| Total delinquencies as a percent of Servicing portfolio ............ | 2.23% | 2.49% | 4.14% | 4.25% |

-----------

(1) Delinquencies include principal amounts only, net of repossessed inventory and accounts in bankruptcy. Delinquent repossessed inventory as a percent of the serviced portfolio was 0.79% and 0.83% at June 30, 2001 and December 31, 2000, respectively. Delinquent contracts in bankruptcy as a percent of the serviced portfolio was 0.76% and 0.52% at June 30, 2001 and December 31, 2000, respectively.

(2) The period of delinquency is based on the number of days payments are contractually past due.

LOAN LOSS EXPERIENCE OF SERVICING PORTFOLIO

| | FOR THE THREE MONTHS ENDED JUNE 30, | | FOR THE SIX MONTHS E JUNE 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 20 |
| | | | (DOLLARS IN THOUSAND | |
| Period end Contracts outstanding ...... | $2,807,181 | $2,500,207 | $2,807,181 | $2,50 |
| Average servicing portfolio(1) ........ | $2,794,503 | $2,415,843 | $2,776,444 | $2,32 |
| Number of gross charge-offs ........... | 3,508 | 2,551 | 6,616 | |
| Gross charge-offs ..................... | $ 22,322 | $ 15,895 | $ 43,229 | $ 3 |
| Net charge-offs(2) .................... | $ 18,627 | $ 13,439 | $ 37,115 | $ 2 |
| Annualized net charge-offs as a percent of average Servicing portfolio ...... | 2.67% | 2.23% | 2.67% | |

------------

(1) Average is based on daily balances.

(2) Net charge-offs are gross charge-offs minus recoveries on Contracts previously charged off.

THE FOLLOWING TABLE ILLUSTRATES THE MONTHLY PERFORMANCE OF EACH OF THE SECURITIZED POOLS OUTSTANDING FOR THE PERIOD FROM THE DATE OF SECURITIZATION THROUGH JUNE 30, 2001:

| MONTH | 97-2 | 97-3 | 97-4 | 98-1 | 98-A | 98-B | 98-C | 99-A | 99-B | 99-C | 99-D | 00-A | 00-B | 0 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0 |
| 2 | 0.00% | 0.00% | 0.00% | 0.01% | 0.01% | 0.00% | 0.02% | 0.00% | 0.00% | 0.01% | 0.00% | 0.00% | 0.00% | 0 |
| 3 | 0.02% | 0.02% | 0.01% | 0.02% | 0.03% | 0.02% | 0.02% | 0.02% | 0.03% | 0.03% | 0.01% | 0.02% | 0.02% | 0 |
| 4 | 0.07% | 0.09% | 0.04% | 0.08% | 0.07% | 0.08% | 0.04% | 0.05% | 0.07% | 0.06% | 0.04% | 0.04% | 0.04% | 0 |
| 5 | 0.22% | 0.13% | 0.11% | 0.14% | 0.14% | 0.19% | 0.15% | 0.11% | 0.14% | 0.16% | 0.09% | 0.11% | 0.10% | 0 |
| 6 | 0.32% | 0.24% | 0.20% | 0.24% | 0.23% | 0.33% | 0.27% | 0.21% | 0.27% | 0.28% | 0.15% | 0.18% | 0.17% | 0 |
| 7 | 0.59% | 0.36% | 0.28% | 0.40% | 0.37% | 0.45% | 0.46% | 0.35% | 0.43% | 0.47% | 0.24% | 0.37% | 0.30% | 0 |
| 8 | 0.80% | 0.47% | 0.43% | 0.53% | 0.42% | 0.61% | 0.57% | 0.49% | 0.60% | 0.64% | 0.43% | 0.63% | 0.44% | 0 |
| 9 | 0.91% | 0.62% | 0.55% | 0.68% | 0.51% | 0.82% | 0.74% | 0.63% | 0.85% | 0.83% | 0.59% | 0.87% | 0.67% | 0 |
| 10 | 1.07% | 0.73% | 0.72% | 0.85% | 0.70% | 0.95% | 0.94% | 0.81% | 1.07% | 1.09% | 0.76% | 1.05% | 0.90% | 0 |
| 11 | 1.26% | 0.81% | 0.87% | 1.04% | 0.85% | 1.10% | 1.12% | 1.04% | 1.34% | 1.31% | 0.99% | 1.27% | 1.11% | 1 |
| 12 | 1.42% | 0.94% | 0.95% | 1.20% | 1.01% | 1.20% | 1.30% | 1.29% | 1.56% | 1.47% | 1.20% | 1.59% | 1.38% | 1 |
| 13 | 1.58% | 1.10% | 1.08% | 1.33% | 1.17% | 1.36% | 1.54% | 1.49% | 1.79% | 1.62% | 1.41% | 1.82% | 1.57% | |
| 14 | 1.68% | 1.23% | 1.19% | 1.46% | 1.37% | 1.48% | 1.73% | 1.72% | 1.90% | 1.77% | 1.52% | 2.03% | 1.84% | |
| 15 | 1.80% | 1.38% | 1.36% | 1.61% | 1.48% | 1.64% | 1.90% | 1.90% | 2.08% | 2.00% | 1.70% | 2.25% | 2.08% | |
| 16 | 1.97% | 1.58% | 1.42% | 1.71% | 1.59% | 1.89% | 2.10% | 2.10% | 2.23% | 2.08% | 2.00% | 2.48% | | |
| 17 | 2.10% | 1.68% | 1.52% | 1.88% | 1.76% | 2.05% | 2.28% | 2.26% | 2.42% | 2.29% | 2.17% | 2.64% | | |
| 18 | 2.23% | 1.77% | 1.64% | 2.01% | 1.96% | 2.22% | 2.51% | 2.46% | 2.63% | 2.48% | 2.40% | | | |
| 19 | 2.35% | 1.91% | 1.75% | 2.17% | 2.07% | 2.37% | 2.71% | 2.59% | 2.71% | 2.61% | 2.61% | | | |
| 20 | 2.48% | 2.04% | 1.85% | 2.25% | 2.25% | 2.50% | 2.83% | 2.71% | 2.89% | 2.73% | 2.87% | | | |
| 21 | 2.59% | 2.11% | 1.97% | 2.41% | 2.37% | 2.67% | 2.95% | 2.83% | 3.08% | 2.92% | 3.05% | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 22 | 2.72% | 2.20% | 2.08% | 2.52% | 2.48% | 2.79% | 3.08% | 2.88% | 3.21% | 3.07% |
| 23 | 2.81% | 2.31% | 2.12% | 2.63% | 2.65% | 2.92% | 3.25% | 3.03% | 3.31% | 3.22% |
| 24 | 2.85% | 2.41% | 2.23% | 2.75% | 2.76% | 3.06% | 3.39% | 3.21% | 3.43% | |
| 25 | 2.93% | 2.51% | 2.36% | 2.86% | 2.81% | 3.14% | 3.45% | 3.28% | 3.55% | |
| 26 | 2.96% | 2.59% | 2.41% | 2.98% | 2.95% | 3.23% | 3.57% | 3.34% | 3.67% | |
| 27 | 3.09% | 2.71% | 2.52% | 3.06% | 2.99% | 3.28% | 3.72% | 3.47% | | |
| 28 | 3.17% | 2.79% | 2.55% | 3.15% | 3.03% | 3.35% | 3.81% | 3.61% | | |
| 29 | 3.22% | 2.92% | 2.62% | 3.19% | 3.12% | 3.45% | 3.91% | 3.67% | | |
| 30 | 3.26% | 2.94% | 2.71% | 3.26% | 3.13% | 3.50% | 4.05% | | | |
| 31 | 3.33% | 3.01% | 2.77% | 3.33% | 3.18% | 3.57% | 4.13% | | | |
| 32 | 3.39% | 3.04% | 2.81% | 3.40% | 3.24% | 3.67% | 4.21% | | | |
| 33 | 3.48% | 3.08% | 2.85% | 3.42% | 3.26% | 3.73% | | | | |
| 34 | 3.51% | 3.11% | 2.88% | 3.46% | 3.28% | 3.81% | | | | |
| 35 | 3.54% | 3.20% | 2.93% | 3.53% | 3.36% | | | | | |
| 36 | 3.55% | 3.21% | 2.91% | 3.56% | 3.39% | | | | | |
| 37 | 3.56% | 3.23% | 2.94% | 3.59% | 3.42% | | | | | |
| 38 | 3.56% | 3.24% | 2.98% | 3.64% | | | | | | |
| 39 | 3.58% | 3.25% | 3.00% | 3.67% | | | | | | |
| 40 | 3.58% | 3.27% | 3.01% | 3.68% | | | | | | |
| 41 | 3.58% | 3.32% | 3.03% | | | | | | | |
| 42 | 3.59% | 3.34% | 3.04% | | | | | | | |
| 43 | 3.60% | 3.36% | 3.07% | | | | | | | |
| 44 | 3.61% | 3.40% | | | | | | | | |
| 45 | 3.61% | 3.39% | | | | | | | | |
| 46 | 3.62% | 3.38% | | | | | | | | |

## LIQUIDITY AND CAPITAL RESOURCES

The Company requires substantial cash and capital resources to operate its business. Its primary uses of cash include: (i) acquisition of Contracts; (ii) payments of dealer participation; (iii) securitization costs; (iv) settlements of hedging transactions; (v) operating expenses; and (vi) interest expense. The capital resources available to the Company include: (i) interest income during the warehousing period; (ii) servicing fees; (iii) releases from spread accounts; (iv) settlements of hedging transactions; (v) sales of Contracts in securitizations; and (vi) borrowings under its credit facilities. Management believes that the resources available to the Company provide the needed capital to fund the anticipated expansion of the Company, Contract purchases, and investments in origination and servicing capabilities.

Cash provided by operating activities was $417.0 thousand for the six months ended June 30, 2001, compared to $25.8 million provided in the six months ended June 30, 2000. Cash provided by operating activities during the first half of 2000 was primarily due to the securitization of the Company's residual cash flows from 15 of its then outstanding securitizations, resulting in a cash inflow of approximately $49.0 million. A portion of the proceeds of this transaction was used to pay down two of the Company's residual financing facilities and to pay off a third residual financing facility. Cash used in investing activities was $1.5 million for the six months ended June 30, 2001, compared to $2.7 million for the six months ended June 30, 2000. The reduction in investing activities is partially due to an increase in the Company's use of capital lease lines for acquisitions of furniture and computer equipment in 2001. Cash provided by financing activities was $3.9 million for the six months ended June 30, 2001, compared to $17.2 million used during the six months ended June 30, 2000. The difference was primarily due to the Company reducing its residual lines of credit during March 2000 in connection with the residual securitization.

CP Facilities: As of June 30, 2001, the Company was party to two primary Contract warehousing programs (the "CP Facilities"), one a $355 million facility with Triple-A One Funding Corporation ("Triple-A"), and the other a $150 million facility with Park Avenue Receivables Corporation ("Parco"). Two of the Company's special purpose subsidiaries, Onyx Acceptance Financial Corporation ("Finco") for the Triple-A Facility and Onyx Acceptance Receivables Corporation ("Recco") for the Parco Facility, are the borrowers under the CP Facilities. The CP Facilities are used to fund the purchase or origination of Contracts. Triple-A and Parco are both rated commercial paper asset-backed conduits sponsored by MBIA Insurance Corporation ("MBIA") and The Chase Manhattan Bank ("Chase"), respectively. MBIA provides credit enhancement for both facilities by issuing financial guarantee insurance policies covering all principal and interest obligations owed for the borrowings under the facilities. The Company pledges its Contracts held for sale to borrow from Triple-A and from Parco. The Parco Facility will expire in August 2001 and will not be renewed. The Triple-A Facility is scheduled to expire in September 2001. The Company and the lender are currently working on the renewal of the facility.

The Residual Lines: The Company, through Fundco, currently has two residual financing facilities: a $50.0 million line with Salomon Smith Barney Realty Corporation ("SBRC") and a $35.0 million facility with Credit Suisse First Boston (Europe) Limited, as buyer ("CSFB-Europe"), and Credit Suisse First Boston Corporation, as agent ("CSFB") executed in October 2000. (The SBRC facility together with the CSFB-Europe facility described above are sometimes referred to herein as the "Residual Lines"). The Residual Lines are used by the Company to finance operating requirements. The lines utilize collateral-based formulas that set borrowing availability to a percentage of the value of excess cash flow to be received from certain securitizations. A $20.0 million facility with Merrill Lynch International ("MCI") expired in May 2001 and was not renewed. Each loan under the SBRC line or the CSFB-Europe line matures one year after the date of the loan; the Company expects each loan to be renewed at term.

Subordinated Debt: As of June 30, 2001, the Company had outstanding approximately $17.9 million of subordinated debt. $5.9 million of this amount is being amortized through February 2003 with a stated interest rate of 9.5%. The remaining balance has a stated interest rate of 12.5% and a maturity of June 2006.

The facilities and lines above contain affirmative, negative and financial covenants typical of such credit facilities. The Company was in compliance with these covenants as of June 30, 2001.

Hedging and Interest Rate Risk Management. The Company employs a hedging strategy that is intended to minimize the risk of interest rate fluctuations and which historically has involved the execution of forward interest rate swaps or use of a pre-funding structure for the Company's securitizations. The Company is not required to maintain collateral on the outstanding hedging program.

Securitizations

Regular securitizations are an integral part of the Company's business plan because they allow the Company to increase its liquidity, provide for redeployment of its capital and reduce risks associated with interest rate fluctuations. The Company has developed a securitization program that involves selling interests in pools of its Contracts to investors through the public issuance of AAA/Aaa rated asset-backed securities. The Company completed a AAA/Aaa rated publicly underwritten asset-backed securitization in the amount of $400 million in the second quarter of 2001.

To date, during the third quarter of 2001, the Company has executed a securitization totaling $400 million.

The net proceeds of securitizations are used to pay down outstanding indebtedness incurred under the Company's credit facilities to purchase Contracts, thereby creating availability for the purchase of additional Contracts. Through June 30, 2001, the Company has securitized $6.0 billion of its Contracts in 24 separate transactions. In each of its securitizations, the Company has sold its Contracts to a newly formed grantor or owner trust, which issues certificates and/or notes in an amount equal to the aggregate principal balance of the Contracts.

The Company arranges for credit enhancement to achieve an improved credit rating on the asset-backed securities issued. This credit enhancement has taken the form of a financial guaranty insurance policy issued by MBIA or a predecessor of MBIA (the "Financial Guarantee Insurance Policy"), insuring the payment of principal and interest due on the asset-backed securities.

The Company receives servicing fees for its duties relating to the accounting for and collection of the Contracts. In addition, the Company is entitled to the future excess cash flows arising from the trusts. Generally, the Company sells the Contracts at face value and without recourse, except that certain representations and warranties with respect to the Contracts are provided by the Company as the servicer and Finco as the seller to the trusts.

Gains on sale of Contracts arising from securitizations provide a significant portion of the Company's revenues. Several factors affect the Company's ability to complete securitizations of its Contracts, including conditions in the securities markets generally, conditions in the asset-backed securities market specifically, the credit quality of the Company's portfolio of Contracts and the Company's ability to obtain credit enhancement.

INTEREST RATE EXPOSURE AND HEDGING

The Company is able through the use of varying maturities on advances from the CP Facilities to lock in rates during the warehousing period, when in management's judgment it is appropriate, to limit interest rate exposure during such warehousing period (See "Risk Factors -- Interest Rate Risk").

The Company has the ability to move rates upward in response to rising borrowing costs because the Company currently does not originate Contracts near the maximum rates permitted by law. Further, the Company employs a hedging strategy, which primarily consists of the execution of forward interest rate swaps. These hedges are entered into by the Company in numbers and amounts, which generally correspond to the anticipated principal amount of the related securitization. Gains and losses relative to these hedges are recognized in full at the time of securitization as an adjustment to the gain on sale of the Contracts. The Company has only used counterparties with investment grade debt ratings from national rating agencies for its hedging transactions.

Management monitors the Company's hedging activities on a frequent basis to ensure that the hedges, their correlation to the total consideration to be received in the forecasted securitization and the amounts being hedged continue to provide effective protection against interest rate risk. The Company's hedging strategy requires estimates by management of monthly Contract acquisition volume and timing of its securitizations. If such estimates are materially inaccurate, then the Company's gain on sales of Contracts and results of operations and cash flows could be adversely affected. The amount and timing of hedging transactions are determined by senior management based upon the amount of Contracts purchased and the interest rate environment.

## NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued Statements on Financial Accounting Standards (SFAS) Nos. 141 (Business Combinations) and 142 (Goodwill and Other Intangible Assets). SFAS No. 141, among other things, eliminates the use of the pooling of interests method of accounting for business combinations. Under the provisions of SFAS No. 142 goodwill will no longer be amortized, but will be subject to a periodic test for impairment based upon fair values. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. SFAS No. 142 will be effective for the Company beginning January 1, 2002. The adoption of these statements is not expected to have a material effect on the Company's financial statements.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Because the Company's funding strategy is dependent upon the issuance of interest-bearing securities and the incurrence of debt, fluctuations in interest rates impact the Company's profitability. As a result, the Company employs various hedging strategies to limit certain risks of interest rate fluctuations. See "Management's Discussion and Analysis -- Hedging and Interest Rate Risk Management" and "Risk Factors -- We Are Subject to Interest Rate Fluctuations."

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

As a consumer finance company, the Company is subject to various consumer claims and litigation seeking damages and statutory penalties based upon, among other things, disclosure inaccuracies and wrongful repossession, which could take the form of a plaintiff's class action complaint. The Company, as the assignee of finance Contracts originated by dealers, may also be named as a co-defendant in lawsuits filed by consumers principally against dealers. Finally, the Company also is subject to other litigation common to the motor vehicle finance industry and businesses in general. The damages and penalties claimed by consumers and others in these types of matters can be substantial. The relief requested by the plaintiffs varies but includes requests for compensatory, statutory and punitive damages. The Company is currently a defendant in three consumer class action lawsuits. One such proceeding, served in 1999, in which the Company is a defendant, has been brought as a class action and is pending in the State of California. A class was certified in 2000; in the matter, the plaintiffs raise issues regarding the payment of dealer participation to dealers. The trial in this matter has been concluded and the Company is awaiting the entry of the court's final decision. Another such proceeding, served in 2000, in which the Company is a defendant, was brought as a putative class action and is pending in the state of New Jersey. This case settled for a nominal amount and will be dismissed once the settlement documentation is finalized.

In another such consumer class action, filed and served in 1999, pending in Orange County Superior Court in the state of California, and entitled Jason

Bollinger v. Onyx Acceptance Corporation (Action number 807831), the plaintiffs alleged that the Company sent defective post-repossession notices to certain California borrowers following the repossession or voluntary surrender of their vehicles. The Company, without admitting liability, entered into a settlement agreement with respect to this matter, and this agreement was approved by the court in October 2000. Under the terms of the settlement, the Company refunded certain amounts collected on deficiencies related to class members' accounts (in some instances, with interest) and paid a certain portion of the plaintiff's counsel fees and other amounts. Pursuant to the settlement, the monies from refund checks not cashed by the class members cannot be returned to the Company. In accordance with the settlement, these amounts shall be paid as follows: one-half to the plaintiff's counsel up to a negotiated cap, as an additional attorney's fee award, and the remainder to a non-profit youth soccer organization in Orange County, California where the Company's headquarters is located. One of the children of Mr. Hall, the Company's President and Chief Executive Officer, participates in this organization. Mr. Hall has also volunteered in certain capacities in this organization.

On January 25, 2000, a putative class action complaint was filed against the Company and certain of the Company's officers and directors alleging violations of Section 10(b) and 20(a) of the Securities and Exchange Act of 1934 arising from the Company's use of the cash-in method of measuring and accounting for credit enhancement assets in the financial statements. The matter is entitled D. Colin v. Onyx Acceptance Corporation, et al. in the U.S. District Court for the Central District of California (Case number SACV 00-0087 (GLT)(EEx)). The Company believes that its previous use of the cash-in method of measuring and accounting for credit enhancement assets was consistent with then current generally accepted accounting principles and accounting practices of other finance companies. As required by the Financial Accounting Standards Board's Special Report, "A Guide to Implementation of Statement 125 on Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, Second Edition," dated December 1998 and related statements made by the staff of the Securities and Exchange Commission, the Company retroactively changed the method of measuring and accounting for credit enhancement assets to the cash-out method and restated the Company's financial statements for 1996, 1997 and the first three fiscal quarters of 1998. In February 2001, an amended complaint was dismissed with prejudice by the court; the plaintiff has appealed this dismissal.

Management believes that the Company has taken prudent steps to address the litigation risks associated with the Company's business activities. However, there can be no assurance that the Company will be able to successfully defend against all such claims or that the determination of any such claim in a manner adverse to the Company would not have a material adverse effect on the Company's automobile finance business.

In the opinion of management, the resolution of the proceedings described in this section will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Stockholders on May 31, 2001 (the "Meeting"). At the Meeting, the stockholders were asked to vote on several Company proposals.

1. Election of directors.

The stockholders elected the director nominee, John W. Hall, to serve for a three year term expiring at the Annual Meeting in the year 2004.

| | VOTES FOR | VOTES AGAINST | ABSTENTIONS |
|---|---|---|---|

| | | | |
|---|---|---|---|
| THE VOTING WENT AS FOLLOWS: | 4,482,853 | 162,612 | |

The stockholders elected the director nominee, Thomas C. Stickel, to serve for a three year term expiring at the Annual Meeting in the year 2004.

| | VOTES FOR | VOTES AGAINST | ABSTENTIONS |
|---|---|---|---|
| THE VOTING WENT AS FOLLOWS: | 4,588,353 | 57,112 | |

2. Ratification of the selection of independent accountants.

The proposal to ratify the selection of PricewaterhouseCoopers LLP as the Company's independent auditors for the fiscal year ending December 31, 2001 was also approved by the stockholders.

| | VOTES FOR | VOTES AGAINST | ABSTENTIONS |
|---|---|---|---|
| THE VOTING WENT AS FOLLOWS: | 4,627,657 | 12,108 | 5,700 |

ITEM 5. OTHER INFORMATION

FORWARD LOOKING STATEMENTS

The preceding Management's Discussion and Analysis of the Company's Financial Condition and Results of Operations contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which provides a "safe harbor" for these types of statements. This Quarterly Report on Form 10-Q contains forward-looking statements which reflect the current views of Onyx Acceptance Corporation with respect to future events and financial performance. These forward looking statements are subject to certain risks and uncertainties, including those identified below which could cause actual results to differ materially from historical results or those anticipated. Forward-looking terminology can be identified by the use of terms such as "may," "will," "expect," "anticipate," "estimate," "should" or "continue" or the negative thereof or other variations thereon or comparable terminology. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. Onyx Acceptance Corporation undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The following factors could cause actual results to differ materially from historical results or those anticipated: (1) the level of demand for auto contracts, which is affected by such external factors as the level of interest rates, the strength of the various segments of the economy, debt burden held by consumers and demographics of the lending markets of Onyx Acceptance Corporation; (2) continued dealer relationships; (3) fluctuations between consumer interest rates and the cost of funds; (4) federal and state regulation of auto finance operations; (5) competition within the consumer lending industry; (6) the availability and cost of securitization transactions and (7) the availability and cost of warehouse and residual financing.

RISK FACTORS

You should carefully consider the following risks in your evaluation of us and our Common Stock. The risks and uncertainties described below are not the only ones facing our Company. Additional risks and uncertainties, including but not limited to credit, economic, competitive, governmental and financial factors affecting our operations, markets, financial products, and services and other factors discussed in our filings with the Securities and Exchange Commission, may also adversely impact and impair our business. If any of these risks actually occur, our business, results of operations, cash flows or financial condition would likely suffer. In such case, the trading price of our common stock could decline, and you may lose all or part of the money you paid to buy our common stock.

We Need Substantial Liquidity.

We require a substantial amount of liquidity to operate our business. Among other things, we use such liquidity to:

- acquire Contracts;
- pay dealer participation;
- pay securitization costs and fund related accounts;
- settle hedge transactions;
- satisfy working capital requirements and pay operating expenses; and
- pay interest expense.

A significant portion of our revenues in any period is represented by gain on sale of Contracts generated by a securitization in such period, but the cash underlying such revenues is received over the life of the Contracts.

We have operated on a negative cash flow basis and expect to do so in the future as long as the volume of Contract purchases continues to grow. We have historically funded these negative operating cash flows principally through borrowings from financial institutions, sales of equity securities and sales of subordinated notes. We cannot assure you, however, that (1) we will have access to the capital markets in the future for equity, debt issuances or securitizations, or (2) financing through borrowings or other means will be available on acceptable terms to satisfy our cash requirements. If we are unable to access the capital markets or obtain acceptable financing, our results of operations, financial condition and cash flows would be materially and adversely affected.

We Depend on Warehouse Financing.

We depend on warehousing facilities with financial institutions to finance the purchase or origination of Contracts pending securitization. Our business strategy requires that such financing continue to be available during the warehouse period.

Whether the CP Facilities continue to be available to us depends on, among other things, whether we maintain a target net yield for the Contracts financed under the CP Facilities and comply with certain financial covenants contained in the sale and servicing agreements between us, as seller, and our wholly-owned special purpose finance subsidiaries, Finco or Recco, as applicable, as purchaser. These financial covenants include:

- a minimum ratio of net worth plus subordinated debt to total assets;

- a maximum ratio of credit enhancement assets to tangible net worth;

- earnings before interest, depreciation and taxes coverage ratio; and

- minimum cash on hand.

We cannot assure you that our CP Facilities will be available to us or that they will be available on favorable terms. If we are unable to arrange new warehousing credit facilities or extend our existing credit facilities when they expire, our results of operations, financial condition and cash flows could be materially and adversely affected.

We Depend on Residual Financing.

When we sell our Contracts in securitizations, we receive cash and a residual interest in the securitized assets ("RISA"). The RISA represents the future cash flows to be generated by the Contracts in excess of the interest paid on the securities issued in the securitization and other costs of servicing the Contracts and completing the securitization. We typically use the RISA from each securitization as collateral to borrow cash to finance our operations. The amount of cash advanced by our lenders under our Residual Lines depends on a collateral formula that is determined in large part by how well our securitized Contracts perform. If our portfolio of securitized Contracts experienced higher delinquency and loss ratios than expected, then the amount of money we could borrow under the Residual Lines would be reduced. The reduction in availability under these Residual Lines could materially and adversely affect our operations, financial condition and cash flows. Additionally, we are subject, under the documentation governing the Residual Lines, to certain financial covenants.

We Depend on Securitizations to Generate Revenue.

We rely significantly upon securitizations to generate cash proceeds for repayment of our warehouse and our residual credit facilities and to create availability to purchase additional Contracts. Further, gain on sale of Contracts generated by our securitizations represents a significant portion of our revenues. Our ability to complete securitizations of our Contracts is affected by the following factors, among other things:

- conditions in the securities markets generally;

- conditions in the asset-backed securities market specifically;

- the credit quality of our portfolio of Contracts; and

- our ability to obtain credit enhancement.

If we were unable to profitably securitize a sufficient number of our Contracts in a particular financial reporting period, then our revenues for such period could decline and could result in lower net income or a loss for such period. In addition, unanticipated delays in closing a securitization could also increase our interest rate risk by increasing the warehousing period for our Contracts.

We Depend on Credit Enhancement.

From inception through June 30, 2001, each of our securitizations (other than the residual securitization) has utilized credit enhancement in the form of a financial guarantee insurance policy in order to achieve "AAA/Aaa" ratings. This form of credit enhancement reduces the cost of the securitizations relative to alternative forms of credit enhancements currently available to us. We cannot assure you that:

o we will be able to continue to obtain credit enhancement in any form from our current provider;

o we will be able to obtain credit enhancement from any other provider of credit enhancement on acceptable terms; or

o future securitizations will be similarly rated.

We also rely on financial guarantee insurance policies to reduce our borrowing cost under the CP Facilities. If our current provider's credit rating is downgraded or if it withdraws our credit enhancement, we could be subject to higher interest costs for our future securitizations and financing costs during the warehousing period. Such events could have a material adverse effect on our results of operations, financial condition and cash flows.

We Are Subject to Interest Rate Fluctuations.

Our profitability is largely determined by the difference, or "spread," between the effective rate of interest received by us on the Contracts acquired and the interest rates payable under our credit facilities during the warehousing period and for securities issued in securitizations.

Several factors affect our ability to manage interest rate risk. First, the Contracts are purchased or originated at fixed interest rates, while amounts borrowed under our credit facilities bear interest at variable rates that are subject to frequent adjustment to reflect prevailing rates for short-term borrowings. Our policy is to increase the buy rates we issue to dealerships or, for the Contracts we originate, to increase rates we make available to consumers for Contracts in response to increases in our cost of funds during the warehousing period. However, there is generally a time lag before such increased borrowing costs can be offset by increases in the buy rates for Contracts and, in certain instances, the rates charged by our competitors may limit our ability to pass through our increased costs of warehouse financing.

Second, the spread can be adversely affected after a Contract is purchased or originated and while it is held during the warehousing period by increases in the prevailing rates in the commercial paper markets. While the CP Facilities permit us to select maturities of up to 270 days for commercial paper, if we selected a shorter maturity or had a delay in completing a securitization, we would face this risk.

Third, the interest rate demanded by investors in securitizations is a function of prevailing market rates for comparable transactions and the general interest rate environment. Because the Contracts purchased or originated by us have fixed rates, we bear the risk of spreads narrowing because of interest-rate increases during the period from the date the Contracts are purchased until the pricing of our securitization of such Contracts. We employ a hedging strategy that is intended to minimize this risk and which historically has involved the execution of forward interest rate swaps or use of a pre-funding structure for our securitizations. However, we cannot assure you that this strategy will consistently or completely offset adverse interest-rate movements during the warehousing period or that we will not sustain losses on hedging transactions.

Our hedging strategy requires estimates by management of monthly Contract acquisition volume and timing of our securitizations. If such estimates are materially inaccurate, then our gains on sales of Contracts, results of operations and cash flows could be materially and adversely affected.

We also have exposure to interest rate fluctuations under the Residual Lines. The interest rates are based on 30 day LIBOR and reset each month. In periods of increasing interest rates our cash flows, results of operations and financial condition could be adversely affected.

In addition, we have some interest rate exposure to falling interest rates to the extent that the interest rates charged on Contracts sold in a securitization with a pre-funding structure decline below the rates prevailing at the time that the securitization prices. Such a rate decline would reduce the interest rate spread because the interest rate on the notes and/or the certificates would remain fixed. This would negatively impact the gains on sale of Contracts and our results of operations and cash flows.

We Will Be Adversely Affected When Contracts are Prepaid or Defaulted.

Our results of operations, financial condition, cash flows, and liquidity depend, to a material extent, on the performance of Contracts purchased, originated, warehoused, and securitized by us. A portion of the Contracts acquired by us may default or prepay during the warehousing period. We bear the risk of losses resulting from payment defaults during the warehousing period. In the event of payment default, the collateral value of the financed vehicle may not cover the outstanding Contract balance and costs of recovery. We maintain an allowance for credit losses on Contracts held during the warehousing period which reflects management's estimates of anticipated credit losses during such period. If the allowance is inadequate, then we would recognize as an expense the losses in excess of such allowance, and our results of operations could be adversely affected. In addition, under the terms of the CP Facilities, we are not able to borrow against defaulted Contracts.

Our servicing income can also be adversely affected by prepayment of or defaults under Contracts in the serviced portfolio. Our contractual servicing revenue is based on a percentage of the outstanding principal balance of such Contracts. Thus, if Contracts are prepaid or charged-off, then our servicing revenue will decline to the extent of such prepaid or charged-off Contracts.

The gain on sale of Contracts recognized by us in each securitization and the value of the retained interest in securitized assets ("RISA") in each transaction reflects management's estimate of future credit losses and prepayments for the Contracts included in such securitization. If actual rates of credit loss or prepayments, or both, on such Contracts exceed those estimated, the value of the RISA would be impaired. We periodically review our credit loss and prepayment assumptions relative to the performance of the securitized Contracts and to market conditions. Our results of operations and liquidity could be adversely affected if credit loss or prepayment levels on securitized Contracts substantially exceed anticipated levels. If necessary, we would write-down the value of the RISA through a reduction to servicing fee income. Further, any write down of RISA could reduce the amount available to us under our Residual Lines, thus requiring us to pay down amounts outstanding under the facilities or provide additional collateral to cure the borrowing base deficiency.

We Will Be Adversely Affected If We Lose Servicing Rights.

Our results of operations, financial condition and cash flows would be materially and adversely affected if any of the following were to occur:

- loss of the servicing rights under our sale and servicing agreements for the CP Facilities;

- loss of the servicing rights under the applicable pooling and servicing or sale and servicing agreement of a grantor trust or owner trust, respectively; or

- a trigger event that would block release of future excess cash flows generated from the grantor trusts' or owner trusts' respective spread accounts.

We are entitled to receive servicing income only while we act as servicer under the applicable sales and servicing agreements or pooling and servicing agreements. Under the CP Facilities our right to act as servicer can be terminated by our lender or financial insurer, upon the occurrence of certain events.

Our Quarterly Earnings May Fluctuate.

Our revenues have fluctuated in the past and are expected to fluctuate in the future principally as a result of the following factors:

- the timing and size of our securitizations;

- variations in the volume of our Contract acquisitions;

- the interest rate spread between our cost of funds and the average interest rate of purchased Contracts;

- the effectiveness of our hedging strategies; and

- the investor rate for securitizations.

Any significant decrease in our quarterly revenues could have a material adverse effect on our results of operations, financial condition, cash flows and stock price.

We Depend on Key Personnel.

Our future operating results depend in significant part upon the continued service of our key senior management personnel, none of whom is bound by an employment agreement. Our future operating results also depend in part upon our ability to attract and retain qualified management, technical, and sales and support personnel for our operations. Competition for such personnel is intense. We cannot assure you that we will be successful in attracting or retaining such personnel. The loss of any key employee, the failure of any key employee to perform in his or her current position or our inability to attract and retain skilled employees, as needed, could materially and adversely affect our results of operations, financial condition and cash flows.

Our Industry is Highly Competitive.

Competition in the field of financing retail motor vehicle sales is intense. The automobile finance market is highly fragmented and historically has been serviced by a variety of financial entities including the captive finance affiliates of major automotive manufacturers, as well as banks, savings associations, independent finance companies, credit unions and leasing companies. Several of these competitors have greater financial resources than we do. Many of these competitors also have long-standing relationships with automobile dealerships, and offer dealerships or their customers other forms of financing or services not provided by us. Our ability to compete successfully depends largely upon our relationships with dealerships and the willingness of dealerships to offer those Contracts that meet our underwriting criteria to us for purchase. We cannot assure you that we will be able to continue to compete successfully in the markets we serve.

We May Be Harmed by Adverse Economic Conditions.

We are a motor vehicle consumer auto finance company whose activities are dependent upon the sale of motor vehicles. Our ability to continue to acquire Contracts in the markets in which we operate and to expand into additional markets is dependent upon the overall level of sales of new and used motor vehicles in those markets. A prolonged downturn in the sale of new and used motor vehicles, whether nationwide or in the California markets, could have an adverse impact upon us, our results of operations and our ability to implement our business strategy.

The automobile industry generally is sensitive to adverse economic conditions both nationwide and in California, where we have our largest single-state exposure. Periods of rising interest rates, reduced economic activity or higher rates of unemployment generally result in a reduction in the rate of sales of motor vehicles and higher default rates on motor vehicle contracts. We cannot assure you that such economic conditions will not occur, or that such conditions will not result in severe reductions in our revenues or the cash flows available to us to permit us to remain current on our credit facilities.

We Are Subject to System Risks.

As of July 1, 2001, the Company converted from an external service provider for its loan accounting and collections system to an in-house system. If issues with the in-house system arise in the future, we may be unable to fund Contracts and service the outstanding portfolio. The failure of this process could materially and adversely affect our results of operations, financial condition and cash flows.

We Are Subject to Many Regulations.

Our business is subject to numerous federal and state consumer protection laws and regulations, which, among other things:

- require us to obtain and maintain certain licenses and qualifications;
- limit the interest rates, fees and other charges we are allowed to charge;
- limit or prescribe certain other terms of our Contracts;
- require specific disclosures; and
- define our rights to repossess and sell collateral.

We believe that we are in compliance in all material respects with all such laws and regulations, and that such laws and regulations have had no material adverse effect on our ability to operate our business. However, we will be materially and adversely affected if we fail to comply with:

- applicable laws and regulations;

- changes in existing laws or regulations;

- changes in the interpretation of existing laws or regulations; or

- any additional laws or regulations that may be enacted in the future.

We Are Subject to Litigation Risks.

We are party to various legal proceedings, similar to actions brought against other companies in the motor vehicle finance industry and other businesses. Companies in the motor vehicle finance industry have also been named as defendants in an increasing number of class action lawsuits brought by purchasers of motor vehicles claiming violation of various federal and state consumer credit and similar laws and regulations. We are defendants in three such consumer class action lawsuits. One such proceeding, served in 1999, in which we are a defendant, has been brought as a putative class action and is pending in the State of California. A class was certified in 2000; in the matter, the plaintiffs raise issues regarding the payment of dealer participation to dealers. The trial in this matter has been concluded and we are awaiting the entry of the court's final decision. Another such proceeding, served in 2000, in which we are a defendant, was brought as a putative class action and is pending in the state of New Jersey. This case settled for a nominal amount and will be dismissed once the settlement documentation is finalized.

In another such consumer class action, filed and served in 1999, pending in Orange County Superior Court in the state of California, and entitled Jason Bollinger v. Onyx Acceptance Corporation (Action number 807831), the plaintiffs alleged that we sent defective post-repossession notices to certain California borrowers following the repossession or voluntary surrender of their vehicles. Without admitting liability, we entered into a settlement agreement with respect to this matter, and this agreement was approved by the court in October 2000. Under the terms of the settlement, we refunded certain amounts collected on deficiencies related to class members' accounts (in some instances, with interest) and paid a certain portion of the plaintiff's counsel fees and other amounts. Pursuant to the settlement, the monies from refund checks not cashed by the class members cannot be returned to us. In accordance with the settlement, these amounts shall be paid as follows: one-half to the plaintiff's counsel up to a negotiated cap, as an additional attorney's fee award, and the remainder to a non-profit youth soccer organization in Orange County, California where the our headquarters is located. One of the children of Mr. Hall, the Company's President and Chief Executive Officer, participates in this organization. Mr. Hall has also volunteered in certain capacities in this organization.

On January 25, 2000, a putative class action complaint was filed against us and certain of our officers and directors alleging violations of Section 10(b) and 20(a) of the Securities and Exchange Act of 1934 arising from our use of the cash-in method of measuring and accounting for credit enhancement assets in the financial statements. The matter is entitled D. Colin v. Onyx Acceptance Corporation, et al. in the U.S. District Court for the Central District of California (Case number SACV 00-0087 (GLT)(EEx)). We believe that our previous use of the cash-in method of measuring and accounting for credit enhancement assets was consistent with then current generally accepted accounting principles and accounting practices of other finance companies. As required by the

Financial Accounting Standards Board's Special Report, "A Guide to Implementation of Statement 125 on Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, Second Edition," dated December 1998 and related statements made by the staff of the Securities and Exchange Commission, we retroactively changed the method of measuring and accounting for credit enhancement assets to the cash-out method and restated our financial statements for 1996, 1997 and the first three fiscal quarters of 1998. In February 2001, an amended complaint was dismissed with prejudice by the court; the plaintiff has appealed the dismissal.

While we intend to vigorously defend ourselves against such proceedings, there is a chance that our results of operations, financial condition and cash flows could be materially and adversely affected by unfavorable outcomes.

ITEM 6. EXHIBITS AND REPORTS OF FORM 8-K

(a) Exhibits

| EXHIBIT NUMBER | EXHIBIT TITLE |
|---|---|
| 10.109 | Daybreak-The Big Picture Master License Agreement |
| 10.110 | SuperSolutions Corporation Daybreak-The Big Picture Service Level Agreement |
| 21.1 | Subsidiaries of the Registrant. |

(b) REPORTS ON FORM 8-K

None.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ONYX ACCEPTANCE CORPORATION

By: /s/ JOHN W. HALL
John W. Hall
President and
Principal Executive Officer

Date: August 14, 2001

By: /s/ DON P. DUFFY
Don P. Duffy
Executive Vice President and
Principal Financial Officer

Date: August 14, 2001

EXHIBIT INDEX

| EXHIBIT<br>NUMBER | EXHIBIT TITLE |
|---|---|
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| 10.110 | SuperSolutions Corporation Daybreak-The Big Picture Service Level Agreement |
| 21.1 | Subsidiaries of the Registrant. |

ent:-15px">

**Total Stockholders Equity**
$348,174 $294,656

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | | (Unaudited) | | |
| Net income | $ 6,900 | $ 7,339 | $ 18,802 | $ 18,729 |
| Other comprehensive income (loss), net of tax of $0 | | | | |
| Foreign currency translation adjustments | | (794) | | 90 |
| **Total Comprehensive Income** | 6,900 | $ 6,545 | 18,802 | $ 18,819 |

*See notes to consolidated financial statements.*

## CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

*(in thousands)*

| | Six Months Ended June 30, | |
|---|---|---|
| | 2005 | 2004 |
| | (Unaudited) | |
| **Cash Flows from Operating Activities** | | |
| Net income | $ 18,802 | $ 18,729 |
| Less: Income from discontinued operations | | 4,661 |
| Income from continuing operations | 18,802 | 14,068 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations: | | |
| Depreciation and amortization | 11,240 | 7,988 |
| Cash advance loss provision | 16,403 | 8,419 |
| Stock-based compensation expense | 824 | 524 |
| Foreign currency transaction losses | 915 | |
| Changes in operating assets and liabilities - | | |
| Merchandise held for disposition | 6,882 | 1,481 |
| Finance and service charges receivable | 403 | 126 |
| Other receivables and prepaid expenses | (1,595) | 227 |
| Accounts payable and accrued expenses | (3,275) | (4,930) |
| Customer deposits, net | 690 | 797 |
| Current income taxes | (3,287) | 4,858 |
| Deferred income taxes, net | (345) | (47) |
| **Net cash provided by operating activities of continuing operations** | 47,657 | 33,511 |
| **Cash Flows from Investing Activities** | | |
| Pawn loans made | (175,578) | (143,228) |
| Pawn loans repaid | 102,950 | 80,342 |
| Principal recovered on forfeited loans through dispositions | 64,652 | 57,247 |
| Cash advances made, assigned or purchased | (267,261) | (184,735) |
| Cash advances repaid | 245,385 | 177,287 |
| Acquisitions, net of cash acquired | (4,370) | (2,905) |
| Purchases of property and equipment | (12,739) | (11,060) |
| **Net cash used by investing activities of continuing operations** | (46,961) | (27,052) |
| **Cash Flows from Financing Activities** | | |
| Net borrowings (repayments) under bank lines of credit | 9,367 | (3,277) |
| Payments on notes payable | (6,786) | (4,286) |
| Loan costs paid | (940) | |
| Proceeds from exercise of stock options | 449 | 1,485 |
| Treasury shares purchased | (4,675) | (2,270) |
| Dividends paid | (1,443) | (989) |

| | | |
|---|---|---|
| **Net cash used by financing activities of continuing operations** | (4,028) | (9,337) |
| **Net decrease in cash and cash equivalents** | (3,332) | (2,878) |
| **Cash and cash equivalents at beginning of year** | 15,103 | 11,959 |
| **Cash and cash equivalents at end of period** | $ 11,771 | $ 9,081 |
| **Supplemental Disclosures** | | |
| **Non-cash investing and financing activities of continuing operations** | | |
| Pawn loans forfeited and transferred to merchandise held for disposition | $ 66,787 | $ 56,613 |
| Pawn loans renewed | $ 36,600 | $ 20,685 |
| Cash advances renewed | $ 5,719 | $ 3,677 |
| Note payable issued in settlement of purchase transaction | $ | $ 2,500 |

*See notes to consolidated financial statements.*

## CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 1. 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 June 30, 2005 and 2004, and for the three and six 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 six month periods are not necessarily indicative of the results that may be expected for the full fiscal year.

In September 2004, the Company sold its foreign pawn lending operations in the United Kingdom and Sweden. The results of foreign pawn lending operations have been reclassified as discontinued operations for the three and six months ended June 30, 2004 in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* See Note 10.

In December 2004, the Company acquired the pawn operating assets of Camco, Inc., which operated under the trade name SuperPawn ( SuperPawn ) in four states in the western United States. The financial results of SuperPawn have been included in the accompanying consolidated financial statements since the acquisition.

Certain amounts in the consolidated financial statements for the three and six month periods ended June 30, 2004, have been reclassified to conform to the presentation format adopted in 2005. 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 2004 Annual Report to Stockholders.

### 2. 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 the Company 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 final payment is received.

***Cash Advances*** The Company offers unsecured cash advances in selected locations and on behalf of third-party banks in other locations. Cash advances provide customers with cash in exchange for a promissory note or other repayment agreement supported by that customer s personal check for the aggregate amount of the cash advanced plus a service fee. To repay the cash advance, customers may redeem their check by paying cash or they may allow the check to be presented for collection. The Company accrues fees and interest on cash advances on a constant yield basis ratably over their terms. For those locations that offer cash advances from third-party banks, the Company receives an administrative service fee for services provided on the banks behalf. These fees are recorded in revenue when earned.

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## CASH AMERCIA INTERNATIONAL, INC. AND SUBSIDIARIES
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

***Check Cashing*** The Company records fees derived from its owned check cashing locations and cash advance locations in the period in which the service is provided. Royalties derived from franchise locations are recorded on the accrual basis.

### 3. Stock-Based Compensation

Under various equity compensation plans (the Plans ) it sponsors, the Company is authorized to issue 8,300,000 shares of common stock pursuant to the grant of Awards , including incentive stock options (intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended), nonqualified stock options, restricted stock and restricted stock units.

***Stock Options*** Stock options currently outstanding under the Plans have contractual terms of up to 10 years and have an exercise price equal to or greater than the fair market value of the stock at grant date. These stock options vest over periods ranging from 1 to 7 years. However, the terms of options with the 7-year vesting periods and certain of the 4-year and 5-year vesting periods include provisions that accelerate vesting if specified share price appreciation criteria are met. During the six months ended June 30, 2004, 551,547 shares vested due to the acceleration provisions. No accelerated vesting of stock options occurred during the six months ended June 30, 2005.

The Company accounts for its stock-based employee compensation plans in accordance with Accounting Principal Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB 25 ), often referred to as the intrinsic value based method. Accordingly, no compensation expense has been recognized for its stock options. In October 1995, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ( SFAS 123 ). SFAS 123 encourages expensing the fair value of employee stock options. The table below illustrates the effect on net income and earnings per share if the Company had applied SFAS 123 and calculated the fair value of options granted using the Black-Scholes option-pricing model (in thousands, except per share amounts).

## CASH AMERCIA INTERNATIONAL, INC. AND SUBSIDIARIES
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

Included in the pro forma amounts below for the 2004 six month period is the effect of the vesting of 551,547 shares which accelerated pursuant to the original terms of the options due to price performance of the underlying Company shares. As a result, the pro forma compensation expense of those options is in the 2004 six month period, rather than in future years had scheduled vesting occurred during the remainder of 2004 through 2007.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Income from continuing operations as reported | $ 6,900 | $ 4,926 | $ 18,802 | $ 14,068 |
| Deduct: Stock option compensation expense (credit) [(a)] | (17) | 41 | (17) | 818 |
| Income from continuing operations pro forma | $ 6,917 | $ 4,885 | $ 18,819 | $ 13,250 |
| Net income as reported | $ 6,900 | $ 7,339 | $ 18,802 | $ 18,729 |
| Deduct: Stock option compensation expense (credit) [(a)] | (17) | 41 | (17) | 818 |
| Net income pro forma | $ 6,917 | $ 7,298 | $ 18,819 | $ 17,911 |
| Earnings Per Share: | | | | |
| Basic: | | | | |
| Income from continuing operations as reported | $ 0.24 | $ 0.17 | $ 0.64 | $ 0.50 |
| Income from continuing operations pro forma | $ 0.24 | $ 0.17 | $ 0.64 | $ 0.47 |
| Net income as reported | $ 0.24 | $ 0.26 | $ 0.64 | $ 0.66 |
| Net income pro forma | $ 0.24 | $ 0.26 | $ 0.64 | $ 0.63 |
| Diluted: | | | | |
| Income from continuing operations as reported | $ 0.23 | $ 0.17 | $ 0.62 | $ 0.48 |
| Income from continuing operations pro forma | $ 0.23 | $ 0.17 | $ 0.62 | $ 0.45 |
| Net income as reported | $ 0.23 | $ 0.25 | $ 0.62 | $ 0.64 |
| Net income pro forma | $ 0.23 | $ 0.25 | $ 0.62 | $ 0.61 |

[(a)] Determined under fair value based method for all awards, net of related tax effects. All awards refers to options granted, modified, or settled in fiscal periods beginning after December 15, 1994, that is, options for which the fair value was required to be measured under SFAS 123.

***Restricted Stock Units*** In December 2003, the Company granted restricted stock units to its officers in conjunction with the adoption of the Supplemental Executive Retirement Plan. The amount attributable to this grant is being amortized to expense over the vesting periods of 4 to 15 years. In January 2004, the Company changed its approach to annual equity based compensation awards and granted restricted stock units to its officers under the provision of the 1994 Long-Term Incentive Plan in lieu of stock options. In April 2004, the Company adopted the 2004 Long-Term Incentive Plan, which was approved by shareholders at the 2004 annual shareholders meeting and granted restricted stock units to the non-management members of the Board of Directors. Each vested restricted stock unit entitles the holder to receive a share of the common stock of the Company to be issued upon vesting. The amount attributable to officer grants is being amortized to expense over a four-year period, as the officer units vest on each of the first four anniversaries of the grant date. Director units have the same vesting schedule, but for directors with five or more years of service the vesting of units held for one year or more accelerates upon the director s departure from the Board. Because all of the Company s current directors have served for more than five years, the market value of the units attributable to directors is being amortized to expense over a one-year period.

## CASH AMERCIA INTERNATIONAL, INC. AND SUBSIDIARIES
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

Compensation expense recognized in the accompanying consolidated statements of operations is as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Compensation expense recognized | $ 412 | $ 285 | $ 824 | $ 524 |
| Compensation expense recognized, net of related taxes | $ 268 | $ 185 | $ 536 | $ 341 |

### 4. Recently Issued Accounting Standards

In May 2005, FASB issued Statement No. 154, *Accounting Changes and Error Corrections* ( SFAS 154 ). SFAS 154 requires retrospective application to prior periods financial statements of changes in accounting principle. It also requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement. The statement will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS 154 to have a material effect on the Company s consolidated financial position or results of operations.

In December 2004, FASB issued Statement No. 123 (Revised 2004), *Share-Based Payment* ( SFAS 123R ). SFAS 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements over the period during which an employee is required to provide service in exchange for the award. SFAS 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value based method in accounting for share-based transactions with employees. SFAS 123R also amends FASB Statement No. 95, *Statement of Cash Flows* , to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. SFAS 123R was effective as of the beginning of the first interim reporting period that begins after June 15, 2005. On April 14, 2005, the Securities and Exchange Commission amended the effective date of SFAS 123R. As a result, SFAS 123R is now effective for annual (rather than interim) periods that begin after June 15, 2005. The Company does not expect the adoption of SFAS 123R to have a material effect on the Company s consolidated financial position or results of operations because of the Company s decision in 2004 to begin granting restricted stock units in lieu of stock options. The value of restricted stock unit grants is generally recognized as expense over the vesting period. See Note 3.

### 5. Acquisitions

Pursuant to the Company s business strategy of acquiring existing pawnshop locations that can benefit from the Company s centralized management and standardized operations, the Company acquired two pawnshops and one cash advance location in purchase transactions for an aggregate purchase price of $4,247,000 during the six months ended June 30, 2005.

## CASH AMERCIA INTERNATIONAL, INC. AND SUBSIDIARIES
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

The following table summarizes the allocation of the purchase prices for the six months ended June 30, 2005 ($ in thousands):

| | |
|---|---|
| Number of pawnshops and cash advance locations acquired | 3 |
| Purchase price allocated to: | |
| Pawn loans | $ 852 |
| Cash advances | 34 |
| Merchandise held for disposition | 95 |
| Finance and service charges receivable | 91 |
| Property and equipment | 49 |
| Goodwill | 2,807 |
| Intangible assets | 330 |
| Other assets, net | (11) |
| Net assets acquired | $ 4,247 |

### 6. Cash Advances and Allowance for Losses

The Company offers the cash advance product through its cash advance locations and most of its pawnshops. Cash advances are generally offered for a term of 7 to 45 days, depending on the customer s next payday. The Company originates cash advances in some of its locations and markets and services cash advances made by third-party banks in other Company locations.

Under the bank program, the banks sell participation interests in the bank originated cash advances to third parties, and the Company purchases sub-participation interests in certain of those participations. The Company also receives an administrative fee for its services. In order to benefit from the use of the Company s collection resources and proficiency, the banks assign cash advances unpaid after maturity to the Company at a discount from the amount owed by the borrower. Losses on cash advances assigned to the Company that prove uncollectible are the responsibility of the Company. To the extent that the Company collects an amount owed by the customer in excess of the amount assigned by the banks, the Company is entitled to the excess and recognizes it in income when collected. Since the Company may not be successful in the collection of the assigned accounts, the Company s cash advance loss provision includes amounts estimated to be adequate to absorb credit losses from cash advances in the aggregate portfolio, including those expected to be assigned to the Company. The accrued losses on portfolios owned by the banks are included in Accounts payable and accrued expenses in the accompanying consolidated balance sheets.

## CASH AMERCIA INTERNATIONAL, INC. AND SUBSIDIARIES
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

Cash advances outstanding at June 30, 2005 and 2004, were as follows (in thousands):

| | 2005 | 2004 |
|---|---|---|
| *Originated by the Company* | | |
| Active cash advances and fees receivable | $ 30,220 | $ 19,422 |
| Cash advances and fees in collection | 6,840 | 4,860 |
| **Total originated by the Company** | **37,060** | **24,282** |
| *Originated by banks* | | |
| Active cash advances and fees receivable | 19,531 | 10,934 |
| Cash advances and fees in collection | 6,208 | 3,230 |
| **Total originated by banks** | **25,739** | **14,164** |
| **Combined gross portfolio** | **62,799** | **38,446** |
| Less: Elimination of cash advances owned by banks | 11,466 | 5,373 |
| Less: Discount on cash advances assigned by banks | 871 | 445 |
| Company-owned cash advances and fees receivable, gross | 50,462 | 32,628 |
| Less: Allowance for losses | 7,720 | 4,656 |
| **Cash advances and fees receivable, net** | **$ 42,742** | **$ 27,972** |

Changes in the allowance for losses for the three and six month periods ended June 30, 2005 and 2004, were as follows ($ in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| **Company-owned cash advances** | | | | |
| Balance at beginning of period | $ 3,096 | $ 2,648 | $ 4,358 | $ 3,393 |
| Cash advance loss provision | 10,457 | 5,107 | 16,138 | 8,165 |
| Charge-offs | (7,861) | (4,880) | (17,701) | (10,759) |
| Recoveries | 2,028 | 1,781 | 4,925 | 3,857 |
| Balance at end of period | $ 7,720 | $ 4,656 | $ 7,720 | $ 4,656 |
| **Accrual for bank-owned cash advances** | | | | |
| Balance at beginning of period | $ 295 | $ 41 | $ 342 | $ 55 |
| Increase in loss provision | 312 | 268 | 265 | 254 |

| | | | | |
|---|---|---|---|---|
| Balance at end of period | $ 607 | $ 309 | $ 607 | $ 309 |
| **Combined statistics** | | | | |
| Combined cash advance loss provision | $ 10,769 | $ 5,375 | $ 16,403 | $ 8,419 |
| Combined cash advance loss provision as a % of combined cash advances written | 4.8% | 3.7% | 4.1% | 3.2% |
| Charge-offs (net of recoveries) as a % of combined cash advances written | 2.6% | 2.1% | 3.2% | 2.6% |
| Combined allowance for losses and accrued bank losses as a % of combined gross portfolio | 13.3% | 12.9% | 13.3% | 12.9% |

Cash advances assigned to the Company for collection were $37,476,000 and $18,479,000, for the six months ended June 30, 2005 and 2004, respectively. The Company s participation interest in bank originated cash advances was $8,065,000 and $4,480,000 at June 30, 2005 and 2004, respectively.

On July 1, 2005, the Company introduced a credit services program (the Credit Services Program ). The Credit Services Program enables the Company to act as a credit services organization on behalf of consumers in the States of Texas, Florida and Michigan in accordance with applicable state laws. Credit

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services to be provided to consumers include arranging loans for consumers with a third-party lender, assisting consumers with preparing loan applications and loan documents, and accepting loan payments at the location where the loan was arranged. If a consumer obtains a loan from a third-party lender through the Credit Services Program, the Company will also guarantee the borrower s payment obligations under the loan to the third-party lender. A borrower obtaining a loan through the Credit Services Program will pay the Company a fee for the credit services, including the guaranty, and will enter into a contract governing the credit services arrangement.

### 7. Earnings Per Share Computation

The following table sets forth the reconciliation of numerators and denominators for the basic and diluted earnings per share computation for the three and six month periods ended June 30, 2005 and 2004 (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Basic earnings per share computation | | | | |
| Numerator: net income available to common shareholders | $ 6,900 | $ 7,339 | $ 18,802 | $ 18,729 |
| Denominator: | | | | |
| Weighted average common shares outstanding | 29,170 | 28,254 | 29,232 | 28,247 |
| Weighted average vested restricted stock units | 49 | | 43 | |
| Total weighted average basic shares | 29,219 | 28,254 | 29,275 | 28,247 |
| Basic earnings per share | $ 0.24 | $ 0.26 | $ 0.64 | $ 0.66 |
| Diluted earnings per share computation | | | | |
| Numerator: net income available to common shareholders | $ 6,900 | $ 7,339 | $ 18,802 | $ 18,729 |
| Denominator: | | | | |
| Weighted average basic common shares outstanding | 29,219 | 28,254 | 29,275 | 28,247 |
| Effect of shares applicable to stock option plans | 433 | 780 | 558 | 806 |
| Effect of restricted stock unit compensation plans | 367 | 345 | 359 | 330 |
| Effect of shares applicable to non-qualified savings plan | 60 | 64 | 64 | 65 |
| Total weighted average diluted shares | 30,079 | 29,443 | 30,256 | 29,448 |
| Diluted earnings per share | $ 0.23 | $ 0.25 | $ 0.62 | $ 0.64 |

### 8. Goodwill and Other Intangible Assets

Goodwill and other intangible assets having an indefinite useful life are tested for impairment annually at June 30, or more frequently if events or changes in circumstances indicate that the assets might be impaired. Based on the results of the test, management determined there was no impairment as of June 30, 2005 as the respective fair value of the Company s reporting units exceeds their respective carrying amounts.

## CASH AMERCIA INTERNATIONAL, INC. AND SUBSIDIARIES
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

***Goodwill*** Changes in the carrying value of goodwill for the six month periods ended June 30, 2005 and 2004, were as follows (in thousands):

| | Pawn Lending | Cash Advance | Check Cashing | Consolidated |
|---|---|---|---|---|
| Balance as of January 1, 2005 | $ 114,341 | $ 44,422 | $ 5,310 | $ 164,073 |
| Acquisitions/adjustments | 2,927 | 190 | | 3,117 |
| Balance as of June 30, 2005 | $ 117,268 | $ 44,612 | $ 5,310 | $ 167,190 |
| Balance as of January 1, 2004 | $ 65,934 | $ 27,840 | $ 5,310 | $ 99,084 |
| Acquisitions/adjustments | (4) | 5,293 | | 5,289 |
| Balance as of June 30, 2004 | $ 65,930 | $ 33,133 | $ 5,310 | $ 104,373 |

***Acquired Intangible Assets*** Acquired intangible assets that are subject to amortization as of June 30, 2005 and 2004, were as follows (in thousands):

| | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net | Cost | Accumulated Amortization | Net |
| Non-competition agreements | $ 7,155 | $ (1,317) | $ 5,838 | $ 1,800 | $ (511) | $ 1,289 |
| Customer relationships | 6,284 | (2,164) | 4,120 | 2,530 | (720) | 1,810 |
| Other | 199 | (79) | 120 | 170 | (63) | 107 |
| Total | $ 13,638 | $ (3,560) | $ 10,078 | $ 4,500 | $ (1,294) | $ 3,206 |

Non-competition agreements are amortized over the applicable terms of the contracts. Customer relationships are generally amortized over five to six years based on the pattern of economic benefits. Tradenames of $5,326,000 and $1,000,000 at June 30, 2005 and 2004, respectively, and licenses of $7,674,000 at June 30, 2005, obtained in acquisitions, are not subject to amortization.

### 9. Long-Term Debt

The Company s long-term debt instruments and balances outstanding at June 30, 2005 and 2004, were as follows (in thousands):

| | 2005 | 2004 |
|---|---|---|
| U.S. Line of Credit up to $250,000 due 2010 | $ 101,850 | $ 64,834 |

| | | |
|---|---|---|
| 8.14% senior unsecured notes due 2007 | 12,000 | 16,000 |
| 7.10% senior unsecured notes due 2008 | 12,857 | 17,143 |
| 7.20% senior unsecured notes due 2009 | 42,500 | 42,500 |
| 12.00% subordinated note due 2014 | | 2,500 |
| Total debt | 169,207 | 142,977 |
| Less current portion | 16,786 | 8,286 |
| Total long-term debt | $ 152,421 | $ 134,691 |

In June 2005, the Company prepaid the 12% subordinated note due 2014 for a total amount of $2,698,000 including accrued interest of $123,000 and a prepayment fee of $75,000. The note was issued in February 2004, as partial consideration of the final payment pursuant to an amended asset purchase agreement.

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## CASH AMERCIA INTERNATIONAL, INC. AND SUBSIDIARIES
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

In February 2005, the Company amended and restated the existing line of credit agreement to increase the credit limit to $250,000,000 and extended the maturity to February 2010. Interest on the amended line of credit is charged, at the Company s option, at either LIBOR plus a margin or at the agent s base rate. The margin on the line of credit varies from 0.875% to 1.875%, depending on the Company s cash flow leverage ratios as defined in the amended agreement. The Company pays a fee on the unused portion ranging from 0.25% to 0.30% based on the Company s cash flow leverage ratios as defined in the amended agreement.

### 10. Discontinued Operations

The carrying amounts of the major classes of the assets and liabilities for the discontinued foreign pawn lending operations at June 30, 2004 were as follows (in thousands):

| | |
|---|---|
| **Assets** | |
| Pawn loans | $ 61,275 |
| Merchandise held for disposition, net | 7,678 |
| Finance and service charges receivable | 8,456 |
| Other current assets | 7,209 |
| Current assets of discontinued operations | 84,618 |
| Goodwill | 18,856 |
| Other non-current assets | 11,728 |
| Non-current assets of discontinued operations | 30,584 |
| **Total Assets of Discontinued Operations** | $ 115,202 |
| **Liabilities** | |
| Current liabilities of discontinued operations | $ 3,499 |
| Deferred tax liabilities | 2,579 |
| Long-term debt | 12,014 |
| Non-current liabilities of discontinued operations | 14,593 |
| **Total Liabilities of Discontinued Operations** | $ 18,092 |

## CASH AMERCIA INTERNATIONAL, INC. AND SUBSIDIARIES
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

The summarized statement of operations information for the discontinued foreign pawn lending operations for the three and six months ended June 30, 2004 is as follows (in thousands):

| | Three Months Ended June 30, 2004 | Six Months Ended June 30, 2004 |
|---|---|---|
| **Revenue** | | |
| Finance and service charges | $ 8,700 | $ 17,328 |
| Proceeds from disposition of merchandise | 5,287 | 10,954 |
| Check cashing royalties and fees | 643 | 1,240 |
| **Total Revenue** | 14,630 | 29,522 |
| **Cost of Revenue** | | |
| Disposed merchandise | 3,709 | 7,949 |
| **Net Revenue** | 10,921 | 21,573 |
| **Expenses** | | |
| Operations | 4,987 | 9,983 |
| Administration | 1,622 | 3,161 |
| Depreciation and amortization | 696 | 1,424 |
| **Total Expenses** | 7,305 | 14,568 |
| **Income from Operations** | 3,616 | 7,005 |
| Interest expense, net | 160 | 317 |
| **Income before Income Taxes** | 3,456 | 6,688 |
| Provision for income taxes | 1,043 | 2,027 |
| **Income from Discontinued Operations** | $ 2,413 | $ 4,661 |
| **Diluted Income Per Share from Discontinued Operations** | $ 0.08 | $ 0.16 |

## CASH AMERCIA INTERNATIONAL, INC. AND SUBSIDIARIES
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

### 11. Operating Segment Information

The Company has three reportable operating segments: pawn lending operations, cash advance operations, and check cashing operations. Cash advance and check cashing are managed separately due to the different operational strategies required and, therefore, are reported as separate segments. Information concerning the operating segments is set forth below (in thousands):

| | Pawn Lending | Cash Advance | Check Cashing | Consolidated |
|---|---|---|---|---|
| **Three Months Ended June 30, 2005:** | | | | |
| **Revenue** | | | | |
| Finance and service charges | $ 32,577 | $ | $ | $ 32,577 |
| Proceeds from disposition of merchandise | 65,333 | | | 65,333 |
| Cash advance fees | 10,050 | 23,326 | | 33,376 |
| Check cashing royalties and fees | | 1,440 | 843 | 2,283 |
| **Total revenue** | 107,960 | 24,766 | 843 | 133,569 |
| **Cost of revenue** disposed merchandise | 38,939 | | | 38,939 |
| **Net revenue** | 69,021 | 24,766 | 843 | 94,630 |
| **Expenses** | | | | |
| Operations | 40,998 | 12,703 | 326 | 54,027 |
| Cash advance loss provision | 4,075 | 6,694 | | 10,769 |
| Administration | 8,016 | 2,349 | 239 | 10,604 |
| Depreciation and amortization | 3,817 | 1,777 | 80 | 5,674 |
| **Total expenses** | 56,906 | 23,523 | 645 | 81,074 |
| **Income from continuing operations** | $ 12,115 | $ 1,243 | $ 198 | $ 13,556 |
| **As of June 30, 2005:** | | | | |
| Total assets | $ 450,362 | $ 111,683 | $ 6,819 | $ 568,864 |
| **Three Months Ended June 30, 2004:** | | | | |
| **Revenue** | | | | |
| Finance and service charges | $ 25,355 | $ | $ | $ 25,355 |
| Proceeds from disposition of merchandise | 51,695 | | | 51,695 |
| Cash advance fees | 7,509 | 14,552 | | 22,061 |
| Check cashing royalties and fees | | 1,172 | 860 | 2,032 |
| **Total revenue** | 84,559 | 15,724 | 860 | 101,143 |
| **Cost of revenue** disposed merchandise | 31,338 | | | 31,338 |

| | | | | |
|---|---|---|---|---|
| **Net revenue** | 53,221 | 15,724 | 860 | 69,805 |
| **Expenses** | | | | |
| Operations | 32,376 | 8,175 | 341 | 40,892 |
| Cash advance loss provision | 2,064 | 3,311 | | 5,375 |
| Administration | 7,270 | 2,026 | 287 | 9,583 |
| Depreciation and amortization | 2,882 | 1,058 | 124 | 4,064 |
| **Total expenses** | 44,592 | 14,570 | 752 | 59,914 |
| **Income from continuing operations** | $ 8,629 | $ 1,154 | $ 108 | $ 9,891 |
| **As of June 30, 2004:** | | | | |
| Total assets | $ 300,369 | $ 76,201 | $ 7,501 | $ 384,071 |

## CASH AMERCIA INTERNATIONAL, INC. AND SUBSIDIARIES
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

| | Pawn Lending | Cash Advance | Check Cashing | Consolidated |
|---|---|---|---|---|
| **Six Months Ended June 30, 2005:** | | | | |
| **Revenue** | | | | |
| Finance and service charges | $ 66,496 | $ | $ | $ 66,496 |
| Proceeds from disposition of merchandise | 144,074 | | | 144,074 |
| Cash advance fees | 19,030 | 42,656 | | 61,686 |
| Check cashing royalties and fees | | 4,328 | 1,974 | 6,302 |
| **Total revenue** | 229,600 | 46,984 | 1,974 | 278,558 |
| **Cost of revenue** disposed merchandise | 86,894 | | | 86,894 |
| **Net revenue** | 142,706 | 46,984 | 1,974 | 191,664 |
| **Expenses** | | | | |
| Operations | 81,916 | 25,076 | 708 | 107,700 |
| Cash advance loss provision | 6,268 | 10,135 | | 16,403 |
| Administration | 16,378 | 4,661 | 474 | 21,513 |
| Depreciation and amortization | 7,609 | 3,468 | 163 | 11,240 |
| **Total expenses** | 112,171 | 43,340 | 1,345 | 156,856 |
| **Income from continuing operations** | $ 30,535 | $ 3,644 | $ 629 | $ 34,808 |
| **Six Months Ended June 30, 2004:** | | | | |
| **Revenue** | | | | |
| Finance and service charges | $ 52,227 | $ | $ | $ 52,227 |
| Proceeds from disposition of merchandise | 118,743 | | | 118,743 |
| Cash advance fees | 14,628 | 27,089 | | 41,717 |
| Check cashing royalties and fees | | 3,492 | 1,982 | 5,474 |
| **Total revenue** | 185,598 | 30,581 | 1,982 | 218,161 |
| **Cost of revenue** disposed merchandise | 72,167 | | | 72,167 |
| **Net revenue** | 113,431 | 30,581 | 1,982 | 145,994 |
| **Expenses** | | | | |
| Operations | 66,312 | 15,427 | 721 | 82,460 |
| Cash advance loss provision | 3,420 | 4,999 | | 8,419 |
| Administration | 16,351 | 3,844 | 495 | 20,690 |
| Depreciation and amortization | 5,749 | 2,001 | 238 | 7,988 |
| **Total expenses** | 91,832 | 26,271 | 1,454 | 119,557 |

| | | | | |
|---|---|---|---|---|
| **Income from continuing operations** | $ 21,599 | $ 4,310 | $ 528 | $ 26,437 |

### 12. Litigation

On August 6, 2004, James E. Strong filed a purported class action lawsuit in the State Court of Cobb County, Georgia against Georgia Cash America, Inc., Cash America International, Inc. (together with Georgia Cash America, Inc., Cash America ), Daniel R. Feehan, and several unnamed officers, directors, owners and stakeholders of Cash America. The lawsuit alleges many different causes of action, among the most significant of which is that Cash America has been making illegal payday loans in Georgia in violation of Georgia s usury law, the Georgia Industrial Loan Act and Georgia s Racketeer Influenced and Corrupt Organizations Act. Community State Bank has for some time made loans to Georgia residents through Cash America s Georgia operating locations. The complaint in this lawsuit claims that Community State Bank is not the true lender with respect to the loans made to Georgia borrowers and that its involvement in the process is a mere subterfuge. Based on this claim, the suit alleges that Cash America is the de facto lender and is illegally operating in Georgia. The complaint seeks unspecified compensatory damages, attorney s fees, punitive damages and the trebling of any compensatory damages. The Company believes that the claims in this suit are without merit and intends to vigorously defend this lawsuit. Cash America removed the case to federal court and filed a motion to compel the plaintiff to arbitrate his claim, in addition to denying the plaintiff s allegations and asserting various defenses to his claim. The plaintiff has filed a motion to remand the case to Georgia state court. As of June 30, 2005, the parties await court rulings on the various motions. Because this case is at a very early stage, neither the likelihood of an unfavorable outcome nor the ultimate liability, if any, with respect to this litigation can be determined at this time.

The Company is a defendant in certain lawsuits encountered in the ordinary course of its business. Certain of these matters are covered to an extent by insurance. In the opinion of management, the resolution of these matters will not have a material adverse effect on the Company s financial position, results of operations or liquidity.

## Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

### GENERAL

The Company is a provider of specialty financial services to individuals in the United States. The Company offers secured non-recourse loans, commonly referred to as pawn loans, to individuals through its pawn lending operations. The pawn loan portfolio generates finance and service charges revenue. A related activity of the pawn lending operations is the disposition of merchandise, primarily collateral from unredeemed pawn loans. As an alternative to a pawn loan, the Company offers unsecured cash advances in selected lending locations and on behalf of third-party banks in other locations. The Company also provides check cashing and related financial services through many of its cash advance locations and through its franchised and company-owned check cashing centers. Prior to September 7, 2004, the Company also provided financial services to individuals in the United Kingdom and Sweden (the foreign pawn lending operations ). The foreign pawn lending operations were sold to a foreign investment group and have been reclassified and reported as discontinued operations for all periods presented. See Note 10 of Notes to Consolidated Financial Statements.

In December 2004, the Company completed the acquisition of the pawn operating assets of Camco, Inc., which operated under the trade name SuperPawn ( SuperPawn ) in four states in the western United States. SuperPawn is a 41 store chain based in Las Vegas, Nevada. This transaction provided the Company its initial entry into the western United States for pawn lending activities.

As of June 30, 2005, the Company s pawn lending operations consisted of 456 pawnshops, including 445 owned units and 11 unconsolidated franchised units in 21 states in the United States. For the eighteen months ended June 30, 2005, the Company acquired 44 operating units including one franchise location, established 6 locations, and combined or closed 3 locations for a net increase in owned pawn lending units of 47. In addition, 6 franchise locations were acquired or opened and 2 were either terminated/or converted to Company-owned locations.

At June 30, 2005, the Company s cash advance operations consisted of 271 cash advance locations in 6 states. For the eighteen months ended June 30, 2005, the Company acquired 33 operating units, established 91 locations, and combined or closed 7 locations for a net increase in cash advance locations of 117.

As of June 30, 2005, the Company s check cashing operations (Mr. Payroll Corporation) consisted of 130 franchised and 6 company-owned check cashing centers in 21 states.

## RESULTS OF CONTINUING OPERATIONS

The following table sets forth the components of the consolidated statements of operations as a percentage of total revenue for the periods indicated.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| **Revenue** | | | | |
| Finance and service charges | 24.4% | 25.1% | 23.9% | 24.0% |
| Proceeds from disposition of merchandise | 48.9 | 51.1 | 51.7 | 54.4 |
| Cash advance fees | 25.0 | 21.8 | 22.1 | 19.1 |
| Check cashing royalties and fees | 1.7 | 2.0 | 2.3 | 2.5 |
| **Total Revenue** | 100.0 | 100.0 | 100.0 | 100.0 |
| **Cost of Revenue** | | | | |
| Disposed merchandise | 29.1 | 31.0 | 31.2 | 33.1 |
| **Net Revenue** | 70.9 | 69.0 | 68.8 | 66.9 |
| **Expenses** | | | | |
| Operations | 40.4 | 40.4 | 38.7 | 37.8 |
| Cash advance loss provision | 8.1 | 5.3 | 6.0 | 3.9 |
| Administration | 7.9 | 9.5 | 7.7 | 9.5 |
| Depreciation and amortization | 4.3 | 4.0 | 4.0 | 3.6 |
| **Total Expenses** | 60.7 | 59.2 | 56.4 | 54.8 |
| **Income from Operations** | 10.2 | 9.8 | 12.4 | 12.1 |
| Interest expense | 1.9 | 2.0 | 1.7 | 1.9 |
| Interest income | (0.3) | | (0.3) | |
| Foreign currency transaction losses | 0.3 | | 0.3 | |
| **Income before Income Taxes** | 8.3 | 7.8 | 10.7 | 10.2 |
| Provision for income taxes | 3.1 | 2.9 | 4.0 | 3.8 |
| **Income from Continuing Operations** | 5.2% | 4.9% | 6.7% | 6.4% |

The following table sets forth certain selected consolidated financial and operating data as of June 30, 2005 and 2004, and for the three and six month periods then ended ($ in thousands).

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| **PAWN LENDING OPERATIONS:** | | | | |
| **Pawn loans** | | | | |
| Annualized yield on pawn loans | 122.6% | 127.2% | 127.6% | 133.7% |
| Total amount of pawn loans written and renewed | $ 114,348 | $ 87,349 | $ 212,178 | $ 163,913 |
| Average pawn loan balance outstanding | $ 106,547 | $ 80,203 | $ 105,118 | $ 78,546 |
| Average pawn loan balance per average location in operation | $ 240 | $ 203 | $ 238 | $ 198 |
| Ending pawn loan balance per location in operation | $ 261 | $ 221 | $ 261 | $ 221 |
| Average pawn loan amount at end of period (not in thousands) | $ 88 | $ 84 | $ 88 | $ 84 |
| Profit margin on disposition of merchandise as a percentage of proceeds from disposition of merchandise | 40.4% | 39.4% | 39.7% | 39.2% |
| Average annualized merchandise turnover | 2.6x | 2.8x | 2.8x | 3.2x |
| Average balance of merchandise held for disposition per average location in operation | $ 135 | $ 113 | $ 141 | $ 116 |
| Ending balance of merchandise held for disposition per location in operation | $ 139 | $ 119 | $ 139 | $ 119 |
| Pawnshop locations in operation | | | | |
| Beginning of period, owned | 441 | 396 | 441 | 398 |
| Acquired | 2 | | 2 | |
| Start-ups | 2 | | 3 | |
| Combined or closed | | | (1) | (2) |
| End of period, owned | 445 | 396 | 445 | 396 |
| Franchise locations at end of period | 11 | 6 | 11 | 6 |
| Total pawnshop locations at end of period | 456 | 402 | 456 | 402 |
| Average number of owned pawnshop locations in operation | 444 | 396 | 442 | 396 |
| **Cash advances** | | | | |
| Total amount of cash advances written [(a)] | $ 68,191 | $ 50,469 | $ 124,931 | $ 95,108 |
| Number of cash advances written (not in thousands) [(a)] | 209,342 | 156,786 | 379,920 | 295,740 |
| Average amount per cash advances (not in thousands) [(a)] | $ 326 | $ 322 | $ 329 | $ 322 |
| Combined cash advances outstanding [(a)] | $ 20,279 | $ 14,663 | $ 20,279 | $ 14,663 |
| Cash advances outstanding per location at end of period [(a)] | $ 47 | $ 38 | $ 47 | $ 38 |
| Cash advances outstanding before allowance for losses [(b)] | $ 13,193 | $ 9,859 | $ 13,193 | $ 9,859 |
| Locations offering cash advances at end of period | 429 | 388 | 429 | 388 |
| Average number of locations offering cash advances | 428 | 388 | 427 | 388 |

| | | | | |
|---|---|---|---|---|
| **CASH ADVANCE OPERATIONS [c]:** | | | | |
| Total amount of cash advances written [a] | $ 156,150 | $ 93,801 | $ 278,235 | $ 171,551 |
| Number of cash advances written (not in thousands) [a] | 434,911 | 277,017 | 785,461 | 505,941 |
| Average amount per cash advance (not in thousands) [a] | $ 359 | $ 339 | $ 354 | $ 339 |
| Combined cash advances outstanding [a] | $ 42,520 | $ 23,783 | $ 42,520 | $ 23,783 |
| Cash advances outstanding per location at end of period [a] | $ 157 | $ 131 | $ 157 | $ 131 |
| Cash advances outstanding before allowance for losses [b] | $ 37,269 | $ 22,769 | $ 37,269 | $ 22,769 |
| Cash advance locations in operation | | | | |
| Beginning of period | 264 | 164 | 253 | 154 |
| Acquired | 1 | | 1 | |
| Start-ups | 6 | 19 | 19 | 29 |
| Combined or closed | | (2) | (2) | (2) |
| End of period | 271 | 181 | 271 | 181 |
| Average number of cash advance locations in operation | 267 | 171 | 262 | 165 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| **CHECK CASHING OPERATIONS (Mr. Payroll Corp.)** [d] | | | | |
| Face amount of checks cashed | $ 277,595 | $ 261,680 | $ 614,623 | $ 583,867 |
| Gross fees collected | $ 3,756 | $ 3,561 | $ 8,770 | 8,360 |
| Fees as a percentage of checks cashed | 1.4% | 1.4% | 1.4% | 1.4% |
| Average check cashed (not in thousands) | $ 367 | $ 347 | $ 393 | $ 385 |
| Centers in operation at end of period | 136 | 138 | 136 | 138 |
| Average centers in operation for period | 135 | 138 | 135 | 137 |

[a] Includes cash advances made by the Company and cash advances made by third-party banks offered at the Company s locations.

[b] Amounts recorded in the Company s consolidated financial statements.

[c] Includes only cash advance locations.

[d] Includes franchised and company-owned locations.

## CRITICAL ACCOUNTING POLICIES

There have been no material changes of critical accounting policies since December 31, 2004.

## RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2005, the Financial Accounting Standards Board ( FASB ) issued Statement No. 154, *Accounting Changes and Error Corrections* ( SFAS 154 ). SFAS 154 requires retrospective application to prior periods financial statements of changes in accounting principle. It also requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement. The statement will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS 154 to have a material effect on the Company s consolidated financial position or results of operations.

In December 2004, FASB issued Statement No. 123 (Revised 2004), *Share-Based Payment* ( SFAS 123R ). SFAS 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements over the period during which an employee is required to provide service in exchange for the award. SFAS 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value based method in accounting for share-based transactions with employees. SFAS 123R also amends FASB Statement No. 95, *Statement of Cash Flows* , to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. SFAS 123R was effective as of the beginning of the first interim reporting period that begins after June 15, 2005. On April 14, 2005, the Securities and

Exchange Commission amended the effective date of SFAS 123R. As a result, SFAS 123R is now effective for annual (rather than interim) periods that begin after June 15, 2005. The Company does not expect the adoption of SFAS 123R to have a material effect on the Company s consolidated financial position or results of operations because of the Company s decision in 2004 to begin granting restricted stock units in lieu of stock options. The value of restricted stock unit grants is generally recognized as expense over the vesting period. See Note 3 of Notes to Consolidated Financial Statements.

## OVERVIEW

**Components of Consolidated Net Revenue.** Consolidated net revenue is total revenue reduced by the cost of merchandise sold in the period. It represents the income available to satisfy expenses and is the measure management uses to evaluate top line performance. Growth in cash advance fees has increased the comparative contribution from this product to the consolidated net revenue of the Company during the three and six months ended June 30, 2005 compared to the same periods of 2004. The growth in cash advance fees is due to higher balances and the addition of new units, including the acquisition of 33 cash advance locations since the second quarter of 2004. While slightly lower as a percent of total net revenue, pawn-related net revenue, consisting of aggregate finance and service charges plus profit on the disposition of merchandise, remains the dominant source of net revenue at 62.3% and 65.4% for the three months ended June 30, 2005 and 2004, and at 64.5% and 67.6% for the six months ended June 30, 2005 and 2004, respectively. The following charts show consolidated net revenue and depict the mix of the components of net revenue for the quarter and six months ended June 30, 2005 and 2004:

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**Contribution to Increase in Net Revenue.** Cash advance fees have increased as the result of the growth and development of newly opened cash advance locations, the inclusion of 33 cash advance locations acquired since the second quarter of 2004, and the increased demand in pawn locations. As illustrated below, these increases represented 45.4% and 43.8% of the Company s overall increase in net revenue from the three and six months ended June 30, 2004 to the three and six months ended June 30, 2005 and 80.5% and 72.2% of the overall increase from the three and six months ended June 30, 2003 to the three and six months ended June 30, 2004. The increase in pawn related net revenue in the aggregate, combined finance and service charges and profit from the disposition of merchandise, increased from 13.3% to 53.4% and 18.8% to 54.5% of the increase in net revenue for the three and six months of 2005 compared to the same periods of 2004 primarily as a result of the acquisition of SuperPawn. Check cashing royalties and fees accounted for 1.2% and 1.7% of the increase in net revenue in the three and six months of 2005, respectively. These trends are depicted in the following charts:

### Quarter Ended June 30, 2005 Compared To Quarter Ended June 30, 2004

**Consolidated Net Revenue.** Consolidated net revenue increased $24.8 million, or 35.5%, to $94.6 million during the quarter ended June 30, 2005 (the current quarter ) from $69.8 million during the quarter ended June 30, 2004 (the prior year quarter ). The following table sets forth net revenue results by operating segment for the three month periods ended June 30 ($ in millions):

| | 2005 | 2004 | Increase | |
|---|---|---|---|---|
| Pawn lending operations | $ 69.0 | $ 53.2 | $ 15.8 | 29.7% |
| Cash advance operations | 24.8 | 15.7 | 9.1 | 58.0 |
| Check cashing operations | 0.8 | 0.9 | (0.1) | (11.1) |
| Consolidated net revenue | $ 94.6 | $ 69.8 | $ 24.8 | 35.5% |

Higher revenue from the Company s cash advance product, higher finance and service charges from pawn loans, and higher profit from the disposition of merchandise accounted for the increase in net revenue. This increase was partially due to the consolidation of the operating results of SuperPawn. Excluding the impact of SuperPawn, net revenue for the current quarter was up $12.9 million, or 18.5%, compared to the prior year quarter.

The components of net revenue are finance and service charges from pawn loans, which increased $7.2 million; profit from the disposition of merchandise, which increased $6.0 million; cash advance fees generated both from pawn locations and cash advance locations, which increased $11.3 million; and check cashing royalties and fees, which increased $0.3 million.

**Finance and Service Charges.** Finance and service charges increased $7.2 million, or 28.3%, from $25.4 million in the prior year quarter to $32.6 million in the current quarter. The increase is primarily due to higher loan balances attributable to the addition of SuperPawn. An increase in the average balance of pawn loans outstanding contributed $8.3 million of the increase that was offset by a $1.1 million decrease resulting from the lower annualized yield of the pawn loan portfolio. Finance and service charges from same stores (stores that have been open for at least twelve months) increased $0.3 million in the current quarter compared to the prior year quarter due to a 1.3% increase in pawn loans written in the current quarter.

The average balance of pawn loans was 32.9% higher in the current quarter than in the prior year quarter. The increase in the average of pawn loans outstanding was driven by a 13.6% increase in the average number of pawn loans outstanding during the current quarter coupled with a 16.9% increase in the average amount per loan. Pawn loan balances at June 30, 2005 were $28.6 million, or 32.7% higher than at June 30, 2004, primarily as a result of the acquisition of SuperPawn. Annualized loan yield declined to 122.6% in the current quarter from 127.2% in the prior year quarter due to the acquisition of SuperPawn locations which operate in markets with lower statutory rates than the Company s other locations. Excluding SuperPawn, annualized loan yield would have been up slightly to 128.4%. Favorable changes in the statutory rates and terms of pawn loans in some markets and improved performance of the pawn loan portfolio, including a slightly higher concentration of extended or renewed loans in the portfolio, contributed to the higher yield. Same store pawn loan balances at June 30, 2005 were $0.8 million, or 0.9%, higher than at June 30, 2004.

**Profit from Disposition of Merchandise.** Profit from disposition of merchandise represents the proceeds received from disposition of merchandise in excess of the cost of disposed merchandise. The following table summarizes the proceeds from disposition of merchandise and the related profit for the current quarter compared to the prior year quarter ($ in millions):

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | | 2004 | | |
| | Merchandise | Refined Gold | Total | Merchandise | Refined Gold | Total |
| Proceeds from dispositions | $ 52.6 | $ 12.7 | $ 65.3 | $ 44.0 | $ 7.7 | $ 51.7 |
| Profit on disposition | $ 22.7 | $ 3.7 | $ 26.4 | $ 18.0 | $ 2.4 | $ 20.4 |
| Profit margin | 43.2% | 29.1% | 40.4% | 40.9% | 31.2% | 39.4% |

While the total proceeds from disposition of merchandise and refined gold increased $13.6 million, or 26.3%, the total profit from the disposition of merchandise and refined gold increased $6.0 million, or 29.4% due to higher profit margin on the disposition of merchandise. Excluding the effect of the disposition of refined gold, the profit margin on the disposition of merchandise (including jewelry sales) increased to 43.2% in the current quarter from 40.9% in the prior year quarter due predominately to a heavier mix of jewelry sales resulting from the addition of SuperPawn. The profit margin on the disposition of refined gold decreased to 29.1% in the current quarter compared to 31.2% in the prior year quarter due to a higher average cost that more than offset a higher gold price received on dispositions. Proceeds from disposition of merchandise, excluding refined gold, increased $8.6 million, or 19.5%, in the current quarter due primarily to the acquisition of SuperPawn and higher levels of merchandise available for disposition. The consolidated merchandise turnover rate decreased to 2.6 times during the current quarter compared to 2.8 times during the prior year quarter due primarily to the increase in jewelry merchandise levels associated with the acquisition of SuperPawn.

Management anticipates that profit margin on disposition of merchandise in the near term is likely to remain at current levels or decline slightly. The addition of SuperPawn operating results increases the average profit margin slightly due to a higher amount of jewelry sales, which has historically produced higher gross profit margin. In the future, the increase in jewelry merchandise levels will reduce inventory turnover from historical levels.

The table below summarizes the age of merchandise held for disposition before valuation allowance at June 30, 2005 and 2004 ($ in millions). Due to the magnitude of the impact of the SuperPawn stores (acquired in December 2004) on the Company s total merchandise held for disposition, those stores are segmented separately at June 30, 2005.

| | 2005 | | | 2004 |
|---|---|---|---|---|
| | Cash America | SuperPawn | Total Pawn | Total Pawn |
| Merchandise held for 1 year or less | | | | |
| Jewelry | $ 27.8 | $ 8.4 | $ 36.2 | $ 26.0 |
| Other merchandise | 18.2 | 1.6 | 19.8 | 18.3 |
| | 46.0 | 10.0 | 56.0 | 44.3 |
| Merchandise held for more than 1 year | | | | |
| Jewelry | 2.4 | 2.3 | 4.7 | 2.2 |
| Other merchandise | 2.5 | 0.2 | 2.7 | 2.2 |
| | 4.9 | 2.5 | 7.4 | 4.4 |
| Total merchandise held for disposition | $ 50.9 | $ 12.5 | $ 63.4 | $ 48.7 |
| Jewelry held for 1 year or less | 54.6% | 67.2% | 57.1% | 53.4% |
| Other merchandise held for 1 year or less | 35.8 | 12.8 | 31.2 | 37.6 |
| Jewelry held for more than 1 year | 4.7 | 18.4 | 7.4 | 4.5 |
| Other merchandise held for more than 1 year | 4.9 | 1.6 | 4.3 | 4.5 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

**Cash Advance Fees.** Cash advance fees increased $11.3 million, or 51.4%, to $33.4 million in the current quarter as compared to $22.1 million in the prior year quarter. The increase was primarily due to the growth and development of new cash advance units and higher average cash advance balances outstanding during the current quarter resulting from the new unit growth. The acquisition of 33 cash advance units since the second quarter of 2004 also contributed to the increase in cash advance fees. As of June 30, 2005, the product was available in 700 lending locations, which includes 429 pawnshops and 271 cash advance locations. This includes 358 units that offer the product on behalf of the third-party banks for which the Company performs administrative services. Cash advance fees from same stores increased $6.1 million, or 28.1%, to $27.8 million in the current quarter as compared to $21.7 million in the prior year quarter. Cash advance fees include revenue from the cash advance portfolio owned by the Company and fees for administrative services performed for the banks. (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 following table sets forth cash advance fees by operating segment for the three months ended June 30, 2005 and 2004 ($ in thousands):

| | 2005 | 2004 | Increase | |
|---|---|---|---|---|
| Pawn lending operations | $ 10.1 | $ 7.5 | $ 2.6 | 34.7% |
| Cash advance operations | 23.3 | 14.6 | 8.7 | 59.6 |
| Total cash advance fees | $ 33.4 | $ 22.1 | $ 11.3 | 51.1% |

While cash advance fees in the cash advance operating segment increased 59.6%, mostly due to the addition of new locations, the increase in expenses, including cash advance loss provision, in this segment offset most of the revenue growth. Management believes the operating margins for this segment will continue to improve as the new stores added develop and grow to maturity.

The amount of cash advances written increased $80.0 million, or 55.4%, to $224.3 million in the current quarter from $144.3 million in the prior year quarter. Included in the amount of cash advances written in the current quarter and prior year quarter were $92.6 million and $50.7 million, respectively, extended to customers by the banks. The average amount per cash advance increased to $348 from $333 due to changes in permitted loan amounts and adjustments to underwriting. The combined Company and bank portfolios of cash advances generated $36.5 million in revenue during the current quarter compared to $23.7 million in the prior year quarter. The outstanding combined portfolio balance of cash advances increased $24.4 million to $62.8 million at June 30, 2005, from $38.4 million at June 30, 2004. Included in these amounts were $50.5 million and $32.6 million for 2005 and 2004, respectively, that are included in the Company s consolidated balance sheets. An allowance for losses of $7.7 million and $4.7 million has been provided in the consolidated financial statements as of June 30, 2005 and 2004, respectively, which is deducted from the outstanding cash advance amounts on the Company s consolidated balance sheets.

Cash advance fees related to cash advances originated by the banks were $13.5 million in the current quarter on $92.6 million in cash advances originated by banks. The cash advance loss provision expense associated with these cash advances was $4.7 million, direct operating expenses, excluding allocated administrative expenses, were $6.1 million, and depreciation and amortization expense was $0.7 million in the current quarter. Therefore, management estimates that the approximate contribution before interest and taxes on cash advances originated by the banks in the current quarter was $2.0 million. This estimate does not include shared operating costs in pawn locations where the product is offered.

In March of this year, the Federal Deposit Insurance Corporation ( FDIC ) issued revised guidance affecting certain short-term cash advance products offered by FDIC regulated banks. The revised guidance applies to the cash advance product offered by third-party banks in many of the Company s locations. The revised guidance became effective July 1, 2005 and permits the banks to provide a customer with this cash advance product for only three months during a twelve month period. The Company currently plans to continue to market the banks short-term cash advance product in many of the Company s locations. However, customers accustomed to the benefits of the banks cash advance product may need access to alternative short-term credit products when the banks cash advance product is not available to them. To address many of these customers needs for short-term credit, the Company introduced a credit services program ( Credit Services Program ) on July 1, 2005. These markets include 297 locations in Texas, Florida and Michigan, which represented $69.8 million in cash advances written and $10.4 million in revenue for the three months ended June 30, 2005. The Company believes that the revenue from providing credit services will not materially reduce future revenues from cash advances within these markets.

In two markets, California and Louisiana, the Company is transitioning to offering its cash advance product under state enabling legislation. In California, represented by 34 locations, the Company will discontinue offering cash advances by third-party banks and will begin offering cash advances under applicable state law. These locations generated approximately $15.2 million in cash advances written and $2.2 million in revenue for the second quarter ended June 30, 2005. Management estimates that revenue levels in this market will be 30-40% lower going forward due to a lower average loan amount mandated by state law than was available to third-party banks in this market. In June of this year, the Company discontinued offering cash advances by third-party banks in Louisiana, which is represented by 20 lending locations, and transitioned to offering the cash advance product under state law. Management does not anticipate any negative adjustment to revenue or cash advances written in this market. This market represented $1.8 million in cash advances written and $0.3 million in revenue for the second quarter ended June 30, 2005.

In North Carolina and Georgia, represented by 27 lending locations, the Company will continue to offer cash advances on behalf of third-party banks, but does not currently offer an alternative financial product to customers in the event that they are unable to qualify for a cash advance from a third-party bank. These two markets represented $6.0 million in cash advances written and $0.6 million in cash advance revenue for the quarter ended June 30, 2005.

The Company is evaluating potential alternative products to meet the demand of customers in these markets, but in the interim, management estimates that cash advances written volume and related revenues could fall by as much as 50% over the next 12 months in these two markets.

**Check Cashing Royalties and Fees.** Check cashing fees increased $0.3 million to $2.3 million, or 15.0%, in the current quarter from $2.0 million in the prior year quarter due to the growth in cash advance units. Check cashing revenue for Mr. Payroll Corporation was $0.9 million in the prior year quarter and $0.8 million in the current quarter.

**Operations Expenses.** Consolidated operations expenses, as a percentage of total revenue, remained at 40.4% for the current quarter and the prior year quarter. These expenses increased $13.1 million, or 32.1%. Pawn lending operations expenses increased $8.6 million, or 26.6%, primarily due to the addition of SuperPawn stores. Cash advance operations expenses increased $4.5 million, or 55.4%, principally as a result of the net establishment of 57 new units and the acquisition of 33 cash advance units since June 30, 2004. Increased advertising expenditures for the cash advance products also contributed to the expense increase.

As a multi-unit operator in the consumer finance industry, the Company s operations expenses are predominately personnel and occupancy expenses. Personnel expenses include base salary and wages, performance incentives, and benefits. Occupancy expenses include rent, property taxes and insurance, utilities, and maintenance. The combination of personnel and occupancy expenses represents 82.8% of total operations expenses in the current quarter and 85.2% in the prior year quarter. The comparison is as follows ($ in millions):

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| | Amount | % of Revenue | Amount | % of Revenue |
| Personnel | $ 30.0 | 22.4% | $ 23.4 | 23.1% |
| Occupancy | 14.7 | 11.0 | 11.5 | 11.4 |
| Other | 9.3 | 7.0 | 6.0 | 5.9 |
| Total | $ 54.0 | 40.4% | $ 40.9 | 40.4% |

**Administration Expenses.** Consolidated administration expenses, as a percentage of total revenue, were 7.9% in the current quarter compared to 9.5% in the prior year quarter. The components of administration expenses for the three months ended June 30, 2005 and 2004 are as follows ($ in millions):

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| | Amount | % of Revenue | Amount | % of Revenue |
| Personnel | $ 7.0 | 5.2% | $ 6.6 | 6.5% |
| Other | 3.6 | 2.7 | 3.0 | 3.0 |
| Total | $ 10.6 | 7.9% | $ 9.6 | 9.5% |

The increase in administration expenses was principally attributable to increased staffing levels, annual salary adjustments and net unit additions. The increase was partially offset by a decrease of $0.4 million in management incentive accruals which are based on the Company s performance relative to its business plan.

**Cash Advance Loss Provision.** The Company maintains an allowance for losses on cash advances at a level projected to be adequate to absorb credit losses inherent in the outstanding combined cash advance portfolio. The cash advance loss provision is utilized to increase the allowance for the outstanding company owned cash advance portfolio as well as expected losses in the bank-owned portfolios. The cash advance loss provision increased $5.4 million to $10.8 million in the current quarter as compared to $5.4 million in the prior year quarter principally due to the significant increase in the size of the portfolio and the lower relative level of recoveries on cash advances previously charged off. The loss provision as a percentage of cash advance fees increased to 32.3% in the current quarter as compared to 24.4% in the prior year quarter. The increase in the loss provision as a percentage of cash advance fees is primarily attributable to an emphasis on broadening the customer base for the cash advance product and the higher loss rates associated with newly-opened and developing stores. In addition, in the third quarter of 2004, the Company refined its estimation of cash advance losses by modifying the historical base period included in the calculations which is another reason for a higher provision in the current quarter than the prior year quarter which ended before this refinement was implemented. Management believes that this change more accurately reflects the potential loss inherent in the portfolio and provides for an adequate estimate of future loss on cash advances which have not reached their due date. Management continues to treat all cash advances which become past due as fully reserved for losses at the point they become sixty days past due. Management expects this trend of year over year increases in the loan loss provision as a percentage of cash advance fees to continue through the remainder of the year.

**Depreciation and Amortization.** Depreciation and amortization expense as a percentage of total revenue was 4.3% in the current quarter compared to 4.0% in the prior year quarter. Total depreciation and amortization expense increased $1.6 million, or 39.0%, primarily due to the increase in operating locations and the amortization of certain intangible assets obtained in the SuperPawn and other acquisitions.

**Interest Expense.** Interest expense as a percentage of total revenue was 1.9% for the current quarter as compared to 2.0% for the prior year quarter. Interest expense increased $0.4 million to $2.5 million in the current quarter as compared to $2.1 million in the prior year quarter. The increase was due primarily to an increase in debt levels for the acquisition of SuperPawn in December 2004. Approximately $0.1 million of the increase resulted from a prepayment fee associated with the prepayment of the 12% subordinated note issued in February 2004 as partial consideration of the final payment pursuant to an amended asset purchase agreement. The average amount of debt outstanding increased during the current quarter to $153.3 million from $133.6 million during the prior year quarter. The effective blended borrowing cost increased to 6.5% in the current quarter compared to 6.2% in the prior year quarter. The increase in blended borrowing cost was due to a year over year increase in interest rates on floating rate debt.

**Interest Income.** Interest income increased to $0.4 million in the current quarter compared to the prior year quarter, primarily due to interest income from two subordinated notes received in the sale of the Company s foreign pawn lending operations.

**Foreign Currency Transaction Losses.** Exchange rate changes between the United States dollar and the Swedish kronor resulted in losses of $0.4 million in the current quarter on the two subordinated notes received in the sale of the Company s foreign pawn lending operations.

**Income Taxes.** The Company s effective tax rate for continuing operations was 37.5% for both the current quarter and the prior year quarter.

### Six Months Ended June 30, 2005 Compared To Six Months Ended June 30, 2004

**Consolidated Net Revenue.** Consolidated net revenue increased $45.7 million, or 31.3%, to $191.7 million during the six months ended June 30, 2005 (the current period ) from $146.0 million during the six months ended June 30, 2004 (the prior year period ). The following table sets forth net revenue results by operating segment for the six month periods ended June 30 ($ in millions):

| | 2005 | 2004 | Increase | |
|---|---|---|---|---|
| Pawn lending operations | $ 142.7 | $ 113.4 | $ 29.3 | 25.8% |
| Cash advance operations | 47.0 | 30.6 | 16.4 | 53.6 |
| Check cashing operations | 2.0 | 2.0 | | |
| Consolidated net revenue | $ 191.7 | $ 146.0 | $ 45.7 | 31.3% |

Higher revenue from the Company s cash advance product, higher finance and service charges from pawn loans, and higher profit from the disposition of merchandise accounted for the increase in net revenue. This increase was partially due to the consolidation of the operating results of SuperPawn. Excluding the impact of SuperPawn, net revenue for the current period was up $21.7 million, or 14.9%, compared to the prior year period.

The components of net revenue are finance and service charges from pawn loans, which increased $14.3 million; profit from the disposition of merchandise, which increased $10.6 million; cash advance fees generated both from pawn locations and cash advance locations, which increased $20.0 million; and check cashing royalties and fees, which increased $0.8 million.

**Finance and Service Charges.** Finance and service charges increased $14.3 million, or 27.4%, from $52.2 million in the prior year period to $66.5 million in the current period. The increase is primarily due to higher loan balances attributable to the addition of SuperPawn. An increase in the average balance of pawn loans outstanding contributed $17.7 million of the increase that was offset by a $3.4 million decrease resulting from the lower annualized yield of the pawn loan portfolio. Finance and service charges from same stores increased $0.4 million in the current period compared to the prior year period due to a significant drop in loan balances in the first quarter, largely due to tax refunds received by customers, which resulted in slower growth rates in average loan balances year over year.

The average balances of pawn loans were 33.8% higher in the current period than in the prior year period. The increase in the average of pawn loans outstanding was driven by a 21.1% increase in the average number of pawn loans outstanding during the current period coupled with a 10.6% increase in the average amount per loan. Annualized loan yield declined to 127.6% in the current period from 133.7% in the prior year period due primarily to the acquisition of SuperPawn locations which operate in markets with lower statutory rates than the Company s other locations. Excluding SuperPawn, annualized loan yield would have been up slightly to 134.8%. Favorable changes in the statutory rates and terms of pawn loans in some markets and improved performance of the pawn loan portfolio, including a slightly higher concentration of extended or renewed loans in the portfolio, contributed to the higher yield.

**Profit from Disposition of Merchandise.** Profit from disposition of merchandise represents the proceeds received from disposition of merchandise in excess of the cost of disposed merchandise. The following table summarizes the proceeds from disposition of merchandise and the related profit for the current period compared to the prior year period ($ in millions):

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | | 2004 | | |
| | Merchandise | Refined Gold | Total | Merchandise | Refined Gold | Total |
| Proceeds from dispositions | $ 118.5 | $ 25.6 | $ 144.1 | $ 100.6 | $ 18.1 | $ 118.7 |
| Profit on disposition | $ 49.9 | $ 7.3 | $ 57.2 | $ 40.5 | $ 6.1 | $ 46.6 |
| Profit margin | 42.1% | 28.5% | 39.7% | 40.3% | 33.7% | 39.2% |

Total profit from the disposition of merchandise and refined gold increased $10.6 million, or 22.7%. Total proceeds from the disposition of merchandise and refined gold increased $25.4 million, or 21.4%. Excluding the effect of the disposition of refined gold, the profit margin on the disposition of merchandise increased to 42.1% in the current period from 40.3% in the prior year period due predominately to a heavier mix of jewelry sales resulting from the addition of SuperPawn. The profit margin on the disposition of refined gold decreased to 28.5% in the current period compared to 33.7% in the prior year period due to a higher average cost that more than offset a higher gold price received on dispositions. Proceeds from disposition of merchandise, excluding refined gold, increased $17.9 million, or 17.8%, in the current period due primarily to the acquisition of SuperPawn and higher levels of merchandise available for disposition. The consolidated merchandise turnover rate decreased to 2.8 times during the current period compared to 3.2 times during the prior year period due primarily to the increase in jewelry merchandise levels associated with the acquisition of SuperPawn.

**Cash Advance Fees.** Cash advance fees increased $20.0 million, or 48.0%, to $61.7 million in the current period as compared to $41.7 million in the prior year period. The increase was primarily due to the growth and development of new cash advance units and higher average cash advance balances outstanding during the current period resulting from the new unit growth. The acquisition of 33 cash advance units since the second quarter of 2004 also contributed to the increase in cash advance fees. Cash advance fees from same stores increased $12.3 million, or 31.6%, to $51.2 million in the current period as compared to $38.9 million in the prior year period. Cash advance fees include revenue from the cash advance portfolio owned by the Company and fees for administrative services performed for the banks.

The following table sets forth cash advance fees by operating segment for the six months ended June 30, 2005 and 2004 ($ in thousands):

| | 2005 | 2004 | Increase | |
|---|---|---|---|---|
| Pawn lending operations | $ 19.0 | $ 14.6 | $ 4.4 | 30.1% |
| Cash advance operations | 42.7 | 27.1 | 15.6 | 57.6 |
| Total cash advance fees | $ 61.7 | $ 41.7 | $ 20.0 | 48.0% |

While cash advance fees in the cash advance operating segment increased 57.6%, mostly due to the addition of new locations, the growth in revenue was not sufficient to offset an increase in expenses, including cash advance loss provision, in this segment.

The amount of cash advances written increased $136.5 million, or 51.2%, to $403.2 million in the current period from $266.7 million in the prior year period. Included in the amount of cash advances written in the current period and prior year period were $168.7 million and $94.6 million, respectively, extended to customers by the banks. The average amount per cash advance increased to $346 from $333 due to changes in permitted loan amounts and adjustments to underwriting. The combined Company and bank portfolios of cash advances generated $67.1 million in revenue during the current period compared to $44.4 million in the prior year period.

Cash advance fees related to cash advances originated by the banks were $25.3 million in the current period on $168.7 million in cash advances originated by banks. The cash advance loss provision expense associated with these cash advances was $7.5 million, direct operating expenses, excluding allocated administrative expenses, were $11.7 million, and depreciation and amortization expense was $1.2 million in the current period. Therefore, management estimates that the approximate contribution before interest and taxes on cash advances originated by the banks in the current period was $4.9 million. This estimate does not include shared operating costs in pawn locations where the product is offered.

In March of this year, the Federal Deposit Insurance Corporation ( FDIC ) issued revised guidance affecting certain short-term cash advance products offered by FDIC regulated banks. The revised guidance applies to the cash advance product offered by third-party banks in many of the Company s locations. The revised guidance became effective July 1, 2005 and permits the banks to provide a customer with this cash advance product for only three months during a twelve month period. The Company currently plans to continue to market the banks short-term cash advance product in many of the Company s locations. However, customers accustomed to the benefits of the banks cash advance product may need access to alternative short-term credit products when the banks cash advance product is not available to them. To address many of these customers needs for short-term credit, the Company introduced the Credit Services Program on July 1, 2005. These markets include 297 locations in Texas, Florida and Michigan, which represented $127.4 million in cash advances written and $19.7 million in revenue for the six months ended June 30, 2005. The Company believes that the revenue from providing credit services will not materially reduce future revenues from cash advances within these markets.

In two markets, California and Louisiana, the Company is transitioning to offering its cash advance product under state enabling legislation. In California, represented by 34 locations, the Company will discontinue offering cash advances by third-party banks and will begin offering cash advances under applicable state law. These locations generated approximately $27.6 million in cash advances written and $4.1 million in revenue for the six months ended June 30, 2005. Management estimates that revenue levels in this market will be 30-40% lower going forward due to a lower average loan amount mandated by state law than was available to third-party banks in this market. In June of this year, the Company discontinued offering cash advances by a third-party bank in Louisiana, which is represented by 20 lending locations, and transitioned to offering the cash advance product under state law. Management does not anticipate any negative adjustment to revenue or cash advances written in this market. This market represented $3.3 million in cash advances written and $0.5 million in revenue for the six months ended June 30, 2005.

In North Carolina and Georgia, represented by 27 lending locations, the Company will continue to offer cash advances on behalf of third-party banks, but does not currently offer an alternative financial product to customers in the event that they are unable to qualify for a cash advance from a third-party bank. These two markets represented $10.8 million in cash advances written and $1.1 million in cash advance revenue for the six months ended June 30, 2005. The Company is evaluating potential alternative products to meet the demand of customers in these markets, but in the interim, management estimates that cash advances written volume and related revenues could fall by as much as 50% over the next 12 months in these two markets.

**Check Cashing Royalties and Fees.** Check cashing fees increased $0.8 million to $6.3 million, or 14.5%, in the current period from $5.5 million in the prior year period due to the growth in cash advance units. Check cashing revenue for Mr. Payroll Corporation was $2.0 million for both current and prior year periods.

**Operations Expenses.** Consolidated operations expenses, as a percentage of total revenue, were 38.7% in the current period compared to 37.8% in the prior year period. These expenses increased $25.2 million, or 30.6%. Pawn lending operations expenses increased $15.6 million, or 23.5%, primarily due to the addition of SuperPawn stores. Cash advance operations expenses increased $9.6 million, or 62.6%, principally as a result of the net establishment of 57 new units and the acquisition of 33 cash advance units since June 30, 2004. Increased advertising expenditures for the cash advance products also contributed to the expense increase.

The combination of personnel and occupancy expenses represents 83.7% of total operations expenses in the current period and 85.5% in the prior year period. The comparison is as follows ($ in millions):

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| | | % of | | % of |
| | Amount | Revenue | Amount | Revenue |
| Personnel | $ 60.7 | 21.8% | $ 48.2 | 22.1% |
| Occupancy | 29.5 | 10.6 | 22.2 | 10.2 |
| Other | 17.5 | 6.3 | 12.1 | 5.5 |
| Total | $ 107.7 | 38.7% | $ 82.5 | 37.8% |

**Administration Expenses.** Consolidated administration expenses, as a percentage of total revenue, were 7.7% in the current period compared to 9.5% in the prior year period. The components of administration expenses for the six months ended June 30, 2005 and 2004 are as follows ($ in millions):

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| | | % of | | % of |
| | Amount | Revenue | Amount | Revenue |
| Personnel | $ 14.7 | 5.3% | $ 14.6 | 6.7% |
| Other | 6.8 | 2.4 | 6.1 | 2.8 |
| Total | $ 21.5 | 7.7% | $ 20.7 | 9.5% |

The increase in administration expenses was principally attributable to increase in staffing levels, annual salary adjustments and net unit additions. The increase was partially offset by a decrease of $1.6 million in management incentive accruals which are based on the Company s performance relative to its business plan.

**Cash Advance Loss Provision.** The cash advance loss provision increased $8.0 million to $16.4 million in the current period as compared to $8.4 million in the prior year period principally due to the significant increase in the size of the portfolio. The loss provision as a percentage of cash advance fees increased to 26.6% in the current period as compared to 20.2% in the prior year period. The increase in the loss provision as a percentage of cash advance fees is attributable to an emphasis on broadening the customer base for the cash advance product and the higher loss rates associated with newly-opened and developing stores. In addition, in the third quarter of 2004, the Company refined its estimation of cash advance losses by modifying the historical base period included in the calculations which is another reason for a higher provision in the current period than the prior year period which ended before this refinement was implemented. Management believes that this change more accurately reflects the potential loss inherent in the portfolio and provides for an adequate estimate of future loss on cash advances which have not reached their due date.

**Depreciation and Amortization.** Depreciation and amortization expense as a percentage of total revenue was 4.0% in the current period compared to 3.6% in the prior year period. Total depreciation and amortization expense increased $3.3 million, or 40.7%, primarily due to the increase in operating locations and the amortization of certain intangible assets obtained in the SuperPawn and other acquisitions.

**Interest Expense.** Interest expense as a percentage of total revenue was 1.7% for the current period as compared to 1.9% for the prior year period. Interest expense increased $0.6 million to $4.8 million in the current period as compared to $4.2 million in the prior year period. The increase was due primarily to an increase in debt levels for the acquisition of SuperPawn in December 2004. Approximately $0.1 million of the increase resulted from a prepayment fee associated with the prepayment of the 12% subordinated note issued in February 2004 as partial consideration of the final payment pursuant to an amended asset purchase agreement. The average amount of debt outstanding increased during the current period to $152.4 million from $138.2 million during the prior year period. The effective blended borrowing cost increased to 6.4% in the current period compared to 6.1% in the prior year period. The slight increase in blended borrowing cost was due to a year over year increase in interest rates on floating rate debt.

**Interest Income.** Interest income increased to $0.8 million in the current period compared to the prior year period, primarily due to interest income from two subordinated notes received in the sale of the Company s foreign pawn lending operations.

**Foreign Currency Transaction Losses.** Exchange rate changes between the United States dollar and the Swedish kronor resulted in losses of $0.9 million in the current period on the two subordinated notes received in the sale of the Company s foreign pawn lending operations.

**Income Taxes.** The Company s effective tax rate for continuing operations for the current period was 37.1% as compared to 37.0% for the prior year period.

## LIQUIDITY AND CAPITAL RESOURCES

The Company s cash flows and other key indicators of liquidity are summarized as follows ($ in millions):

| | Six Months Ended June 30, | |
|---|---|---|
| | 2005 | 2004 |
| Operating activities cash flows | $ 47.7 | $ 33.5 |
| Investing activities cash flows: | | |
| Pawn loans | (8.0) | (5.6) |
| Cash advances | (21.9) | (7.4) |
| Acquisitions | (4.4) | (2.9) |
| Property and equipment additions | (12.7) | (11.1) |
| Financing activities cash flows | (4.0) | (9.3) |
| Working capital [(a)] | $ 222.7 | $ 158.0 |
| Current ratio [(a)] | 5.1x | 4.6x |
| Merchandise turnover | 2.8x | 3.2x |

[(a)] Excludes discontinued operations for 2004.

**Cash flows from operating activities.** Net cash provided by operating activities was $47.7 million for the current period. Net cash generated from the Company s pawn lending operations, cash advance operations and check cashing operations were $33.1 million, $14.0 million, and $0.6 million, respectively. The improvement in cash flows from operating activities in the current period as compared to the prior year period was due to the improvement in results of pawn lending operations including the addition of SuperPawn stores and the growth and development of cash advance locations opened in recent periods.

**Cash flows from investing activities.** The seasonal increase in balances due to higher lending activities and the acquisition of SuperPawn led to increases in the Company s investment in pawn loans and cash advances during the current period that used cash of $8.0 million and $21.9 million, respectively. The Company paid $4.2 million for the acquisition of two pawnshops and one cash advance location in the current quarter and an additional cost of $0.2 million for acquisitions made in the second half of 2004. The Company invested $12.7 million in property and equipment during the current period for the establishment of 19 cash advance locations and 3 pawn lending locations, the remodeling of selected operating units and ongoing enhancements to the information technology infrastructure, and other property additions.

Management anticipates that capital expenditures for the remainder of 2005 will be approximately $8 to $12 million primarily for the establishment of approximately 13 to 22 combined total of new cash advance only locations and pawnshops, for the remodeling of selected operating units and for enhancements to communications and information systems. The additional capital required to pursue acquisition opportunities is not included in the estimate of capital expenditures because of the uncertainties surrounding potential transactions of this nature.

**Cash flows from financing activities.** During the current period, the Company had net borrowings of $9.4 million on the bank line of credit and paid loan costs of $0.9 million for the amendment of the line of credit agreement. The Company also made repayments of $4.1 million on senior unsecured notes and a $2.7 million prepayment of the 12% subordinated note that was issued in February 2004 as a partial consideration of the final payment pursuant to an amended asset purchase agreement. Additional uses of cash included $1.4 million for dividends and $4.6 million for the purchase of treasury shares. On July 25, 2002, the Company s Board of Directors authorized management to purchase up to one million shares of its common stock in the open market (the 2002 authorization ). On April 20, 2005, the Board of Directors authorized the Company s repurchase of up to a total of 1,500,000 shares of its common stock (the 2005 authorization ) and terminated the 2002 authorization. During the six months ended June 30, 2005, the Company purchased 122,000 shares for an aggregate amount of $2.9 million under the 2002 authorization and 108,800 shares for an aggregate amount of $1.7 million under the 2005 authorization. Purchases will be made from time to time in the open market, and it is expected that funding will come from operating cash flow. During the current period, stock options for 42,800 shares were exercised by officers and employees and generated proceeds of $0.4 million of additional equity.

In February 2005, the Company amended and restated the existing line of credit agreement to increase the credit limit to $250.0 million and extend the maturity to February 2010. Interest on the amended line of credit is charged, at the Company s option, at either LIBOR plus a margin or at the agent s base rate. The margin on the line of credit varies from 0.875% to 1.875% depending on the Company s cash flow leverage ratios as defined in the amended agreement (1.125% at June 30, 2005). The Company pays a fee on the unused portion ranging from 0.25% to 0.30% (0.25% at June 30, 2005) based on the Company s cash flow leverage ratios as defined in the amended agreement.

The credit agreements and the senior unsecured notes require the Company to maintain certain financial ratios. The Company is in compliance with all covenants and other requirements set forth in its debt agreements. A significant decline in demand for the Company s products and services may cause the Company to reduce its planned level of capital expenditures and lower its working capital needs in order to maintain compliance with the financial ratios in those agreements. A violation of the credit agreements could result in an acceleration of the Company s debt and increase the Company s borrowing costs and could even adversely affect the Company s ability to renew existing credit facilities, or obtain access to new credit facilities in the future. The Company does not anticipate a significant decline in demand for its services and has historically been successful in maintaining compliance with and renewing its debt agreements.

Management believes that the borrowings available ($145.7 million at June 30, 2005) under the credit facilities, cash generated from operations and current working capital of $222.7 million should be sufficient to meet the Company s anticipated future capital requirements.

## CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE RESULTS

This quarterly report, including Management s Discussion and Analysis of Financial Condition and Results of Operations, contains statements that are forward-looking, as that term is defined by the Private Securities Litigation Reform Act of 1995 or by the Securities and Exchange Commission in its rules. The Company intends that all forward-looking statements be subject to the safe harbors created by these laws and rules. When used in this quarterly report on Form 10-Q, the words believes , estimates , plans , expects , anticipates , and similar expressions as they r to the Company or its management are intended to identify forward-looking statements. All forward-looking statements are based on current expectations regarding important risk factors. These risks and uncertainties are beyond the ability of the Company to control, and, in many cases, the Company cannot predict all of the risks and uncertainties that could cause its actual results to differ materially from those expressed in the forward-looking statements. Accordingly, actual results may differ materially from those expressed in the forward-looking statements, and such statements should not be regarded as a representation by the Company or any other person that the results expressed in the statements will be achieved.

### Risk Factors

Important risk factors that could cause results or events to differ from current expectations are described below. These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect the operations, performance, development and results of the Company s business.

**Changes in customer demand for the Company s products and specialty financial services could adversely affect results.** Although the Company s products and services are a staple of its customer base, a significant change in the needs or wants of customers and the Company s failure to adapt to those needs or wants could result in a significant decrease in the revenues of the Company. From time to time the Company may implement changes to the products and services it makes available to customers and the impact any change may have on the results of the Company s business may not be fully ascertainable until the change has been in effect for some time. Some of the cash advance products and services offered through the Company s business are changing as a result of the revised FDIC guidance that took effect of July 1, 2005. The impact these changes will have on the Company s business is not yet certain.

**The actions of third-parties who offer products, services or support at the Company s locations could adversely affect results.** The Company makes products and services available to its customers through various third parties. A failure of a third-party provider to provide its product or service or to maintain the quality and consistency of its product or service could result in a loss of customers and a related loss in revenue from those products or services. The Company also utilizes third parties to support and maintain certain of its computerized point-of-sale and information systems. The failure of such a third-party to fulfill its support and maintenance obligations could cause a disruption in the Company s unit operations.

**Circumstances could adversely affect the ability of the Company to open and acquire new operating units in accordance with its plans.** The Company s expansion program is subject to numerous factors which cannot be predicted or controlled, such as the availability of attractive acquisition candidates and the Company s ability to attract, train and retain qualified unit management personnel. Another such factor is the availability of sites with acceptable restrictions and suitable terms and general economic conditions.

**Changes in competition from various sources such as banks, savings and loans, short-term consumer lenders, and other similar financial services entities, as well as retail businesses that offer products and services offered by the Company, could put additional pressure on the Company.**

The Company encounters significant competition in connection with its lending and merchandise disposition operations from other pawnshops, cash advance companies and other forms of financial institutions such as consumer finance companies. Significant increases in these competitive influences could adversely affect the Company s operations through a decrease in the number of cash advances and pawn loans originated, resulting in lower levels of earning assets in these categories.

**Changes in economic conditions could reduce earnings.** While the credit risk for most of the Company s consumer lending is mitigated by the collateralized nature of pawn lending, a sustained deterioration in the economic environment could adversely affect the Company s operations through a deterioration in performance of its pawn loan or cash advance portfolios, or by reducing consumer demand for the purchase of pre-owned merchandise.

**Adverse real estate market fluctuations could affect the Company s profits.** A significant rise in real estate prices could result in an increase in the cost of store leases as the Company opens new locations and renews leases for existing locations.

**Interest rates could rise and affect earnings.** Although the softness in the U.S. economy over the past several years has resulted in relatively low interest rates offered by lending institutions, the Federal Reserve Bank has embarked on a program to gradually increase the federal funds rates. If current trends continue in interest rates, this could increase the cost of borrowing to the Company.

**Changes in the capital markets or the Company s financial condition could reduce available capital.** The Company regularly accesses the debt capital markets to refinance existing debt obligations and to obtain capital to finance growth. Efficient access to these markets is critical to the Company s ongoing financial success; however, the Company s future access to the debt capital markets could become restricted should the Company experience deterioration of its cash flows, balance sheet quality, or overall business or industry prospects.

**Changes in tax and other laws and governmental rules and regulations applicable to the specialty financial services industry can have adverse effects**. The Company s products and services are subject to extensive regulation and supervision under various federal, state and local laws, ordinances and regulations. The Company faces the risk that the enactment, change, or interpretation of laws and regulations could have a negative impact on the Company s business activities.

**Other factors discussed under Quantitative and Qualitative Disclosures about Market Risk in Item 3 of this Form 10-Q and in the Company s 2004 Annual Report to Stockholders.**

**Other risks indicated in the Company s filings with the Securities and Exchange**

**Commission.**

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risks relating to the Company s operations result primarily from changes in interest rates, foreign exchange rates, and gold prices. The Company does not engage in speculative or leveraged transactions, nor does it hold or issue financial instruments for trading purposes. There have been no material changes to the Company s exposure to market risks since December 31, 2004.

## Item 4. Controls and Procedures

Under the supervision and with the participation of the Company s Chief Executive Officer and Chief Financial Officer, management of the Company has evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of June 30, 2005 ( Evaluation Date ). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company s disclosure controls and procedures are effective in timely alerting them to the material information relating to the Company required to be included in its periodic filings with the Securities and Exchange Commission.

There have been no significant changes during the quarter ended June 30, 2005 in the Company s internal control over financial reporting that were identified in connection with management s evaluation described in Item 4 above and has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

The Company s management, including its Chief Executive Officer and Chief Financial Officer, does not expect that the Company s disclosure controls and procedures or internal controls will prevent all possible error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

See Note 12 of Notes to Consolidated Financial Statements.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(e) The following table provides the information with respect to purchases made by the Company of shares of its common stock during each of the months in the second quarter of 2005:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan | Maximum Number of Shares that May Yet Be Purchased Under the Plan[1] |
|---|---|---|---|---|
| April 1 to April 30 | 55,832[2] | $ 15.62 | 55,000 | 1,445,000 |
| May 1 to May 31 | 46,719[3] | 15.65 | 45,000 | 1,400,000 |
| June 1 to June 30 | 9,475[4] | 17.56 | 8,800 | 1,391,200 |

| | | | |
|---|---|---|---|
| Total | 112,026 | $ 15.80 | 108,800 |

[1] On April 20, 2005, the Board of Directors authorized the Company s repurchase of up to a total of 1,500,000 shares of its common stock and terminated the open market purchase authorization established in 2002. Maximum number of shares that may yet to be purchased represents the shares under the 2005 authorization.

[2] Includes 832 shares purchased on behalf of participants relating to the Company s Non-Qualified Savings Plan.

[3] Includes 1,719 shares purchased on behalf of participants relating to the Company s Non-Qualified Savings Plan.

[4] Includes 675 shares purchased on behalf of participants relating to the Company s Non-Qualified Savings Plan.

### Item 4. Submission of Matters to a Vote of Security Holders

On April 20, 2005, the Company s Annual Meeting of Shareholders was held. All of the nominees for director identified in the Company s Proxy Statement, filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, were elected at the meeting to hold office until the next Annual Meeting or until their successors are duly elected and qualified. The shareholders ratified the Company s selection of independent auditors. There was no other business brought before the meeting that required shareholder approval. Votes were cast in the matters described below as follows (there were no broker non-votes or abstentions other than those listed below):

| | | For | Withheld |
|---|---|---|---|
| (a) | Election of directors: | | |
| | Jack R. Daugherty | 23,951,113 | 1,627,454 |
| | A. R. Dike | 24,547,843 | 1,030,724 |
| | Daniel R. Feehan | 24,427,643 | 1,150,924 |
| | James H. Graves | 25,316,272 | 262,295 |
| | B. D. Hunter | 24,505,524 | 1,073,043 |
| | Timothy J. McKibben | 25,316,038 | 262,529 |
| | Alfred M. Micallef | 25,313,277 | 265,290 |
| (b) | Ratification of Independent Auditors | 25,445,386 | 133,181 |

### Item 6. Exhibits

10.1 Administrative Credit Services Agreement, dated July 1, 2005, by and between Cash America Financial Services, Inc. and NCP Finance Limited Partnership

10.2 Administrative Credit Services Agreement, dated July 1, 2005, by and between Cash America Financial Services, Inc. and NCP Finance Michigan, LLC

10.3 Administrative Credit Services Agreement, dated July 1, 2005, by and between Cash America Financial Services, Inc. and NCP Finance Florida, LLC

10.4 Administrative Credit Services Agreement, dated July 1, 2005, by and between Cash America Financial Services, Inc. and Midwest R&S Corporation

10.5 Guaranty dated July 1, 2005 by Cash America International, Inc. for the benefit of NCP Finance Limited Partnership

10.6 Guaranty dated July 1, 2005 by Cash America International, Inc. for the benefit of NCP Finance Michigan, LLC

10.7 Guaranty dated July 1, 2005 by Cash America International, Inc. for the benefit of NCP Finance Florida, LLC

10.8 Guaranty dated July 1, 2005 by Cash America International, Inc. for the benefit of Midwest R&S Corporation

31.1 Certification of Chief Executive Officer

31.2 Certification of Chief Financial Officer

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CASH AMERICA INTERNATIONAL, INC.

(Registrant)

By: /s/ Thomas A. Bessant, Jr.

Thomas A. Bessant, Jr.
Executive Vice President and
Chief Financial Officer

Date: July 22, 2005