

CASH AMERICA INTERNATIONAL INC

Form 10-Q

April 22, 2005

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2005

OR

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

For the transition period from _____ to _____

Commission File Number 1-9733

CASH AMERICA INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of
incorporation or organization)

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

1600 West 7th Street
Fort Worth, Texas
(Address of principal executive offices)

76102
(Zip Code)

(817) 335-1100
(Registrant's telephone number, including area code)

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

29,296,316 common shares, \$.10 par value, were outstanding as of April 15, 2005

CASH AMERICA INTERNATIONAL, INC.

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

	March 31,		December
	2005	2004	31,
	(Unaudited)		2004
Assets			
Current assets:			
Cash and cash equivalents	\$ 11,874	\$ 9,230	\$ 15,103
Pawn loans	97,307	73,017	109,353
Cash advances, net	30,318	23,976	36,490
Merchandise held for disposition, net	59,466	43,233	67,050
Finance and service charges receivable	17,789	13,763	20,458
Other receivables and prepaid expenses	11,941	8,028	10,547
Deferred tax assets	8,372	6,468	9,293
Current assets of discontinued operations		83,687	
Total current assets	237,067	261,402	268,294
Property and equipment, net	88,906	68,357	87,612
Goodwill	164,374	104,477	164,073
Intangible assets, net	23,558	4,457	24,361
Other assets	11,212	1,811	10,825
Non-current assets of discontinued operations		30,934	
Total assets	\$ 525,117	\$ 471,438	\$ 555,165
Liabilities and Stockholders Equity			
Current liabilities:			
Accounts payable and accrued expenses	\$ 27,054	\$ 24,977	\$ 33,854
Customer deposits	6,358	4,858	5,686
Income taxes currently payable	6,009	3,764	2,505
Current portion of long-term debt	16,786	8,286	16,786
Current liabilities of discontinued operations		2,909	
Total current liabilities	56,207	44,794	58,831
Deferred tax liabilities	10,520	5,830	10,999

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Other liabilities	1,404	1,454	1,559
Long-term debt	113,617	113,892	149,840
Non-current liabilities of discontinued operations.		16,221	
Stockholders' equity:			
Common stock, \$.10 par value per share, 80,000,000 shares authorized, 30,235,164 shares issued	3,024	3,024	3,024
Additional paid-in capital	154,945	142,743	154,294
Retained earnings	199,050	152,538	187,860
Accumulated other comprehensive income		8,879	
Notes receivable secured by common stock	(2,488)	(2,488)	(2,488)
Treasury shares, at cost (997,620 shares, 1,956,372 shares and 938,386 shares at March 31, 2005 and 2004, and December 31, 2004, respectively)	(11,162)	(15,449)	(8,754)
Total stockholders' equity	343,369	289,247	333,936
Total liabilities and stockholders' equity	\$ 525,117	\$ 471,438	\$ 555,165

See notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2005	2004
	(Unaudited)	
Revenue		
Finance and service charges	\$ 33,919	\$ 26,872
Proceeds from disposition of merchandise	78,741	67,048
Cash advance fees	28,310	19,656
Check cashing royalties and fees	4,019	3,442
Total Revenue	144,989	117,018
Cost of Revenue		
Disposed merchandise	47,955	40,829
Net Revenue	97,034	76,189
Expenses		
Operations	53,673	41,568
Cash advance loss provision	5,634	3,044
Administration	10,909	11,107
Depreciation and amortization	5,566	3,924
Total Expenses	75,782	59,643
Income from Operations	21,252	16,546
Interest expense	2,337	2,131
Interest income	(418)	(39)
Foreign currency transaction losses	484	
Income from Continuing Operations before Income Taxes	18,849	14,454
Provision for income taxes	6,947	5,312
Income from Continuing Operations	11,902	9,142

Income from discontinued operations before income taxes		3,232
Provision for income taxes		984
Income from discontinued operations		2,248
Net Income	\$ 11,902	\$ 11,390
Earnings Per Share:		
Basic		
Income from continuing operations	\$ 0.41	\$ 0.32
Income from discontinued operations	\$	\$ 0.08
Net income	\$ 0.41	\$ 0.40
Diluted		
Income from continuing operations	\$ 0.39	\$ 0.31
Income from discontinued operations	\$	\$ 0.08
Net income	\$ 0.39	\$ 0.39
Weighted average common shares outstanding:		
Basic	29,332	28,241
Diluted	30,396	29,453
Dividends declared per common share	\$ 0.0250	\$ 0.0175

See notes to consolidated financial statements.

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

	2005		March 31, 2004	
	Shares	Amounts	Shares	Amounts
		(Unaudited)		
Common stock				
Balance at March 31	30,235,164	\$ 3,024	30,235,164	\$ 3,024
Additional paid-in capital				
Balance at beginning of year		154,294		141,867
Exercise of stock options		56		218
Issuance of shares under restricted stock units plan		(99)		
Stock-based compensation		412		239
Tax benefit from exercise of stock options		282		419
Balance at March 31		154,945		142,743
Retained earnings				
Balance at beginning of year		187,860		141,642
Net income		11,902		11,390
Dividends declared		(712)		(494)
Balance at March 31		199,050		152,538
Accumulated other comprehensive income				
Balance at beginning of year				7,995
Foreign currency translation adjustments				884
Balance at March 31				8,879
Notes receivable secured by common stock				
Balance at March 31		(2,488)		(2,488)
Treasury shares, at cost				
Balance at beginning of year	(938,386)	(8,754)	(2,040,180)	(15,547)
Purchases of treasury shares	(112,869)	(2,899)	(31,993)	(777)
Exercise of stock options	42,800	392	115,801	875

Issuance of shares under restricted stock units plan	10,835	99		
Balance at March 31	(997,620)	(11,162)	(1,956,372)	(15,449)
Total Stockholders Equity			\$ 343,369	\$ 289,247

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended March 31, 2005 2004 (Unaudited)	
Net income	\$ 11,902	\$ 11,390
Other comprehensive income, net of tax of \$0 - Foreign currency translation adjustments		884
Total Comprehensive Income	\$ 11,902	\$ 12,274

See notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2005	2004
	(Unaudited)	
Cash Flows from Operating Activities		
Net income	\$ 11,902	\$ 11,390
Less: Income from discontinued operations		2,248
Income from continuing operations	11,902	9,142
Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	5,566	3,924
Cash advance loss provision	5,634	3,044
Stock-based compensation expense	412	239
Foreign currency transaction losses	484	
Changes in operating assets and liabilities -		
Merchandise held for disposition	(396)	1,960
Finance and service charges receivable	2,908	2,068
Other receivables and prepaid expenses	(1,355)	(654)
Accounts payable and accrued expenses	(6,907)	(9,421)
Customer deposits, net	672	756
Current income taxes	3,786	7,036
Deferred income taxes, net	442	1,178
Net cash provided by operating activities of continuing operations	23,148	19,272
Cash Flows from Investing Activities		
Pawn loans made	(79,239)	(66,194)
Pawn loans repaid	57,307	45,739
Principal recovered on forfeited loans through dispositions	41,406	32,831
Cash advances made, assigned or purchased	(116,901)	(84,724)
Cash advances repaid	117,152	85,926
Acquisitions, net of cash acquired	(159)	(2,900)
Purchases of property and equipment	(5,618)	(4,139)
Net cash provided by investing activities of continuing operations	13,948	6,539
Cash Flows from Financing Activities		
Net repayments under bank lines of credit	(31,937)	(24,076)
Payments on notes payable	(4,286)	(4,286)

Loan costs paid	(940)	
Proceeds from exercise of stock options	449	1,093
Treasury shares purchased	(2,899)	(777)
Dividends paid	(712)	(494)
Net cash used by financing activities of continuing operations	(40,325)	(28,540)
Net decrease in cash and cash equivalents	(3,229)	(2,729)
Cash and cash equivalents at beginning of year	15,103	11,959
Cash and cash equivalents at end of period	\$ 11,874	\$ 9,230

Supplemental Disclosures

Non-cash investing and financing activities of continuing operations:

Pawn loans forfeited and transferred to merchandise held for disposition	\$ 33,978	\$ 28,592
Pawn loans renewed	\$ 18,591	\$ 10,370
Cash advances renewed	\$ 2,415	\$ 1,723
Note payable issued in settlement of purchase transaction	\$	\$ 2,500

See notes to consolidated financial statements.

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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 March 31, 2005 and 2004, and for the three 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 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 months ended March 31, 2004 in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. See Note 9.

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 month period ended March 31, 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 AMERICA 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 granted under the Plans have contractual terms of 5 to 15 years and have an exercise price equal to or greater than the fair market value of the stock at grant date. Stock options granted 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 three months ended March 31, 2004, 551,547 shares vested due to the acceleration provisions. No accelerated vesting of stock options occurred during the three months ended March 31, 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 issued Statement of Financial Accounting Statement 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).

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

Included in the pro forma amounts below for the 2004 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 shares of the Company. As a result, the pro forma compensation expense of those options is moved forward into the 2004 period, eliminating it from future years had scheduled vesting occurred during the remainder of 2004 through 2007.

	Three Months Ended March 31,	
	2005	2004
Net income as reported	\$ 11,902	\$ 11,390
Deduct: Stock option compensation expense ^(a)		810