

CASH AMERICA INTERNATIONAL INC

Form 10-Q

July 25, 2008

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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 June 30, 2008

OR

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

**For the transition period from _____ to _____
Commission File Number 1-9733**

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of
incorporation or organization)

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

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

76102
(Zip Code)

(817) 335-1100

(Registrant's telephone number, including area code)

NONE

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

29,068,226 common shares, \$.10 par value, were outstanding as of July 14, 2008

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

	June 30, 2008	2007	December 31, 2007
	(Unaudited)		
Assets			
Current assets:			
Cash and cash equivalents	\$ 29,963	\$ 26,207	\$ 22,725
Pawn loans	142,211	131,528	137,319
Cash advances, net	85,492	77,948	88,148
Merchandise held for disposition, net	96,807	83,522	98,134
Finance and service charges receivable	27,009	24,362	26,963
Other receivables and prepaid expenses	14,297	15,740	16,292
Deferred tax assets	22,271	21,722	20,204
Total current assets	418,050	381,029	409,785
Property and equipment, net	172,785	135,256	161,676
Goodwill	403,886	253,477	306,221
Intangible assets, net	21,423	25,538	23,484
Other assets	7,545	13,024	3,478
Total assets	\$ 1,023,689	\$ 808,324	\$ 904,644
Liabilities and Stockholders Equity			
Current liabilities:			
Accounts payable and accrued expenses	\$ 62,908	\$ 53,808	\$ 65,399
Accrued supplemental acquisition payment	56,000	14,250	22,000
Customer deposits	8,673	8,388	7,856
Income taxes currently payable	2,284	994	3,755
Current portion of long-term debt	8,500	16,786	8,500
Total current liabilities	138,365	94,226	107,510
Deferred tax liabilities	23,421	13,368	18,584
Other liabilities	2,025	1,589	1,671
Long-term debt	323,146	232,896	280,277
Total liabilities	486,957	342,079	408,042

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Stockholders' equity:

Common stock, \$.10 par value per share, 80,000,000 shares authorized, 30,235,164 shares issued	3,024	3,024	3,024
Additional paid-in capital	162,977	162,620	163,581
Retained earnings	407,086	318,328	363,180
Accumulated other comprehensive (loss) income	(1)	8	16
Notes receivable secured by common stock		(18)	
Treasury shares, at cost (1,222,742 shares, 683,754 shares and 1,136,203 shares at June 30, 2008 and 2007, and December 31, 2007, respectively)	(36,354)	(17,717)	(33,199)
Total stockholders' equity	536,732	466,245	496,602
Total liabilities and stockholders' equity	\$ 1,023,689	\$ 808,324	\$ 904,644

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME***(in thousands, except per share data)*

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	(Unaudited)			
Revenue				
Finance and service charges	\$ 43,390	\$ 37,194	\$ 86,811	\$ 75,625
Proceeds from disposition of merchandise	108,089	85,808	224,672	185,976
Cash advance fees	92,849	86,947	178,309	165,463
Check cashing fees, royalties and other	3,651	3,932	9,121	9,689
Total Revenue	247,979	213,881	498,913	436,753
Cost of Revenue				
Disposed merchandise	66,741	52,784	138,257	114,709
Net Revenue	181,238	161,097	360,656	322,044
Expenses				
Operations	79,946	75,588	160,077	148,754
Cash advance loss provision	34,733	42,328	61,867	75,076
Administration	21,138	12,248	39,688	25,749
Depreciation and amortization	9,527	7,899	18,658	15,433
Total Expenses	145,344	138,063	280,290	265,012
Income from Operations	35,894	23,034	80,366	57,032
Interest expense	(3,204)	(3,996)	(6,713)	(7,744)
Interest income	76	439	107	857
Foreign currency transaction (loss) gain	(68)	14	(72)	58
Income before Income Taxes	32,698	19,491	73,688	50,203
Provision for income taxes	12,561	6,282	27,740	17,760
Net Income	\$ 20,137	\$ 13,209	\$ 45,948	\$ 32,443

Earnings Per Share:

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Basic	\$ 0.69	\$ 0.44	\$ 1.57	\$ 1.09
Diluted	\$ 0.67	\$ 0.43	\$ 1.53	\$ 1.06

Weighted average common shares outstanding:

Basic	29,326	29,833	29,348	29,852
Diluted	30,094	30,557	30,103	30,579

Dividends declared per common share	\$ 0.035	\$ 0.035	\$ 0.070	\$ 0.070
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See notes to consolidated financial statements.

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

	2008	June 30,		2007
	Shares	Amounts	Shares	Amounts
		(Unaudited)		
Common stock				
Balance at end of period	30,235,164	\$ 3,024	30,235,164	\$ 3,024
Additional paid-in capital				
Balance at beginning of year		163,581		161,683
Shares issued under stock based plans		(3,261)		(822)
Stock-based compensation expense		2,020		1,493
Income tax benefit from stock based compensation		637		266
Balance at end of period		162,977		162,620
Retained earnings				
Balance at beginning of year		363,180		287,962
Net income		45,948		32,443
Dividends declared		(2,042)		(2,077)
Balance at end of period		407,086		318,328
Accumulated other comprehensive income (loss)				
Balance at beginning of year		16		20
Unrealized derivatives loss		(4)		(12)
Foreign currency translation loss, net of taxes		(13)		
Balance at end of period		(1)		8
Notes receivable secured by common stock				
Balance at beginning of year				(18)
Payments on notes receivable				
Balance at end of period				(18)
Treasury shares, at cost				
Balance at beginning of year	(1,136,203)	(33,199)	(565,840)	(11,943)
Purchases of treasury shares	(215,821)	(7,011)	(157,412)	(6,645)

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Shares issued under stock based plans	129,282	3,856	39,498	871
Balance at end of period	(1,222,742)	(36,354)	(683,754)	(17,717)
Total Stockholders Equity		\$ 536,732		\$ 466,245

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
			(Unaudited)	
Net income	\$ 20,137	\$ 13,209	\$ 45,948	\$ 32,443
Other comprehensive income (loss):				
Unrealized derivatives gain (loss) ⁽¹⁾	10	(1)	(4)	(12)
Foreign currency translation loss ⁽²⁾	(10)		(13)	
Total Comprehensive Income	\$ 20,137	\$ 13,208	\$ 45,931	\$ 32,431

(1) Net of tax (provision) benefit of \$(5) and \$7 for the three months and \$2 and \$7 for the six months ended June 30, 2008 and 2007, respectively.

(2) Net of tax benefit of \$10 and \$12 for the three and six months ended June 30, 2008, respectively.

See notes to consolidated financial statements.

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

	Six months ended June 30,	
	2008	2007
	(Unaudited)	
Cash Flows from Operating Activities		
Net income	\$ 45,948	\$ 32,443
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,656	15,433
Cash advance loss provision	61,867	75,076
Stock-based compensation	2,020	1,493
Foreign currency transaction loss (gain)	52	(57)
Changes in operating assets and liabilities -		
Merchandise held for disposition	(5,667)	3,063
Finance and service charges receivable	(721)	621
Prepaid expenses and other assets	(2,715)	435
Accounts payable and accrued expenses	(2,632)	(3,364)
Customer deposits, net	814	924
Current income taxes	(836)	(1,431)
Excess income tax benefit from stock-based compensation	(637)	(266)
Deferred income taxes, net	2,785	(4,792)
Net cash provided by operating activities	118,934	119,578
Cash Flows from Investing Activities		
Pawn loans made	(235,653)	(204,386)
Pawn loans repaid	126,897	112,319
Principal recovered through dispositions of forfeited loans	111,061	89,236
Cash advances made, assigned or purchased	(552,682)	(549,336)
Cash advances repaid	494,645	477,412
Acquisitions, net of cash acquired	(63,919)	(36,922)
Purchases of property and equipment	(27,620)	(29,188)
Proceeds from property insurance	744	527
Net cash used by investing activities	(146,527)	(140,338)
Cash Flows from Financing Activities		
Net borrowings under bank lines of credit	42,869	34,219
Payments on notes payable		(4,286)
Loan costs paid	(194)	(282)
Proceeds from exercise of stock options	597	49
Excess income tax benefit from stock-based compensation	637	266
Treasury shares purchased	(7,011)	(6,645)
Dividends paid	(2,042)	(2,077)
Net cash provided by financing activities	34,856	21,244

Effect of exchange rates on cash	(25)	
Net increase in cash and cash equivalents	7,238	484
Cash and cash equivalents at beginning of year	22,725	25,723
Cash and cash equivalents at end of period	\$ 29,963	\$ 26,207

Supplemental Disclosures

Non-cash investing and financing activities

Pawn loans forfeited and transferred to merchandise held for disposition	\$ 104,024	\$ 88,564
Pawn loans renewed	\$ 45,674	\$ 34,986
Cash advances renewed	\$ 171,901	\$ 142,461

See notes to consolidated financial statements.

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

1. Significant Accounting Policies

Basis of Presentation

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

The financial statements as of June 30, 2008 and 2007 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.

Certain amounts in the consolidated financial statements for the three and six months ended June 30, 2007 have been reclassified to conform to the presentation format adopted in 2008. 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 2007 Annual Report to Shareholders.

Revenue Recognition

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

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

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

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

guaranteed loans is accrued and recorded as a liability. See Note 3.

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

Allowance for Losses on Cash Advances

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

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