

CASH AMERICA INTERNATIONAL INC

Form 10-Q

October 22, 2009

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

(Mark One)

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

**For the quarterly period ended September 30, 2009**

**OR**

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

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

**Commission File Number 1-9733**

(Exact name of registrant as specified in its charter)

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

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

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

**76102**  
(Zip Code)

**(817) 335-1100**

(Registrant's telephone number, including area code)

NONE

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

29,302,025 of the Registrant's common shares, \$.10 par value, were issued and outstanding as of October 16, 2009.



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

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

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

changes in demand for the Company's services,

the continued acceptance of the online distribution channel by the Company's cash advance customers,

the actions of third-parties who offer products and services to or for the Company,

fluctuations in the price of gold,

changes in competition,

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

changes in economic conditions,

real estate market fluctuations,

interest rate fluctuations,

changes in foreign currency exchange rates,

changes in the capital markets,

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

the loss of services of any of our executive officers,

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

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

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

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

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

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

	September 30, 2009	September 30, 2008	December 31, 2008
		(Unaudited)	
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 28,532	\$ 29,754	\$ 30,005
Pawn loans	190,478	158,226	168,747
Cash advances, net	93,472	87,034	83,850
Merchandise held for disposition, net	116,890	111,053	109,493
Finance and service charges receivable	36,228	29,658	33,063
Income taxes receivable		1,306	2,606
Other receivables and prepaid expenses	21,155	13,658	15,480
Deferred tax assets	23,894	22,088	22,037
Total current assets	510,649	452,777	465,281
Property and equipment, net	188,363	181,524	185,887
Goodwill	493,384	420,840	494,192
Intangible assets, net	28,787	21,634	35,428
Other assets	7,829	3,501	5,722
Total assets	\$1,229,012	\$1,080,276	\$1,186,510
<b>Liabilities and Equity</b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 73,804	\$ 66,414	\$ 79,759
Accrued supplemental acquisition payment		69,499	47,064
Customer deposits	9,547	8,754	8,814
Income taxes currently payable	5,258		
Current portion of long-term debt	17,512	8,500	15,810
Total current liabilities	106,121	153,167	151,447
Deferred tax liabilities	40,103	25,826	27,575
Noncurrent income tax payable	4,051		3,050
Other liabilities	3,929	2,202	2,359
Long-term debt	429,096	343,692	422,344
Total liabilities	\$ 583,300	\$ 524,887	\$ 606,775
Equity:			
Cash America International, Inc. equity:			

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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	166,278	163,678	160,007
Retained earnings	500,150	424,999	440,252
Accumulated other comprehensive loss	(1,607)	(59)	(3,964)
Treasury shares, at cost (965,371 shares, 1,218,075 shares and 818,772 shares at September 30, 2009 and 2008, and at December 31, 2008, respectively)	(27,759)	(36,253)	(24,278)
Total Cash America International, Inc. stockholders equity	640,086	555,389	575,041
Noncontrolling interest	5,626		4,694
Total equity	645,712	555,389	579,735
Total liabilities and equity	\$1,229,012	\$1,080,276	\$1,186,510

*See notes to consolidated financial statements.*

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Unaudited)			
<b>Revenue</b>				
Finance and service charges	\$ 59,920	\$ 46,977	\$ 167,159	\$ 133,788
Proceeds from disposition of merchandise	114,786	105,517	354,719	330,189
Cash advance fees	98,209	96,301	263,119	274,610
Check cashing fees, royalties and other	3,209	3,355	11,599	12,476
<b>Total Revenue</b>	<b>276,124</b>	<b>252,150</b>	<b>796,596</b>	<b>751,063</b>
<b>Cost of Revenue</b>				
Disposed merchandise	75,542	68,033	229,578	206,290
<b>Net Revenue</b>	<b>200,582</b>	<b>184,117</b>	<b>567,018</b>	<b>544,773</b>
<b>Expenses</b>				
Operations	89,368	82,319	261,284	243,553
Cash advance loss provision	37,690	40,950	91,642	102,817
Administration	21,875	15,359	66,031	53,890
Depreciation and amortization	10,219	9,298	30,953	27,956
<b>Total Expenses</b>	<b>159,152</b>	<b>147,926</b>	<b>449,910</b>	<b>428,216</b>
<b>Income from Operations</b>	<b>41,430</b>	<b>36,191</b>	<b>117,108</b>	<b>116,557</b>
Interest expense	(5,436)	(4,292)	(15,591)	(11,005)
Interest income	7	113	26	220
Foreign currency transaction gain (loss)	(150)	(5)	(19)	(77)
<b>Income before Income Taxes</b>	<b>35,851</b>	<b>32,007</b>	<b>101,524</b>	<b>105,695</b>
Provision for income taxes	13,103	13,082	37,732	40,822
<b>Net Income</b>	<b>22,748</b>	<b>18,925</b>	<b>63,792</b>	<b>64,873</b>
Less: Net income attributable to the noncontrolling interest	(270)		(797)	
<b>Net Income Attributable to Cash America International, Inc.</b>	<b>\$ 22,478</b>	<b>\$ 18,925</b>	<b>\$ 62,995</b>	<b>\$ 64,873</b>
<b>Earnings Per Share:</b>				
Net Income attributable to Cash America International, Inc. common stockholders:				
Basic	\$ 0.76	\$ 0.65	\$ 2.12	\$ 2.21

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Diluted	\$ 0.73	\$ 0.63	\$ 2.06	\$ 2.16
Weighted average common shares outstanding:				
Basic	29,702	29,266	29,757	29,321
Diluted	30,698	30,035	30,524	30,082
Dividends declared per common share	\$ 0.035	\$ 0.035	\$ 0.105	\$ 0.105

*See notes to consolidated financial statements.*

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

	2009	September 30,		2008
	Shares	Amounts	Shares	Amounts
	(Unaudited)			
<b>Common stock</b>				
Balance at end of period	30,235,164	\$ 3,024	30,235,164	\$ 3,024
<b>Additional paid-in capital</b>				
Balance at beginning of year		160,007		163,581
Shares issued under stock based plans		(6,019)		(3,496)
Stock-based compensation expense		2,351		3,016
Income tax benefit from stock based compensation		517		577
Issuance of convertible debt		9,422		
Balance at end of period		166,278		163,678
<b>Retained earnings</b>				
Balance at beginning of year		440,252		363,180
Net income attributable to Cash America International, Inc.		62,995		64,873
Dividends declared		(3,097)		(3,054)
Balance at end of period		500,150		424,999
<b>Accumulated other comprehensive (loss) income</b>				
Balance at beginning of year		(3,964)		16
Unrealized derivatives gain (loss )		31		(7)
Foreign currency translation gain (loss), net of taxes		2,326		(68)
Balance at end of period		(1,607)		(59)
<b>Treasury shares, at cost</b>				
Balance at beginning of year	(818,772)	(24,278)	(1,136,203)	(33,199)
Purchases of treasury shares	(392,852)	(10,543)	(219,021)	(7,144)
Shares issued under stock based plans	246,253	7,062	137,149	4,090
Balance at end of period	(965,371)	(27,759)	(1,218,075)	(36,253)

Total Cash America International, Inc. stockholders' equity	640,086	555,389
<b>Noncontrolling interests</b>		
Balance at beginning of year	4,694	
Income attributable to noncontrolling interests	797	
Foreign currency translation gain, net of taxes	135	
Balance at end of period	5,626	
Total equity	\$645,712	\$555,389

*See notes to consolidated financial statements.*

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

	Three Months Ended September 30, 2009    2008 (Unaudited)		Nine Months Ended September 30, 2009    2008 (Unaudited)	
<b>Net income</b>	<b>\$22,748</b>	<b>\$18,925</b>	<b>\$63,792</b>	<b>\$64,873</b>
<b>Other comprehensive gain (loss), net of tax:</b>				
Unrealized derivatives gain (loss) <sup>(1)</sup>	(30)	(3)	31	(7)
Foreign currency translation gain (loss) <sup>(2)</sup>	(2,185)	(55)	2,326	(68)
Total other comprehensive gain (loss), net of tax	(2,215)	(58)	2,357	(75)
<b>Comprehensive income</b>	<b>\$20,533</b>	<b>\$18,867</b>	<b>\$66,149</b>	<b>\$64,798</b>
Less: Net income attributable to the noncontrolling interest	(270)		(797)	
Foreign currency translation gain (loss) attributable to the noncontrolling interest	(133)		135	
<b>Total Comprehensive income attributable to the noncontrolling interest</b>	<b>(403)</b>		<b>(662)</b>	
<b>Comprehensive Income attributable to Cash America International, Inc.</b>	<b>\$20,130</b>	<b>\$18,867</b>	<b>\$65,487</b>	<b>\$64,798</b>

(1) Net of tax benefit/(provision) of \$24 and \$2 for the three months ended and \$(9) and \$4 for the nine months ended September 30, 2009 and 2008, respectively.

(2) Net of tax (provision)/benefit of \$89 and \$25 for the three months ended and \$(152) and \$25 for the nine months ended September 30, 2009 and 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)*

	Nine Months Ended September 30,	
	2009	2008
	(Unaudited)	
<b>Cash Flows from Operating Activities</b>		
Net Income	\$ 63,792	\$ 64,873
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,953	27,956
Amortization of discount on convertible debt	1,154	
Cash advance loss provision	91,642	102,817
Loss on disposal of property and equipment	801	
Stock-based compensation	2,351	3,016
Foreign currency transaction (gain) loss	19	77
Deferred income taxes, net	6,146	5,399
Changes in operating assets and liabilities		
Merchandise held for disposition	(12,530)	(12,434)
Finance and service charges receivable	(1,257)	(3,510)
Prepaid expenses and other assets	(7,103)	(2,874)
Accounts payable and accrued expenses	(4,115)	1,355
Customer deposits, net	726	895
Current income taxes	8,381	(4,484)
Excess income tax benefit from stock-based compensation	(517)	(577)
Non current income taxes payable	914	
<b>Net cash provided by operating activities</b>	<b>181,357</b>	<b>182,509</b>
<b>Cash Flows from Investing Activities</b>		
Pawn loans made	(459,391)	(371,381)
Pawn loans repaid	262,447	184,398
Principal recovered through dispositions of forfeited loans	180,833	165,794
Cash advances made, assigned or purchased	(882,408)	(843,651)
Cash advances repaid	779,972	744,204
Acquisitions, net of cash acquired	(42,481)	(65,220)
Purchases of property and equipment	(29,418)	(44,461)
Proceeds from property insurance	517	864
<b>Net cash used in investing activities</b>	<b>(189,929)</b>	<b>(229,453)</b>
<b>Cash Flows from Financing Activities</b>		
Net repayments under bank lines of credit	(74,622)	71,915
Issuance of long-term debt	115,000	
Net proceeds from re-issuance of treasury shares	1,043	594
Loan costs paid	(3,943)	(310)

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Payments on notes payable and other obligations	(18,500)	(8,500)
Excess income tax benefit from stock-based compensation	517	577
Treasury shares purchased	(10,543)	(7,144)
Dividends paid	(3,097)	(3,054)
<b>Net cash provided by financing activities</b>	<b>5,855</b>	<b>54,078</b>
Effect of exchange rates on cash	1,244	(105)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(1,473)</b>	<b>7,029</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>30,005</b>	<b>22,725</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 28,532</b>	<b>\$ 29,754</b>
<b>Supplemental Disclosures</b>		
<b>Non-cash investing and financing activities</b>		
Pawn loans forfeited and transferred to merchandise held for disposition	\$ 175,700	\$ 166,235
Pawn loans renewed	\$ 81,510	\$ 71,173
Cash advances renewed	\$ 246,996	\$ 270,996

*See notes to consolidated financial statements.*

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

**1. Significant Accounting Policies**

**Basis of Presentation**

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

The financial statements as of September 30, 2009 and 2008 and for the three and nine month periods then ended are unaudited but, in management's opinion, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for such interim periods. Operating results for the three and nine month periods are not necessarily indicative of the results that may be expected for the full fiscal year.

Certain amounts in the consolidated financial statements for the three and nine months ended September 30, 2008 have been reclassified to conform to the presentation format adopted in 2009. These reclassifications have no effect on the net income previously reported.

The Company has a contractual relationship with a third-party entity, Huminal, S.A. de C.V., a Mexican sociedad anónima de capital variable (Huminal), to compensate and maintain the labor force of its Mexico pawn operations, of which the Company is a majority owner due to the December 16, 2008 acquisition (the Prenda Fácil acquisition) by the Company of 80% of the outstanding stock of Creazione Estilo, S.A. de C.V., SOFOM, E.N.R., a Mexican sociedad anónima de capital variable, sociedad financiera de objeto múltiple, entidad no regulada (Creazione), operating under the name Prenda Fácil (referred to as Prenda Fácil). The Company has no ownership interest in Huminal; however, Prenda Fácil qualifies as the primary beneficiary of Huminal in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810-10-50, *Variable Interest Entities*.

These financial statements and related notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

**Foreign Currency Translations**

The functional currencies for the Company's subsidiaries that serve residents of the United Kingdom, Australia, and Mexico are the British pound, the Australian dollar and the Mexican peso, respectively. The assets and liabilities of these subsidiaries are translated into U.S. dollars at the exchange rates in effect at each balance sheet date, and the resulting adjustments are accumulated in other comprehensive income (loss) as a separate component of equity. Revenue and expenses are translated at the monthly average exchange rates occurring during each year.

**Revenue Recognition**

***Pawn Lending*** The Company offers pawn loans through its lending locations and through its unconsolidated franchised locations. Pawn loans are made on the pledge of tangible personal property. In the Company's U.S. pawn business, it 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

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

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 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.

In the Company's foreign pawn loan business, service charges are accrued ratably over the four week term of the loan and up to an additional three week grace period for loans not redeemed prior to maturity. Following the expiration of the grace period, the collateral underlying unredeemed loans is sold with the proceeds applied against the outstanding loan balance and accrued service charges. Accrued interest on loans that have passed the maturity date and the expiration of the grace period is fully reserved to the extent that the underlying collateral has not been sold. If the proceeds from the sale are less than the outstanding loan balance, a loss is recorded for the difference at the time the collateral is sold. If the proceeds exceed the outstanding loan balance, the Company recognizes the accrued service charges and other fees. In the event there are proceeds greater than the accrued service charges and fees, the excess amount is due back to the customer if a claim is made within six months, after which any unclaimed excess amount