

CASH AMERICA INTERNATIONAL INC

Form 10-Q

May 04, 2007

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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, 2007**

**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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicated 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:**

29,698,332 common shares, \$.10 par value, were outstanding as of April 13, 2007

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**CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
*(in thousands, except share data)*

|   | March 31,   |            | December   |
|---|-------------|------------|------------|
|   | 2007        | 2006       | 31,        |
|   | (Unaudited) |            | 2006       |
| <b>Assets</b>   |             |            |            |
| Current assets:   |             |            |            |
| Cash and cash equivalents   | \$ 25,728   | \$ 16,667  | \$ 25,723  |
| Pawn loans  | 112,009     | 103,031    | 127,384    |
| Cash advances, net  | 67,384      | 29,704     | 79,975     |
| Merchandise held for disposition, net   | 80,798      | 65,594     | 87,060     |
| Finance and service charges receivable  | 22,338      | 19,140     | 25,377     |
| Other receivables and prepaid expenses  | 19,058      | 15,533     | 16,128     |
| Deferred tax assets   | 17,609      | 9,142      | 16,324     |
| <br>  |             |            |            |
| Total current assets  | 344,924     | 258,811    | 377,971    |
| Property and equipment, net   | 124,752     | 97,173     | 119,261    |
| Goodwill  | 238,836     | 175,596    | 238,499    |
| Intangible assets, net  | 26,564      | 22,754     | 27,477     |
| Other assets  | 12,810      | 11,234     | 13,036     |
| <br>  |             |            |            |
| Total assets  | \$ 747,886  | \$ 565,568 | \$ 776,244 |
| <br>  |             |            |            |
| <b>Liabilities and Stockholders Equity</b>  |             |            |            |
| Current liabilities:  |             |            |            |
| Accounts payable and accrued expenses   | \$ 57,169   | \$ 34,246  | \$ 91,217  |
| Customer deposits   | 8,358       | 7,295      | 7,464      |
| Income taxes currently payable  | 12,000      | 6,324      | 2,691      |
| Current portion of long-term debt   | 16,786      | 16,786     | 16,786     |
| <br>  |             |            |            |
| Total current liabilities   | 94,313      | 64,651     | 118,158    |
| Deferred tax liabilities  | 13,483      | 10,853     | 12,770     |
| Other liabilities   | 1,573       | 1,606      | 1,625      |
| Long-term debt  | 181,330     | 92,270     | 202,963    |
| <br>  |             |            |            |
| Total liabilities   | 290,699     | 169,380    | 335,516    |
| <br>  |             |            |            |
| 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  | 161,858     | 157,750    | 161,683    |
| Retained earnings   | 306,157     | 244,630    | 287,962    |
| Accumulated other comprehensive income  | 9           | 34         | 20         |

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|  |            |            |            |
|--|------------|------------|------------|
| Notes receivable secured by common stock   | (18)       | (382)      | (18)       |
| Treasury shares, at cost (592,192 shares, 706,799 shares and 565,840 shares at March 31, 2007 and 2006, and December 31, 2006, respectively) | (13,843)   | (8,868)    | (11,943)   |
| Total stockholders' equity   | 457,187    | 396,188    | 440,728    |
| Total liabilities and stockholders' equity   | \$ 747,886 | \$ 565,568 | \$ 776,244 |

*See notes to consolidated financial statements.*

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

|   | Three Months Ended<br>March 31, |                  |
|---|---------------------------------|------------------|
|   | 2007                            | 2006             |
|   | (Unaudited)                     |                  |
| <b>Revenue</b>                              |                                 |                  |
| Finance and service charges                 | \$ 38,431                       | \$ 35,055        |
| Proceeds from disposition of merchandise    | 100,168                         | 87,124           |
| Cash advance fees                           | 78,516                          | 35,439           |
| Check cashing fees, royalties and other     | 5,752                           | 5,337            |
| <b>Total Revenue</b>                        | <b>222,867</b>                  | <b>162,955</b>   |
| <b>Cost of Revenue</b>                      |                                 |                  |
| Disposed merchandise                        | 61,925                          | 52,742           |
| <b>Net Revenue</b>                          | <b>160,942</b>                  | <b>110,213</b>   |
| <b>Expenses</b>                             |                                 |                  |
| Operations                                  | 72,367                          | 59,273           |
| Cash advance loss provision                 | 32,748                          | 4,437            |
| Administration                              | 14,295                          | 13,851           |
| Depreciation and amortization               | 7,534                           | 6,353            |
| <b>Total Expenses</b>                       | <b>126,944</b>                  | <b>83,914</b>    |
| <b>Income from Operations</b>               | <b>33,998</b>                   | <b>26,299</b>    |
| Interest expense                            | (3,748)                         | (2,436)          |
| Interest income                             | 418                             | 378              |
| Foreign currency transaction gain           | 44                              | 65               |
| <b>Income before Income Taxes</b>           | <b>30,712</b>                   | <b>24,306</b>    |
| Provision for income taxes                  | 11,478                          | 8,918            |
| <b>Net Income</b>                           | <b>\$ 19,234</b>                | <b>\$ 15,388</b> |
| <b>Net Income Per Share:</b>                |                                 |                  |
| Basic                                       | \$ 0.64                         | \$ 0.52          |
| Diluted                                     | \$ 0.63                         | \$ 0.51          |
| Weighted average common shares outstanding: |                                 |                  |
| Basic                                       | 29,873                          | 29,514           |
| Diluted                                     | 30,602                          | 30,385           |
| Dividends declared per common share         | \$ 0.035                        | \$ 0.025         |

*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)*

|  | 2007       | March 31,   |            | 2006     |
|--|------------|-------------|------------|----------|
|  | 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                         |            | 161,683     |            | 156,557  |
| Exercise of stock options                            |            |             |            | (498)    |
| Issuance of shares under restricted stock units plan |            | (751)       |            | (353)    |
| Stock-based compensation                             |            | 717         |            | 587      |
| Income tax benefit from stock based compensation     |            | 209         |            | 1,457    |
| Balance at end of period                             |            | 161,858     |            | 157,750  |
| <b>Retained earnings</b>                             |            |             |            |          |
| Balance at beginning of year                         |            | 287,962     |            | 229,975  |
| Net income   |            | 19,234      |            | 15,388   |
| Dividends declared                                   |            | (1,039)     |            | (733)    |
| Balance at end of period                             |            | 306,157     |            | 244,630  |
| <b>Accumulated other comprehensive income (loss)</b> |            |             |            |          |
| Balance at beginning of year                         |            | 20          |            | (5)      |
| Unrealized derivatives gain (loss)                   |            | (11)        |            | 39       |
| Balance at end of period                             |            | 9           |            | 34       |
| <b>Notes receivable secured by common stock</b>      |            |             |            |          |
| Balance at beginning of year                         |            | (18)        |            | (2,488)  |
| Payments on notes receivable                         |            |             |            | 2,106    |
| Balance at end of period                             |            | (18)        |            | (382)    |
| <b>Treasury shares, at cost</b>                      |            |             |            |          |
| Balance at beginning of year                         | (565,840)  | (11,943)    | (999,347)  | (12,347) |
| Purchases of treasury shares                         | (60,850)   | (2,651)     | (1,007)    | (133)    |
| Exercise of stock options                            |            |             | 264,813    | 3,259    |
| Issuance of shares under restricted stock units plan | 34,498     | 751         | 28,742     | 353      |

|                                  |           |            |           |            |
|----------------------------------|-----------|------------|-----------|------------|
| Balance at end of period         | (592,192) | (13,843)   | (706,799) | (8,868)    |
| <b>Total Stockholders Equity</b> |           | \$ 457,187 |           | \$ 396,188 |

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

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2007                            | 2006      |
|   | (Unaudited)                     |           |
| <b>Net income</b>                         | \$ 19,234                       | \$ 15,388 |
| <b>Other comprehensive income (loss):</b> |                                 |           |
| Interest rate cap valuation adjustments   | (12)                            | 60        |
| Less: Applicable income taxes             | 1                               | 21        |
| Other comprehensive (loss) income, net    | (11)                            | 39        |
| <b>Total Comprehensive Income</b>         | \$ 19,223                       | \$ 15,427 |

*See notes to consolidated financial statements.*



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

|   | Three Months Ended<br>March 31, |                 |
|---|---------------------------------|-----------------|
|   | 2007                            | 2006            |
|   | (Unaudited)                     |                 |
| <b>Cash Flows from Operating Activities</b>                                       |                                 |                 |
| Net income  | \$ 19,234                       | \$ 15,388       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |                 |
| Depreciation and amortization   | 7,534                           | 6,353           |
| Cash advance loss provision   | 32,748                          | 4,437           |
| Stock-based compensation  | 717                             | 587             |
| Foreign currency transaction gain   | (44)                            | (65)            |
| Changes in operating assets and liabilities -                                     |                                 |                 |
| Merchandise held for disposition  | 3,435                           | 3,034           |
| Finance and service charges receivable  | 2,295                           | 2,503           |
| Other receivables and prepaid expenses  | (2,382)                         | (2,069)         |
| Accounts payable and accrued expenses   | 361                             | (2,835)         |
| Customer deposits, net  | 894                             | 959             |
| Current income taxes  | 9,518                           | 6,332           |
| Excess income tax benefit from stock-based compensation                           | (209)                           | (1,457)         |
| Deferred income taxes, net  | (571)                           | 1,620           |
| <b>Net cash provided by operating activities</b>                                  | <b>73,530</b>                   | <b>34,787</b>   |
| <b>Cash Flows from Investing Activities</b>                                       |                                 |                 |
| Pawn loans made   | (92,261)                        | (84,693)        |
| Pawn loans repaid   | 62,751                          | 60,216          |
| Principal recovered through dispositions of forfeited loans                       | 48,231                          | 41,833          |
| Cash advances made, assigned or purchased   | (252,913)                       | (138,350)       |
| Cash advances repaid  | 233,636                         | 145,077         |
| Acquisitions, net of cash acquired  | (35,640)                        | (1,729)         |
| Purchases of property and equipment   | (11,933)                        | (7,841)         |
| <b>Net cash (used) provided by investing activities</b>                           | <b>(48,129)</b>                 | <b>14,513</b>   |
| <b>Cash Flows from Financing Activities</b>                                       |                                 |                 |
| Net repayments under bank lines of credit   | (17,347)                        | (52,653)        |
| Payments on notes payable   | (4,286)                         | (4,286)         |
| Loan costs paid   | (282)                           | (4)             |
| Proceeds from exercise of stock options   |                                 | 2,761           |
| Excess income tax benefit from stock-based compensation                           | 209                             | 1,457           |
| Repayments of notes receivable secured by common stock                            |                                 | 2,106           |
| Treasury shares purchased   | (2,651)                         | (133)           |
| Dividends paid  | (1,039)                         | (733)           |
| <b>Net cash used by financing activities</b>                                      | <b>(25,396)</b>                 | <b>(51,485)</b> |

|   |           |           |
|---|-----------|-----------|
| <b>Net increase (decrease) in cash and cash equivalents</b> | 5         | (2,185)   |
| <b>Cash and cash equivalents at beginning of year</b>       | 25,723    | 18,852    |
| <b>Cash and cash equivalents at end of period</b>           | \$ 25,728 | \$ 16,667 |

**Supplemental Disclosures****Non-cash investing and financing activities**

|  |           |           |
|--|-----------|-----------|
| Pawn loans forfeited and transferred to merchandise held for disposition | \$ 45,289 | \$ 37,440 |
| Pawn loans renewed   | \$ 17,911 | \$ 19,234 |
| Cash advances renewed  | \$ 66,875 | \$ 3,935  |

*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 March 31, 2007 and 2006 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 months 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 months ended March 31, 2006 have been reclassified to conform to the presentation format adopted in 2007. 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 2006 Annual Report to Stockholders.

**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 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. To repay the cash advance, a customer may pay cash, or, as applicable, allow the check to be presented for collection, or allow 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 report as cash advances for convenience.)

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

The Company provides a cash advance product in some markets under a credit services organization program, whereby 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 guaranteed loans is accrued and recorded as a liability. See Note 4.

***Check Cashing Fees, Royalties and Other*** The Company records fees derived from its owned check cashing locations and many of its lending locations in the period in which the service is provided. Royalties derived from franchise locations are recorded on an accrual basis. Other revenues derived from other financial services such as money order commissions, prepaid debit card fees, etc. are 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

Accounts payable and accrued expenses in the consolidated balance sheets.

Cash advances written during each calendar month are aggregated and tracked to develop a performance history. The Company stratifies the outstanding combined portfolio by age, delinquency, and stage of collection when assessing the adequacy of the allowance for losses. Historical collection performance adjusted for recent portfolio performance trends is utilized to develop expected loss rates to establish either the allowance or accrual. Increases in either the allowance or accrual are created by recording a cash advance loss provision in the consolidated statements of income. The Company charges off all cash advances once they have been in default for 60 days or sooner if deemed uncollectible. Recoveries on losses previously charged to the allowance are credited to the allowance when collected.

Periodically, the Company's online distribution channel sells selected cash advances which have been previously written off. Proceeds from these sales are recorded as recoveries on losses previously charged to the allowance for losses.

**Income Taxes**

Beginning January 1, 2007, the Company has accounted for uncertainty in income taxes recognized in the financial statements in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 requires that a more-likely-than-not threshold be met before the benefit of a tax position may be recognized in the financial statements and prescribes how such benefit should be measured. It also provides guidance on derecognition, classification,

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

interest and penalties, accounting in interim periods, disclosure and transition. It requires that the new standard be applied to the balances of assets and liabilities as of the beginning of the period of adoption and that a corresponding adjustment be made to the opening balance of retained earnings. See Note 2.

**Recent Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 defines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It establishes a fair value hierarchy and expands disclosures about fair value measurements in both interim and annual periods. SFAS 157 will be effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect SFAS 157 to have a material effect on the Company's consolidated financial position or results of operations but anticipates additional disclosures when it becomes effective.

In February 2007, FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ). SFAS 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the fair value option ) and requires an entity to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. SFAS 159 will be effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 159.

**2. Income Taxes**

The Company adopted the provisions of FIN 48 on January 1, 2007. As of the date of adoption, the Company had no unrecognized tax benefits and thus had accrued no interest or penalties on such benefits. At adoption, the Company did not anticipate a significant increase in unrecognized tax benefits during the subsequent 12 months. As of January 1, 2007, the Company's 2003 through 2006 tax years were open to examination by the Internal Revenue Service and major state taxing jurisdictions. There were no material changes in these items during the current quarter.

While the Company typically does not incur significant interest or penalties on income tax liabilities, it is the Company's policy to classify such amounts as interest expense and administrative expense, respectively. The Company did not change its policy on classification of interest and penalties upon adoption of FIN 48.

**3. Acquisitions**

Pursuant to its business strategy of expanding its reach into new markets with new customers and new financial services, on September 15, 2006, the Company, through its wholly-owned subsidiary Cash America Net Holdings, LLC, purchased substantially all of the assets of The Check Giant LLC ( TCG ). TCG offered short-term cash advances exclusively over the internet under the name CashNetUSA. The Company paid an initial purchase price of approximately \$35.9 million in cash and transaction costs of approximately \$2.9 million, and has continued to use the CashNetUSA trade name in connection with its online operations.

The Company also agreed to pay up to five supplemental earn-out payments during the two-year period after the closing. The amount of each supplemental payment will be based on a multiple of earnings

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

attributable to CashNetUSA's business for the twelve months preceding the date of determining each scheduled supplemental payment. Each supplemental payment will be reduced by amounts previously paid. The supplemental payments are to be paid in cash within 45 days of the payment measurement date. The Company may, at its option, pay up to 25% of each supplemental payment in shares of its common stock based on an average share price as of the measurement date. Substantially all of these supplemental payments will be accounted for as goodwill. The first supplemental payment of approximately \$33.8 million, which was paid in February 2007 in cash, was based on the trailing twelve months earnings of CashNetUSA through December 31, 2006 and reflects adjustments for amounts previously paid. Another supplemental payment was scheduled based on the trailing twelve months earnings of CashNetUSA as of March 31, 2007. Management has not included an accrual for this payment because the defined multiple of earnings reduced the amount payable at March 31, 2007 to a figure below the cumulative amount paid through December 31, 2006. Pursuant to the terms of the purchase agreement with CashNetUSA, the March 31 and September 30, 2007 measurement dates are calculated at 5.5 times trailing twelve month earnings.

During the quarter ended March 31, 2007, the Company also acquired a pawnshop and made payment on a shop over which it acquired management control in December 2006 with aggregate cash payments of \$931,000.

**4. Cash Advances, Allowance for Losses and Accruals for Losses on Third-Party Lender-Owned Cash Advances**

The Company offers cash advance products through its cash advance locations, most of its pawnshops and over the internet through CashNetUSA. The cash advance products are generally offered as single payment cash advance loans. These cash advance loans typically have terms of 7 to 45 days and are generally payable on the customer's next payday. The Company originates cash advances in some of its locations and arranges for customers to obtain cash advances from independent third-party lenders in other locations. In a cash advance transaction, a customer executes a promissory note or other repayment agreement typically supported by that customer's personal check or authorization to debit the customer's checking account via an ACH transaction. Customers may repay the amount due with cash, by allowing their check to be presented for collection, or by allowing their checking account to be debited via an ACH transaction.

The Company provides services in connection with single payment cash advances originated by independent third-party lenders, whereby the Company acts as a credit services organization on behalf of consumers in accordance with applicable state laws (the CSO program). Such program includes arranging loans with independent third-party lenders, assisting in the preparation of loan applications and loan documents, and accepting loan payments at the location where the loans were arranged. To assist the customer in obtaining a loan through the CSO program, the Company also, as part of the credit services it provides to the customer, guarantees, on behalf of the customer, the customer's payment obligations to the third-party lender under the loan. A customer who obtains a loan through the CSO program pays the Company a fee for the credit services, including the guaranty, and enters into a contract with the Company governing the credit services arrangement. Losses on cash advances acquired by the Company as a result of its guaranty obligations are the responsibility of the Company. As of March 31, 2007, the CSO program was offered in Texas and Florida. The Company discontinued the CSO program in Michigan in February 2007, and now offers only cash advances underwritten by the Company to customers in that state.

If the Company collects a customer's delinquent amount that exceeds the amount paid to the third-party lender pursuant to the terms of the guaranty, the Company is entitled to the excess and recognizes it in income when collected. Since the Company may not be successful in collection of these delinquent amounts, the Company's cash advance loss provision includes amounts estimated to be adequate to absorb credit losses from cash advances in the aggregate cash advance portfolio, including those expected to be

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

acquired by the Company as a result of its guaranty obligations. The estimated amounts of losses on portfolios owned by the third-party lenders are included in Accounts payable and accrued expenses in the consolidated balance sheets.

Cash advances outstanding at March 31, 2007 and 2006, were as follows (in thousands):

|  | March 31,        |                  |
|--|------------------|------------------|
|  | 2007             | 2006             |
| <i>Funded by the Company</i>                             |                  |                  |
| Active cash advances and fees receivable                 | \$ 57,077        | \$ 24,677        |
| Cash advances and fees in collection                     | 21,436           | 4,479            |
| <b>Total Funded by the Company</b>                       | <b>78,513</b>    | <b>29,156</b>    |
| <i>Purchased by the Company from third-party lenders</i> |                  |                  |
| Company-owned cash advances and fees receivable, gross   | 90,525           | 33,245           |
| Less: Allowance for losses                               | 23,141           | 3,541            |
| <b>Cash advances and fees receivable, net</b>            | <b>\$ 67,384</b> | <b>\$ 29,704</b> |

Changes in the allowance for losses for Company-owned portfolio and the accrued loss for third-party lender-owned portfolio during the three months ended March 31, 2007 and 2006, were as follows (in thousands):

|   | Three Months Ended<br>March 31, |                 |
|---|---------------------------------|-----------------|
|   | 2007                            | 2006            |
| <b>Company-owned cash advances</b>                        |                                 |                 |
| Balance at beginning of period                            | \$ 19,513                       | \$ 6,309        |
| Cash advance loss provision                               | 32,648                          | 4,706           |
| Charge-offs   | (32,511)                        | (11,045)        |
| Recoveries  | 3,491                           | 3,571           |
| <b>Balance at end of period</b>                           | <b>\$ 23,141</b>                | <b>\$ 3,541</b> |
| <b>Accrual for third-party lender-owned cash advances</b> |                                 |                 |
| Balance at beginning of period                            | \$ 1,153                        | \$ 874          |
| Increase (decrease) in loss provision                     | 100                             | (269)           |
| <b>Balance at end of period</b>                           | <b>\$ 1,253</b>                 | <b>\$ 605</b>   |

Cash advances assigned to the Company for collection were \$18.1 million and \$8.2 million, for the three months ended March 31, 2007 and 2006, respectively.

During the quarter ended March 31, 2007, the Company's online distribution channel sold selected cash advances which had been previously written off. These sales generated proceeds of \$752,000 which were recorded as recoveries on losses previously charged to the allowance for losses.

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

**5. 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 months ended March 31, 2007 and 2006 (in thousands, except per share amounts):

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2007                            | 2006      |
| Numerator:  |                                 |           |
| Net income available to common stockholders           | \$ 19,234                       | \$ 15,388 |
| Denominator:  |                                 |           |
| Weighted average common shares outstanding            | 29,664                          | 29,365    |
| Weighted average vested RSUs                          | 150                             | 85        |
| Weighted average shares in non-qualified savings plan | 59                              | 64        |
| Total weighted average basic shares                   | 29,873                          | 29,514    |
| Effect of shares applicable to stock option plans     | 371                             | 508       |
| Effect of RSU compensation plans                      | 358                             | 363       |
| Total weighted average diluted shares                 | 30,602                          | 30,385    |
| Earnings per share:                                   |                                 |           |
| Net income Basic                                      | \$ 0.64                         | \$ 0.52   |
| Net income Diluted                                    | \$ 0.63                         | \$ 0.51   |

The shares held in the Company's non-qualified savings plan have been reclassified into the basic earnings per share computation as the distribution of those shares is not contingent upon future services. All prior periods presented have been restated to reflect this reclassification. There is no impact to the previously reported basic earnings per share.

**6. Long-Term Debt**

The Company's long-term debt instruments and balances outstanding at March 31, 2007 and 2006, were as follows (in thousands):

|   | March 31, |           |
|---|-----------|-----------|
|   | 2007      | 2006      |
| Line of credit up to \$250,000 due 2012 | \$ 64,330 | \$ 18,484 |
| 6.21% senior unsecured notes due 2021   | 25,000    |           |
| 6.09% senior unsecured notes due 2016   | 35,000    |           |
| 6.12% senior unsecured notes due 2015   | 40,000    | 40,000    |
| 7.20% senior unsecured notes due 2009   | 25,500    | 34,000    |
| 7.10% senior unsecured notes due 2008   | 4,286     | 8,572     |
| 8.14% senior unsecured notes due 2007   | 4,000     | 8,000     |
| Total debt                              | 198,116   | 109,056   |
| Less current portion                    | 16,786    | 16,786    |



|                      |            |           |
|----------------------|------------|-----------|
| Total long-term debt | \$ 181,330 | \$ 92,270 |
|----------------------|------------|-----------|

In March 2007, the Company amended the line of credit to extend the final maturity two years to February 2012 and modified certain terms of the credit agreement. Interest on the 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% (1.125% at March 31, 2007), depending on the Company's cash flow leverage ratios as defined in the agreement. The Company also pays a fee on the unused portion ranging from 0.25% to 0.30% (0.25% at March 31, 2007) based on the Company's cash flow leverage ratios. The weighted average interest rate (including margin) on the line of credit at March 31, 2007 was 6.5%.

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

**7. Operating Segment Information**

The Company has three reportable operating segments: pawn lending, cash advance and check cashing. The cash advance and check cashing segments are managed separately due to the different operational strategies required and, therefore, are reported as separate segments. To more accurately estimate the administrative expenses associated with each operating segment, the Company began in the second quarter of 2006 to allocate its aggregate administrative expenses on a different basis. Management believes that the current methodology creates a more balanced allocation among the segments based on the time, resources and activities associated with the Company's administrative activities of each operating segment. In addition, check cashing fees, royalties and other income at pawn lending locations previously included in either proceeds from disposition of merchandise or netted into administration expenses are reclassified out of those line items. All prior periods in the tables below have been revised to reflect these changes. These revisions have not changed the consolidated performance of the Company for any period.

Information concerning the operating segments is set forth below (in thousands):

|   | Pawn<br>Lending | Cash<br>Advance | Check<br>Cashing | Consolidated |
|---|-----------------|-----------------|------------------|--------------|
| <b>Three Months Ended March 31, 2007:</b> |                 |                 |                  |              |
| Revenue                                   |                 |                 |                  |              |
| Finance and service charges               | \$ 38,431       | \$              | \$               | \$ 38,431    |
| Proceeds from disposition of merchandise  | 100,168         |                 |                  | 100,168      |
| Cash advance fees                         | 10,120          | 68,396          |                  | 78,516       |
| Check cashing fees, royalties and other   | 929             | 3,683           | 1,140            | 5,752        |
| Total revenue                             | 149,648         | 72,079          | 1,140            | 222,867      |
| Cost of revenue disposed merchandise      | 61,925          |                 |                  | 61,925       |
| Net revenue                               | 87,723          | 72,079          | 1,140            | 160,942      |
| Expenses                                  |                 |                 |                  |              |
| Operations                                | 47,116          | 24,944          | 307              | 72,367       |
| Cash advance loss provision               | 2,844           | 29,904          |                  | 32,748       |
| Administration                            | 9,321           | 4,697           | 277              | 14,295       |
| Depreciation and amortization             | 5,007           | 2,426           | 101              | 7,534        |
| Total expenses                            | 64,288          | 61,971          | 685              | 126,944      |
| Income from operations                    | \$ 23,435       | \$ 10,108       | \$ 455           | \$ 33,998    |
| <b>As of March 31, 2007:</b>              |                 |                 |                  |              |
| Total assets                              | \$ 526,088      | \$ 214,648      | \$ 7,150         | \$ 747,886   |
| Goodwill                                  | \$ 142,052      | \$ 91,474       | \$ 5,310         | \$ 238,836   |

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

|   | Pawn<br>Lending | Cash<br>Advance | Check<br>Cashing | Consolidated |
|---|-----------------|-----------------|------------------|--------------|
| <b>Three Months Ended March 31, 2006:</b> |                 |                 |                  |              |
| Revenue                                   |                 |                 |                  |              |
| Finance and service charges               | \$ 35,055       | \$              | \$               | \$ 35,055    |
| Proceeds from disposition of merchandise  | 87,124          |                 |                  | 87,124       |
| Cash advance fees                         | 9,648           | 25,791          |                  | 35,439       |
| Check cashing fees, royalties and other   | 687             | 3,499           | 1,151            | 5,337        |
| <br>                                      |                 |                 |                  |              |
| Total revenue                             | 132,514         | 29,290          | 1,151            | 162,955      |
| Cost of revenue disposed merchandise      | 52,742          |                 |                  | 52,742       |
| <br>                                      |                 |                 |                  |              |
| Net revenue                               | 79,772          | 29,290          | 1,151            | 110,213      |
| <br>                                      |                 |                 |                  |              |
| Expenses                                  |                 |                 |                  |              |
| Operations                                | 44,217          | 14,722          | 334              | 59,273       |
| Cash advance loss provision               | 1,883           | 2,554           |                  | 4,437        |
| Administration                            | 8,470           | 5,068           | 313              | 13,851       |
| Depreciation and amortization             | 4,342           | 1,930           | 81               | 6,353        |
| <br>                                      |                 |                 |                  |              |
| Total expenses                            | 58,912          | 24,274          | 728              | 83,914       |
| <br>                                      |                 |                 |                  |              |
| Income from operations                    | \$ 20,860       | \$ 5,016        | \$ 423           | \$ 26,299    |
| <br>                                      |                 |                 |                  |              |
| <b>As of March 31, 2006:</b>              |                 |                 |                  |              |
| Total assets                              | \$ 453,214      | \$ 105,264      | \$ 7,090         | \$ 565,568   |
| <br>                                      |                 |                 |                  |              |
| Goodwill                                  | \$ 125,668      | \$ 44,618       | \$ 5,310         | \$ 175,596   |

**8. 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 ( CSB ) for some time made loans to Georgia residents through Cash America's Georgia operating locations. The complaint in this lawsuit claims that Cash America was the true lender with respect to the loans made to Georgia borrowers and that CSB's involvement in the process was 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 parties are currently in dispute over the scope of the discovery requests made by the plaintiffs, and Cash America has appealed a recent State Court ruling on this issue, which included a State Court ruling striking Cash America's arbitration defense. Oral arguments on the appeal occurred in April 2007 and Cash America is awaiting the appellate court's decision. Cash America is also seeking enforcement of the arbitration provisions and has filed a Motion to Stay and Compel Arbitration with the State Court. The Company believes that the plaintiffs' claims in this suit are without merit and is vigorously defending

this lawsuit.

There is also a related federal court action pending, wherein Cash America and CSB commenced a federal lawsuit in the U.S. District Court for the Northern District of Georgia seeking to compel Plaintiffs to arbitrate their claims against Cash America and CSB. The U.S. District Court dismissed the federal action for lack of subject matter jurisdiction, and Cash America and CSB appealed the dismissal of their complaint to the U.S. Court of Appeals for the 11th Circuit. On April 27, 2007, the 11th Circuit issued its ruling on this appeal, reversing the U. S. District Court's dismissal of the action and remanding the action to the district court for a determination of the issue of the enforceability of the parties' arbitration agreements.

The Strong litigation is still at an early stage, and neither the likelihood of an unfavorable outcome nor the ultimate liability, if any, with respect to this litigation can be determined at this time.

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

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.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**GENERAL**

The Company provides specialty financial services to individuals in the United States. These services include secured non-recourse loans, commonly referred to as pawn loans, to individuals through its pawn lending operations, unsecured cash advances in selected lending locations and on behalf of independent third-party lenders in other locations, and check cashing and related financial services through many of its lending locations and through franchised and Company-owned check cashing centers. The pawn loan portfolio generates finance and service charges revenue. A related activity of the pawn lending operations is the disposition of collateral from unredeemed pawn loans. In September 2006, the Company began offering online cash advances over the internet and began arranging loans on behalf of independent third-party lenders over the internet in November 2006.

On September 15, 2006, the Company, through its wholly-owned subsidiary Cash America Net Holdings, LLC, purchased substantially all of the assets of The Check Giant LLC ( TCG ). TCG offered short-term cash advances exclusively over the internet under the name CashNetUSA. The Company paid an initial purchase price of approximately \$35.9 million in cash and transaction costs of approximately \$2.9 million, and has continued to use the CashNetUSA trade name in connection with its online operations. The Company also agreed to pay up to five supplemental earn-out payments during the two-year period after the closing. The amount of each supplemental payment will be based on a multiple of earnings attributable to CashNetUSA's business for the twelve months preceding the date of determining each scheduled supplemental payment. Each supplemental payment will be reduced by amounts previously paid. The supplemental payments are to be paid in cash within 45 days of the payment measurement date. The Company may, at its option, pay up to 25% of each supplemental payment in shares of its common stock based on an average share price as of the measurement date.

The first supplemental payment of approximately \$33.8 million, which was paid in February 2007 in cash, was based on the trailing twelve months earnings of CashNetUSA through December 31, 2006 and reflects adjustments for amounts previously paid. Another supplemental payment was scheduled based on the trailing twelve months earnings of CashNetUSA as of March 31, 2007. Management has not included an accrual for this payment because the defined multiple of earnings reduced the amount payable at March 31, 2007 to a figure below the cumulative amount paid through December 31, 2006. Pursuant to the terms of the purchase agreement with CashNetUSA, the March 31 and September 30, 2007 measurement dates are calculated at 5.5 times trailing twelve month earnings.

As of March 31, 2007, the Company had 925 total locations offering products and services to its customers. The Company operates in three segments: pawn lending, cash advance and check cashing.

As of March 31, 2007, the Company's pawn lending operations consisted of 489 pawnshops, including 477 Company-owned units and 12 unconsolidated franchised units, located in 22 states in the United States. During the fifteen months ended March 31, 2007, the Company acquired 20 operating units, established 3 locations, and combined or closed 2 locations for a net increase in owned pawn lending units of 21. In addition, it opened 4 franchise locations.

At March 31, 2007, the Company's cash advance operations operated 296 cash advance locations in 7 states. During the fifteen months ended March 31, 2007, the Company established 14 locations, and combined or closed 4 locations for a net increase in cash advance locations of 10. CashNetUSA serves multiple markets through its internet distribution channel and had cash advances outstanding in 30 states at March 31, 2007.

As of March 31, 2007, in Florida and Texas, the Company provides services in connection with single payment cash advances originated by independent third-party lenders, whereby the Company acts as a

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credit services organization on behalf of consumers in accordance with applicable state laws (the CSO program). Such program includes arranging loans with independent third-party lenders, assisting in the preparation of loan applications and loan documents, and accepting loan payments at the location where the loans were arranged. To assist the customer in obtaining a loan through the CSO program, the Company also, as part of the credit services it provides to the customer, guarantees, on behalf of the customer, the customer's payment obligations to the third-party lender under the loan. A customer who obtains a loan through the CSO program pays the Company a fee for the credit services, including the guaranty, and enters into a contract with the Company governing the credit services arrangement. Losses on cash advances acquired by the Company as a result of its guaranty obligations are the responsibility of the Company. The Company discontinued the CSO program in Michigan in February 2007, and now offers only cash advances underwritten by the Company to customers in that state.

As of March 31, 2007, the Company's check cashing operations consisted of 135 franchised and 5 company-owned check cashing centers in 18 states.

**RESULTS OF CONTINUING OPERATIONS**

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

|  | Three Months Ended<br>March 31, |       |
|--|---------------------------------|-------|
|  | 2007                            | 2006  |
| <b>Revenue</b>                           |                                 |       |
| Finance and service charges              | 17.2%                           | 21.5% |
| Proceeds from disposition of merchandise | 45.0                            | 53.5  |
| Cash advance fees                        | 35.2                            | 21.7  |
| Check cashing fees, royalties and other  | 2.6                             | 3.3   |
| <b>Total Revenue</b>                     | 100.0                           | 100.0 |
| <b>Cost of Revenue</b>                   |                                 |       |
| Disposed merchandise                     | 27.8                            | 32.4  |
| <b>Net Revenue</b>                       | 72.2                            | 67.6  |
| <b>Expenses</b>                          |                                 |       |
| Operations                               | 32.5                            | 36.4  |
| Cash advance loss provision              | 14.7                            | 2.7   |
| Administration                           | 6.4                             | 8.5   |
| Depreciation and amortization            | 3.4                             | 3.9   |
| <b>Total Expenses</b>                    | 57.0                            | 51.5  |
| <b>Income from Operations</b>            | 15.2                            | 16.1  |
| Interest expense                         | (1.6)                           | (1.5) |
| Interest income                          | 0.2                             | 0.3   |
| Foreign currency transaction gain        |                                 |       |
| <b>Income before Income Taxes</b>        | 13.8                            | 14.9  |
| Provision for income taxes               | 5.2                             | 5.5   |
| <b>Net Income</b>                        | 8.6%                            | 9.4%  |





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The following table sets forth certain selected consolidated financial and non-financial data as of March 31, 2007 and 2006, and for each of the three months then ended (\$ in thousands unless noted otherwise).

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2007                            | 2006       |
| <b>PAWN LENDING OPERATIONS:</b>   |                                 |            |
| <b>Pawn loans</b>   |                                 |            |
| Annualized yield on pawn loans  | 131.8%                          | 132.4%     |
| Total amount of pawn loans written and renewed  | \$ 110,622                      | \$ 103,927 |
| Average pawn loan balance outstanding   | \$ 118,242                      | \$ 107,354 |
| Average pawn loan balance per average location in operation   | \$ 248                          | \$ 235     |
| Ending pawn loan balance per location in operation  | \$ 235                          | \$ 225     |
| Average pawn loan amount at end of period (not in thousands)  | \$ 106                          | \$ 95      |
| Profit margin on disposition of merchandise as a percentage of proceeds from disposition of merchandise | 38.2%                           | 39.5%      |
| Average annualized merchandise turnover   | 3.0x                            | 3.1x       |
| Average balance of merchandise held for disposition per average location in operation                   | \$ 178                          | \$ 153     |
| Ending balance of merchandise held for disposition per location in operation                            | \$ 169                          | \$ 143     |
| Pawnshop locations in operation   |                                 |            |
| Beginning of period, owned  | 475                             | 456        |
| Acquired  | 1                               | 2          |
| Start-ups   | 1                               | 1          |
| Combined or closed  |                                 | (1)        |
| End of period, owned  | 477                             | 458        |
| Franchise locations at end of period  | 12                              | 10         |
| Total pawnshop locations at end of period   | 489                             | 468        |
| Average number of owned pawnshop locations in operation   | 477                             | 457        |
| <b>Cash advances <sup>(a)</sup></b>   |                                 |            |
| Pawn locations offering cash advances at end of year  | 426                             | 431        |
| Average number of pawn locations offering cash advances   | 425                             | 433        |
| Amount of cash advances written at pawn locations:  |                                 |            |
| Funded by the Company   | \$ 15,486                       | \$ 14,309  |
| Funded by third-party lenders <sup>(b) (d)</sup>  | 44,985                          | 44,704     |
| Aggregate amount of cash advances written at pawn locations <sup>(b) (f)</sup>                          | \$ 60,471                       | \$ 59,013  |
| Number of cash advances written at pawn locations (not in thousands):                                   |                                 |            |
| By the Company  | 50,268                          | 43,140     |
| By third-party lenders <sup>(b) (d)</sup>   | 98,126                          | 107,987    |
| Aggregate number of cash advances written at pawn locations <sup>(b) (f)</sup>                          | 148,394                         | 151,127    |
| Cash advance customer balances due at pawn locations (gross):   |                                 |            |

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|   |           |           |
|---|-----------|-----------|
| Owned by Company <sup>(c)</sup>   | \$ 6,439  | \$ 5,709  |
| Owned by third-party lenders <sup>(b)</sup>   | 7,800     | 8,015     |
| Aggregate cash advance customer balances due (gross) at pawn locations <sup>(b) (f)</sup> | \$ 14,239 | \$ 13,724 |

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|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2007                            | 2006       |
| <b>CASH ADVANCE OPERATIONS <sup>(e)</sup>:</b>                          |                                 |            |
| Amount of cash advances written:  |                                 |            |
| Funded by the Company   | \$ 286,250                      | \$ 121,581 |
| Funded by third-party lenders <sup>(b) (d)</sup>                        | 97,103                          | 33,336     |
| Aggregate amount of cash advances written <sup>(b) (f)</sup>            | \$ 383,353                      | \$ 154,917 |
| Number of cash advances written (not in thousands):                     |                                 |            |
| By the Company  | 758,266                         | 344,498    |
| By third-party lenders <sup>(b) (d)</sup>                               | 178,100                         | 67,505     |
| Aggregate number of cash advances written <sup>(b) (f)</sup>            | 936,366                         | 412,003    |
| Cash advance customer balances due (gross):                             |                                 |            |
| Owned by Company <sup>(c)</sup>   | \$ 84,086                       | \$ 27,571  |
| Owned by third-party lenders <sup>(b)</sup>                             | 17,222                          | 6,584      |
| Aggregate cash advance customer balances due (gross) <sup>(b) (f)</sup> | \$ 101,308                      | \$ 34,155  |
| Cash advance locations in operation (excluding online lending)          |                                 |            |
| Beginning of period   | 295                             | 286        |
| Start-ups   | 2                               | 3          |
| Combined or closed  | (1)                             | (3)        |
| End of period   | 296                             | 286        |
| Average number of cash advance locations in operation                   | 295                             | 286        |
| Number of states with online lending at end of period                   | 30                              |            |
| <b>CONSOLIDATED CASH ADVANCE PRODUCT SUMMARY <sup>(a) (b)(e)</sup>:</b> |                                 |            |
| Amount of cash advances written:  |                                 |            |
| Funded by the Company   | \$ 301,736                      | \$ 135,890 |
| Funded by third-party lenders <sup>(b) (d)</sup>                        | 142,088                         | 78,040     |
| Aggregate amount of cash advances written <sup>(b) (f)</sup>            | \$ 443,824                      | \$ 213,930 |
| Number of cash advances written (not in thousands):                     |                                 |            |
| By the Company  | 808,534                         | 387,638    |
| By third-party lenders <sup>(b) (d)</sup>                               | 276,226                         | 175,492    |
| Aggregate number of cash advances written <sup>(b) (f)</sup>            | 1,084,760                       | 563,130    |
| Average amount per cash advance written (not in thousands):             |                                 |            |
| Funded by the Company   | \$ 373                          | \$ 351     |

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|  |            |           |
|--|------------|-----------|
| Funded by third-party lenders <sup>(b) (d)</sup>                                   | 514        | 445       |
| Aggregate average amount per cash advance <sup>(b) (f)</sup>                       | \$ 409     | \$ 380    |
| Cash advance customer balances due (gross):  |            |           |
| Owned by Company <sup>(c)</sup>  | \$ 90,525  | \$ 33,280 |
| Owned by third-party lenders <sup>(b)</sup>  | 25,022     | 14,599    |
| Aggregate cash advance customer balances due (gross) <sup>(b) (f)</sup>            | \$ 115,547 | \$ 47,879 |
| Total locations offering cash advances at end of period (excluding online lending) | 722        | 717       |
| Average total locations offering cash advances (excluding online lending)          | 720        | 719       |
| Number of states with online lending at end of period                              | 30         |           |

(Continued on Next Page)

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|  | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2007                            | 2006       |
| <b>CHECK CASHING OPERATIONS (Mr. Payroll):</b>               |                                 |            |
| Centers in operation at end of period:                       |                                 |            |
| Company-owned locations                                      | 5                               | 5          |
| Franchised locations   | 135                             | 135        |
| Combined centers in operation at end of period               | 140                             | 140        |
| Revenue from Company-owned locations                         | \$ 161                          | \$ 182     |
| Revenue from franchise royalties and other                   | 979                             | 969        |
| Total revenue <sup>(c)</sup>                                 | \$ 1,140                        | \$ 1,151   |
| Face amount of checks cashed:                                |                                 |            |
| Company-owned locations                                      | \$ 9,610                        | \$ 10,493  |
| Franchised locations <sup>(b)</sup>                          | 367,221                         | 365,686    |
| Combined face amount of check cashed <sup>(b)</sup>          | \$ 376,831                      | \$ 376,179 |
| Fees collected from customers:                               |                                 |            |
| Company-owned locations                                      | \$ 161                          | \$ 182     |
| Franchised locations <sup>(b)</sup>                          | 5,446                           | 5,490      |
| Combined fees collected from customers <sup>(b)</sup>        | \$ 5,607                        | \$ 5,672   |
| Fees as a percentage of check cashed:                        |                                 |            |
| Company-owned locations                                      | 1.7%                            | 1.7%       |
| Franchised locations <sup>(b)</sup>                          | 1.5                             | 1.5        |
| Combined fees as a percentage of check cashed <sup>(b)</sup> | 1.5%                            | 1.5%       |
| Average check cashed (not in thousands):                     |                                 |            |
| Company-owned locations                                      | \$ 428                          | 439        |
| Franchised locations <sup>(b)</sup>                          | 494                             | 477        |
| Combined average check cashed <sup>(b)</sup>                 | \$ 492                          | \$ 476     |

(a) Includes cash advance activities at the Company's pawn lending locations.

(b)

Non-GAAP presentation. For informational purposes and to provide a greater understanding of the Company's businesses. Management believes that information provided with this level of detail is meaningful and useful in understanding the activities and business metrics of the Company's operations.

- (c) Amounts recorded in the Company's consolidated financial statements.
- (d) Cash advances written by third-party lenders that were arranged by the Company on behalf of the third-party lenders.
- (e) Includes cash advance activities at the Company's cash advance locations and through the Company's

internet  
distribution  
channel.

- (f) Includes (i) cash advances written by the Company, and (ii) cash advances written by third-party lenders that were arranged by the Company on behalf of the third-party lenders.

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**CRITICAL ACCOUNTING POLICIES**

Beginning January 1, 2007, the Company has accounted for uncertainty in income taxes recognized in the financial statements in accordance with Financial Accounting Standards Board ( FASB ) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ). FIN 48 requires that a more-likely-than-not threshold be met before the benefit of a tax position may be recognized in the financial statements and prescribes how such benefit should be measured. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. It requires that the new standard be applied to the balances of assets and liabilities as of the beginning of the period of adoption and that a corresponding adjustment be made to the opening balance of retained earnings. See Note 2 of Notes to Consolidated Financial Statements.

There have been no other changes of critical accounting policies since December 31, 2006.

**RECENT ACCOUNTING PRONOUNCEMENT**

In September 2006, FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 defines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It establishes a fair value hierarchy and expands disclosures about fair value measurements in both interim and annual periods. SFAS 157 will be effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect SFAS 157 to have a material effect on the Company's consolidated financial position or results of operations but anticipates additional disclosures when it becomes effective.

In February 2007, FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ). SFAS 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the fair value option ) and requires an entity report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. SFAS 159 will be effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 159.



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**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. The components of consolidated net revenue are pawn related net revenue, consisting of finance and service charges from pawn loans plus profit from the disposition of merchandise; cash advance fees and other revenue. Other revenue is comprised mostly of check cashing fees, but includes royalties and other revenue items. Growth in cash advance fees has increased the related contribution of the cash advance products to consolidated net revenue during the three months ended March 31, 2007 compared to the same period of 2006. The growth in cash advance fees is primarily attributable to higher average balances, the addition of new units and the addition of cash advances made over the internet beginning in mid-September 2006. Pawn net revenue contributed 47.7% and 63.0% of net revenue for the three months ended March 31, 2007 and 2006, respectively. The following graphs show consolidated net revenue and depict the mix of the components of net revenue for the three months ended March 31, 2007 and 2006:

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**Contribution to Increase in Net Revenue.** Increases in the components of the Company's net revenue led to an increase in net revenue of 46.0% for the three months ended March 31, 2007 compared to the prior year. Cash advance fees, including cash advance fees generated in pawn lending locations, have increased primarily because of higher average balances owed by customers, the growth and development of newly opened cash advance locations and the addition of cash advances made over the internet. As illustrated below, these increases represented 84.9% of the Company's overall increase in net revenue for the three months ended March 31, 2006 compared to the three months ended March 31, 2007 and 55.6% of the overall increase for the three months ended March 31, 2005 compared to the three months ended March 31, 2006. The increase in pawn-related net revenue in the aggregate, combined finance and service charges and profit from the disposition of merchandise, contributed 14.3% of the year over year increase in net revenue for the first three months of 2007 compared to 39.7% of the growth in the same period of 2006. These trends are depicted in the following graphs:

**Quarter Ended March 31, 2007 Compared To Quarter Ended March 31, 2006**

**Consolidated Net Revenue.** Consolidated net revenue increased \$50.7 million, or 46.0%, to \$160.9 million during the three months ended March 31, 2007 (the current quarter) from \$110.2 million during the three months ended March 31, 2006 (the prior year quarter). The following table sets forth net revenue by operating segment for the three months ended March 31, 2007 and 2006 (\$ in thousands):

|                          | Three Months Ended March 31, |            |              |       |
|--------------------------|------------------------------|------------|--------------|-------|
|                          | 2007                         | 2006       | Inc./ (Dec.) |       |
| Pawn lending operations  | \$ 87,723                    | \$ 79,772  | \$ 7,951     | 10.0% |
| Cash advance operations  | 72,079                       | 29,290     | 42,789       | 146.1 |
| Check cashing operations | 1,140                        | 1,151      | (11)         | (1.0) |
| Consolidated net revenue | \$ 160,942                   | \$ 110,213 | \$ 50,729    | 46.0% |

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.

The components of consolidated net revenue are finance and service charges from pawn loans, which increased \$3.3 million; profit from the disposition of merchandise, which increased \$3.9 million; cash advance fees generated both from pawn and cash advance locations and from the Company's online distribution channel, which increased \$43.1 million; and combined segment revenue from check cashing fees, royalties and other, which increased \$415,000.

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**Finance and Service Charges.** Finance and service charges from pawn loans increased \$3.3 million, or 9.6%, from \$35.1 million in the prior year quarter to \$38.4 million in the current quarter. The increase is primarily due to higher loan balances attributable to the increased amount of pawn loans written through existing and new locations added during 2006. An increase in the average balance of pawn loans outstanding contributed \$3.5 million of the increase which was partially offset by a \$179,000 decrease resulting from the lower annualized yield of the pawn loan portfolio which is a function of the blend in permitted rates for fees and service charges on pawn loans in all operating locations of the Company and slightly lower redemption rates. Finance and service charges from same stores (stores that have been open for at least twelve months) increased 6.0%, or \$2.1 million, in the current quarter compared to the prior year quarter.

The average balances of pawn loans outstanding at March 31, 2007 were \$10.9 million, or 10.1% higher than at March 31, 2006. The increase in the average balance of pawn loans outstanding was driven by a 12.6% increase in the average amount per loan that was partially offset by a 2.2% decrease in the average number of pawn loans outstanding during the current quarter. Management believes this decrease could be related to the fact that higher advance rates on loans secured by gold collateral, such as jewelry, can allow customers to reduce the number of loans needed to achieve their needs.

Pawn loan balances at March 31, 2007 were \$112.0 million, which was 8.7% higher than at March 31, 2006. Annualized loan yield was 131.8% in the current quarter, compared to 132.4% in the prior year quarter. Same store pawn loan balances at March 31, 2007 were \$5.8 million, or 5.6%, higher than at March 31, 2006.

**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 thousands):

|                       | Three Months Ended March 31, |          |           |          |          |          |
|-----------------------|------------------------------|----------|-----------|----------|----------|----------|
|                       | 2007                         | 2007     |           |          | 2006     |          |
|                       | Merch-                       | Refined  | Total     | Merch-   | Refined  | Total    |
|                       | andise                       | Gold     |           | andise   | Gold     |          |
| Proceeds from         |                              |          |           |          |          |          |
| dispositions          | \$75,007                     | \$25,161 | \$100,168 | \$70,688 | \$16,436 | \$87,124 |
| Profit on disposition | \$30,252                     | \$7,991  | \$38,243  | \$28,930 | \$5,452  | \$34,382 |
| Profit margin         | 40.3%                        | 31.8%    | 38.2%     | 40.9%    | 33.2%    | 39.5%    |
| Percentage of total   |                              |          |           |          |          |          |
| profit                | 79.1%                        | 20.9%    | 100.0%    | 84.1%    | 15.9%    | 100.0%   |

While the total proceeds from disposition of merchandise and refined gold increased \$13.0 million, or 15.0%, the total profit from the disposition of merchandise and refined gold increased \$3.9 million, or 11.2%, primarily due to higher levels of retail sales offset by lower gross profit margin on the disposition of refined gold. Overall gross profit margin decreased from 39.5% in the prior year quarter to 38.2% in the current quarter as the relative percentage of lower profit margin refined gold sales was higher than the prior year quarter which diluted overall margins slightly. In addition, excluding the effect of the disposition of refined gold, the profit margin on the disposition of merchandise (including jewelry sales) was 40.3% and 40.9% for the current quarter and the prior year quarter, respectively. The profit margin on the disposition of refined gold decreased to 31.8% in the current quarter compared to 33.2% in the prior year quarter primarily due to the increase in cost per ounce. The increase in gross profit dollars generated is attributable to the increase in sales proceeds due to the higher volume of gold sold and an increase in the prevailing market prices of gold which caused the hedge-adjusted selling price per ounce to increase 25% compared to the prior year quarter. Proceeds from disposition of merchandise, excluding refined gold, increased \$4.3 million, or 6.1%, in the current quarter compared to the prior year quarter. The higher level of retail sales activity was supported by higher levels of merchandise available for disposition entering the current quarter and by the net addition of 19 pawn locations since March 31, 2006. The consolidated merchandise turnover rate was 3.0 times during the current quarter and 3.1 times during the prior year quarter. Management



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expects that profit margin on the disposition of merchandise in the near term will likely remain at or slightly below current levels mainly due to higher inventory levels and an increase in the percentage mix of refined gold sales, which typically have lower gross profit margins.

The table below summarizes the age of merchandise held for disposition before valuation allowance of \$1.9 million at March 31, 2007 and \$1.8 million at March 31, 2006 (\$ in thousands).

|  | 2007      |        | 2006      |        |
|--|-----------|--------|-----------|--------|
|  | Amount    | %      | Amount    | %      |
| Merchandise held for 1 year or less    |           |        |           |        |
| Jewelry                                | \$ 50,742 | 61.4%  | \$ 39,029 | 57.9%  |
| Other merchandise                      | 23,813    | 28.8   | 21,047    | 31.2   |
|  | 74,555    | 90.2   | 60,076    | 89.1   |
| Merchandise held for more than 1 year  |           |        |           |        |
| Jewelry                                | 5,067     | 6.1    | 4,633     | 6.9    |
| Other merchandise                      | 3,046     | 3.7    | 2,685     | 4.0    |
|  | 8,113     | 9.8    | 7,318     | 10.9   |
| Total merchandise held for disposition | \$ 82,668 | 100.0% | \$ 67,394 | 100.0% |

**Cash Advance Fees.** Cash advance fees increased \$43.1 million, or 121.6%, to \$78.5 million in the current quarter from \$35.4 million in the prior year quarter. The increase was primarily due to the addition of online distribution channel and to a lesser extent the growth and development of new cash advance units. As of March 31, 2007, the cash advance products were available in 722 lending locations, including 426 pawnshops, 296 cash advance locations and through the online distribution channel. 329 of these lending locations and, in two states, the Company's online distribution channel, arrange for customers to obtain cash advance products from independent third-party lenders for a fee. Cash advance fees from same stores increased \$2.6 million, or 7.6%, to \$37.0 million in the current quarter as compared to \$34.4 million in the prior year quarter. Cash advance fees include revenue from the cash advance portfolio owned by the Company and fees paid to the Company for arranging for cash advance products from independent third-party lenders for customers. (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 March 31, 2007 and 2006 (\$ in thousands):

|                                | Three Months Ended March 31, |           |           |        |
|--------------------------------|------------------------------|-----------|-----------|--------|
|                                | 2007                         | 2006      | Increase  |        |
| Pawn lending operations        | \$ 10,120                    | \$ 9,648  | \$ 472    | 4.9%   |
| Cash advance operations        | 68,396                       | 25,791    | 42,605    | 165.2  |
| Consolidated cash advance fees | \$ 78,516                    | \$ 35,439 | \$ 43,077 | 121.6% |

The amount of cash advances written increased by \$229.9 million, or 107.5%, to \$443.8 million in the current quarter from \$213.9 million in the prior year quarter. Included in the amount of cash advances written in the current quarter and the prior year quarter were \$142.1 million and \$78.0 million, respectively, extended to customers by third-party lenders. The average amount per cash advance increased to \$409 from \$380 mainly due to changes in

permitted loan amounts and adjustments to underwriting. The combined Company and third-party lender portfolios of cash advances generated \$79.4 million in revenue during the current quarter compared to \$36.5 million in the prior year quarter. The outstanding combined portfolio balance of cash advances increased \$67.7 million, or 141.3%, to \$115.5 million at March 31, 2007 from \$47.9 million at March 31, 2006. Those amounts included \$90.5 million and \$33.2 million at March 31, 2007 and 2006, respectively, which are included in the Company's consolidated balance sheets. An allowance for losses of \$23.1 million and \$3.5 million has been provided in the consolidated financial statements for March 31, 2007 and 2006, respectively, which is netted against the outstanding cash advance amounts on the Company's consolidated balance sheets.

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The following table summarizes cash advances outstanding at March 31, 2007 and 2006 and contains certain non-Generally Accepted Accounting Principles ( non-GAAP ) measures with respect to the cash advances owned by third-party lenders that are not included in the Company s consolidated balance sheets. The Company believes that presenting these non-GAAP measures is meaningful and necessary because management evaluates and measures the cash advance portfolio performance on an aggregate basis (\$ in thousands).

|  | March 31,        |                  |
|--|------------------|------------------|
|  | 2007             | 2006             |
| <i>Funded by the Company</i> <sup>(a)</sup>  |                  |                  |
| Active cash advances and fees receivable   | \$ 57,077        | \$ 24,677        |
| Cash advances and fees in collection   | 21,436           | 4,479            |
| <b>Total funded by the Company</b> <sup>(a)</sup>  | <b>78,513</b>    | <b>29,156</b>    |
| <i>Funded by the third-party lenders</i> <sup>(b) (c)</sup>  |                  |                  |
| Active cash advances and fees receivable   | 25,024           | 15,440           |
| Cash advances and fees in collection   | 12,010           | 3,283            |
| <b>Total funded by third-party lenders</b> <sup>(b) (c)</sup>  | <b>37,034</b>    | <b>18,723</b>    |
| <i>Combined gross portfolio</i> <sup>(b) (d)</sup>   |                  |                  |
| Less: Elimination of cash advances owned by third-party lenders  | 115,547          | 47,879           |
| Less: Discount on cash advances assigned by third-party lenders  | 25,022           | 14,599           |
|  |                  | 35               |
| <b>Company-owned cash advances and fees receivable, gross</b>  | <b>90,525</b>    | <b>33,245</b>    |
| Less: Allowance for losses   | 23,141           | 3,541            |
| <b>Cash advances and fees receivable, net</b>  | <b>\$ 67,384</b> | <b>\$ 29,704</b> |
| Allowance for loss on Company-owned cash advances  | \$ 23,141        | \$ 3,541         |
| Accrued losses on third-party lender owned cash advances   | 1,253            | 605              |
| <b>Combined allowance for losses and accrued third-party lender losses</b>   | <b>\$ 24,394</b> | <b>\$ 4,146</b>  |
| <b>Combined allowance for losses and accrued third-party lender losses as a % of combined gross portfolio</b> <sup>(b)</sup> | <b>21.1%</b>     | <b>8.7%</b>      |

(a) Cash advances written by the Company in its pawn and cash advance locations and through the Company s internet distribution channel.

- (b) Non-GAAP presentation.  
For informational purposes and to provide a greater understanding of the Company's businesses. Management believes that information provided with this level of detail is meaningful and useful in understanding the activities and business metrics of the Company's operations.
- (c) Cash advances written by third-party lenders that were arranged by the Company on behalf of the third-party lenders, all at the Company's pawn and cash advance locations and through the Company's internet distribution channel.
- (d) Includes (i) cash advances written by the Company, and (ii) cash



advances  
written by  
third-party  
lenders that  
were arranged  
by the Company  
on behalf of the  
third-party  
lenders, all at  
the Company's  
pawn and cash  
advance  
locations and  
through the  
Company's  
internet  
distribution  
channel.

Cash advance fees related to cash advances originated by all third-party lenders were \$24.9 million in the current quarter on \$142.1 million in cash advances originated by third-party lenders, representing 31.7% of combined cash advance revenue. The cash advance loss provision expense associated with these cash advances was \$12.4 million. Direct operating expenses associated with these cash advances, excluding allocated administrative expenses, were \$4.3 million, and the related depreciation and amortization expense was \$388,000 in the current quarter. Therefore, management estimates that the approximate contribution before interest and taxes on cash advances originated by all third-party lenders in pawn and cash advance locations and through its online channel amounted to \$7.8 million in the current quarter. This estimate does not include shared operating costs in pawn locations where the product is offered.

Management anticipates continued growth in consolidated cash advance fees for the remainder of 2007 due to increased consumer awareness and demand for the cash advance product, higher outstanding balances at March 31, 2007 compared to March 31, 2006, the addition of the internet distribution channel through CashNetUSA, the growth of balances from new units opened in 2006, and planned openings in 2007.

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**Check Cashing Fees, Royalties and Other.** Check cashing fees, royalties and other income increased \$415,000 to \$5.7 million in the current quarter, or 7.8%, from \$5.3 million in the prior year quarter primarily due to expanded product offerings in pawn locations and revenue growth in cash advance units. The components of these fees are as follows (in thousands):

|                    | Three Months Ended March 31, |              |               |          |              |              |               |          |
|--------------------|------------------------------|--------------|---------------|----------|--------------|--------------|---------------|----------|
|                    | 2007                         |              |               |          | 2006         |              |               |          |
|                    | Pawn Lending                 | Cash Advance | Check Cashing | Total    | Pawn Lending | Cash Advance | Check Cashing | Total    |
| Check cashing fees | \$ 288                       | \$ 2,406     | \$ 161        | \$ 2,855 | \$ 64        | \$ 2,483     | \$ 182        | \$ 2,729 |
| Royalties          | 145                          |              | 959           | 1,104    | 166          |              | 945           | 1,111    |
| Other              | 496                          | 1,277        | 20            | 1,793    | 457          | 1,016        | 24            | 1,497    |
|                    | \$ 929                       | \$ 3,683     | \$ 1,140      | \$ 5,752 | \$ 687       | \$ 3,499     | \$ 1,151      | \$ 5,337 |

**Operations Expenses.** Consolidated operations expenses, as a percentage of total revenue, were 32.5% in the current quarter compared to 36.4% in the prior year quarter. These expenses increased \$13.1 million, or 22.0%, in the current quarter compared to the prior year quarter. Pawn lending operating expenses increased \$2.9 million, or 6.6%, primarily due to the net increase of 19 pawnshop locations since March 31, 2006, an increase in store level incentives and an increase in marketing expenses. Cash advance operating expenses increased \$10.2 million, or 69.4%, primarily as a result of the addition of CashNetUSA.

As a multi-unit operator in the consumer finance industry, the Company's operations expenses are predominately related to personnel and occupancy expenses. Personnel expenses include base salary and wages, performance incentives, and benefits. Occupancy expenses include rent, property taxes, insurance, utilities, and maintenance. The combination of personnel and occupancy expenses represents 80.2% of total operations expenses in the current quarter and 85.3% in the prior year quarter. Other operations expenses increased \$5.6 million, or 64.7%, primarily due to an increase of \$5.1 million in marketing and selling expenses. The comparison is as follows (\$ in thousands):

|           | Three Months Ended March 31, |              |           |              |
|-----------|------------------------------|--------------|-----------|--------------|
|           | 2007                         |              | 2006      |              |
|           | Amount                       | % of Revenue | Amount    | % of Revenue |
| Personnel | \$ 40,509                    | 18.2%        | \$ 34,527 | 21.2%        |
| Occupancy | 17,507                       | 7.9          | 16,034    | 9.8          |
| Other     | 14,351                       | 6.4          | 8,712     | 5.4          |
| Total     | \$ 72,367                    | 32.5%        | \$ 59,273 | 36.4%        |

The increase in personnel expenses is mainly due to the addition of CashNetUSA, the unit additions since the prior year quarter and an increase in staffing levels, and normal recurring salary adjustments. The increase in occupancy expense is primarily due to unit additions and the increase in other operations expenses was primarily due to the addition of CashNetUSA.

**Administration Expenses.** Consolidated administration expenses, as a percentage of total revenue, were 6.4% in the current quarter compared to 8.5% in the prior year quarter. The components of administration expenses for the three months ended March 31, 2007 and 2006 are as follows (\$ in thousands):

|           | Three Months Ended March 31, |              |
|-----------|------------------------------|--------------|
|           | 2007                         | 2006         |
|           | Amount                       | % of Revenue |
| Personnel | \$ 40,509                    | 18.2%        |
| Occupancy | 17,507                       | 7.9          |
| Other     | 14,351                       | 6.4          |
| Total     | \$ 72,367                    | 32.5%        |

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|           | Amount    | Revenue | Amount    | Revenue |
|-----------|-----------|---------|-----------|---------|
| Personnel | \$ 10,389 | 4.7%    | \$ 9,865  | 6.1%    |
| Other     | 3,906     | 1.7     | 3,986     | 2.4     |
| Total     | \$ 14,295 | 6.4%    | \$ 13,851 | 8.5%    |

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The increase in administration expenses was principally attributable to the addition of CashNetUSA, increased staffing levels, annual salary adjustments and net unit additions.

**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 carried against the outstanding company owned cash advance portfolio as well as expected losses in the third-party lender-owned portfolios which are guaranteed by the Company. The allowance is based on historical trends in portfolio performance based on the status of the balance owed by the customer with the full amount of the customer's obligations being completely reserved when they become 60 days past due. The cash advance loss provision was \$32.7 million for the current quarter and \$4.4 million for the prior year quarter. The loss provision reflected a \$28.3 million increase compared to the prior year quarter, principally due to the addition of CashNetUSA, driven by the higher volume of combined cash advances written and portfolio performance trends. The loss provision as a percentage of combined cash advances written increased to 7.4% in the current quarter from 2.1% in the prior year quarter while actual net charge-offs (charge-offs less recoveries) as a percentage of combined cash advances written were 6.5% in the current quarter compared to 3.5% in the prior year quarter. The loss provision as a percentage of cash advance fees increased to 41.7% in the current quarter from 12.5% in the prior year quarter. These increases are mostly attributable to a significant increase in cash advance receivable balances and the inclusion of the cash advance balance from online customers which carry a higher expected loss rate. Going forward management believes that this ratio could increase as the composition mix of the portfolio becomes more heavily weighted to cash advances extended to online customers which historically have resulted in higher loss rates than cash advances extended to customers receiving loans in physical lending locations.

During the quarter ended March 31, 2007, the Company's online distribution channel sold selected cash advances which had been previously written off. These sales generated proceeds of \$752,000. These proceeds were recorded as recoveries on losses previously charged to the allowance for losses.

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The following table summarizes the cash advance loss provision and combined allowance for losses and accrued third-party lender losses for the three months ended and at March 31, 2007 and 2006, and contains certain non-GAAP measures with respect to the cash advances written by third-party lenders that are not included in the Company's consolidated balance sheets and related statistics. The Company believes that presenting these non-GAAP measures is meaningful and necessary because management evaluates and measures the cash advance portfolio performance on an aggregate basis including its evaluation of the loss provision for the Company-owned portfolio and the third-party lender-owned portfolio that the Company guarantees (\$ in thousands).

|  | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2007                            | 2006       |
| Cash advance loss provision:   |                                 |            |
| Loss provision on Company-owned cash advances  | \$ 32,648                       | \$ 4,706   |
| Loss provision on third-party owned cash advances  | 100                             | (269)      |
| Combined cash advance loss provision   | \$ 32,748                       | \$ 4,437   |
| Charge-offs, net of recoveries   | \$ 29,019                       | \$ 7,474   |
| Cash advances written:   |                                 |            |
| By the Company <sup>(a)</sup>  | \$ 301,736                      | \$ 135,890 |
| By third-party lenders <sup>(b) (c)</sup>  | 142,088                         | 78,040     |
| Combined cash advances written <sup>(b) (d)</sup>  | \$ 443,824                      | \$ 213,930 |
| Combined cash advance loss provision as a % of combined cash advances written <sup>(b)</sup> | 7.4%                            | 2.1%       |
| Charge-offs (net of recoveries) as a % of combined cash advances written <sup>(b)</sup>      | 6.5%                            | 3.5%       |

(a) Cash advances written by the Company in its pawn and cash advance locations and through the Company's internet distribution channel.

(b) Non-GAAP presentation. For informational purposes and to provide a greater understanding

of the  
Company's  
businesses.  
Management  
believes that  
information  
provided with  
this level of  
detail is  
meaningful and  
useful in  
understanding  
the activities  
and business  
metrics of the  
Company's  
operations.

- (c) Cash advances written by third-party lenders that were arranged by the Company on behalf of the third-party lenders, all at the Company's pawn and cash advance locations and through the Company's internet distribution channel.
- (d) Includes (i) cash advances written by the Company, and (ii) cash advances written by third-party lenders that were arranged by the Company on behalf of the third-party lenders, all at

the Company's  
pawn and cash  
advance  
locations and  
through the  
Company's  
internet  
distribution  
channel.

**Depreciation and Amortization.** Depreciation and amortization expense as a percentage of total revenue was 3.4% in the current quarter and 3.9% in the prior year quarter. Total depreciation and amortization expense increased \$1.2 million, or 18.6%, primarily due to the increase in operating locations and the amortization of certain intangible assets obtained in acquisitions.

**Interest Expense.** Interest expense as a percentage of total revenue was 1.6% in the current quarter and 1.5% in the prior year quarter. Interest expense increased \$1.3 million, or 53.9%, to \$3.7 million in the current quarter as compared to \$2.4 million in the prior year quarter. The increase was primarily due to the higher weighted average floating interest rate (6.4% during the current quarter compared to 5.8% during the prior year quarter) and the issuance in December 2006 of \$60 million of senior unsecured long-term notes. The average amount of debt outstanding increased during the current quarter to \$214.0 million from \$139.9 million during the prior year quarter primarily attributable to the acquisition of CashNetUSA in the third quarter of 2006 and the first contingent earn-out payment funded in February 2007. The effective blended borrowing cost was 7.1% in both the current quarter and the prior year quarter. In future periods management expects higher levels of debt associated with the potential funding requirements of the CashNetUSA supplemental acquisition payments.

**Interest Income.** Interest income was \$418,000 in the current quarter compared to \$378,000 in the prior year quarter. The interest income primarily generates from the two notes receivable denominated in Swedish kronor in connection with the Company's 2004 sale of its foreign pawn lending operations.

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**Foreign Currency Transaction Gain/Loss.** The two Swedish kronor denominated notes had a carrying value of \$9.7 million at March 31, 2007. Exchange rate changes between the United States dollar and the Swedish kronor resulted in a net gain of \$44,000 (including a gain of \$242,000 from foreign currency forward contracts) in the current quarter and \$65,000 (net of a loss of \$102,000 from foreign currency forward contracts) in the prior year quarter. The foreign currency forward contracts totaling 68 million Swedish kronor (approximately \$9.7 million at maturity) were established by the Company in 2005 to minimize the financial impact of currency market fluctuations.

**Income Taxes.** The Company's effective tax rate was 37.4% for the current quarter compared to 36.7% for the prior year quarter. The change in the effective tax rate was primarily due to an increase in state and local taxes.

**LIQUIDITY AND CAPITAL RESOURCES**

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

|                                  | Three Months Ended |             |
|----------------------------------|--------------------|-------------|
|                                  | March 31,          |             |
|                                  | 2007               | 2006        |
| Operating activities cash flows  | \$ 73,530          | \$ 34,787   |
| Investing activities cash flows: |                    |             |
| Pawn loans                       | \$ 18,721          | \$ 17,356   |
| Cash advances                    | (19,277)           | 6,727       |
| Acquisitions                     | (35,640)           | (1,729)     |
| Property and equipment additions | (11,933)           | (7,841)     |
| Financing activities cash flows  | \$ (25,396)        | \$ (51,485) |
| Working capital                  | \$250,611          | \$194,160   |
| Current ratio                    | 3.7x               | 4.0x        |
| Merchandise turnover             | 3.0x               | 3.1x        |

**Cash flows from operating activities.** Net cash provided by operating activities was \$73.5 million for the current period. Net cash generated from the Company's pawn lending operations, cash advance operations and check cashing operations was \$32.0 million, \$41.1 million and \$446,000, respectively. The improvement in cash flows from operating activities in the current period as compared to the prior year period was primarily due to the improvement in the results of the pawn lending operations, the addition of CashNetUSA, and the development of cash advance locations opened in recent periods.

Historically, the Company's finance and service charges revenue is highest in the fourth fiscal quarter (October through December) primarily due to higher average loan balances. Proceeds from the disposition of merchandise are also generally highest in the Company's fourth and first fiscal quarters (October through March) primarily due to the holiday season and the impact of tax refunds. The net effect of these factors is that income from operations typically are highest in the fourth and first fiscal quarters and likewise the Company's cash flow is generally greatest in these two fiscal quarters.

**Cash flows from investing activities.** The Company's pawn lending activities generated cash of \$18.7 million and cash advance activities used \$19.3 million during the current period. The Company also invested \$11.9 million in property and equipment, including \$4.1 million for the development of a new point-of-sale system, \$2.3 million for the establishment of new locations and relocation of existing locations; and the remainder for the ongoing enhancements to the information technology infrastructure and remodeling of selected operating units, and other property additions.

During the quarter ended March 31, 2007, the Company finalized the acquisition of the assets of certain pawnshops, using cash of \$931,000. Additionally, during the period, the Company made the first



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supplemental payment of \$33.8 million and paid other acquisition costs of \$844,000 in connection with the acquisition of substantially all of the assets of TCG. To the extent that the defined multiple of consolidated earnings attributable to CashNetUSA's business exceeds the total amounts paid through the supplemental payment measurement dates, as defined in the asset purchase agreement, the Company will make additional payments to the sellers. The next measurement date will be September 30, 2007. At this time management cannot accurately estimate the magnitude of the remaining such payments due to the uncertainties of growth rates in this business. In the event of high growth and profitability of the CashNetUSA online business, these payments would be large.

Management anticipates that capital expenditures for the remainder of 2007 will be approximately \$33 to \$43 million primarily for the establishment of approximately 16 to 26 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 make supplemental acquisition payments related to the CashNetUSA acquisition and to pursue other acquisition opportunities is not included in the estimate of capital expenditures because of the uncertainties surrounding such payments or any potential transaction of this nature at this time.

**Cash flows from financing activities.** During the current period, the Company repaid \$17.3 million under its bank lines of credit. The Company reduced its long-term debt by \$4.3 million through the scheduled principal payments on senior unsecured notes. Additional uses of cash included \$1.0 million for dividends paid. 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). Management expects to purchase shares of the Company from time to time in the open market, and funding will come from operating cash flow. During the three months ended March 31, 2007, 55,000 shares were purchased for an aggregate amount of \$2.3 million. In addition, 9,650 shares were acquired as partial payments of taxes for shares issued under stock-based compensation plans for an aggregate amount of \$403,000.

In March 2007, the Company amended its existing line of credit to extend the final maturity two years to February 2012. The amendment also provides the Company with the opportunity to request an increase in the credit line from \$250 million to \$300 million. The line of credit agreement 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 agreement or the senior unsecured note agreements could result in an acceleration of the Company's debt and increase the Company's borrowing costs and could adversely affect the Company's ability to renew its existing credit facility or obtain new credit on favorable terms 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 (\$182.8 million at March 31, 2007) under the credit facilities, cash generated from operations and current working capital of \$250.6 million should be sufficient to meet the Company's anticipated capital requirements for the foreseeable future.

**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, 2006.

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**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 March 31, 2007 ( 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 (i) to ensure that information required to be disclosed by us in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms; and (ii) to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to our management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

There was no change in the Company's internal control over financial reporting during the quarter ended March 31, 2007, that 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. The Company's disclosure controls and procedures are, however, designed to provide reasonable assurance of achieving their objectives, and the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's financial controls and procedures are effective at that reasonable assurance level.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

See Note 8 of Notes to Consolidated Financial Statements.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in Part 1, Item 1A, of our 2006 Form 10-K.

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(c) 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 first quarter of 2007:

| Period                    | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price<br>Paid<br>Per<br>Share | Total Number<br>of<br>Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plan | Maximum<br>Number<br>of Shares that<br>May<br>Yet Be<br>Purchased<br>Under the Plan<br>(1) |
|---------------------------|---|--|---|--|
| January 1 to January 31   | 3,025 <sup>(2)</sup>                      | \$ 40.86                                 |   | 1,064,700  |
| February 1 to February 28 | 32,745 <sup>(3)</sup>                     | 42.81                                    | 25,000  | 1,039,700  |
| March 1 to March 31       | 30,336 <sup>(4)</sup>                     | 39.70                                    | 30,000  | 1,009,700  |
| Total                     | 66,106                                    | \$ 41.29                                 | 55,000  |  |

(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.

(2) Includes 173 shares purchased on behalf of participants relating to the Company's Non-Qualified Savings Plan and 2,852 shares received as partial tax payments for shares issued under stock-based compensation plans.

- (3) Includes 947 shares purchased on behalf of participants relating to the Company's Non-Qualified Savings Plan and 6,798 shares received as partial tax payments for shares issued under stock-based compensation plans.
- (4) Includes 336 shares purchased on behalf of participants relating to the Company's Non-Qualified Savings Plan.

**Item 5. Other Information**

Amendment of Asset Purchase Agreement Between the Company and its affiliates, The Check Giant, LLC and the Other Parties Thereto. On May 4, 2007, The Check Giant, LLC, a Delaware limited liability company, and its members and subsidiaries (collectively, "TCG") and the Company and certain of its affiliates, amended the Asset Purchase Agreement dated as of July 9, 2006, as previously amended on September 15, 2006 (the "Asset Purchase Agreement"). The new amendment provides a mechanism for calculating and paying, if necessary, a true-up payment payable to TCG after the calculation and payment of the final supplemental payment provided in the Asset Purchase Agreement. This description is qualified in its entirety by reference to the Asset Purchase Agreement and Amendment No. 1 thereto, which are filed as exhibits to our Current Reports on Form 8-K filed on July 10, 2006 and September 19, 2006, respectively, and by reference to the new amendment, which is filed as Exhibit 2.1 to this Quarterly Report.

Compensatory Arrangements of Certain Officers. On January 24, 2007, the Management Development and Compensation committee approved grants of restricted stock units ("RSUs") pursuant to the Company's 2004 Long Term Incentive Compensation Plan to all Company officers, including the named executive officers identified in the Company's 2006 and 2007 proxy statements, as indicated below:

Daniel R. Feehan, President & Chief Executive Officer: 11,560

Thomas A. Bessant, Jr., Executive Vice President & Chief Financial Officer: 4,689

James H. Kauffman, Executive Vice President-Financial Services: 5,122

Jerry D. Finn, Executive Vice President-Pawn Operations: 4,534

Michael D. Gaston, Executive Vice President- Business Development: 3,980

Provided the award recipient remains an employee of the Company through the applicable vesting date, the RSUs will vest in 25% increments on January 31 of 2008, 2009, 2010 and 2011, respectively. All unvested RSUs will immediately vest upon change of control of the Company, as defined in the officers' RSU agreements. If the award recipients' service with the Company is terminated for any other reason prior to the vesting of the RSUs, the unvested RSUs will be forfeited. The form of agreement governing the RSUs is filed as an Exhibit to this Report.

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**Item 6. Exhibits**

- 2.1 Amendment No. 2 to Asset Purchase Agreement between the Company and The Check Giant, LLC and its members and subsidiaries
- 10.1 Form of 2007 Restricted Stock Unit Award Agreement
- 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

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**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: May 4, 2007