CASH AMERICA INTERNATIONAL INC
Form 10-Q
July 22, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to ________________

Commission File Number 1-9733

(Exact name of registrant as specified in its charter)

Texas (State or other jurisdiction of Incorporation or organization)	**75-2018239** (I.R.S. Employer Identification No.)
1600 West 7th Street **Fort Worth, Texas** (Address of principal executive offices)	**76102** (Zip Code)

(817) 335-1100

(Registrant s telephone number, including area code)

NONE

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

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

Yes þ No ¨

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

Yes þ No ¨

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

(Do not check if a smaller reporting company)

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

Yes ¨ No þ

APPLICABLE ONLY TO CORPORATE ISSUERS:

29,324,933 of the Registrants common shares, $.10 par value, were issued and outstanding as of July 14, 2011.

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CAUTIONARY NOTE CONCERNING FACTORS THAT MAY AFFECT FUTURE RESULTS

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

- changes in pawn, consumer credit, tax and other laws and government rules and regulations applicable to the Company s business,
- changes in demand for the Company s services,
- acceptance by consumers, legislators and regulators of the negative characterization by the media and consumer activists with respect to certain of the Company s loan products,
- the continued acceptance of the online channel by the Company s online loan customers,
- the actions of third parties who provide, acquire or offer products and services to, from or for the Company,
- fluctuations in the price of gold,
- changes in competition,
- the ability of the Company to open new locations in accordance with its plans,
- changes in economic conditions,
- real estate market fluctuations,
- interest rate fluctuations,
- changes in foreign currency exchange rates,

- changes in the capital markets, including the debt and equity markets,
- changes in the Company s ability to satisfy its debt obligations or to refinance existing debt obligations or obtain new capital to finance growth,
- the ability to successfully integrate newly acquired businesses into the Company s operations,
- the loss of services of any of the Company s executive officers,
- a prolonged interruption in the Company s operations of its facilities, systems and business functions, including its information technology and other business systems,
- the effect of any current or future litigation proceedings on the Company,
- the implementation of new, or changes in the interpretation of existing, accounting principles or financial reporting requirements,
- acts of God, war or terrorism, pandemics and other events,
- the effect of any of such changes on the Company s business or the markets in which the Company operates, and
- other risks and uncertainties described in this report or from time to time in the Company s filings with the Securities and Exchange Commission (the SEC).

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(Unaudited)

	June 30, 2011	June 30, 2010	December 31, 2010
Assets			
Current assets:			
Cash and cash equivalents	$ 48,375	$ 46,708	$ 38,324
Pawn loans	229,343	184,104	218,408
Consumer loans, net	160,371	115,295	139,377
Merchandise held for disposition, net	124,054	100,215	124,399
Pawn loan fees and service charges receivable	41,757	35,077	41,216
Income taxes receivable	3,598	-	-
Prepaid expenses and other assets	41,973	50,639	32,490
Deferred tax assets	32,560	25,035	28,016
Total current assets	682,031	557,073	622,230
Property and equipment, net	232,715	196,559	222,320
Goodwill	546,674	513,758	543,324
Intangible assets, net	28,638	25,853	31,188
Other assets	14,179	7,244	8,124
Total assets	$ 1,504,237	$ 1,300,487	$ 1,427,186
Liabilities and Equity			
Current liabilities:			
Accounts payable and accrued expenses	$ 86,565	$ 75,058	$ 96,465
Accrued supplemental acquisition payment	-	18,858	-
Customer deposits	10,440	9,535	9,146
Income taxes currently payable	-	9,150	888
Current portion of long-term debt	19,773	25,493	24,433
Total current liabilities	116,778	138,094	130,932
Deferred tax liabilities	92,979	46,016	56,792
Noncurrent income tax payable	2,638	2,166	2,408
Other liabilities	1,711	7,591	2,052
Long-term debt	431,734	374,044	432,271
Total liabilities	$ 645,840	$ 567,911	$ 624,455
Equity:			
Cash America International, Inc. equity:			
Common stock, $0.10 par value per share, 80,000,000 shares authorized, 30,235,164 shares issued	3,024	3,024	3,024
Additional paid-in capital	165,840	164,770	165,658
Retained earnings	705,502	583,660	644,208
Accumulated other comprehensive income	11,195	1,785	4,797
Treasury shares, at cost (942,722 shares, 881,003 shares and 685,315 shares at June 30, 2011 and 2010, and at December 31, 2010, respectively)	(33,492)	(27,031)	(21,283)
Total Cash America International, Inc. shareholders equity	852,069	726,208	796,404

Noncontrolling interest	6,328	6,368	6,327
Total equity	858,397	732,576	802,731
Total liabilities and equity	$ 1,504,237	$ 1,300,487	$ 1,427,186

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)

(Unaudited)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenue				
Pawn loan fees and service charges	$ 68,348	$ 59,507	$ 135,237	$ 117,788
Proceeds from disposition of merchandise	130,293	113,850	290,954	255,733
Consumer loan fees	132,414	115,865	255,541	224,307
Other	3,197	2,859	7,725	7,315
Total Revenue	334,252	292,081	689,457	605,143
Cost of Revenue				
Disposed merchandise	79,275	70,417	178,852	160,362
Consumer loan loss provision	45,129	44,934	84,629	78,827
Total Cost of Revenue	124,404	115,351	263,481	239,189
Net Revenue	209,848	176,730	425,976	365,954
Expenses				
Operations	115,076	101,931	228,477	198,450
Administration	32,640	25,446	59,697	50,994
Depreciation and amortization	12,308	10,215	24,750	20,933
Total Expenses	160,024	137,592	312,924	270,377
Income from Operations	49,824	39,138	113,052	95,577
Interest expense	(5,831)	(5,406)	(11,442)	(10,863)
Interest income	20	151	42	159
Foreign currency transaction loss	(185)	(37)	(281)	(174)
Equity in loss of unconsolidated subsidiary	(32)	-	(36)	-
Income before Income Taxes	43,796	33,846	101,335	84,699
Provision for income taxes	16,551	12,935	38,303	31,737
Net Income	27,245	20,911	63,032	52,962
Net (income) loss attributable to the noncontrolling interest	(264)	(22)	327	(40)
Net Income Attributable to Cash America International, Inc.	$ 26,981	$ 20,889	$ 63,359	$ 52,922
Earnings Per Share:				
Net Income attributable to Cash America International, Inc. common shareholders:				
Basic	$ 0.91	$ 0.70	$ 2.14	$ 1.78
Diluted	$ 0.84	$ 0.66	$ 1.99	$ 1.67
Weighted average common shares outstanding:				
Basic	29,593	29,655	29,673	29,671
Diluted	31,994	31,665	31,828	31,701
Dividends declared per common share	$ 0.035	$ 0.035	$ 0.070	$ 0.070

See notes to consolidated financial statements.

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CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(in thousands, except per share data)

(Unaudited)

	Common Stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury shares, at cost		Total share-holders equity	Non-controlling interest	Total Equity
	Shares	Amount				Shares	Amount			
Balance at January 1, 2010	**30,235,164**	**$ 3,024**	**$ 166,761**	**$ 532,805**	**$ 1,181**	**(933,082)**	**$ (26,836)**	**$ 676,935**	**$ 6,264**	**$ 683,199**
Shares issued under stock-based plans			(5,969)			270,148	7,857	1,888		1,888
Stock-based compensation expense			1,885					1,885		1,885
Income tax benefit from stock-based compensation			2,093					2,093		2,093
Net income attributable to Cash America International, Inc.				52,922				52,922		52,922
Dividends paid				(2,067)				(2,067)		(2,067)
Unrealized derivatives loss, net of tax					(118)			(118)		(118)
Foreign currency translation gain (loss), net of tax					(771)			(771)	64	(707)
Marketable securities unrealized gain, net of tax					1,493			1,493		1,493
Purchases of treasury shares						(218,069)	(8,052)	(8,052)		(8,052)
Income attributable to noncontrolling interests								-	40	40
Balance at June 30, 2010	**30,235,164**	**$ 3,024**	**$ 164,770**	**$ 583,660**	**$ 1,785**	**(881,003)**	**$ (27,031)**	**$ 726,208**	**$ 6,368**	**$ 732,576**
Balance at January 1, 2011	**30,235,164**	**$ 3,024**	**$ 165,658**	**$ 644,208**	**$ 4,797**	**(685,315)**	**$ (21,283)**	**$ 796,404**	**$ 6,327**	**$ 802,731**
Shares issued under stock-based plans			(2,904)			94,982	3,008	104		104
Stock-based compensation expense			2,583					2,583		2,583
Income tax benefit from stock-based compensation			503					503		503
Net income attributable to Cash America International, Inc.				63,359				63,359		63,359
Dividends paid				(2,065)				(2,065)		(2,065)
Unrealized derivatives gain, net of tax					39			39		39
Foreign currency translation gain, net of tax					5,451			5,451	328	5,779
Marketable securities unrealized gain, net of tax					908			908		908
Purchases of treasury shares						(352,389)	(15,217)	(15,217)		(15,217)
Loss from noncontrolling interests								-	(327)	(327)
Balance at June 30, 2011	**30,235,164**	**$ 3,024**	**$ 165,840**	**$ 705,502**	**$ 11,195**	**(942,722)**	**$ (33,492)**	**$ 852,069**	**$ 6,328**	**$ 858,397**

See notes to consolidated financial statements.

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CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net income	$ 27,245	$ 20,911	$ 63,032	$ 52,962
Other comprehensive gain (loss), net of tax:				
Unrealized derivatives gain (loss)[(a)]	24	(11)	39	(118)
Foreign currency translation gain (loss)[(b)]	1,148	(5,126)	5,779	(707)
Marketable securities unrealized gain[(c)]	442	818	908	1,493
Total other comprehensive gain (loss), net of tax	1,614	(4,319)	6,726	668
Comprehensive income	$ 28,859	$ 16,592	$ 69,758	$ 53,630
Net loss (income) attributable to the noncontrolling interest	(264)	(22)	327	(40)
Foreign currency translation (gain) loss, net of tax, attributable to the noncontrolling interest	(96)	297	(328)	(64)
Comprehensive loss (income) attributable to the noncontrolling interest	(360)	275	(1)	(104)
Comprehensive Income attributable to Cash America International, Inc.	$ 28,499	$ 16,867	$ 69,757	$ 53,526

(a) Net of tax (provision)/benefit of $(12) and $5 for the three months ended June 30, 2011 and 2010 respectively, and $(20) and $63 for the six months ended June 30, 2011 and 2010.

(b) Net of tax (provision)/benefit of $(298) and $(70) for the three months ended June 30, 2011 and 2010 respectively, and $(151) and $556 for the six months ended June 30, 2011 and 2010.

(c) Net of tax provision of $237 and $441 for the three months ended June 30, 2011 and 2010 respectively, and $489 and $804 for the six months ended June 30, 2011 and 2010.

See notes to consolidated financial statements.

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CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2011	2010
Cash Flows from Operating Activities		
Net Income	$ 63,032	$ 52,962
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,750	20,933
Amortization of discount on convertible debt	1,753	1,643
Consumer loan loss provision	84,629	78,827
Stock-based compensation	2,583	1,885
Deferred income taxes, net	31,138	(218)
Other	1,964	231
Changes in operating assets and liabilities		
Merchandise held for disposition	(8,930)	(8,324)
Pawn loan fees and service charges receivable	(366)	1,562
Finance and service charges on consumer loans	(2,065)	(2,935)
Prepaid expenses and other assets	(6,960)	(10,682)
Accounts payable and accrued expenses	(9,044)	(10,888)
Excess income tax benefit from stock-based compensation	(503)	(2,093)
Current income taxes	(3,793)	2,539
Other operating assets and liabilities	1,391	824
Net cash provided by operating activities	179,579	126,266
Cash Flows from Investing Activities		
Pawn loans made	(363,361)	(299,142)
Pawn loans repaid	230,532	197,426
Principal recovered through dispositions of forfeited pawn loans	132,292	128,840
Consumer loans made or purchased	(702,609)	(753,903)
Consumer loans repaid	597,608	671,884
Acquisitions, net of cash acquired	-	(3,911)
Purchases of property and equipment	(33,032)	(21,489)
Investments in equity securities	(5,000)	(5,652)
Other investing activities	(347)	38
Net cash used in investing activities	(143,917)	(85,909)
Cash Flows from Financing Activities		
Net repayments under bank lines of credit	(30,769)	(49,864)
Issuance of long-term debt	50,000	25,000
Net proceeds from re-issuance of treasury shares	104	1,888
Loan costs paid	(2,584)	(290)
Payments on notes payable and other obligations	(25,840)	(6,080)
Excess income tax benefit from stock-based compensation	503	2,093
Treasury shares purchased	(15,217)	(8,052)
Dividends paid	(2,065)	(2,067)
Net cash used in financing activities	(25,868)	(37,372)
Effect of exchange rates on cash	257	(2,281)
Net increase in cash and cash equivalents	10,051	704
Cash and cash equivalents at beginning of year	38,324	46,004
Cash and cash equivalents at end of period	$ 48,375	$ 46,708

Supplemental Disclosures		
Non-cash investing and financing activities		
Pawn loans forfeited and transferred to merchandise held for disposition	$ 125,426	$ 106,636
Pawn loans renewed	$ 84,236	$ 56,582
Consumer loans renewed	$ 239,311	$ 186,437

See notes to consolidated financial statements.

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CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Significant Accounting Policies

Basis of Presentation

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

The financial statements as of June 30, 2011 and 2010 and for the three- and six-month periods then ended are unaudited but, in management s opinion, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for such interim periods. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by Generally Accepted Accounting Principles in the United States of America (GAAP). Operating results for the three- and six-month periods are not necessarily indicative of the results that may be expected for the full fiscal year.

The presentation of the consolidated statements of income has been modified to include the consumer loan loss provision as a component of total cost of revenue, rather than as a component of total expenses. The information presented in the consolidated statements of income for the three and six-month periods ended June 30, 2010 has been updated to conform to this presentation. These changes have no impact on consolidated results previously reported.

The Company has a contractual relationship with a third party entity, Huminal, S.A. de C.V., a Mexican *sociedad anónima de capital variable* (Huminal), to compensate and maintain the labor force of its Mexico pawn operations, of which the Company is a majority owner due to the December 16, 2008 acquisition by the Company of 80% of the outstanding stock of Creazione Estilo, S.A. de C.V., a Mexican *sociedad anónima de capital variable* (Creazione), operating under the name Prenda Fácil (referred to as Prenda Fácil). The Company has no ownership interest in Huminal; however, Prenda Fácil qualifies as the primary beneficiary of Huminal in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidation*. Therefore, the results and balances of Huminal are consolidated and allocated to net income attributable to noncontrolling interests.

These financial statements and related notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Recently Issued Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05), which will enhance comparability between entities that report under GAAP and those that report under International Financial Reporting Standards (IFRS). ASU 2011-05 requires companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for the Company s interim and annual periods beginning after December 15, 2011 and must be applied retrospectively. Early adoption is permitted. The Company does not anticipate that the adoption of ASU 2011-05 will have a material effect on its financial position or results of operations.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards* (ASU 2011-04), which amends ASC 820, *Fair Value Measurement* (ASC 820). ASU 2011-04 provides a consistent

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CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and IFRS. ASU 2011 04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC 820 disclosure requirements, particularly for Level 3 fair value measurements. ASU 2011-04 is effective for the Company prospectively for interim and annual periods beginning after December 15, 2011. The Company does not anticipate that the adoption of ASU 2011-04 will have a material effect on its financial position or results of operations.

Recently Adopted Accounting Pronouncements

In December 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations* (ASU 2010-29). This standard update clarifies that, when presenting comparative financial statements, the Company should disclose revenue and earnings of the combined entity as though the current period business combinations had occurred as of the beginning of the comparable prior annual reporting period only. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for material (either on an individual or aggregate basis) business combinations entered into in fiscal years beginning on or after December 15, 2010 with early adoption permitted. The adoption of ASU 2010-29 did not have a material effect on the Company s financial position or results of operations.

2. Acquisitions

Prenda Fácil

Pursuant to its business strategy of expanding storefront operations for the pawn business in Latin America, the Company, through its wholly-owned subsidiary, Cash America of Mexico, Inc., completed the acquisition of 80% of the outstanding stock of Creazione, which operates retail services locations under the name Prenda Facil, in December 2008. In conjunction with the acquisition, the Company agreed to pay a supplemental earn-out payment in an amount based on a five times multiple of the consolidated earnings of Prenda Fácil s business as specifically defined in the Stock Purchase Agreement (generally Prenda Fácil s earnings before interest, income taxes, depreciation and amortization expenses denominated in its local currency) for the twelve-month period ending June 30, 2011, reduced by amounts previously paid. Based on earnings for the twelve-month period ending June 30, 2011, no supplemental payment was due. As a result, the final purchase price for the Company s interest in Creazione was $90.8 million, of which $82.9 million was paid in cash, with the remainder paid in the form of 391,236 shares of the Company s common stock with a fair value of $7.9 million as of the closing date.

Maxit

Pursuant to its business strategy of expanding storefront operations in the United States, the Company s wholly-owned subsidiary, Cash America, Inc. of Nevada, completed the purchase of substantially all of the assets of Maxit Financial, LLC (Maxit) on October 4, 2010. Maxit owned and operated a 39-store chain of pawn lending locations that operate in Washington and Arizona under the names Maxit and Pawn X-Change. Per the terms of the Asset Purchase Agreement, the acquisition consideration consisted of a cash payment of approximately $58.2 million, which was funded with borrowings under the Company s line of credit, and 366,097 shares of the Company s common stock, with a fair value of $10.9 million as of the closing date. In addition, the Company incurred acquisition costs of $1.5 million related to the acquisition, which were reflected in Operations expenses in the consolidated statements of income during the fourth quarter of 2010. The goodwill of $26.2 million arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Company and Maxit. As further described in Note 7, the activities and goodwill of Maxit are included in the results of the Company s retail services segment.

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CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

3. Credit Quality Information on Pawn Loans

The Company manages the pawn loan portfolio by monitoring the type and adequacy of collateral compared to historical gross profit margins. If a pawn loan defaults, the Company must rely on the disposition of pawned property to recover the principal amount of an unpaid pawn loan, plus a yield on the investment, because pawn loans are non-recourse against the customer. As a result, the customer s creditworthiness is not a significant factor in the loan decision, and a decision to redeem pawned property does not affect the customer s personal credit status. In addition, the customer s creditworthiness does not affect the Company s financial position or results of operations, because generally, forfeited merchandise has historically sold for an amount in excess of the cost of goods sold (which is the lower of cash amount loaned or market value). Goods pledged to secure pawn loans are tangible personal property items such as jewelry, tools, televisions and other electronics, musical instruments, and other miscellaneous items. A pawn loan is considered nonperforming if the customer does not make a payment in accordance with the contractual requirements. Any accrued pawn loan fees and service charges are reversed on nonperforming loans. As of June 30, 2011 and 2010, and December 31, 2010, the Company had performing pawn loans outstanding of $223.6 million, $179.9 million, and $213.5 million, respectively, and nonperforming pawn loans outstanding of $5.7 million, $4.2 million, and $4.9 million, respectively.

4. Credit Quality Information and Allowances and Accruals for Losses on Consumer Loans

In order to manage the portfolios of consumer loans effectively, the Company utilizes a variety of proprietary underwriting criteria, monitors the performance of the portfolio and maintains either an allowance or accrual for losses on consumer loans (including fees and interest) at a level estimated to be adequate to absorb credit losses inherent in the portfolio. The portfolio includes balances outstanding from all Company-owned consumer loans. In addition, the Company maintains an accrual for losses related to loans guaranteed under the Company s Credit Services Organization program. The allowance for losses on Company-owned consumer loans offsets the outstanding loan amounts in the consolidated balance sheets. The accrual for losses is included in Accounts payable and accrued expenses in the Company s consolidated balance sheets.

A consumer loan is considered nonperforming if the customer does not make payments in accordance with the contractual requirements. Generally, consumer loan fees do not accrue on nonperforming loans. Once a loan is considered non-performing and placed on non-accrual status, the Company does not resume accrual of interest. For nonperforming loans, all cash received is first applied against the principal balance of the loan. After the principal balance is recovered, the Company recognizes additional payments as consumer loan fee revenue.

The Company stratifies the outstanding combined consumer loan portfolio by age, delinquency, and stage of collection when assessing the adequacy of the allowance or accrual for losses. It uses historical collection performance adjusted for recent portfolio performance trends to develop the expected loss rates used to establish either the allowance or accrual. Increases in either the allowance or accrual are recorded as a consumer loan loss provision expense in the consolidated statements of income. The Company generally charges off all consumer loans, including accrued interest, once they have been in default for 60 consecutive days, or sooner if deemed uncollectible. Recoveries on losses previously charged to the allowance are credited to the allowance when collected.

The allowance deducted from the carrying value of consumer loans was $37.2 million, $36.7 million, and $38.9 million at June 30, 2011 and 2010, and December 31, 2010, respectively. In addition, $47.3 million, $51.0 million, and $48.8 million, respectively, of active consumer loans owned by third-party lenders were guaranteed by the Company as of those dates. The accrual for losses on consumer loan guaranty obligations was $2.1 million, $3.3 million and $2.8 million at June 30, 2011 and 2010, and December 31, 2010, respectively.

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CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

The components of Company-owned consumer loan portfolio and receivables at June 30, 2011 and 2010, and December 31, 2010 was as follows (in thousands):

	Balance at June 30, 2011	Balance at June 30, 2010	Balance at December 31, 2010
Current	**$ 150,061**	$ 106,771	$ 129,419
Nonperforming loans	**47,521**	45,247	48,911
Total consumer loans, gross	**197,582**	152,018	178,330
Less: Allowance for losses	**(37,211)**	(36,723)	(38,953)
Consumer loans, net	**$ 160,371**	$ 115,295	$ 139,377

Changes in the allowance for losses for the Company-owned portfolio and the accrued loss for third-party lender-owned portfolios during the three and six months ended June 30, 2011 and 2010 was as follows (in thousands):

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Allowance for losses for Company-owned consumer loans:				
Balance at beginning of period	**$ 35,010**	$ 25,823	**$ 38,953**	$ 27,350
Consumer loan loss provision	**44,703**	43,902	**85,330**	78,446
Charge-offs	**(49,952)**	(38,591)	**(102,628)**	(82,833)
Recoveries	**7,450**	5,589	**15,556**	13,760
Balance at end of period	**$ 37,211**	$ 36,723	**$ 37,211**	$ 36,723
Accrual for third-party lender-owned consumer loans:				
Balance at beginning of period	**$ 1,711**	$ 2,293	**$ 2,838**	$ 2,944
Consumer loan loss provision	**426**	1,032	**(701)**	381
Balance at end of period	**$ 2,137**	$ 3,325	**$ 2,137**	$ 3,325

5. Earnings Per Share Computation

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by giving effect to the potential dilution that could occur if securities or other contracts to issue common shares were exercised and converted into common shares during the period.

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CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

The following table sets forth the reconciliation of numerators and denominators for the basic and diluted earnings per share computation for the three and six months ended June 30, 2011 and 2010 (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	**2011**	2010
Numerator:				
Net income attributable to Cash America International, Inc.	**$ 26,981**	$ 20,889	**$ 63,359**	$ 52,922
Denominator:				
Total weighted average basic shares [(a)]	**29,593**	29,655	**29,673**	29,671
Shares applicable to stock-based compensation[(b)]	**245**	550	**217**	557
Convertible debt[(c)]	**2,156**	1,460	**1,938**	1,473
Total weighted average diluted shares [(d)]	**31,994**	31,665	**31,828**	31,701
Net income basic	**$ 0.91**	$ 0.70	**$ 2.14**	$ 1.78
Net income diluted	**$ 0.84**	$ 0.66	**$ 1.99**	$ 1.67

(a) Includes vested restricted stock units of 230 and 194, as well as shares in the Company s non-qualified savings plan of 32 and 33 for the three months ended June 30, 2011 and 2010, respectively, and vested restricted stock units of 224 and 187, as well as shares in the Company s non-qualified savings plan of 32 and 33 for the six months ended June 30, 2011 and 2010.

(b) Includes shares related to outstanding option award agreements and shares related to unvested or deferred restricted stock unit awards. For the three and six month periods ended June 30, 2011, there are 5 and 10, respectively, unvested or deferred restricted stock units that are excluded from shares applicable to stock-based compensation because their impact would be anti-dilutive.

(c) The shares issuable with respect to the Company s 2009 Convertible Notes due 2029 (the 2009 Convertible Notes) have been calculated using the treasury stock method. The Company intends to settle the principal portion of the convertible debt in cash; therefore, only the shares related to the conversion spread have been included in weighted average diluted shares.

(d) Except as described in footnote (b), there are no anti-dilutive shares.

CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

6. Long-Term Debt

The Company s long-term debt instruments and balances outstanding at June 30, 2011 and 2010, and December 31, 2010 were as follows (in thousands):

	Balance at		
	June 30,		December 31,
	2011	2010	2010
Domestic and multi-currency line of credit up to $280,000 due 2015	**$ 184,256**	$ -	$ -
USD line of credit up to $300,000 due 2012	**-**	139,799	215,025
6.21% senior unsecured notes due 2021	**25,000**	25,000	25,000
6.09% senior unsecured notes due 2016	**35,000**	35,000	35,000
6.12% senior unsecured notes due 2012	**26,667**	40,000	26,667
7.26% senior unsecured notes due 2017	**25,000**	25,000	25,000
Variable rate senior unsecured note due 2015	**50,000**	-	-
Variable rate senior unsecured note due 2012	**-**	31,920	25,840
5.25% convertible senior unsecured notes due 2029	**105,584**	102,818	104,172
Total debt	**$ 451,507**	$ 399,537	$ 456,704
Less current portion	**19,773**	25,493	24,433
Total long-term debt	**$ 431,734**	$ 374,044	$ 432,271

On March 30, 2011, the Company entered into a new credit agreement for up to $330.0 million of credit with a group of commercial banks (the Credit Agreement). The Credit Agreement matures on March 31, 2015 and consists of a $280.0 million line of credit, which includes the ability to borrow up to $50.0 million in specified foreign currencies or U.S. dollars (the Domestic and Multi-currency Line), and a $50.0 million term loan facility (the 2015 Variable Rate Notes). Interest on the Domestic and Multi-currency Line is charged, at the Company s option, at either the London Interbank Offered Rate (LIBOR) plus a margin varying from 2.00% to 3.25%, or at the agent s base rate plus a margin varying from 0.50% to 1.75%. Interest on the 2015 Variable Rate Notes is charged, at the Company s option, at either LIBOR plus a margin of 3.50% or at the agent s base rate plus a margin of 2.00%. The margin for the Domestic and Multi-currency Line is dependent on the Company s cash flow leverage ratios as defined in the Credit Agreement. The Company also pays a fee on the unused portion of the Domestic and Multi-currency Line ranging from 0.25% to 0.50% (0.38% at June 30, 2011) based on the Company s cash flow leverage ratios. The weighted average interest rate (including margin) on the Domestic and Multi-currency Line and the 2015 Variable Rate Notes, respectively, was 2.72% and 3.69% at June 30, 2011. Beginning on March 31, 2012, the 2015 Variable Rate Notes require quarterly principal payments of $2.1 million with any outstanding principal remaining due at maturity on March 31, 2015.

In conjunction with the entry into the Credit Agreement, the Company repaid all outstanding revolving credit loans under its $300.0 million domestic line of credit due 2012 (the USD Line of Credit) and its variable rate senior unsecured note due 2012 (the 2012 Variable Rate Notes) with proceeds of the Credit Agreement.

At June 30, 2011, borrowings under the Company s Domestic and Multi-currency Line consisted of multiple pricing tranches with maturity dates ranging from one to 29 days, and at June 30, 2010, borrowings under the Company s USD Line of Credit consisted of three pricing tranches with maturity dates ranging from one to 30 days. However, the Company refinances borrowings pursuant to the terms of its Domestic and Multi-currency Line, and it also routinely refinanced borrowings under its USD Line of Credit before it was repaid on March 30, 2011. Therefore, these borrowings are reported as part of the applicable line of credit and as long-term debt.

CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

In connection with the Domestic and Multi-currency Line and the 2015 Variable Rate Notes, the Company incurred approximately $2.6 million for issuance costs, which primarily consisted of underwriting fees, legal and other professional expenses. These costs are being amortized over a period of three years and are included in Other assets in the Company s consolidated balance sheets.

On March 30, 2011, in conjunction with the establishment of the Credit Agreement, the Company entered into a separate credit agreement for the issuance of $20.0 million in letters of credit (the Letter of Credit Facility). The Company had standby letters of credit of $16.1 million issued under the Letter of Credit Facility at June 30, 2011. Previously, these letters of credit were provided under the USD Line of Credit by reducing the amount available to the Company.

See Note 10 for a discussion of the Company s interest rate cap agreements.

Each of the Company s credit agreements and senior unsecured notes require the Company to maintain certain financial ratios. As of June 30, 2011, the Company was in compliance with all covenants or other requirements set forth in its debt agreements.

7. Operating Segment Information

The Company has two operating segments: retail services and e-commerce. The retail services segment includes all of the operations of the Company s Retail Services Division, which is composed of both domestic and foreign storefront locations that offer some or all of the following services: pawn lending, consumer loans, the purchase and sale of merchandise, check cashing and other ancillary services such as money orders, wire transfers and pre-paid debit cards. Most of these ancillary services offered in the retail services segment are provided through third party vendors. The e-commerce segment includes the operations of the Company s E-Commerce Division, which is composed of the Company s domestic and foreign online channel (and includes the Company s internet lending activities and other ancillary services) and the Company s micro line of credit services channel.

CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

The Company allocates corporate administrative expenses to each operating segment based on personnel expenses at each segment. In the e-commerce segment, certain administrative expenses are allocated between the domestic and foreign components based on the amount of loans written.

	Retail Services			E-Commerce			
	Domestic	Foreign	Total	Domestic	Foreign	Total	Consolidated
Three Months Ended June 30, 2011							
Revenue							
Pawn loan fees and service charges	$ 61,158	$ 7,190	$ 68,348	$ -	$ -	$ -	$ 68,348
Proceeds from disposition of merchandise	130,264	-	130,264	29	-	29	130,293
Consumer loan fees	27,320	-	27,320	55,212	49,882	105,094	132,414
Other	2,684	174	2,858	110	229	339	3,197
Total revenue	221,426	7,364	228,790	55,351	50,111	105,462	334,252
Disposed merchandise	79,252	-	79,252	23	-	23	79,275
Consumer loan loss provision	4,756	-	4,756	16,504	23,869	40,373	45,129
Total cost of revenue	84,008	-	84,008	16,527	23,869	40,396	124,404
Net revenue	137,418	7,364	144,782	38,824	26,242	65,066	209,848
Expenses							
Operations	81,013	5,458	86,471	13,363	15,242	28,605	115,076
Administration	14,793	2,478	17,271	9,368	6,001	15,369	32,640
Depreciation and amortization	8,066	1,460	9,526	2,574	208	2,782	12,308
Total expenses	103,872	9,396	113,268	25,305	21,451	46,756	160,024
Income (loss) from operations	$ 33,546	$ (2,032)	$ 31,514	$ 13,519	$ 4,791	$ 18,310	$ 49,824
As of June 30, 2011							
Total assets	$ 971,457	$ 135,852	$ 1,107,309	$ 304,586	$ 92,342	$ 396,928	$ 1,504,237
Goodwill			$ 336,392			$ 210,282	$ 546,674

	Retail Services			E-Commerce			
	Domestic	Foreign	Total	Domestic	Foreign	Total	Consolidated
Three Months Ended June 30, 2010							
Revenue							
Pawn loan fees and service charges	$ 51,080	$ 8,427	$ 59,507	$ -	$ -	$ -	$ 59,507
Proceeds from disposition of merchandise	113,850	-	113,850	-	-	-	113,850
Consumer loan fees	26,782	-	26,782	67,277	21,806	89,083	115,865
Other	2,616	41	2,657	202	-	202	2,859
Total revenue	194,328	8,468	202,796	67,479	21,806	89,285	292,081
Disposed merchandise	70,417	-	70,417	-	-	-	70,417
Consumer loan loss provision	5,019	-	5,019	29,466	10,449	39,915	44,934
Total cost of revenue	75,436	-	75,436	29,466	10,449	39,915	115,351
Net revenue	118,892	8,468	127,360	38,013	11,357	49,370	176,730

Expenses							
Operations	72,955	4,665	77,620	16,634	7,677	24,311	101,931
Administration	10,926	2,194	13,120	8,948	3,378	12,326	25,446
Depreciation and amortization	6,954	1,231	8,185	1,959	71	2,030	10,215
Total expenses	90,835	8,090	98,925	27,541	11,126	38,667	137,592
Income from operations	$ 28,057	$ 378	$ 28,435	$ 10,472	$ 231	$ 10,703	$ 39,138
As of June 30, 2010							
Total assets	$ 800,774						