

CASH AMERICA INTERNATIONAL INC

Form 10-Q

July 22, 2005

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2005

OR

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

For the transition period from _____ to _____

Commission File Number 1-9733

CASH AMERICA INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of
incorporation or organization)

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

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

76102
(Zip Code)

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

29,240,016 common shares, \$.10 par value, were outstanding as of July 14, 2005

CASH AMERICA INTERNATIONAL, INC.

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[Guaranty - NCP Finance Limited Partnership](#)

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[Certification of Chief Executive Officer](#)

[Certification of Chief Financial Officer](#)

[Certification of CEO Pursuant to Section 906](#)

[Certification of CFO Pursuant to Section 906](#)

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

	June 30, 2005 2004 (Unaudited)		December 31, 2004
Assets			
Current assets:			
Cash and cash equivalents	\$ 11,771	\$ 9,081	\$ 15,103
Pawn loans	116,046	87,427	109,353
Cash advances, net	42,742	27,972	36,490
Merchandise held for disposition, net	61,846	47,317	67,050
Finance and service charges receivable	19,666	15,365	20,458
Other receivables and prepaid expenses	12,480	7,404	10,547
Income tax recoverable	1,064		
Deferred taxes assets	11,293	7,820	9,293
Current assets of discontinued operations		84,618	
Total current assets	276,908	287,004	268,294
Property and equipment, net	91,224	71,495	87,612
Goodwill	167,190	104,373	164,073
Intangible assets, net	23,078	4,206	24,361
Other assets	10,464	1,611	10,825
Non-current assets of discontinued operations		30,584	
Total assets	\$ 568,864	\$ 499,273	\$ 555,165
Liabilities and Stockholders Equity			
Current liabilities:			
Accounts payable and accrued expenses	\$ 31,004	\$ 29,794	\$ 33,854
Customer deposits	6,388	4,899	5,686
Income taxes currently payable		1,411	2,505
Current portion of long-term debt	16,786	8,286	16,786
Current liabilities of discontinued operations		3,499	
Total current liabilities	54,178	47,889	58,831
Deferred tax liabilities	12,654	5,957	10,999
Other liabilities	1,437	1,487	1,559
Long-term debt	152,421	134,691	149,840

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Non-current liabilities of discontinued operations		14,593	
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	155,357	143,252	154,294
Retained earnings	205,219	159,382	187,860
Accumulated other comprehensive income		8,085	
Notes receivable secured by common stock	(2,488)	(2,488)	(2,488)
Treasury shares, at cost (1,108,189 shares, 1,987,207 shares and 938,386 shares at June 30, 2005 and 2004, and December 31, 2004, respectively)	(12,938)	(16,599)	(8,754)
Total stockholders' equity	348,174	294,656	333,936
Total liabilities and stockholders' equity	\$ 568,864	\$ 499,273	\$ 555,165

See notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Unaudited)			
Revenue				
Finance and service charges	\$ 32,577	\$ 25,355	\$ 66,496	\$ 52,227
Proceeds from disposition of merchandise	65,333	51,695	144,074	118,743
Cash advance fees	33,376	22,061	61,686	41,717
Check cashing royalties and fees	2,283	2,032	6,302	5,474
Total Revenue	133,569	101,143	278,558	218,161
Cost of Revenue				
Disposed merchandise	38,939	31,338	86,894	72,167
Net Revenue	94,630	69,805	191,664	145,994
Expenses				
Operations	54,027	40,892	107,700	82,460
Cash advance loss provision	10,769	5,375	16,403	8,419
Administration	10,604	9,583	21,513	20,690
Depreciation and amortization	5,674	4,064	11,240	7,988
Total Expenses	81,074	59,914	156,856	119,557
Income from Operations	13,556	9,891	34,808	26,437
Interest expense	2,490	2,051	4,827	4,182
Interest income	(407)	(37)	(825)	(76)
Foreign currency transaction losses	431		915	
Income from Continuing Operations before Income Taxes	11,042	7,877	29,891	22,331
Provision for income taxes	4,142	2,951	11,089	8,263
Income from Continuing Operations	6,900	4,926	18,802	14,068
Income from discontinued operations before income taxes		3,456		6,688
Provision for income taxes		1,043		2,027
Income from discontinued operations		2,413		4,661
Net Income	\$ 6,900	\$ 7,339	\$ 18,802	\$ 18,729

Earnings Per Share:

Basic

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Income from continuing operations	\$ 0.24	\$ 0.17	\$ 0.64	\$ 0.50
Income from discontinued operations	\$	\$ 0.09	\$	\$ 0.17
Net income	\$ 0.24	\$ 0.26	\$ 0.64	\$ 0.66
Diluted				
Income from continuing operations	\$ 0.23	\$ 0.17	\$ 0.62	\$ 0.48
Income from discontinued operations	\$	\$ 0.08	\$	\$ 0.16
Net income	\$ 0.23	\$ 0.25	\$ 0.62	\$ 0.64
Weighted average common shares outstanding:				
Basic	29,219	28,254	29,275	28,247
Diluted	30,079	29,443	30,256	29,448
Dividends declared per common share	\$ 0.025	\$ 0.0175	\$ 0.050	\$ 0.035

See notes to consolidated financial statements.

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

	June 30,			
	2005		2004	
	Shares	Amounts	Shares	Amounts
	(Unaudited)			
Common stock				
Balance at end of period	30,235,164	\$ 3,024	30,235,164	\$ 3,024
Additional paid-in capital				
Balance at beginning of year		154,294		141,867
Exercise of stock options		56		267
Issuance of shares under restricted stock units plan		(99)		
Stock-based compensation		824		524
Tax benefit from stock based compensation		282		594
Balance at end of period		155,357		143,252
Retained earnings				
Balance at beginning of year		187,860		141,642
Net income		18,802		18,729
Dividends declared		(1,443)		(989)
Balance at end of period		205,219		159,382
Accumulated other comprehensive income				
Balance at beginning of year				7,995
Foreign currency translation adjustments				90
Balance at end of period				8,085
Notes receivable secured by common stock				
Balance at end of period		(2,488)		(2,488)
Treasury shares, at cost				
Balance at beginning of year	(938,386)	(8,754)	(2,040,180)	(15,547)
Purchases of treasury shares	(223,438)	(4,675)	(104,553)	(2,270)
Exercise of stock options	42,800	392	157,526	1,218
Issuance of shares under restricted stock units plan	10,835	99		
Balance at end of period	(1,108,189)	(12,938)	(1,987,207)	(16,599)

Total Stockholders' Equity	\$ 348,174	\$ 294,656
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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
		(Unaudited)		
Net income	\$ 6,900	\$ 7,339	\$ 18,802	\$ 18,729
Other comprehensive income (loss), net of tax of \$0				
Foreign currency translation adjustments		(794)		90
Total Comprehensive Income	6,900	\$ 6,545	18,802	\$ 18,819

See notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2005	2004
	(Unaudited)	
Cash Flows from Operating Activities		
Net income	\$ 18,802	\$ 18,729
Less: Income from discontinued operations		4,661
Income from continuing operations	18,802	14,068
Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	11,240	7,988
Cash advance loss provision	16,403	8,419
Stock-based compensation expense	824	524
Foreign currency transaction losses	915	
Changes in operating assets and liabilities -		
Merchandise held for disposition	6,882	1,481
Finance and service charges receivable	403	126
Other receivables and prepaid expenses	(1,595)	227
Accounts payable and accrued expenses	(3,275)	(4,930)
Customer deposits, net	690	797
Current income taxes	(3,287)	4,858
Deferred income taxes, net	(345)	(47)
Net cash provided by operating activities of continuing operations	47,657	33,511
Cash Flows from Investing Activities		
Pawn loans made	(175,578)	(143,228)
Pawn loans repaid	102,950	80,342
Principal recovered on forfeited loans through dispositions	64,652	57,247
Cash advances made, assigned or purchased	(267,261)	(184,735)
Cash advances repaid	245,385	177,287
Acquisitions, net of cash acquired	(4,370)	(2,905)
Purchases of property and equipment	(12,739)	(11,060)
Net cash used by investing activities of continuing operations	(46,961)	(27,052)
Cash Flows from Financing Activities		
Net borrowings (repayments) under bank lines of credit	9,367	(3,277)
Payments on notes payable	(6,786)	(4,286)
Loan costs paid	(940)	
Proceeds from exercise of stock options	449	1,485
Treasury shares purchased	(4,675)	(2,270)
Dividends paid	(1,443)	(989)

Net cash used by financing activities of continuing operations	(4,028)	(9,337)
Net decrease in cash and cash equivalents	(3,332)	(2,878)
Cash and cash equivalents at beginning of year	15,103	11,959
Cash and cash equivalents at end of period	\$ 11,771	\$ 9,081

Supplemental Disclosures

Non-cash investing and financing activities of continuing operations

Pawn loans forfeited and transferred to merchandise held for disposition	\$ 66,787	\$ 56,613
Pawn loans renewed	\$ 36,600	\$ 20,685
Cash advances renewed	\$ 5,719	\$ 3,677
Note payable issued in settlement of purchase transaction	\$	\$ 2,500

See notes to consolidated financial statements.

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CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

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

The financial statements as of June 30, 2005 and 2004, and for the three and six month periods then ended, are unaudited but, in management's opinion, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such interim periods. Operating results for the three and six month periods are not necessarily indicative of the results that may be expected for the full fiscal year.

In September 2004, the Company sold its foreign pawn lending operations in the United Kingdom and Sweden. The results of foreign pawn lending operations have been reclassified as discontinued operations for the three and six months ended June 30, 2004 in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. See Note 10.

In December 2004, the Company acquired the pawn operating assets of Camco, Inc., which operated under the trade name SuperPawn (SuperPawn) in four states in the western United States. The financial results of SuperPawn have been included in the accompanying consolidated financial statements since the acquisition.

Certain amounts in the consolidated financial statements for the three and six month periods ended June 30, 2004, have been reclassified to conform to the presentation format adopted in 2005. These reclassifications have no effect on the net income previously reported.

These financial statements and related notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2004 Annual Report to Stockholders.

2. Revenue Recognition

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

Cash Advances The Company offers unsecured cash advances in selected locations and on behalf of third-party banks in other locations. Cash advances provide customers with cash in exchange for a promissory note or other repayment agreement supported by that customer's personal check for the aggregate amount of the cash advanced plus a service fee. To repay the cash advance, customers may redeem their check by paying cash or they may allow the check to be presented for collection. The Company accrues fees and interest on cash advances on a constant yield

basis ratably over their terms. For those locations that offer cash advances from third-party banks, the Company receives an administrative service fee for services provided on the banks' behalf. These fees are recorded in revenue when earned.

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

Check Cashing The Company records fees derived from its owned check cashing locations and cash advance locations in the period in which the service is provided. Royalties derived from franchise locations are recorded on the accrual basis.

3. Stock-Based Compensation

Under various equity compensation plans (the Plans) it sponsors, the Company is authorized to issue 8,300,000 shares of common stock pursuant to the grant of Awards , including incentive stock options (intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended), nonqualified stock options, restricted stock and restricted stock units.

Stock Options Stock options currently outstanding under the Plans have contractual terms of up to 10 years and have an exercise price equal to or greater than the fair market value of the stock at grant date. These stock options vest over periods ranging from 1 to 7 years. However, the terms of options with the 7-year vesting periods and certain of the 4-year and 5-year vesting periods include provisions that accelerate vesting if specified share price appreciation criteria are met. During the six months ended June 30, 2004, 551,547 shares vested due to the acceleration provisions. No accelerated vesting of stock options occurred during the six months ended June 30, 2005.

The Company accounts for its stock-based employee compensation plans in accordance with Accounting Principal Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), often referred to as the intrinsic value based method. Accordingly, no compensation expense has been recognized for its stock options. In October 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). SFAS 123 encourages expensing the fair value of employee stock options. The table below illustrates the effect on net income and earnings per share if the Company had applied SFAS 123 and calculated the fair value of options granted using the Black-Scholes option-pricing model (in thousands, except per share amounts).

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

Included in the pro forma amounts below for the 2004 six month period is the effect of the vesting of 551,547 shares which accelerated pursuant to the original terms of the options due to price performance of the underlying Company shares. As a result, the pro forma compensation expense of those options is in the 2004 six month period, rather than in future years had scheduled vesting occurred during the remainder of 2004 through 2007.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Income from continuing operations as reported	\$ 6,900	\$ 4,926	\$ 18,802	\$ 14,068
Deduct: Stock option compensation expense (credit) ^(a)	(17)	41	(17)	818
Income from continuing operations pro forma	\$ 6,917	\$ 4,885	\$ 18,819	\$ 13,250
Net income as reported	\$ 6,900	\$ 7,339	\$ 18,802	\$ 18,729
Deduct: Stock option compensation expense (credit) ^(a)	(17)	41	(17)	818
Net income pro forma	\$ 6,917	\$ 7,298	\$ 18,819	\$ 17,911
Earnings Per Share:				
Basic:				
Income from continuing operations as reported	\$ 0.24	\$ 0.17	\$ 0.64	\$ 0.50
Income from continuing operations pro forma	\$ 0.24	\$ 0.17	\$ 0.64	\$ 0.47
Net income as reported	\$ 0.24	\$ 0.26	\$ 0.64	\$ 0.66
Net income pro forma	\$ 0.24	\$ 0.26	\$ 0.64	\$ 0.63
Diluted:				
Income from continuing operations as reported	\$ 0.23	\$ 0.17	\$ 0.62	\$ 0.48
Income from continuing operations pro forma	\$ 0.23	\$ 0.17	\$ 0.62	\$ 0.45
Net income as reported	\$ 0.23	\$ 0.25	\$ 0.62	\$ 0.64
Net income pro forma	\$ 0.23	\$ 0.25	\$ 0.62	\$ 0.61

^(a) Determined under fair value based method for all awards, net of related tax effects. All awards refers to options granted, modified, or settled in fiscal periods beginning after December 15, 1994, that is, options for which the fair value was required to be measured under SFAS 123.

Restricted Stock Units In December 2003, the Company granted restricted stock units to its officers in conjunction with the adoption of the Supplemental Executive Retirement Plan. The amount attributable to this grant is being amortized to expense over the vesting periods of 4 to 15 years. In January 2004, the Company changed its approach to annual equity based compensation awards and granted restricted stock units to its officers under the provision of the 1994 Long-Term Incentive Plan in lieu of stock options. In April 2004, the Company adopted the 2004 Long-Term Incentive Plan, which was approved by shareholders at the 2004 annual shareholders meeting and granted restricted stock units to the non-management members of the Board of Directors. Each vested restricted stock unit entitles the holder to receive a share of the common stock of the Company to be issued upon vesting. The amount attributable to officer grants is being amortized to expense over a four-year period, as the officer units vest on each of the first four

anniversaries of the grant date. Director units have the same vesting schedule, but for directors with five or more years of service the vesting of units held for one year or more accelerates upon the director's departure from the Board. Because all of the Company's current directors have served for more than five years, the market value of the units attributable to directors is being amortized to expense over a one-year period.

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

Compensation expense recognized in the accompanying consolidated statements of operations is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Compensation expense recognized	\$ 412	\$ 285	\$ 824	\$ 524
Compensation expense recognized, net of related taxes	\$ 268	\$ 185	\$ 536	\$ 341

4. Recently Issued Accounting Standards

In May 2005, FASB issued Statement No. 154, *Accounting Changes and Error Corrections* (SFAS 154). SFAS 154 requires retrospective application to prior periods financial statements of changes in accounting principle. It also requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement. The statement will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS 154 to have a material effect on the Company's consolidated financial position or results of operations.

In December 2004, FASB issued Statement No. 123 (Revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements over the period during which an employee is required to provide service in exchange for the award. SFAS 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value based method in accounting for share-based transactions with employees. SFAS 123R also amends FASB Statement No. 95, *Statement of Cash Flows*, to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. SFAS 123R was effective as of the beginning of the first interim reporting period that begins after June 15, 2005. On April 14, 2005, the Securities and Exchange Commission amended the effective date of SFAS 123R. As a result, SFAS 123R is now effective for annual (rather than interim) periods that begin after June 15, 2005. The Company does not expect the adoption of SFAS 123R to have a material effect on the Company's consolidated financial position or results of operations because of the Company's decision in 2004 to begin granting restricted stock units in lieu of stock options. The value of restricted stock unit grants is generally recognized as expense over the vesting period. See Note 3.

5. Acquisitions

Pursuant to the Company's business strategy of acquiring existing pawnshop locations that can benefit from the Company's centralized management and standardized operations, the Company acquired two pawnshops and one cash advance location in purchase transactions for an aggregate purchase price of \$4,247,000 during the six months ended June 30, 2005.

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

The following table summarizes the allocation of the purchase prices for the six months ended June 30, 2005 (\$ in thousands):

Number of pawnshops and cash advance locations acquired	3
Purchase price allocated to:	
Pawn loans	\$ 852
Cash advances	34
Merchandise held for disposition	95
Finance and service charges receivable	91
Property and equipment	49
Goodwill	2,807
Intangible assets	330
Other assets, net	(11)
Net assets acquired	\$ 4,247

6. Cash Advances and Allowance for Losses

The Company offers the cash advance product through its cash advance locations and most of its pawnshops. Cash advances are generally offered for a term of 7 to 45 days, depending on the customer's next payday. The Company originates cash advances in some of its locations and markets and services cash advances made by third-party banks in other Company locations.

Under the bank program, the banks sell participation interests in the bank originated cash advances to third parties, and the Company purchases sub-participation interests in certain of those participations. The Company also receives an administrative fee for its services. In order to benefit from the use of the Company's collection resources and proficiency, the banks assign cash advances unpaid after maturity to the Company at a discount from the amount owed by the borrower. Losses on cash advances assigned to the Company that prove uncollectible are the responsibility of the Company. To the extent that the Company collects an amount owed by the customer in excess of the amount assigned by the banks, the Company is entitled to the excess and recognizes it in income when collected. Since the Company may not be successful in the collection of the assigned accounts, the Company's cash advance loss provision includes amounts estimated to be adequate to absorb credit losses from cash advances in the aggregate portfolio, including those expected to be assigned to the Company. The accrued losses on portfolios owned by the banks are included in Accounts payable and accrued expenses in the accompanying consolidated balance sheets.

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

Cash advances outstanding at June 30, 2005 and 2004, were as follows (in thousands):

	2005	2004
<i>Originated by the Company</i>		
Active cash advances and fees receivable	\$ 30,220	\$ 19,422
Cash advances and fees in collection	6,840	4,860
Total originated by the Company	37,060	24,282
<i>Originated by banks</i>		
Active cash advances and fees receivable	19,531	10,934
Cash advances and fees in collection	6,208	3,230
Total originated by banks	25,739	14,164
Combined gross portfolio	62,799	38,446
Less: Elimination of cash advances owned by banks	11,466	5,373
Less: Discount on cash advances assigned by banks	871	445
Company-owned cash advances and fees receivable, gross	50,462	32,628
Less: Allowance for losses	7,720	4,656
Cash advances and fees receivable, net	\$ 42,742	\$ 27,972

Changes in the allowance for losses for the three and six month periods ended June 30, 2005 and 2004, were as follows (\$ in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Company-owned cash advances				
Balance at beginning of period	\$ 3,096	\$ 2,648	\$ 4,358	\$ 3,393
Cash advance loss provision	10,457	5,107	16,138	8,165
Charge-offs	(7,861)	(4,880)	(17,701)	(10,759)
Recoveries	2,028	1,781	4,925	3,857
Balance at end of period	\$ 7,720	\$ 4,656	\$ 7,720	\$ 4,656
Accrual for bank-owned cash advances				
Balance at beginning of period	\$ 295	\$ 41	\$ 342	\$ 55
Increase in loss provision	312	268	265	254

Balance at end of period	\$ 607	\$ 309	\$ 607	\$ 309
Combined statistics				
Combined cash advance loss provision	\$ 10,769	\$ 5,375	\$ 16,403	\$ 8,419
Combined cash advance loss provision as a % of combined cash advances written	4.8%	3.7%	4.1%	3.2%
Charge-offs (net of recoveries) as a % of combined cash advances written	2.6%	2.1%	3.2%	2.6%
Combined allowance for losses and accrued bank losses as a % of combined gross portfolio	13.3%	12.9%	13.3%	12.9%

Cash advances assigned to the Company for collection were \$37,476,000 and \$18,479,000, for the six months ended June 30, 2005 and 2004, respectively. The Company's participation interest in bank originated cash advances was \$8,065,000 and \$4,480,000 at June 30, 2005 and 2004, respectively.

On July 1, 2005, the Company introduced a credit services program (the Credit Services Program). The Credit Services Program enables the Company to act as a credit services organization on behalf of consumers in the States of Texas, Florida and Michigan in accordance with applicable state laws. Credit

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

services to be provided to consumers include arranging loans for consumers with a third-party lender, assisting consumers with preparing loan applications and loan documents, and accepting loan payments at the location where the loan was arranged. If a consumer obtains a loan from a third-party lender through the Credit Services Program, the Company will also guarantee the borrower's payment obligations under the loan to the third-party lender. A borrower obtaining a loan through the Credit Services Program will pay the Company a fee for the credit services, including the guaranty, and will enter into a contract governing the credit services arrangement.

7. 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 and six month periods ended June 30, 2005 and 2004 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Basic earnings per share computation				
Numerator: net income available to common shareholders	\$ 6,900	\$ 7,339	\$ 18,802	\$ 18,729
Denominator:				
Weighted average common shares outstanding	29,170	28,254	29,232	28,247
Weighted average vested restricted stock units	49		43	
Total weighted average basic shares	29,219	28,254	29,275	28,247
Basic earnings per share	\$ 0.24	\$ 0.26	\$ 0.64	\$ 0.66
Diluted earnings per share computation				
Numerator: net income available to common shareholders	\$ 6,900	\$ 7,339	\$ 18,802	\$ 18,729
Denominator:				
Weighted average basic common shares outstanding	29,219	28,254	29,275	28,247
Effect of shares applicable to stock option plans	433	780	558	806
Effect of restricted stock unit compensation plans	367	345	359	330
Effect of shares applicable to non-qualified savings plan	60	64	64	65
Total weighted average diluted shares	30,079	29,443	30,256	29,448
Diluted earnings per share	\$ 0.23	\$ 0.25	\$ 0.62	\$ 0.64

8. Goodwill and Other Intangible Assets

Goodwill and other intangible assets having an indefinite useful life are tested for impairment annually at June 30, or more frequently if events or changes in circumstances indicate that the assets might be impaired. Based on the results of the test, management determined there was no impairment as of June 30, 2005 as the respective fair value of the Company's reporting units exceeds their respective carrying amounts.

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

Goodwill Changes in the carrying value of goodwill for the six month periods ended June 30, 2005 and 2004, were as follows (in thousands):

	Pawn Lending	Cash Advance	Check Cashing	Consolidated
Balance as of January 1, 2005	\$ 114,341	\$ 44,422	\$ 5,310	\$ 164,073
Acquisitions/adjustments	2,927	190		3,117
Balance as of June 30, 2005	\$ 117,268	\$ 44,612	\$ 5,310	\$ 167,190
Balance as of January 1, 2004	\$ 65,934	\$ 27,840	\$ 5,310	\$ 99,084
Acquisitions/adjustments	(4)	5,293		5,289
Balance as of June 30, 2004	\$ 65,930	\$ 33,133	\$ 5,310	\$ 104,373

Acquired Intangible Assets Acquired intangible assets that are subject to amortization as of June 30, 2005 and 2004, were as follows (in thousands):

	Cost	2005 Accumulated Amortization	Net	Cost	2004 Accumulated Amortization	Net
Non-competition agreements	\$ 7,155	\$ (1,317)	\$ 5,838	\$ 1,800	\$ (511)	\$ 1,289
Customer relationships	6,284	(2,164)	4,120	2,530	(720)	1,810
Other	199	(79)	120	170	(63)	107
Total	\$ 13,638	\$ (3,560)	\$ 10,078	\$ 4,500	\$ (1,294)	\$ 3,206

Non-competition agreements are amortized over the applicable terms of the contracts. Customer relationships are generally amortized over five to six years based on the pattern of economic benefits. Tradenames of \$5,326,000 and \$1,000,000 at June 30, 2005 and 2004, respectively, and licenses of \$7,674,000 at June 30, 2005, obtained in acquisitions, are not subject to amortization.

9. Long-Term Debt

The Company's long-term debt instruments and balances outstanding at June 30, 2005 and 2004, were as follows (in thousands):

	2005	2004
U.S. Line of Credit up to \$250,000 due 2010	\$ 101,850	\$ 64,834

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8.14% senior unsecured notes due 2007	12,000	16,000
7.10% senior unsecured notes due 2008	12,857	17,143
7.20% senior unsecured notes due 2009	42,500	42,500
12.00% subordinated note due 2014		2,500
Total debt	169,207	142,977
Less current portion	16,786	8,286
Total long-term debt	\$ 152,421	\$ 134,691

In June 2005, the Company prepaid the 12% subordinated note due 2014 for a total amount of \$2,698,000 including accrued interest of \$123,000 and a prepayment fee of \$75,000. The note was issued in February 2004, as partial consideration of the final payment pursuant to an amended asset purchase agreement.

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

In February 2005, the Company amended and restated the existing line of credit agreement to increase the credit limit to \$250,000,000 and extended the maturity to February 2010. Interest on the amended 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%, depending on the Company's cash flow leverage ratios as defined in the amended agreement. The Company pays a fee on the unused portion ranging from 0.25% to 0.30% based on the Company's cash flow leverage ratios as defined in the amended agreement.

10. Discontinued Operations

The carrying amounts of the major classes of the assets and liabilities for the discontinued foreign pawn lending operations at June 30, 2004 were as follows (in thousands):

Assets	
Pawn loans	\$ 61,275
Merchandise held for disposition, net	7,678
Finance and service charges receivable	8,456
Other current assets	7,209
Current assets of discontinued operations	84,618
Goodwill	18,856
Other non-current assets	11,728
Non-current assets of discontinued operations	30,584
Total Assets of Discontinued Operations	\$ 115,202
Liabilities	
Current liabilities of discontinued operations	\$ 3,499
Deferred tax liabilities	2,579
Long-term debt	12,014
Non-current liabilities of discontinued operations	14,593
Total Liabilities of Discontinued Operations	\$ 18,092

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

The summarized statement of operations information for the discontinued foreign pawn lending operations for the three and six months ended June 30, 2004 is as follows (in thousands):

	Three Months Ended June 30, 2004	Six Months Ended June 30, 2004
Revenue		
Finance and service charges	\$ 8,700	\$ 17,328
Proceeds from disposition of merchandise	5,287	10,954
Check cashing royalties and fees	643	1,240
Total Revenue	14,630	29,522
Cost of Revenue		
Disposed merchandise	3,709	7,949
Net Revenue	10,921	21,573
Expenses		
Operations	4,987	9,983
Administration	1,622	3,161
Depreciation and amortization	696	1,424
Total Expenses	7,305	14,568
Income from Operations	3,616	7,005
Interest expense, net	160	317
Income before Income Taxes	3,456	6,688
Provision for income taxes	1,043	2,027
Income from Discontinued Operations	\$ 2,413	\$ 4,661
Diluted Income Per Share from Discontinued Operations	\$ 0.08	\$ 0.16

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

11. Operating Segment Information

The Company has three reportable operating segments: pawn lending operations, cash advance operations, and check cashing operations. Cash advance and check cashing are managed separately due to the different operational strategies required and, therefore, are reported as separate segments. Information concerning the operating segments is set forth below (in thousands):

	Pawn Lending	Cash Advance	Check Cashing	Consolidated
Three Months Ended June 30, 2005:				
Revenue				
Finance and service charges	\$ 32,577	\$	\$	\$ 32,577
Proceeds from disposition of merchandise	65,333			65,333
Cash advance fees	10,050	23,326		33,376
Check cashing royalties and fees		1,440	843	2,283
Total revenue	107,960	24,766	843	133,569
Cost of revenue disposed merchandise	38,939			38,939
Net revenue	69,021	24,766	843	94,630
Expenses				
Operations	40,998	12,703	326	54,027
Cash advance loss provision	4,075	6,694		10,769
Administration	8,016	2,349	239	10,604
Depreciation and amortization	3,817	1,777	80	5,674
Total expenses	56,906	23,523	645	81,074
Income from continuing operations	\$ 12,115	\$ 1,243	\$ 198	\$ 13,556
As of June 30, 2005:				
Total assets	\$ 450,362	\$ 111,683	\$ 6,819	\$ 568,864
Three Months Ended June 30, 2004:				
Revenue				
Finance and service charges	\$ 25,355	\$	\$	\$ 25,355
Proceeds from disposition of merchandise	51,695			51,695
Cash advance fees	7,509	14,552		22,061
Check cashing royalties and fees		1,172	860	2,032
Total revenue	84,559	15,724	860	101,143
Cost of revenue disposed merchandise	31,338			31,338

Net revenue	53,221	15,724	860	69,805
Expenses				
Operations	32,376	8,175	341	40,892
Cash advance loss provision	2,064	3,311		5,375
Administration	7,270	2,026	287	9,583
Depreciation and amortization	2,882	1,058	124	4,064
Total expenses	44,592	14,570	752	59,914
Income from continuing operations	\$ 8,629	\$ 1,154	\$ 108	\$ 9,891
As of June 30, 2004:				
Total assets	\$ 300,369	\$ 76,201	\$ 7,501	\$ 384,071

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

	Pawn Lending	Cash Advance	Check Cashing	Consolidated
Six Months Ended June 30, 2005:				
Revenue				
Finance and service charges	\$ 66,496	\$	\$	\$ 66,496
Proceeds from disposition of merchandise	144,074			144,074
Cash advance fees	19,030	42,656		61,686
Check cashing royalties and fees		4,328	1,974	6,302
Total revenue	229,600	46,984	1,974	278,558
Cost of revenue disposed merchandise	86,894			86,894
Net revenue	142,706	46,984	1,974	191,664
Expenses				
Operations	81,916	25,076	708	107,700
Cash advance loss provision	6,268	10,135		16,403
Administration	16,378	4,661	474	21,513
Depreciation and amortization	7,609	3,468	163	11,240
Total expenses	112,171	43,340	1,345	156,856
Income from continuing operations	\$ 30,535	\$ 3,644	\$ 629	\$ 34,808
Six Months Ended June 30, 2004:				
Revenue				
Finance and service charges	\$ 52,227	\$	\$	\$ 52,227
Proceeds from disposition of merchandise	118,743			118,743
Cash advance fees	14,628	27,089		41,717
Check cashing royalties and fees		3,492	1,982	5,474
Total revenue	185,598	30,581	1,982	218,161
Cost of revenue disposed merchandise	72,167			72,167
Net revenue	113,431	30,581	1,982	145,994
Expenses				
Operations	66,312	15,427	721	82,460
Cash advance loss provision	3,420	4,999		8,419
Administration	16,351	3,844	495	20,690
Depreciation and amortization	5,749	2,001	238	7,988
Total expenses	91,832	26,271	1,454	119,557

Income from continuing operations	\$ 21,599	\$ 4,310	\$ 528	\$ 26,437
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12. 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 has for some time made loans to Georgia residents through Cash America's Georgia operating locations. The complaint in this lawsuit claims that Community State Bank is not the true lender with respect to the loans made to Georgia borrowers and that its involvement in the process is 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 Company believes

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

that the claims in this suit are without merit and intends to vigorously defend this lawsuit. Cash America removed the case to federal court and filed a motion to compel the plaintiff to arbitrate his claim, in addition to denying the plaintiff's allegations and asserting various defenses to his claim. The plaintiff has filed a motion to remand the case to Georgia state court. As of June 30, 2005, the parties await court rulings on the various motions. Because this case is at a very early stage, neither the likelihood of an unfavorable outcome nor the ultimate liability, if any, with respect to this litigation can be determined at this time.

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.

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

GENERAL

The Company is a provider of specialty financial services to individuals in the United States. The Company offers secured non-recourse loans, commonly referred to as pawn loans, to individuals through its pawn lending operations. The pawn loan portfolio generates finance and service charges revenue. A related activity of the pawn lending operations is the disposition of merchandise, primarily collateral from unredeemed pawn loans. As an alternative to a pawn loan, the Company offers unsecured cash advances in selected lending locations and on behalf of third-party banks in other locations. The Company also provides check cashing and related financial services through many of its cash advance locations and through its franchised and company-owned check cashing centers. Prior to September 7, 2004, the Company also provided financial services to individuals in the United Kingdom and Sweden (the foreign pawn lending operations). The foreign pawn lending operations were sold to a foreign investment group and have been reclassified and reported as discontinued operations for all periods presented. See Note 10 of Notes to Consolidated Financial Statements.

In December 2004, the Company completed the acquisition of the pawn operating assets of Camco, Inc., which operated under the trade name SuperPawn (SuperPawn) in four states in the western United States. SuperPawn is a 41 store chain based in Las Vegas, Nevada. This transaction provided the Company its initial entry into the western United States for pawn lending activities.

As of June 30, 2005, the Company's pawn lending operations consisted of 456 pawnshops, including 445 owned units and 11 unconsolidated franchised units in 21 states in the United States. For the eighteen months ended June 30, 2005, the Company acquired 44 operating units including one franchise location, established 6 locations, and combined or closed 3 locations for a net increase in owned pawn lending units of 47. In addition, 6 franchise locations were acquired or opened and 2 were either terminated/or converted to Company-owned locations.

At June 30, 2005, the Company's cash advance operations consisted of 271 cash advance locations in 6 states. For the eighteen months ended June 30, 2005, the Company acquired 33 operating units, established 91 locations, and combined or closed 7 locations for a net increase in cash advance locations of 117.

As of June 30, 2005, the Company's check cashing operations (Mr. Payroll Corporation) consisted of 130 franchised and 6 company-owned check cashing centers in 21 states.

Table of Contents**RESULTS OF CONTINUING OPERATIONS**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Revenue				
Finance and service charges	24.4%	25.1%	23.9%	24.0%
Proceeds from disposition of merchandise	48.9	51.1	51.7	54.4
Cash advance fees	25.0	21.8	22.1	19.1
Check cashing royalties and fees	1.7	2.0	2.3	2.5
Total Revenue	100.0	100.0	100.0	100.0
Cost of Revenue				
Disposed merchandise	29.1	31.0	31.2	33.1
Net Revenue	70.9	69.0	68.8	66.9
Expenses				
Operations	40.4	40.4	38.7	37.8
Cash advance loss provision	8.1	5.3	6.0	3.9
Administration	7.9	9.5	7.7	9.5
Depreciation and amortization	4.3	4.0	4.0	3.6
Total Expenses	60.7	59.2	56.4	54.8
Income from Operations	10.2	9.8	12.4	12.1
Interest expense	1.9	2.0	1.7	1.9
Interest income	(0.3)		(0.3)	
Foreign currency transaction losses	0.3		0.3	
Income before Income Taxes	8.3	7.8	10.7	10.2
Provision for income taxes	3.1	2.9	4.0	3.8
Income from Continuing Operations	5.2%	4.9%	6.7%	6.4%

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The following table sets forth certain selected consolidated financial and operating data as of June 30, 2005 and 2004, and for the three and six month periods then ended (\$ in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
PAWN LENDING OPERATIONS:				
Pawn loans				
Annualized yield on pawn loans	122.6%	127.2%	127.6%	133.7%
Total amount of pawn loans written and renewed	\$ 114,348	\$ 87,349	\$ 212,178	\$ 163,913
Average pawn loan balance outstanding	\$ 106,547	\$ 80,203	\$ 105,118	\$ 78,546
Average pawn loan balance per average location in operation	\$ 240	\$ 203	\$ 238	\$ 198
Ending pawn loan balance per location in operation	\$ 261	\$ 221	\$ 261	\$ 221
Average pawn loan amount at end of period (not in thousands)	\$ 88	\$ 84	\$ 88	\$ 84
Profit margin on disposition of merchandise as a percentage of proceeds from disposition of merchandise	40.4%	39.4%	39.7%	39.2%
Average annualized merchandise turnover	2.6x	2.8x	2.8x	3.2x
Average balance of merchandise held for disposition per average location in operation	\$ 135	\$ 113	\$ 141	\$ 116
Ending balance of merchandise held for disposition per location in operation	\$ 139	\$ 119	\$ 139	\$ 119
Pawnshop locations in operation				
Beginning of period, owned	441	396	441	398
Acquired	2		2	
Start-ups	2		3	
Combined or closed			(1)	(2)
End of period, owned	445	396	445	396
Franchise locations at end of period	11	6	11	6
Total pawnshop locations at end of period	456	402	456	402
Average number of owned pawnshop locations in operation	444	396	442	396
Cash advances				
Total amount of cash advances written ^(a)	\$ 68,191	\$ 50,469	\$ 124,931	\$ 95,108
Number of cash advances written (not in thousands) ^(a)	209,342	156,786	379,920	295,740
Average amount per cash advances (not in thousands) ^(a)	\$ 326	\$ 322	\$ 329	\$ 322
Combined cash advances outstanding ^(a)	\$ 20,279	\$ 14,663	\$ 20,279	\$ 14,663
Cash advances outstanding per location at end of period ^(a)	\$ 47	\$ 38	\$ 47	\$ 38
Cash advances outstanding before allowance for losses ^(b)	\$ 13,193	\$ 9,859	\$ 13,193	\$ 9,859
Locations offering cash advances at end of period	429	388	429	388
Average number of locations offering cash advances	428	388	427	388

CASH ADVANCE OPERATIONS ^(c):

Total amount of cash advances written ^(a)	\$ 156,150	\$ 93,801	\$ 278,235	\$ 171,551
Number of cash advances written (not in thousands) ^(a)	434,911	277,017	785,461	505,941
Average amount per cash advance (not in thousands) ^(a)	\$ 359	\$ 339	\$ 354	\$ 339
Combined cash advances outstanding ^(a)	\$ 42,520	\$ 23,783	\$ 42,520	\$ 23,783
Cash advances outstanding per location at end of period ^(a)	\$ 157	\$ 131	\$ 157	\$ 131
Cash advances outstanding before allowance for losses ^(b)	\$ 37,269	\$ 22,769	\$ 37,269	\$ 22,769
Cash advance locations in operation				
Beginning of period	264	164	253	154
Acquired	1		1	
Start-ups	6	19	19	29
Combined or closed		(2)	(2)	(2)
End of period	271	181	271	181
Average number of cash advance locations in operation	267	171	262	165

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
CHECK CASHING OPERATIONS (Mr. Payroll Corp.)^(d)				
Face amount of checks cashed	\$ 277,595	\$ 261,680	\$ 614,623	\$ 583,867
Gross fees collected	\$ 3,756	\$ 3,561	\$ 8,770	8,360
Fees as a percentage of checks cashed	1.4%	1.4%	1.4%	1.4%
Average check cashed (not in thousands)	\$ 367	\$ 347	\$ 393	\$ 385
Centers in operation at end of period	136	138	136	138
Average centers in operation for period	135	138	135	137

(a) Includes cash advances made by the Company and cash advances made by third-party banks offered at the Company's locations.

(b) Amounts recorded in the Company's consolidated financial statements.

(c) Includes only cash advance locations.

(d) Includes franchised and company-owned locations.

CRITICAL ACCOUNTING POLICIES

There have been no material changes of critical accounting policies since December 31, 2004.

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement No. 154, *Accounting Changes and Error Corrections* (SFAS 154). SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle. It also requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement. The statement will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS 154 to have a material effect on the Company's consolidated financial position or results of operations.

In December 2004, FASB issued Statement No. 123 (Revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements over the period during which an employee is required to provide service in exchange for the award. SFAS 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value based method in accounting for share-based transactions with employees. SFAS 123R also amends FASB Statement No. 95, *Statement of Cash Flows*, to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. SFAS 123R was effective as of the beginning of the first interim reporting period that begins after June 15, 2005. On April 14, 2005, the Securities and

Exchange Commission amended the effective date of SFAS 123R. As a result, SFAS 123R is now effective for annual (rather than interim) periods that begin after June 15, 2005. The Company does not expect the adoption of SFAS 123R to have a material effect on the Company's consolidated financial position or results of operations because of the Company's decision in 2004 to begin granting restricted stock units in lieu of stock options. The value of restricted stock unit grants is generally recognized as expense over the vesting period. See Note 3 of Notes to Consolidated Financial Statements.

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. Growth in cash advance fees has increased the comparative contribution from this product to the consolidated net revenue of the Company during the three and six months ended June 30, 2005 compared to the same periods of 2004. The growth in cash advance

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fees is due to higher balances and the addition of new units, including the acquisition of 33 cash advance locations since the second quarter of 2004. While slightly lower as a percent of total net revenue, pawn-related net revenue, consisting of aggregate finance and service charges plus profit on the disposition of merchandise, remains the dominant source of net revenue at 62.3% and 65.4% for the three months ended June 30, 2005 and 2004, and at 64.5% and 67.6% for the six months ended June 30, 2005 and 2004, respectively. The following charts show consolidated net revenue and depict the mix of the components of net revenue for the quarter and six months ended June 30, 2005 and 2004: