CASH AMERICA INTERNATIONAL INC
Form 10-Q
April 26, 2004

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2004

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

28,346,817 common shares, $.10 par value, were outstanding as of April 20, 2004

CASH AMERICA INTERNATIONAL, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	March 31,		December 31,
	2004	2003	2003
	(Unaudited)		
Assets			
Current assets:			
Cash and cash equivalents	$ 11,110	$ 5,256	$ 14,547
Pawn loans	135,394	121,581	141,871
Cash advances, net	23,935	7,148	28,346
Merchandise held for disposition, net	50,330	49,216	56,120
Finance and service charges receivable	21,918	19,371	23,568
Other receivables and prepaid expenses	12,206	7,492	10,628
Income taxes recoverable			3,208
Deferred tax assets	6,468	4,759	6,868
Total current assets	261,361	214,823	285,156
Property and equipment, net	79,921	66,929	78,977
Goodwill	123,516	80,658	117,963
Other assets	6,599	3,518	7,436
Total assets	$471,397	$365,928	$489,532
Liabilities and Stockholders Equity			
Current liabilities:			
Accounts payable and accrued expenses	$ 28,101	$ 21,286	$ 39,167
Customer deposits	4,858	4,455	4,102
Income taxes currently payable	4,962	3,693	1,386
Current portion of long-term debt	8,286	12,571	8,286
Total current liabilities	46,207	42,005	52,941
Deferred tax liabilities	8,410	4,874	7,704
Long-term debt	127,533	121,764	152,394
Stockholders equity:			
Common stock, $.10 par value per share, 80,000,000 shares	3,024	3,024	3,024

authorized, 30,235,164 share issued			
Additional paid-in capital	142,743	127,819	141,867
Retained earnings	152,538	119,743	141,642
Accumulated other comprehensive income (loss)	8,879	(3,208)	7,995
Notes receivable secured by common stock	(2,488)	(5,864)	(2,488)
Treasury shares, at cost (1,956,372 shares, 6,056,367 shares and 2,040,180 shares at March, 31, 2004 and 2003, and December 31, 2003, respectively)	(15,449)	(44,229)	(15,547)
Total stockholders equity	289,247	197,285	276,493
Total liabilities and stockholders equity	$471,397	$365,928	$489,532

See notes to consolidated financial statements.

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CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	(Unaudited)	
Revenue		
Finance and service charges	$ 35,500	$ 31,455
Proceeds from disposition of merchandise	72,715	66,119
Cash advance fees	19,656	6,466
Check cashing royalties and fees	4,039	1,465
Total Revenue	131,910	105,505
Cost of Revenue		
Disposed merchandise	45,069	41,554
Net Revenue	86,841	63,951
Expenses		
Operations	46,564	36,970
Cash advance loss provision	3,044	1,332
Administration	12,646	8,995
Depreciation and amortization	4,652	3,689
Total Expenses	66,906	50,986
Income from Operations	19,935	12,965
Interest expense, net	2,249	2,176
Income before income taxes	17,686	10,789
Provision for income taxes	6,296	4,020
Net Income	$ 11,390	$ 6,769

Net income per share:

Basic	$ 0.40	$ 0.28
Diluted	$ 0.39	$ 0.27
Weighted average common shares outstanding:		
Basic	28,241	24,242
Diluted	29,453	24,784
Dividends declared per common share	$ 0.0175	$ 0.0125

See notes to consolidated financial statements.

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CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(in thousands, except share data)

	March 31,			
	2004		2003	
	Shares	Amounts	Shares	Amounts
	(Unaudited)			
Common stock				
Balance at March 31	30,235,164	$ 3,024	30,235,164	$ 3,024
Additional paid-in capital				
Balance at beginning of year		141,867		127,819
Exercise of stock options		218		
Stock-based compensation		239		
Tax benefit from exercise of stock options		419		
Balance at March 31		142,743		127,819
Retained earnings				
Balance at beginning of year		141,642		113,278
Net income		11,390		6,769
Dividends declared		(494)		(304)
Balance at March 31		152,538		119,743
Accumulated other comprehensive income (loss)				
Balance at beginning of year		7,995		(2,718)
Foreign currency translation adjustments		884		(490)
Balance at March 31		8,879		(3,208)
Notes receivable secured by common stock				
Balance at March 31		(2,488)		(5,864)

Treasury shares, at cost				
Balance at beginning of year	(2,040,180)	(15,547)	(5,939,794)	(43,204)
Purchases of treasury shares	(31,993)	(777)	(116,573)	(1,025)
Exercise of stock options	115,801	875		
Balance at March 31	(1,956,372)	(15,449)	(6,056,367)	(44,229)
Total Stockholders Equity		$289,247		$197,285

CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Three Months Ended March 31,	
	2004	**2003**
	(Unaudited)	
Net income	$11,390	$6,769
Other comprehensive income (loss), net of tax of $0		
Foreign currency translation adjustments	884	(490)
Total Comprehensive Income	$12,274	$6,279

See notes to consolidated financial statements.

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CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended March 31,	
	2004	**2003**
	(Unaudited)	
Cash Flows from Operating Activities		
Net income	$ 11,390	$ 6,769
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,652	3,689
Cash advance loss provision	3,044	1,332
Stock-based compensation expense	239	
Changes in operating assets and liabilities		
Merchandise held for disposition	5,955	5,166
Finance and service charges receivable	1,897	1,574
Other receivables and prepaid expenses	(803)	3,943
Accounts payable and accrued expenses	(11,127)	(3,632)
Customer deposits, net	756	405
Current income taxes	7,142	1,625
Deferred income taxes, net	1,178	1,093
Net cash provided by operating activities	24,323	21,964
Cash Flows from Investing Activities		
Pawn loans forfeited and transferred to merchandise held for disposition	34,257	31,657
Pawn loans repaid or renewed	86,099	77,811
Pawn loans made, including loans renewed	(113,670)	(103,221)
Net decrease in pawn loans	6,686	6,247
Cash advances repaid or renewed	87,649	14,649
Cash advances made, assigned or purchased	(86,447)	(20,752)
Net decrease (increase) in cash advances	1,202	(6,103)
Acquisitions, net of cash acquired	(2,918)	(1,937)

Purchases of property and equipment	(5,054)	(3,241)
Net cash used by investing activities	(84)	(5,034)
Cash Flows from Financing Activities		
Net repayments under bank lines of credit	(23,234)	(9,995)
Payments on notes payable	(4,286)	(4,286)
Proceeds from exercise of stock options	1,093	
Treasury shares purchased	(777)	(1,025)
Dividends paid	(494)	(304)
Net cash used by financing activities	(27,698)	(15,610)
Effect of exchange rate changes on cash	22	(15)
Net (decrease) increase in cash	(3,437)	1,305
Cash and cash equivalents at beginning of year	14,547	3,951
Cash and cash equivalents at end of period	$ 11,110	$ 5,256
Supplemental Disclosures		
Noncash investing and financing activities:		
Note payable issued in settlement of purchase transactions	$ 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 March 31, 2004 and 2003, and for the three month periods then ended, are unaudited but, in management s opinion, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for such interim periods. Operating results for the three month periods are not necessarily indicative of the results that may be expected for the full fiscal year.

Certain amounts in the consolidated financial statements for the three month period ended March 31, 2003, have been reclassified to conform to the presentation format adopted in 2004. 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 2003 Annual Report to Stockholders.

2. Revenue Recognition

Pawn Lending Pawn loans (loans) are made on the pledge of tangible personal property. The Company accrues finance and service charges revenue only on those loans that the Company deems collectible, based on historical loan redemption statistics. 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 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 a third-party bank, the Company receives administrative service fees for services provided on the bank s behalf. These fees are recorded in revenue when earned.

Check Cashing The Company records fees derived from its owned check cashing locations and consumer finance centers 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.

In January 2004, the Company changed its approach to annual equity based compensation awards by granting 103,175 restricted stock units to its officers under the provisions of the 1994 Long-term Incentive Plan

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instead of stock options. 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 aggregate market value of these restricted stock units at the date of grant of $2,357,000 is being amortized to expense over the vesting periods of 4 years. Compensation expense for this grant along with compensation expense associated with the restricted stock units granted in December 2003 in conjunction with the adoption of the Supplemental Executive Retirement Plan totaling $155,000 (net of related tax of $84,000) was recognized in the three month period ended March 31, 2004.

Stock options granted under the Plans have contractual terms of 5 to 15 years and have an exercise price equal to or greater than the fair market value of the stock at grant date. Stock options granted vest over periods ranging from 1 to 7 years. However, the terms of the options with the 7-year vesting periods and certain of the 4-year and 5-year vesting periods include provisions which accelerate vesting if specified share price appreciation criteria are met. During the three months ended March 31, 2004, 551,547 shares vested due to the acceleration provision. No accelerated vesting of stock options occurred during the three months ended March 31, 2003.

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. Had compensation expense for the Company s stock options been determined using the fair value accounting provisions of Statement of Financial Accounting Standards No. 123 *Accounting for Stock-Based Compensation* (SFAS 123), the Company s net income and related amounts per share, basic and diluted, for each of the three month periods ended March 31, 2004 and 2003 would have been reported as follows (in thousands, except per share amounts).

Included in the pro forma amounts below is the effect of the accelerated vesting of the 551,547 shares, which brings the pro forma compensation expense of those options shares forward to the current period, eliminating it from future periods had scheduled vesting occurred during the remainder of 2004 through 2007.

	2004	2003
Net income as reported	$11,390	$6,769
Deduct: Total stock-based employee compensation expense [(a)]	810	414
Net income pro forma	$10,580	$6,355
Net income per share		
Basic:		
As reported	$ 0.40	$ 0.28
Pro forma	$ 0.37	$ 0.26
Diluted:		
As reported	$ 0.39	$ 0.27
Pro forma	$ 0.36	$ 0.26

(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. The pro-forma stock-based employee compensation expense of the 551,547 option shares that accelerated in the first three months of 2004 was $537,000 out of the total $810,000. Excluding this amount from the pro forma results above in the first three months of 2004 would have resulted in an expense of $273,000 and pro forma net income per share of $0.39 (basic) and $0.38 (diluted).

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The pro forma amounts of stock options granted were estimated on the date of grant using the Black-Scholes option-pricing model. No stock options were granted during the three months ended March 31, 2004. For options granted during the three months ended March 31, 2003, the following weighted average assumptions were used:

Expected term (year)	8.4
Risk-free interest Rate	4.13%
Expected dividend yield	0.61%
Expected volatility	50.1%

4. Recent Accounting Pronouncement

In December 2003, the Accounting Standards Executive Committee (AcSEC) issued Statement of Position 03-3 (SOP 03-3), *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. SOP 03-3 requires that the excess of contractual cash flows over cash flows expected to be collected not be recognized as an adjustment of yield, loss accrual, or valuation allowance. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan s yield over its remaining life and decreases in cash flows expected to be collected should be recognized as impairment. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004 and is not expected to have a material effect on the Company s consolidated financial position or results of operations

5. Acquisitions

The Company s June 30, 2003 asset purchase agreement for the purchase of the assets of Cashland, Inc. through Cashland Financial Services, Inc. (Cashland), a wholly-owned subsidiary, contained a provision under which the seller could potentially have received additional consideration based upon the future earnings of the business. On February 2, 2004, the parties amended the asset purchase agreement to eliminate that provision and to provide instead for the Company to make a final payment of additional consideration in the amount of $5,400,000. The payment consisted of $2,900,000 in cash and a subordinated note for $2,500,000 (see Note 9). The Company increased goodwill accordingly for the additional consideration paid (see Note 8).

The following table provides information concerning the acquisitions made during the three months ended March 31, 2004 and 2003 ($ in thousands):

	2004	2003
Number of stores acquired:		
Pawnshops	-0-	3
Check cashing franchise	-0-	1
Purchase price allocated to:		
Pawn loans	$	$ 543
Finance and service charges receivable		55
Property and equipment		151
Goodwill		960
Non-competition agreements		10
Other assets, net		218

Total purchase price	$ —	$1,937

6. Cash Advances and Allowance for Losses

The Company offers the cash advance product through its Cash America pawnshops, Cash America Payday Advance locations and Cashland consumer finance centers. Cash advances are generally offered for a

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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 a third-party bank in other Company locations. The Company has entered into an agreement with a second third-party bank that will begin offering cash advances in some of those locations in the second quarter of 2004.

Under the bank program, the Company purchases a participation interest in the bank originated cash advances, and receives an administrative fee for its services. In order to benefit from the use of the Company s collection resources and proficiency, all cash advances unpaid after maturity are assigned 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 bank, 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 from the third-party bank s outstanding portfolio.

Cash advances outstanding at March 31, 2004 and 2003, were as follows ($ in thousands):

	2004	2003
Originated by the Company		
Active cash advances and fees receivable	$14,912	$1,073
Cash advances and fees in collection	2,766	238
Total originated by the Company	**17,678**	**1,311**
Originated by bank		
Active cash advances and fees receivable	8,230	6,017
Cash advances and fees in collection	2,115	1,885
Total originated by bank	**10,345**	**7,902**
Combined gross portfolio	**28,023**	**9,213**
Less: Elimination of cash advances owned by bank	1,015	465
Less: Discount on cash advances assigned by bank	384	237
Company cash advances and fees receivable, gross	26,624	8,511
Less: Allowance for losses	2,689	1,363
Cash advances and fees receivable, net	**$23,935**	**$7,148**

Allowance for losses as a % of combined gross portfolio	**9.6%**	**14.8%**

Changes in the allowance for losses on cash advances for the three month periods ended March 31, 2004 and 2003, were as follows ($ in thousands):

	2004	2003
Balance at beginning of period	$ 3,448	$ 1,748
Cash advance loss provision	3,044	1,332
Charge-offs	(5,879)	(2,463)
Recoveries	2,076	746
Balance at end of period	$ 2,689	$ 1,363
Cash advance loss provision as a % of combined advances written	2.5%	3.5%
Charge-offs (net of recoveries) as a % of combined advances written	3.1%	4.5%

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Cash advances assigned by the bank to the Company for collection were $9,216,000 and $6,652,000, for the three months ended March 31, 2004 and 2003, respectively. The Company s participation interest in bank originated cash advances was $7,142,000 and $3,828,000 at March 31, 2004 and 2003, respectively.

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 month periods ended March 31, 2004 and 2003 (in thousands):

	2004	2003
Basic earnings per share computation		
Numerator: Net income available to common stockholders	$11,390	$ 6,769
Denominator: Weighted average common shares outstanding	28,241	24,242
Diluted earnings per share computation		
Numerator: Net income available to common stockholders	$11,390	$ 6,769
Denominator:		
Weighted average common shares outstanding	28,241	24,242
Effect of shares applicable to stock option plans	832	475
Effect of other stock-based compensation plans	314	
Effect of shares applicable to nonqualified savings plan	66	67
Total diluted shares	29,453	24,784

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. The Company amortizes intangible assets with an expected useful life on the basis of their expected periods of benefit.

Goodwill The changes in the carrying value of goodwill for the three month periods ended March 31, 2004 and 2003, were as follows (in thousands):

	Pawn Lending				
	United States	Foreign	Cash Advance	Check Cashing	Consolidated

Balance as of January 1, 2004	$66,303	$18,510	$27,840	$5,310	$117,963
Acquisitions/adjustments	(7)	(138)	5,400		5,255
Effect of foreign translation		298			298
Balance as of March 31, 2004	$66,296	$18,670	$33,240	$5,310	$123,516
Balance as of January 1, 2003	$59,591	$15,059	$	$5,183	$ 79,833
Acquisitions	144	689		127	960
Effect of foreign translation		(135)			(135)
Balance as of March 31, 2003	$59,735	$15,613	$	$5,310	$ 80,658

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Acquired Intangible Assets Acquired intangible assets that are subject to amortization as of March 31, 2004 and 2003, were as follows (in thousands):

	2004			2003		
	Cost	**Accumulated Amortization**	**Net**	**Cost**	**Accumulated Amortization**	**Net**
Non-competition agreements	$1,800	$ (450)	$1,350	$1,197	$ (758)	$439
Customer relationships	2,530	(534)	1,996			
Other	170	(59)	111	130	(73)	57
Total	$4,500	$(1,043)	$3,457	$1,327	$ (831)	$496

Non-competition agreements are amortized over the applicable terms of the contracts. Net acquired intangible assets are included in Other assets in the accompanying consolidated balance sheets. Tradenames of $1,000,000 at March 31, 2004 are not subject to amortization.

9. Long-Term Debt

The Company s long-term debt instruments and balances outstanding at March 31, 2004 and 2003, were as follows (in thousands):

	2004	**2003**
U.S. Line of Credit up to $130,000 due July 31, 2006	$ 44,035	$ 31,401
Multi-currency Line of Credit up to £20,000 due April 30, 2006	13,478	14,720
Swedish Line of Credit up to SEK 15,000 due May 30, 2004	163	
8.33% senior unsecured notes due 2003		4,286
8.14% senior unsecured notes due 2007	16,000	20,000
7.10% senior unsecured notes due 2008	17,143	21,428
7.20% senior unsecured notes due 2009	42,500	42,500
12.00% subordinated note due 2014	2,500	
Total debt	135,819	134,335
Less current portion	8,286	12,571
Total long-term debt	$127,533	$121,764

As of March 31, 2004, the Company reduced its U.S. line of credit agreement to $130,000,000 from $135,000,000 and this line of credit will be further reduced to $125,000,000 at March 31, 2005 and to $115,000,000 at March 31, 2006.

Pursuant to the amended Cashland asset purchase agreement, the Company issued a subordinated note for $2,500,000 as a part of the final payment. Interest on this note accrues at 12% per annum and is payable semi-annually. The note principal is payable in nine equal annual installments beginning in February 2006. The final payment is due in February 2014. However, the note may be prepaid after February 1, 2006.

10. Operating Segment Information

During the quarter ended March 31, 2004, the Company realigned its segment reporting to reflect the business mix and management reporting structure. The Company has two reportable operating segments in the pawn lending industry (United States pawn lending and foreign pawn lending); one in the cash advance industry which includes Cashland and Cash America Payday Advance locations; and one in the check cashing industry (Mr. Payroll). While the United States and foreign pawn lending segments offer the same services, each is managed separately due to the different operational strategies required. Cash advance and check cashing are managed separately due to the different operational strategies required and, therefore, are reported as separate segments.

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

	(Unaudited)				
	Pawn Lending				
	United States	Foreign	Cash Advance (a)	Check Cashing(b)	Consolidated
Three Months Ended March 31, 2004:					
Revenue					
Finance and service charges	$ 26,872	$ 8,628	$	$	$ 35,500
Proceeds from disposition of merchandise	67,048	5,667			72,715
Cash advance fees	7,119		12,537		19,656
Check cashing royalties and fees		597	2,320	1,122	4,039
Total revenue	101,039	14,892	14,857	1,122	131,910
Cost of revenue - disposed merchandise	40,829	4,240			45,069
Net revenue	60,210	10,652	14,857	1,122	86,841
Expenses					
Operations	33,935	4,996	7,253	380	46,564
Cash advance loss provision	1,356		1,688		3,044
Administration	9,082	1,539	1,817	208	12,646
Depreciation and amortization	2,867	728	943	114	4,652
Total expenses	47,240	7,263	11,701	702	66,906
Income from operations	$ 12,970	$ 3,389	$ 3,156	$ 420	$ 19,935
As of March 31, 2004:					
Total assets	$280,573	$114,252	$68,896	$7,676	$471,397
Three Months Ended March 31, 2003:					
Revenue					
Finance and service charges	$ 24,709	$ 6,746	$	$	$ 31,455
	63,062	3,057			66,119

Proceeds from disposition of merchandise					
Cash advance fees	6,410		56		6,466
Check cashing royalties and fees		382		1,083	1,465
Total revenue	94,181	10,185	56	1,083	105,505
Cost of revenue - disposed merchandise	39,503	2,051			41,554
Net revenue	54,678	8,134	56	1,083	63,951
Expenses					
Operations	32,783	3,635	122	430	36,970
Cash advance loss provision	1,319		13		1,332
Administration	7,701	1,084	35	175	8,995
Depreciation and amortization	2,873	685	9	122	3,689
Total expenses	44,676	5,404	179	727	50,986
Income (loss) from operations	$ 10,002	$ 2,730	$ (123)	$ 356	$ 12,965
As of March 31, 2003:					
Total assets	$263,608	$ 93,816	$ 515	$7,989	$365,928

(a) Includes Cashland for periods after August 1, 2003 and Cash America Payday Advance locations.

(b) Mr. Payroll only.

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11. Litigation

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, United Kingdom and Sweden. 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 a third-party bank in other locations. The Company also provides check cashing and related money services through its consumer finance centers and its franchised and company-owned check cashing centers.

As of March 31, 2004, the Company s pawn lending operations consisted of 471 pawnshops, including 396 owned units and 6 unconsolidated franchised units in 17 states in the United States, 57 units in the United Kingdom, and 12 units in Sweden. The foreign operations consist primarily of jewelry-only lending units. During the 15 months ended March 31, 2004, the Company acquired 15 operating units, established 4 locations, and combined or closed 9 locations for a net increase in pawn lending units of 10. In addition, the Company terminated 6 franchises and purchased 1 for its company-owned operations.

As of March 31, 2004, the Company s cash advance operations consisted of 164 cash advance locations, including 143 locations through Cashland Financial Services, Inc. (Cashland), a wholly-owned subsidiary, and 21 Cash America Payday Advance locations. The Cashland consumer finance centers offer cash advances, check cashing and related money services in 2 states, including 22 locations that Cashland established during the 8 months since its acquisition on August 1, 2003. The Cash America Payday Advance locations offer the cash advance product in Texas, and were established beginning in December 2002.

As of March 31, 2004, Mr. Payroll Corporation (Mr. Payroll), a wholly-owned subsidiary, operated 131 franchised and 6 company-owned check cashing centers in 20 states.

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RESULTS OF OPERATIONS

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

	Three Months Ended March 31,	
	2004	**2003**
Revenue		
Finance and service charges	26.9%	29.8%
Proceeds from disposition of merchandise	55.1	62.7
Cash advance fees	14.9	6.1
Check cashing royalties and fees	3.1	1.4
Total Revenue	100.0	100.0
Cost of Revenue		
Disposed merchandise	34.2	39.4
Net Revenue	65.8	60.6
Expenses		
Operations	35.3	35.0
Cash advance loss provision	2.3	1.3
Administration	9.6	8.5
Depreciation and amortization	3.5	3.5
Total Expenses	50.7	48.3
Income from Operations	15.1	12.3
Interest expense, net	1.7	2.1
Income before income taxes	13.4	10.2
Provision for income taxes	4.8	3.8
Net income	8.6%	6.4%

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The following table sets forth certain selected consolidated financial and operating data as of March 31, 2004 and 2003, and for the three month periods then ended ($ in thousands).

	2004	2003
PAWN LENDING OPERATIONS:		
Pawn loans		
Annualized yield on pawn loans	103.7%	103.2%
Total amount of pawn loans written	$113,670	$103,221
Average pawn loan balance outstanding	$137,628	$123,669
Average pawn loan balance per average location in operation	$ 295	$ 272
Average pawn loan amount at end of period (not in thousands)	$ 119	$ 109
Profit margin on disposition of merchandise as a percentage of proceeds from disposition of merchandise	38.0%	37.2%
Average annualized merchandise turnover	3.4x	3.3x
Average balance of merchandise held for disposition per average location in operation	$ 115	$ 114
Pawnshop locations in operation		
Beginning of period, owned	467	455
Acquired		3
Start-ups		1
Combined or closed	(2)	(6)
End of period, owned	465	453
Franchise locations at end of period	6	9
Total pawnshop locations at end of period	471	462
Average number of owned pawnshop locations in operation	466	454
Cash advances		
Total amount of cash advances written [a]	$ 44,639	$ 37,799
Number of cash advances written (not in thousands) [a]	138,954	128,512
Average amount per cash advance (not in thousands) [a]	$ 321	$ 294
Combined cash advances outstanding [a]	$ 10,947	$ 9,101
Cash advances outstanding per location at end of period [a]	$ 28	$ 24
Cash advances outstanding before allowance for losses [b]	$ 9,764	$ 8,414
Locations offering cash advances at end of period	388	384
Average number of locations offering cash advances	389	387
CASH ADVANCE OPERATIONS [c]:		
Total amount of cash advances written	$ 77,750	$ 412
Number of cash advances written (not in thousands)	228,924	1,225
Average cash advance amount (not in thousands)	$ 340	$ 336
Combined cash advances outstanding [a]	$ 17,076	$ 112
Cash advances outstanding per location at end of period	$ 104	$ 22
Cash advances outstanding before allowance for losses [b]	$ 16,860	$ 97
Cash advance locations in operation		
Beginning of period	154	2
Start-ups	10	3
End of period	164	5
Average number of locations in operation for the period	159	3

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	2004	2003
CHECK CASHING OPERATIONS (Mr. Payroll):		
Face amount of checks cashed	$322,187	$308,528
Gross fees collected	$ 4,799	$ 4,612
Fees as a percentage of checks cashed	1.5%	1.5%
Average check cashed (not in thousands)	$ 422	$ 408
Centers in operation at end of period	137	139
Average centers in operation for the period	137	135

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

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

(c) Includes Cashland and Cash America Payday Advance locations.

OVERVIEW

Components of Consolidated Net Revenue. Consolidated net revenue is total revenue reduced by the cost of merchandise sold in the period. It represents the income available to satisfy expenses and is the measure management uses to evaluate top line performance. The growth in cash advance fees due to higher balances and the addition of new units, including the acquisition of Cashland in August 2003, has increased the comparative contribution from this product to the consolidated net revenue of the Company in the first quarter of 2004 compared to the first quarter of 2003. Pawn related net revenue of aggregate finance and service charges plus profit on the disposition of merchandise remain the dominant source of net revenue at 72.7% of consolidated net revenue for the three months ended March 31, 2004. The following graphs show consolidated net revenue and depict the mix of the components of net revenue for the quarter ended March 31, 2004 and 2003:

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Contribution to Increase in Net Revenue. In conjunction with the increase in cash advance fees as a percent of net revenue, the relative percentage contribution from cash advance fees to the quarter over quarter increase in net revenue has also increased significantly due to the inclusion of Cashland, greater cash advance balances and additional units. Pawn related net revenue in the aggregate, combined finance and service charges and profit from the disposition of merchandise, declined from 56.9% to 31.2% of the increase in net revenue for the first quarter of 2004 compared to 2003. Check cashing royalties and fees increased to 11.2% of the increase in net revenue in the current period. This trend is depicted in the following graphs:

Quarter Ended March 31, 2004 Compared To Quarter Ended March 31, 2003

Consolidated Net Revenue. Consolidated net revenue increased $22.9 million, or 35.8%, to $86.8 million during the first quarter ended March 31, 2004 (the current quarter) from $63.9 million during the first quarter ended March 31, 2003 (the prior year quarter). The following table sets forth net revenue results by operating segment for the three month periods ended March 31 ($ in millions):

	2004	2003	Increase	
Domestic pawn lending operations	$60.2	$54.6	$ 5.6	10.3%
Foreign pawn lending operations	10.7	8.1	2.6	32.1
Cash advance operations	14.8	0.1	14.7	
Check cashing operations	1.1	1.1		
Consolidated net revenue	$86.8	$63.9	$22.9	35.8%

The increase in consolidated net revenue was primarily due to the consolidation of the operating results of Cashland. Excluding the impact of Cashland, net revenue for the three month period was up $9.1 million, or 14.2%, compared to the prior year quarter. The Company s domestic pawn lending operations contributed the majority of the increase in consolidated net revenue excluding Cashland. Higher revenue from the Company s cash advance product, higher finance and service charges from pawn loans, and higher profit from the disposition of merchandise accounted for the increase in net revenue. The Company s foreign operations also contributed to the increase in consolidated net revenue primarily due to the favorable impact of currency translation, increased average pawn loan balance and the number of pawn loans outstanding.

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The components of net revenue are finance and service charges from pawn loans, which increased $4.1 million; profit from the disposition of merchandise, which increased $3.0 million; cash advance fees, which increased $13.2 million; and check cashing royalties and fees, which increased $2.6 million. Management believes that the trend of higher cash advance fees and higher finance and service charges on pawn loans will continue during the remainder of 2004 as a result of the expected continuation of increased demand for these products, due to the higher balances of cash advances and pawn loans at the end of the first quarter of 2004 compared to the prior year quarter and the addition of new lending locations in 2004.

Finance and Service Charges. The following is a summary of finance and service charges related to pawn loans by operating segment for the three months ended March 31, 2004 and 2003 ($ in millions):

	2004	2003	Increase	
Domestic pawn lending operations	$26.9	$24.7	$2.2	8.9%
Foreign pawn lending operations	8.6	6.7	1.9	28.4
Total finance and service charges	$35.5	$31.4	$4.1	13.1%

Variations in finance and service charges on pawn loans are caused by changes in the average balance of pawn loans outstanding, the annualized yield of the pawn loan portfolio, and the effects of translation of foreign currency amounts into United States dollars. The following table demonstrates how each of these factors affected the total change in finance and service charges on pawn loans for the current quarter as compared to the prior year quarter (in millions):

	Average Balance Outstanding	Loan Yield	Total Before Foreign Translation	Foreign Translation	Total
Domestic pawn lending operations	$ 0.9	$1.3	$ 2.2	$	$2.2
Foreign pawn lending operations	0.4	0.4	0.8	1.1	1.9
Total	$ 1.3	$1.7	$ 3.0	$ 1.1	$4.1

Excluding the favorable impact of foreign currency translation, the company-wide average balance of pawn loans outstanding was 4.8% higher during the current quarter than the prior year quarter. On a segment basis, the average balances of pawn loans were 3.6% and 6.5% higher for the domestic and foreign pawn lending operations, respectively. The increase in the average balance of domestic pawn loans outstanding was driven by a 1.1% increase in the average number of pawn loans outstanding during the current quarter coupled with a 2.5% increase in the average amount per loan. Aggregate pawn loan balances at the beginning of the current quarter were $14.5 million higher than at the beginning of the prior year quarter. Domestic pawn loan balances at March 31, 2004 decreased $8.1 million or 10.0%, from December 31, 2003 balances. The decrease for the comparable period of the preceding year was $8.7 million, or 11.1%. The Company historically experiences a decrease in domestic pawn loan balances during the first quarter of each year when the Internal Revenue Service processes federal income tax refunds. Management believes that customers may have used these proceeds to repay loans and/or reduce demand for loans in the quarter, although pawn loan balances finished the quarter higher than the prior year. Domestic pawn loan balances at March 31, 2004, were $73.0 million, or 4.4%, higher than at March 31, 2003. Management believes the higher average domestic loan balance outstanding is partially attributable to the current economic environment affecting the Company s customers, which was conducive to an increase in loan demand, and expects this trend of higher demand for pawn loans to continue throughout the remainder of 2004. In the Company s foreign operations, the average balances of pawn loans outstanding denominated in their local currencies increased 11.4% and decreased 1.3% in the United Kingdom and Sweden, respectively. The average number of pawn loans outstanding in the United Kingdom and Sweden increased 6.4% and decreased 4.5%, respectively. Average

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amounts per loan denominated in their local currencies were higher for both the United Kingdom and Sweden by 2.4% and 3.3%, respectively.

Excluding the favorable impact of foreign currency translation, the consolidated annualized loan yield, which represents the blended result derived from the distinctive loan yields realized from operations in the three countries, was 106.7% in the current year quarter, compared to 103.2% in the prior year quarter. Domestic annualized loan yield increased to 143.1% for the current year quarter, compared to 137.5% for the prior year quarter. Improved performance of the pawn loan portfolio, including higher redemption rates and a slightly higher concentration of extended or renewed loans in the portfolio, contributed to the higher domestic yield. The blended yield on average foreign pawn loans outstanding increased to 55.7% in the current year quarter compared to 53.9% in the prior year quarter. The increase in the blended foreign yield was principally caused by increases in the blended interest rates charged to customers in the United Kingdom.

Favorable currency translation adjustments contributed $1.1 million to the increase in foreign source finance and service charges in the current quarter as compared to the prior year quarter, as the British pound and Swedish kronor were stronger relative to the United States dollar. The weighted average exchange rates used to translate local currency earnings into dollars for the pound and kronor were 14.6% and 16.2% higher, respectively, during the current quarter compared to the prior year quarter.

Profit from Disposition of Merchandise. Profit from disposition of merchandise represents the proceeds received from disposition of merchandise in excess of the cost of disposed merchandise. The following table summarizes, by operating segment, the proceeds from disposition of merchandise and the related profit for the current quarter compared to the prior year quarter ($ in millions):

	Three Months Ended March 31,					
	2004			2003		
	Merch-andise	Refined Gold	Total	Merch-andise	Refined Gold	Total
Proceeds from disposition:						
Domestic	$56.7	$10.4	$67.1	$55.6	$	