

CASH AMERICA INTERNATIONAL INC

Form 10-Q

July 23, 2004

**Table of Contents**

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

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**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, 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**  
(State or other jurisdiction of  
incorporation or organization)

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

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

**76102**  
(Zip Code)

(817) 335-1100

(Registrant's telephone number, including area code)

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:

28,313,542 common shares, \$.10 par value, were outstanding as of July 16, 2004

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**CASH AMERICA INTERNATIONAL, INC.**

**INDEX TO FORM 10-Q**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements (Unaudited)</u></b>	
<u>Consolidated Balance Sheets June 30, 2004 and 2003 and December 31, 2003</u>	1
<u>Consolidated Statements of Operations Three and Six Months Ended June 30, 2004 and 2003</u>	2
<u>Consolidated Statements of Stockholders Equity June 30, 2004 and 2003</u>	3
<u>Consolidated Statements of Comprehensive Income Three and Six Months Ended June 30, 2004 and 2003</u>	3
<u>Consolidated Statements of Cash Flows Six Months Ended June 30, 2004 and 2003</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 4. Controls and Procedures</u>	32
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	33
<u>Item 2. Changes in Securities and Use of Proceeds</u>	33
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	34
<u>Item 6. Exhibits and Reports on Form 8-K</u>	34
<b><u>SIGNATURES</u></b>	35
<u>Second Amendment to Credit Agreement</u>	
<u>Certification of Chief Executive Officer</u>	
<u>Certification of Chief Financial Officer</u>	
<u>Certification of Chief Executive Officer</u>	
<u>Certification of Chief Financial Officer</u>	

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**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)*

	<b>June 30,</b>		<b>December 31,</b>
	<b>2004</b>	<b>2003</b>	<b>2003</b>
	<b>(Unaudited)</b>		
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 11,482	\$ 7,697	\$ 14,547
Pawn loans	148,702	136,897	141,871
Cash advances, net	27,663	8,463	28,346
Merchandise held for disposition, net	54,995	50,947	56,120
Finance and service charges receivable	23,821	21,316	23,568
Other receivables and prepaid expenses	12,121	9,030	10,628
Income taxes recoverable			3,208
Deferred tax assets	7,820	6,169	6,868
	<hr/>	<hr/>	<hr/>
Total current assets	286,604	240,519	285,156
Property and equipment, net	82,898	67,896	78,977
Goodwill	123,229	81,432	117,963
Other assets	6,142	2,814	7,436
	<hr/>	<hr/>	<hr/>
Total assets	<b>\$498,873</b>	<b>\$392,661</b>	<b>\$489,532</b>
	<hr/>	<hr/>	<hr/>
<b>Liabilities and Stockholders Equity</b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 33,270	\$ 25,401	\$ 39,167
Customer deposits	4,899	4,381	4,102
Income taxes currently payable	2,521	1,683	1,386
Current portion of long-term debt	8,286	8,286	8,286
	<hr/>	<hr/>	<hr/>
Total current liabilities	48,976	39,751	52,941
Deferred tax liabilities	8,536	5,390	7,704
Long-term debt	146,705	140,591	152,394
Stockholders equity:			
Common stock, \$.10 par value per share, 80,000,000 shares	3,024	3,024	3,024

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authorized, 30,235,164 shares issued			
Additional paid-in capital	143,252	127,977	141,867
Retained earnings	159,382	124,971	141,642
Accumulated other comprehensive income	8,085	660	7,995
Notes receivable secured by common stock	(2,488)	(5,774)	(2,488)
Treasury shares, at cost (1,987,207 shares, 5,994,700 shares and 2,040,180 shares at June, 30, 2004 and 2003, and December 31, 2003, respectively)	(16,599)	(43,929)	(15,547)
	<u>          </u>	<u>          </u>	<u>          </u>
Total stockholders' equity	294,656	206,929	276,493
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and stockholders' equity	\$498,873	\$392,661	\$489,532
	<u>          </u>	<u>          </u>	<u>          </u>

*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)*

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>(Unaudited)</b>			
<b>Revenue</b>				
Finance and service charges	\$ 34,055	\$30,601	\$ 69,555	\$ 62,056
Proceeds from disposition of merchandise	56,982	56,176	129,697	122,295
Cash advance fees	22,061	6,394	41,717	12,860
Check cashing royalties and fees	2,675	1,246	6,714	2,711
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Revenue</b>	115,773	94,417	247,683	199,922
<b>Cost of Revenue</b>				
Disposed merchandise	35,047	35,387	80,116	76,941
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net Revenue</b>	80,726	59,030	167,567	122,981
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Expenses</b>				
Operations	45,879	36,241	92,443	73,211
Cash advance loss provision	5,375	1,692	8,419	3,024
Administration	11,205	8,413	23,851	17,408
Depreciation and amortization	4,760	3,607	9,412	7,296
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Expenses</b>	67,219	49,953	134,125	100,939
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Income from Operations</b>	13,507	9,077	33,442	22,042
Interest expense, net	2,174	2,126	4,423	4,302
Gain from disposal of asset		(1,013)		(1,013)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Income before Income Taxes</b>	11,333	7,964	29,019	18,753
Provision for income taxes	3,994	2,313	10,290	6,333
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net Income</b>	\$ 7,339	\$ 5,651	\$ 18,729	\$ 12,420
	<hr/>	<hr/>	<hr/>	<hr/>

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Net income per share:				
Basic	\$ 0.26	\$ 0.23	\$ 0.66	\$ 0.51
Diluted	\$ 0.25	\$ 0.22	\$ 0.64	\$ 0.50
Weighted average common shares outstanding:				
Basic	28,254	24,189	28,247	24,215
Diluted	29,443	25,128	29,448	24,940
Dividends declared per common share	\$ 0.0175	\$0.0175	\$ 0.035	\$ 0.030

*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)*

	<b>June 30,</b>			
	<b>2004</b>		<b>2003</b>	
	<b>Shares</b>	<b>Amounts</b>	<b>Shares</b>	<b>Amounts</b>
	<b>(Unaudited)</b>			
<b>Common stock</b>				
Balance at June 30	30,235,164	\$ 3,024	30,235,164	\$ 3,024
<b>Additional paid-in capital</b>				
Balance at beginning of year		141,867		127,819
Exercise of stock options		267		7
Stock-based compensation		524		
Tax benefit from exercise of stock options		594		151
Balance at June 30		143,252		127,977
<b>Retained earnings</b>				
Balance at beginning of year		141,642		113,278
Net income		18,729		12,420
Dividends declared		(989)		(727)
Balance at June 30		159,382		124,971
<b>Accumulated other comprehensive income (loss)</b>				
Balance at beginning of year		7,995		(2,718)
Foreign currency translation adjustments		90		3,378
Balance at June 30		8,085		660
<b>Notes receivable secured by common stock</b>				
Balance at beginning of year		(2,488)		(5,864)
Payments on notes receivable				90



		<u>                    </u>	<u>                    </u>
Balance at June 30		(2,488)	(5,774)
<b>Treasury shares, at cost</b>			
Balance at beginning of year	(2,040,180)	(15,547)	(5,939,794)
Purchases of treasury shares	(104,553)	(2,270)	(146,381)
Exercise of stock options	157,526	1,218	91,475
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance at June 30	(1,987,207)	(16,599)	(5,994,700)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Stockholders Equity</b>		\$294,656	\$206,929
		<u>                    </u>	<u>                    </u>

**CASH AMERICA INTERNATIONAL, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(in thousands, except per share data)*

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
			<b>(Unaudited)</b>	
Net income	\$7,339	\$5,651	\$18,729	\$12,420
Other comprehensive income (loss), net of tax of \$0				
Foreign currency translation adjustments	(794)	3,868	90	3,378
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Comprehensive Income</b>	\$6,545	\$9,519	\$18,819	\$15,798
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

*See Notes to Consolidated Financial Statements.*

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

	<b>Six Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>
	<b>(Unaudited)</b>	
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 18,729	\$ 12,420
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,412	7,296
Cash advance loss provision	8,419	3,024
Stock-based compensation expense	524	
Gain from disposal of asset		(1,013)
Changes in operating assets and liabilities -		
Merchandise held for disposition	1,214	3,700
Finance and service charges receivable	(417)	136
Other receivables and prepaid expenses	(511)	2,589
Accounts payable and accrued expenses	(5,950)	371
Customer deposits, net	797	331
Current income taxes	4,904	(249)
Deferred income taxes, net	(47)	76
	<hr/>	<hr/>
<b>Net cash provided by operating activities</b>	<b>37,074</b>	<b>28,681</b>
	<hr/>	<hr/>
<b>Cash Flows from Investing Activities</b>		
Pawn loans forfeited and transferred to merchandise held for disposition	67,931	62,112
Pawn loans repaid or renewed	160,963	148,402
Pawn loans made, including loans renewed	(235,973)	(216,819)
	<hr/>	<hr/>
Net increase in pawn loans	(7,079)	(6,305)
	<hr/>	<hr/>
Cash advances repaid or renewed	180,964	26,686
Cash advances made, assigned or purchased	(188,412)	(35,965)
	<hr/>	<hr/>
Net increase in cash advances	(7,448)	(9,279)
	<hr/>	<hr/>

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Acquisitions, net of cash acquired	(3,028)	(1,937)
Purchases of property and equipment	(12,610)	(7,270)
Proceeds from sale of asset		1,639
	<u>          </u>	<u>          </u>
<b>Net cash used by investing activities</b>	<b>(30,165)</b>	<b>(23,152)</b>
	<u>          </u>	<u>          </u>
<b>Cash Flows from Financing Activities</b>		
Net (repayments) borrowings under bank lines of credit	(3,930)	8,081
Payments on notes payable	(4,286)	(8,571)
Change in notes receivable secured by common stock		90
Proceeds from exercise of stock options	1,485	673
Treasury shares purchased	(2,270)	(1,391)
Dividends paid	(989)	(727)
	<u>          </u>	<u>          </u>
<b>Net cash used by financing activities</b>	<b>(9,990)</b>	<b>(1,845)</b>
	<u>          </u>	<u>          </u>
<b>Effect of exchange rate changes on cash</b>	<b>16</b>	<b>62</b>
	<u>          </u>	<u>          </u>
<b>Net (decrease) increase in cash</b>	<b>(3,065)</b>	<b>3,746</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>14,547</b>	<b>3,951</b>
	<u>          </u>	<u>          </u>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 11,482</b>	<b>\$ 7,697</b>
	<u>          </u>	<u>          </u>
<b>Supplemental Disclosures</b>		
<b>Noncash investing and financing activities:</b>		
Note payable issued in settlement of purchase transactions	\$ 2,500	\$
	<u>          </u>	<u>          </u>

*See Notes to Consolidated Financial Statements.*

**Table of Contents**

**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, 2004 and 2003, 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.

Certain amounts in the consolidated financial statements for the three and six month periods ended June 30, 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 disposed. 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 banks' 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.



**Table of Contents**

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

In January 2004, the Company changed its approach concerning annual equity based compensation awards and granted 103,175 restricted stock units to its officers under the provisions 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 held April 21, 2004 and granted 11,574 restricted stock units to the non-management members of its Board of Directors. The aggregate market value of these restricted stock units at the date of grant of \$2,597,000 is being amortized to expense over the vesting periods of 4 years for officers and 1 year for Directors. For officers, each vested restricted stock unit entitles the holder to receive a share of the common stock of the Company to be issued upon vesting. Directors are entitled to their shares once their restricted stock units are vested and the Director is no longer a member of the Board. Compensation expense totaling \$185,000 (net of related tax of \$100,000) and \$341,000 (net of related tax of \$183,000) were recognized in the three and six month periods ended June 30, 2004, respectively, for these grants and restricted stock units granted in December 2003 in conjunction with the adoption of the Company's Supplemental Executive Retirement Plan. The December 2003 grant consisted of 233,223 restricted stock units with an aggregate market value at date of grant of \$4,485,000. This amount is being amortized to expense over the vesting periods of 4 to 15 years, and each vested restricted stock unit entitles the holder to receive a share of the common stock of the Company to be issued upon termination of employment from the Company.

Prior to December 2003, the Company granted stock options under the Plans with contractual terms of 5 to 15 years and 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 six months ended June 30, 2004 and 2003, 551,547 and 100,475 shares, respectively, vested due to the acceleration provision.

The Company accounts for its stock-based employee compensation plans in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), often referred to as the intrinsic value based method, and 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 and six month periods ended June 30, 2004 and 2003 would have been reported as follows (in thousands, except per share amounts).

**Table of Contents**

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

Included in the pro forma amounts below is the effect of the accelerated vesting of 551,547 shares during the six months ended June 30, 2004 and 100,475 shares during the six months ended June 30, 2003, which caused the pro forma compensation expense related to those shares to be recognized in those reporting periods and eliminated it from future periods had scheduled vesting occurred during the remainder of 2004 through 2007.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net income as reported	\$7,339	\$5,651	\$18,729	\$12,420
Deduct: Total stock-based compensation expense <sup>(a)</sup>	41	646	818	1,021
Net income pro forma	<u>\$7,298</u>	<u>\$5,005</u>	<u>\$17,911</u>	<u>\$11,399</u>
Net income per share				
Basic:				
As reported	\$ 0.26	\$ 0.23	\$ 0.66	\$ 0.51
Pro forma	\$ 0.26	\$ 0.21	\$ 0.63	\$ 0.47
Diluted:				
As reported	\$ 0.25	\$ 0.22	\$ 0.64	\$ 0.50
Pro forma	\$ 0.25	\$ 0.20	\$ 0.61	\$ 0.45

<sup>(a)</sup> 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.

**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 for the additional consideration (see Note 8).



**Table of Contents**

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

The following table provides information concerning the acquisitions made during the six months ended June 30, 2004 and 2003 (\$ in thousands):

	<u>2004</u>	<u>2003</u>
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		945
Non-competition agreements		10
Other assets, net		233
	—	—
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 term of 7 to 45 days. 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. The Company entered into an agreement with a second third-party bank that began offering cash advances in some of those locations in the second quarter of 2004.

Under the banks' programs, the banks sell participation interests in bank originated cash advances to third parties, and the Company purchases participation interests in certain of those advances. 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, 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 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