

CASH AMERICA INTERNATIONAL INC

Form 10-K

February 26, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

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 001-09733

Texas

(State or other jurisdiction of
incorporation or organization)

1600 West 7th Street

Fort Worth, Texas

(Address of principal executive offices)

Registrant's telephone number, including area code:

(817) 335-1100

75-2018239

(I.R.S. Employer
Identification No.)

76102 – 2599

(Zip Code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class

Common Stock, \$0.10 par value per share

Name of Each Exchange on Which Registered

New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form

10-K.

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

Yes No

The aggregate market value of 26,337,654 shares of the registrant’s common stock, par value \$0.10 per share, held by non-affiliates on June 30, 2015 was approximately \$689,783,158.

At February 22, 2016 there were 24,471,110 shares of the registrant’s common stock, \$0.10 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s definitive Proxy Statement pertaining to the 2016 Annual Meeting of Shareholders are incorporated herein by reference into Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K.

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CAUTIONARY NOTE CONCERNING FACTORS THAT MAY AFFECT FUTURE RESULTS

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

- risks related to the regulation of the Company, such as the failure to comply with existing, the adoption of new, or adverse changes in the interpretation or enforcement of laws, rules, regulations and guidance, the regulatory and examination authority of the Consumer Financial Protection Bureau (“CFPB”), and the effect of and compliance with enforcement actions, orders and agreements issued by applicable regulators;
- decreased demand for the Company’s products and services and changes in competition;
- fluctuations in the price of gold and changes in economic conditions;
- public perception of the Company’s business and the Company’s business practices;
- the effect of any current or future litigation proceedings, including an unfavorable outcome in an outstanding lawsuit relating to the Company’s 5.75% Senior Notes due 2018 even though the Company believes the lawsuit is without merit and will vigorously defend its position, and any judicial decisions or rule-making that affects the Company, its products or the legality or enforceability of its arbitration agreements;
- risks related to the Company’s financing, such as compliance with financial covenants in the Company’s debt agreements or the Company’s ability to satisfy its outstanding debt obligations, to refinance existing debt obligations or to obtain new capital;
- accounting and income tax risks related to goodwill and other intangible asset impairment, certain tax positions taken by the Company and other accounting matters that require the judgment of management;
- the Company’s ability to attract and retain qualified executive officers;
 - risks related to interruptions to the Company’s business operations, such as a prolonged interruption in the Company’s operations of its facilities, systems or business functions, cyber-attacks or security breaches or the actions of third parties who provide, acquire or offer products and services to, from or for the Company;
- risks related to the expansion and growth of the Company’s business, including the Company’s ability to open new locations in accordance with plans or to successfully integrate newly acquired businesses into its operations;
- risks related to the spin-off of the Company’s former online lending business that comprised its e-commerce division, Enova International, Inc.;
- fluctuations in the price of the Company’s common stock;
- the effect of any of the above changes on the Company’s business or the markets in which the Company operates; and
- other risks and uncertainties described in this report or from time to time in the Company’s filings with the Securities and Exchange Commission (“SEC”).

The foregoing list of factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this annual report, including under the caption “Risk Factors” in Item 1A of this annual report. In addition, new factors may emerge or changes to these factors may occur that would impact the Company’s business. Additional information regarding these and other risks can be found in this annual report and may also be contained in the Company’s other filings with the SEC, especially on Forms 10-Q and 8-K. If one or more events related to these or other risks or uncertainties materialize, or if management’s underlying assumptions prove to be incorrect, actual results may differ materially from those the Company anticipates. The Company disclaims any intention or obligation to update or revise any forward-looking statements to reflect events or circumstances occurring

after the date of this report. All forward-looking statements are expressly qualified in their entirety by the foregoing cautionary statements.

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PART I

ITEM 1. BUSINESS

Overview

General

Cash America International, Inc. and its subsidiaries (collectively, the “Company”) provide specialty financial services to individuals in the United States through its storefront lending locations and franchised check cashing centers. The Company has one reportable operating segment. The Company was incorporated in Texas in 1984 and has been providing specialty financial services to its customers for over 30 years. The Company believes it was one of the largest providers of pawn loans in the world in 2015 based on the amount of loans outstanding to its customers. A general overview of the Company’s products and services is included below. See “Services Offered by the Company” for additional details regarding these products and services.

Unless stated otherwise, the discussion of the Company’s business and financial information throughout this Annual Report refers to the Company’s continuing operations and results from continuing operations. See “Enova Spin-off” for more information on continuing and discontinued operations.

Pawn Lending

The Company offers secured non-recourse loans, commonly referred to as pawn loans, as its primary line of business. Pawn loans are short-term loans made on the pledge of tangible personal property. Pawn loan fees and service charges are generated from the Company’s pawn loan portfolio. In relation to its pawn lending operations, the Company also disposes of collateral from unredeemed pawn loans and liquidates a smaller volume of merchandise purchased directly from customers or from third parties. The Company also offered pawn loans in Mexico until the sale of its Mexico-based operations in August 2014. Pawn-related total revenue accounted for 91%, 90% and 88% of consolidated total revenue for the years ended December 31, 2015, 2014 and 2013, respectively.

Consumer Loan Activities

Another component of the Company's business is originating, arranging, guaranteeing or purchasing consumer loans in some of its locations. Consumer loans provide customers with cash, typically in exchange for an obligation to repay the amount advanced plus fees and any applicable interest. Consumer loans that the Company offers include short-term loans (commonly referred to as payday loans) and installment loans. Consumer loan total revenue accounted for 8%, 9% and 11% of consolidated total revenue for the years ended December 31, 2015, 2014 and 2013, respectively.

Short-term consumer loan products that the Company offers include unsecured short-term loans written by the Company or by a third-party lender through the Company’s credit services organization and credit access business programs (“CSO programs”). Installment consumer loans are longer-term, multi-payment loans that require the pay-down of the outstanding principal balance in multiple installments. Installment loan products that the Company offers are unsecured and can either be written by the Company or by a third-party lender through the CSO programs. See “Services offered by the Company—Consumer Loan Activities” for further discussion of the CSO programs. The Company previously offered installment loans secured by a customer’s vehicle, but it ceased offering that product in the latter half of 2015.

Check Cashing and Other Financial Services

A small component of the Company's business includes the offering of check cashing services through franchised check cashing centers, for which the Company receives franchise fees. In addition, in some of its

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Company-operated lending locations, the Company offers check cashing services, as well as prepaid debit cards that are issued and serviced through a third party. In July 2015, the Company ceased offering certain ancillary products and services, including money orders, wire transfers and auto insurance, consistent with its strategy to emphasize pawn-related services in its Company-operated locations. Total revenue from check cashing and other ancillary products and services accounted for less than 1% of consolidated total revenue for the years ended December 31, 2015, 2014 and 2013, respectively.

Enova Spin-off

On November 13, 2014, the Company completed the distribution of approximately 80% of the outstanding shares of Enova International, Inc. (“Enova”) common stock to the Company’s shareholders (the “Enova Spin-off”). Prior to the Enova Spin-off, Enova was a wholly-owned subsidiary of the Company that operated its online lending business and comprised the Company’s e-commerce segment. Following the Enova Spin-off, the Company no longer offers loans online. Upon completion of the Enova Spin-off, the Company reclassified the financial results of Enova to discontinued operations in the Company’s consolidated financial statements for the years ended December 31, 2014 and 2013. For additional information, see “Item 8. Financial Statements and Supplementary Data—Note 2.”

Locations

The following table sets forth, as of December 31, 2015, 2014 and 2013, the number of Company-operated locations that offered pawn lending, consumer lending, and other services, in addition to franchised locations that offered check cashing services. The Company provides these services in the United States primarily under the names “Cash America Pawn,” “SuperPawn,” “Cash America Payday Advance,” “Cashland” and “Mr. Payroll.” The Company’s domestic pawn and consumer lending locations operated in 20, 21 and 22 states as of December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, 2014, and 2013, the franchised check cashing locations operated in 12, 12 and 14 states, respectively.

	As of December 31,		
	2015	2014	2013
Company-operated locations offering:			
Pawn lending only ^(a)	548	548	294
Both pawn and consumer lending	253	272	582
Consumer lending only	21	39	40
Total Company-operated locations	822	859	916
Franchised check cashing centers	75	84	90
Total	897	943	1,006

^(a) As of December 31, 2013, Company-operated locations included 47 Mexico-based, pawn-lending-only locations that operated under the name “Cash America casa de empeño.” The Company sold its Mexico-based operations in August 2014.

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For the year ended December 31, 2015, the Company closed or sold 39 locations. Consistent with the Company's strategy to deemphasize its consumer lending activities, 29 of the locations closed or sold were locations that offered consumer loans as their primary product. The closed or sold locations also included ten less-profitable, pawn-lending-only locations that were closed or sold during the year ended December 31, 2015. In addition, the Company eliminated the consumer loan product in eight of its pawn lending locations during the year ended December 31, 2015. In line with the current strategy to focus on its pawn lending operations, the Company expects to eliminate consumer lending activities in approximately 47 locations in 2016. Most of this activity is expected to take place in the first half of 2016.

For the year ended December 31, 2014, the Company closed or sold 62 locations, including the sale of 47 and five locations upon the exit of the non-strategic markets of Mexico and Colorado, respectively. In addition, the Company eliminated the consumer loan product in 302 of its pawn lending locations during the year ended December 31, 2014.

The table below outlines acquisitions, start-ups and closures for Company-operated locations for the five years ended December 31, 2015.

	As of December 31,				
	2015	2014	2013	2012	2011
Locations at beginning of period	859	916	878	973	950
Acquired	2	1	76	37	8
Start-ups	—	4	8	22	20
Sold	(12) (52) —	—	—
Combined or closed	(27				