CASH AMERICA INTERNATIONAL INC
Form 10-K
February 25, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

OR
[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-9733

(Exact name of registrant as specified in its charter)

Texas	**75-2018239**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
1600 West 7th Street Fort Worth, Texas	**76102 2599**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code:

(817) 335-1100

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $.10 par value per share	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 þ No ¨

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

Yes ¨ No þ

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

Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 þ 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	þ	Accelerated filer	¨
Non-accelerated filer (Do not check if a smaller reporting company)	¨	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 þ

The aggregate market value of 29,111,222 shares of the registrant s Common Stock, par value $0.10 per share, held by non-affiliates on June 30, 2010 was approximately $997,641,578.

At February 16, 2011 there were 29,592,871 shares of the registrant s Common Stock, $0.10 par value per share, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive Proxy Statement pertaining to the 2011 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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CASH AMERICA INTERNATIONAL, INC.

YEAR ENDED DECEMBER 31, 2010

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CAUTIONARY NOTE CONCERNING FACTORS THAT MAY AFFECT FUTURE RESULTS

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

changes in pawn, consumer credit, tax and other laws and government rules and regulations applicable to the Company s business,

changes in demand for the Company s services,

acceptance by consumers, legislators and regulators of the negative characterization by the media and consumer activists with respect to certain of the Company s loan products,

the continued acceptance of the online channel by the Company s online loan customers,

the actions of third parties who provide, acquire or offer products and services to, from or for the Company,

fluctuations in the price of gold,

changes in competition,

the ability of the Company to open new locations in accordance with its plans,

changes in economic conditions,

real estate market fluctuations,

interest rate fluctuations,

changes in foreign currency exchange rates,

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

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

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PART I

ITEM 1. BUSINESS

Overview

Cash America International, Inc. (the Company) provides specialty financial services to individuals through retail services locations and through electronic distribution platforms known as e-commerce activities. These services include secured non-recourse loans, commonly referred to as pawn loans and unsecured consumer loans.

Pawn loans are short-term (generally 30 to 90 days) made on the pledge of tangible personal property. Pawn loan fees and service charges revenue are generated from the Company s pawn loan portfolio. A related activity of the pawn lending operations is the disposition of collateral from unredeemed pawn loans and the liquidation of a smaller volume of merchandise purchased directly from third-parties or from customers.

The Company s consumer loan portfolio includes short-term single payment loans, longer-term multi-payment installment loans, credit services and participation interests purchased from third parties in the micro line of credit (or MLOC) services channel. Consumer loans provide customers with cash, typically in exchange for a promissory note or other repayment agreement supported, in most cases, by that customer s personal check or authorization to debit that customer s account via an electronic transaction for the aggregate amount of the payment due. Through the Credit Services Organization program (the CSO program), the Company provides a third-party lender s consumer loan product in some markets by acting as a credit services organization on behalf of consumers in accordance with applicable state laws. These include credit services, loans arranged with independent third-party lenders, assistance in the preparation of loan applications and loan documents and acceptance of loan payments. The Company also guarantees the customer s payment obligations in the event of default if the customer is approved for and accepts the loan. A customer who obtains a loan through the CSO program pays the Company a fee for these credit services (CSO fees). Although consumer loan transactions may take the form of loans, deferred check deposit transactions, credit services transactions, or the processing of, and the participation in receivables originated by, a third-party lender s MLOC product, the transactions are referred to throughout this discussion as consumer loans.

The Company was incorporated in Texas in 1984 and has been providing specialty financial services to its customers for over 25 years. The Company believes it was the nation s largest provider of pawn loans and the largest operator of pawn shops in the world in 2010. As used in this report, the term Company includes Cash America International, Inc. and its subsidiaries, unless the context otherwise requires.

During the second quarter of 2010, the Company renamed its Internet Services Division as the E-Commerce Division and realigned its operating segments into two reportable segments: retail services and e-commerce. The retail services segment includes all of the operations of the Company s Retail Services Division, which is composed of both domestic and foreign storefront locations that offer some or all of the following services: pawn lending, consumer loans, check cashing and other ancillary services such as money orders, wire transfers and pre-paid debit cards. (Most of these ancillary services are provided through third-party vendors.) The e-commerce segment includes the operations of the Company s E-Commerce Division, which is composed of the Company s domestic and foreign online channel (and includes the Company s internet lending activities, as well as online gold buying activities and other ancillary services) and the Company s MLOC services channel. The segment realignment was in response to a number of changing factors within the Company s business. First, the Company s business strategy now emphasizes the offering of a broad array of products such as pawn loans, gold buying, and consumer loans in most retail services locations, such that the previously reported delineation of pawn and consumer loan-centric locations became obsolete. Second, the Company s management performance assessment, allocation of resources, and operating decisions migrated to a two segment structure with one Division President overseeing retail services activities and another Division President overseeing e-commerce activities. Third, the Company s e-commerce products have expanded and now include activities such as MLOC services and online gold buying.

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The following table sets forth the number of domestic and foreign Company-owned and franchised locations in the Company s retail services segment offering pawn lending, consumer lending, and other services as of December 31, 2010, 2009 and 2008.

	As of December 31,								
	2010			2009			2008		
	Domestic[(a)(b)]	**Foreign[(c)(d)]**	**Total**	Domestic[(a)]	Foreign[(c)]	Total	Domestic[(a)]	Foreign[(c)]	Total
Retail services locations offering:									
Both pawn and consumer lending[(e)]	**567**	**-**	**567**	584	-	584	431	-	431
Pawn lending only	**124**	**180**	**304**	66	176	242	70	112	182
Consumer lending only	**88**	**-**	**88**	96	-	96	248	-	248
Other [(f)]	**122**	**-**	**122**	126	-	126	133	-	133
Total retail services	**901**	**180**	**1,081**	872	176	1,048	882	112	994

(a) Includes locations that operate under the names Cash America Pawn, SuperPawn, Cash America Payday Advance, Cashland, Maxit, Pawn X-Change and Mr. Payroll. Maxit and Pawn X-Change were acquired in 2010.

(b) Includes locations that operate in 28 states in the United States.

(c) Includes locations that operate in central and southern Mexico under the name Prenda Fácil, of which the Company is a majority owner.

(d) Includes locations that operate in 21 jurisdictions in Mexico.

(e) As of December 31, 2010, 2009 and 2008, includes 425, 434 and 431 locations, respectively, that primarily engage in pawn lending activities (of which, nine, nine and 15, respectively, are unconsolidated franchised pawn lending locations) and 142, 150 and zero locations, respectively, that primarily engage in consumer loan activities.

(f) As of December 31, 2010, 2009 and 2008, includes six, six and five consolidated Company-owned check cashing locations, respectively, and 116, 120 and 128 unconsolidated franchised locations, respectively.

As of December 31, 2010, the Company s e-commerce segment consisted of:

consumer loans offered over the internet to customers:

in 32 states in the United States at http://www.cashnetusa.com,
in the United Kingdom at http://www.quickquid.co.uk,
in Australia at http://www.dollarsdirect.com.au, and
in Canada at http://www.dollarsdirect.ca

the MLOC services channel, which processed MLOC advances on behalf of a third-party lender during most of 2010 and had a participation interest in MLOC receivables that were outstanding in all 50 states and four other U.S. jurisdictions during the year ended December 31, 2010.

The MLOC services channel has most recently generated its earnings through loan processing services the Company provided for MetaBank related to the iAdvance MLOC product MetaBank made available on certain stored-value debit cards the bank issues, as well as from fees generated from participation interests the Company acquired in the receivables originated by MetaBank in connection with the iAdvance program. MetaBank terminated its iAdvance program as of October 13, 2010. The Company intends to continue pursuing the development of new MLOC opportunities during 2011.

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Recent Developments

Business Developments

Pursuant to its business strategy of expanding storefront operations in the United States, the Company s wholly-owned subsidiary, Cash America, Inc. of Nevada, completed the purchase of substantially all of the assets (the Maxit acquisition) of Maxit Financial, LLC (Maxit) on October 4, 2010. Maxit owned and operated a 39-store chain of pawn lending locations that operate in Washington and Arizona under the names Maxit and Pawn X-Change. Per the terms of the Asset Purchase Agreement, the acquisition consideration consisted of a cash payment of approximately $58.2 million, which was funded with borrowings under the Company s line of credit, and 366,097 shares of the Company s common stock, with a fair value of $10.9 million as of the closing date. In addition, the Company incurred acquisition costs of $1.5 million related to the acquisition, which are reflected in Operations expenses in the consolidated statements of income.

In addition, see the Overview section for a discussion of recent developments in the Company s MLOC business.

Recent Regulatory Developments

Due to legislation adopted in Maryland that became effective October 1, 2010, the Company has ceased offering consumer credit services through the CSO program in Maryland. The Company has developed an alternative consumer loan product for Maryland customers and is currently assessing its viability.

The legislation under which the Company offered consumer loans over the internet and through its retail services locations in Arizona expired on July 1, 2010, and the Company has discontinued offering consumer loans in that state. The Company has continued to serve customers in Arizona by offering pawn loans in its pawn lending locations in that state.

Recently passed legislation in the States of Colorado and Wisconsin, which became effective in 2010, and Illinois, which will become effective in early 2011, affect consumer loans offered by the Company in each of those states. This legislation has reduced or is expected to reduce the profitability and/or the volume of loans written in these states. In addition, a recently passed referendum in the State of Montana, which became effective in January 2011, caused the Company to discontinue offering consumer loans in that state in December 2010.

The recent regulatory changes in Colorado, Illinois and Wisconsin and the loss of consumer loans in Arizona and Montana and the CSO program in Maryland have not, individually or in the aggregate, had a material effect on the Company, including its consolidated revenues or operations during 2010. The offering of alternative products and the growth in consumer loans from other markets during 2010, including both domestic and foreign markets, helped to offset a portion of the loss of revenue it has experienced from these losses or changes.

On October 19, 2010, the Pennsylvania Supreme Court upheld the Commonwealth Court of Pennsylvania s prior decision from July 2009 against the Company and in favor of the Pennsylvania Department of Banking. As a result of the initial decision by the Commonwealth Court, the Company ceased offering consumer loans in Pennsylvania in July 2009. See Item 8. Financial Statements and Supplementary Data Note 12 for further information.

In addition, the United States Congress recently passed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. This legislation authorizes the creation of a Consumer Financial Protection Bureau with broad regulatory powers over consumer credit products such as those offered by the Company. The Company cannot currently predict whether the Bureau will impose additional regulations that could affect the credit products offered by the Company. However, if the Bureau were to promulgate regulations that adversely impact the credit products offered by the Company, such regulations could have a material adverse effect on the Company s business, prospects, results of operations and financial condition. See Item 1A. Risk Factors Risks Related to the Company s Business and Industry *Adverse changes in laws or regulations affecting the Company s short-term consumer loan services could negatively impact the Company s operations.*

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Services Offered by the Company

Pawn Lending. The Company s retail services segment offers pawn loans through its retail services locations in the United States and Mexico, where it began offering pawn loans in 2008 following the Company s acquisition of 80% of the outstanding stock of Creazione Estilo, S.A. de C.V., a Mexican *sociedad anónima de capital variable,* which operates retail services locations under the name Prenda Fácil (referred to as Prenda Fácil). See Item 8. Financial Statements and Supplementary Data Note 3 for further discussion related to the Prenda Fácil acquisition. When receiving a pawn loan from the Company, a customer pledges personal property to the Company as security for the loan. The Company delivers a pawn transaction agreement, commonly referred to as a pawn ticket, to the customer, along with the proceeds of the loan. If the customer does not repay the loan and redeem the property, the Company either becomes the owner of the property or becomes the party responsible for the disposition of the collateral in satisfaction of the loan.

The Company relies on the disposition of pawned property to recover the principal amount of an unpaid pawn loan, plus a yield on the investment, because it does not have recourse against the customer for the loan. As a result, the customer s creditworthiness is not a significant factor in the loan decision, and a decision to redeem pawned property does not affect the customer s personal credit status. Goods pledged to secure pawn loans are tangible personal property items such as jewelry, tools, televisions and other electronics, musical instruments and other miscellaneous items. Pawn transactions can also take the form of a buy-sell agreement involving the actual sale of the property by the customer to the retail services location with the customer retaining an option to repurchase the property. Pledge and buy-sell transactions are referred to throughout this report as pawn loans.

The Company contracts for pawn loan fees and service charges as compensation for the use of the funds loaned and to cover direct operating expenses related to the transaction. The pawn loan fees and service charges are typically calculated as a percentage of the pawn loan amount based on the size and duration of the transaction and generally range from 12% to 300% annually, as permitted by applicable laws. As required by applicable laws, the amounts of these charges are disclosed to the customer on the pawn ticket. These pawn loan fees and service charges contributed approximately 19.6% of the Company s total revenue in 2010, 20.6% in 2009 and 17.9% in 2008.

In the Company s pawn lending operations, the amount of a pawn loan is generally set as a percentage of the pledged personal property s estimated disposition value. The Company relies on many sources to determine the estimated disposition value, including its proprietary automated product valuation system, catalogs, blue books, newspapers, internet research and its (or its employees) experience in disposing of similar items of merchandise in particular retail services locations. The Company does not use a standard or mandated percentage of estimated disposition value in determining the loan amount. Instead, its employees may set the percentage for a particular item and determine whether the item s disposition, if it is forfeited, would yield a profit margin consistent with the Company s historical experience with similar items. With regard to the Company s foreign pawn operations, the principal form of collateral accepted by the Company is gold jewelry. Similar to domestic operations, fluctuations in gold prices historically have affected the amount that the retail services location will lend against an item. A sustained increase or decrease in the market price of gold can cause a related increase or decrease in the amount of the retail services location s loan portfolio and related revenue from pawn loan fees and service charges.

The Company holds the pledged property through the term of the loan, unless earlier repaid, renewed or extended. The typical loan term is generally one month plus an additional period (typically 30 to 90 days). The Company s pawn loans may be either paid in full with accrued pawn loan fees and service charges or may be renewed or extended by the customer s payment of accrued pawn loan fees and service charges. Accrued interest on loans that have passed the maturity date and the expiration of the grace period is fully reserved to the extent that the underlying collateral has not been sold. The Company does not record pawn loan losses or charge-offs because the amount advanced becomes the carrying cost of the forfeited collateral that is to be recovered through the merchandise disposition function described below. The Company typically experiences seasonal growth during the third and fourth quarter of each year due to loan balance growth that occurs after the heavy repayment period of pawn loans with tax refund proceeds received by customers in the first quarter each year.

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Merchandise Disposition Activities. A related activity of the pawn lending operations is the disposition of collateral from unredeemed pawn loans and the liquidation of a smaller volume of merchandise purchased from third-parties or directly from customers. The Company s retail services segment engages in merchandise disposition activities through its retail services locations in the United States and Mexico. With respect to the Company s domestic operations, if a customer does not repay, renew or extend a pawn loan, the Company becomes the owner of the unredeemed collateral. The Company becomes the party responsible for the disposition of the collateral in satisfaction of the loan, and the merchandise becomes available for disposition through the Company s retail services locations, wholesale sources, internet sales or through a major gold bullion bank. With respect to the Company s foreign pawn operations, the unredeemed collateral is disposed of on behalf of the customer in an effort to satisfy all fees and charges and to repay the principal amount loaned. In the Company s domestic operations, if the proceeds exceed the outstanding loan balance, the Company recognizes as revenue the accrued pawn loan fees and service charges, as well as other fees and expenses incurred in relation to the non-payment and sale of the loan collateral on behalf of the customer. With respect to the Company s foreign operations, in the event there are proceeds greater than the accrued service charges and all fees and expenses, the excess amount is recognized as revenue. If, within six months of the sale of the merchandise, the customer makes a claim to receive the excess proceeds, the Company refunds that amount to the customer and reduces revenue by the same amount. If the proceeds from the disposition of the collateral are less than the outstanding loan balance, a loss is recorded for the difference at the time the collateral is sold. For domestic and foreign pawn operations, the recovery of the amount advanced and the realization of a profit on the disposition of merchandise depends on the Company s initial assessment of the property s estimated disposition value when the pawn loan is made. While the Company has historically realized profits when disposing of merchandise, the improper assessment of the disposition value could result in the disposition of the merchandise for an amount less than the loan amount. The Company s retail services locations also sell used goods purchased from the general public and some new merchandise purchased from third parties, principally accessory merchandise that complements and enhances the marketability of items such as tools, consumer electronics and jewelry. Merchandise sales are typically highest during the tax refund and holiday seasons, which occur during the first and fourth quarters of each year. Gross proceeds from merchandise disposition activities contributed approximately 41.4% of the Company s total revenue in 2010, 44.9% in 2009 and 45.2% in 2008.

The Company offers customers a 30-day satisfaction guarantee, whereby the customer can return merchandise and receive a full refund, a replacement item of comparable value or store credit. The Company provides an allowance for returns and valuation based on management s evaluation of the characteristics of the merchandise. Customers may purchase merchandise on a layaway plan under which the customer makes an initial cash deposit representing a small portion of the disposition price and pays the balance in regularly scheduled, non-interest bearing payments. The Company segregates the layaway item and holds it until the customer has paid the full disposition price. If the customer fails to make a required payment, the item is returned to general merchandise held for disposition. The layaway fee is recognized as revenue, and any amounts previously paid toward the item are returned to the customer as store credit.

Consumer Loan Activities. The Company s retail services segment also offers consumer loans in many of its retail services locations in the United States. The Company s e-commerce segment offers consumer loans and other services over the internet. The Company began offering consumer loans over the internet in the United States under the name CashNetUSA when it acquired CashNetUSA in 2006. See Item 8. Financial Statements and Supplementary Data Note 3 for further discussion related to the CashNetUSA acquisition. The Company further expanded its online lending business internationally when it began offering its short-term consumer loan product online to customers in the United Kingdom in 2007 under the name QuikQuid and in Canada and Australia in 2009 under the name DollarsDirect. Consumer loan fees include revenue from the loan portfolio owned by the Company and fees paid to the Company for arranging or processing loans from independent third-party lenders for customers through the CSO program and through the Company s MLOC services channel.

The Company offers or arranges single payment consumer loans and longer-term multi-payment installment loans. Single payment consumer loans are unsecured, and generally have a loan term of 7 to 45 days and are usually payable on the customer s next payday. The Company also offers a longer-term installment loan product to customers in certain states and the United Kingdom that typically have an average term of 4 to 42 months. Consumer loan fees earned by the Company contributed approximately 38.0% of the Company s total revenue in 2010, 33.2% in 2009 and 35.4% in 2008.

In certain circumstances, the customer may elect an extended repayment program that provides for a schedule of periodic payments which typically range from 28 days to 180 days (subject to state guidelines) with no additional fees or charges on the loan amount. Collection activities are an important aspect of the consumer loan product offering due to the high incidence of unpaid balances beyond stated terms. The Company operates centralized collection centers to coordinate a consistent approach to customer service and collections. The Company generally experiences seasonal growth in consumer loan fees during the second, third and fourth quarters of each year due to loan balance growth that typically occurs after the heavy repayment period of consumer loans with tax refund proceeds received by customers in the first quarter each year.

In connection with the Company s MLOC services channel, during 2008, 2009 and 2010, the Company provided loan processing services for a third-party bank issued MLOC on certain stored-value debit cards the bank issues (Processing Program). The Company also acquired a participation interest in the receivables originated by the bank in connection with the Processing Program and other similar processing programs utilized by the bank. The Company recorded revenue from its participation interest in the receivables, as well as processing and other miscellaneous fee income originated from its MLOC services channel as consumer loan fees recognized ratably over the loan period. MetaBank, whose iAdvance program has generated earnings for the Company s MLOC services channel, terminated its iAdvance program as of October 13, 2010. See Overview section above for further discussion related to the current status of the Company s MLOC business.

Allowance for Losses on Consumer loans. In order to manage the portfolio of consumer loans effectively, the Company utilizes a variety of underwriting criteria, monitors the performance of the portfolio and maintains either an allowance or accrual for losses on consumer loans (including fees and interest) at a level estimated to be adequate to absorb credit losses inherent in the portfolio. The portfolio includes balances outstanding from all consumer loans, including short-term single payment loans, participation interests in receivables acquired through the MLOC services channel, and multi-payment installment loans. In addition, the Company maintains an accrual for losses related to loans guaranteed under CSO programs. The allowance for losses on Company-owned consumer loans offsets the outstanding loan amounts in the consolidated balance sheets.

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

Due to the short-term nature of the consumer loan product and the high volume of loans written, seasonal trends are evident in quarter-to-quarter performance. Typically, in the normal business cycle, sequential losses, as measured by the current period loss provision as a percentage of combined loans written in the period, are lowest in the first quarter and increase throughout the year, with the final two quarters experiencing the peak levels of losses. See Item 7. Management s Discussion and Analysis Loss Experience for additional information about the seasonality of consumer loan losses.

See Item 8. Financial Statements and Supplementary Data Note 5 for further discussion related to allowance for losses.

Check cashing and other financial services. The Company provides check cashing and other financial services through its retail services locations and through its Mr. Payroll subsidiary. Other financial services include the sale of stored-value cards, money orders and money transfers, among others. When the Company provides a check cashing service to its customers, it charges check cashing fees based on the type and face amount of the check being cashed. The Company receives check cashing fees from both check cashing locations it owns and many of its retail services locations. In addition, each Mr. Payroll franchisee pays royalties to Mr. Payroll based on the gross revenues of check cashing services provided within the franchisee s facility.

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Financial Information on Segments and Areas

Additional financial information regarding the Company s operating segments and each of the geographic areas in which the Company does business is provided in Item 8. Financial Statements and Supplementary Data Note 18.

The Company changed its presentation format for certain operations and administrative expenses during 2010. In addition, the Company realigned its operating segments in the second quarter of 2010. Certain amounts in the consolidated financial statements for the years ended December 31, 2010, 2009 and 2008 have been reclassified to conform to the presentation format adopted in 2010 for these changes. These reclassifications have no impact on consolidated results previously reported.

Operations

An executive leadership management team comprised of the Chief Executive Officer, the President of the Retail Services Division, the President of the E-Commerce Division, the Chief Financial Officer and the General Counsel of the Company is responsible for establishing and maintaining the strategic direction of the Company, including assessment of activities related to corporate goals and objectives.

The Company s domestic retail services locations have store managers who are responsible for supervising each retail services location s personnel and assuring that each retail services location is managed in accordance with Company guidelines, policies and procedures. Each store manager is overseen by a Market Manager who reports to a Regional Operations Director. Each region is overseen by a Region Vice President. The Region Vice Presidents coordinate operations and strategy in the Company s retail services locations and report to the Senior Vice President of Operations of the Retail Services Division, who reports to the President of the Retail Services Division.

Each manager of the Company s foreign retail services locations reports to an Area Coordinator who then reports to a Regional Operations Manager. During 2010, the two senior managers of Prenda Fácil who collectively own 20% of Creazione that was not acquired in the Prenda Fácil acquisition oversaw the Operations Managers. These two senior managers of Prenda Fácil then reported to a six member advisory board in which they participated along with the Company s Chief Executive Officer, the President of the Retail Services Division, the Chief Financial Officer and one of the Company s Region Vice Presidents. Beginning in 2011, Prenda Fácil will be overseen by a Vice President of Mexico Operations, who will report to the President of the Retail Services Division and a six member advisory board for Prenda Fácil.

The operations and strategy of the Company s online lending channel, which offers the Company s consumer loan products, is coordinated by the officers of the Company s online lending business, Enova Financial, including Vice Presidents and Senior Vice Presidents, who report to the President of the E-Commerce Division. The President of the E-Commerce Division is also responsible for overseeing and managing the business of the Company s MLOC services channel, Primary Innovations, LLC (Primary Innovations).

Trade Names and Trademarks. The Company operates under the trade names Cash America Pawn, Cash America Payday Advance, Cashland, Mr. Payroll, SuperPawn, Maxit, Pawn X-Change, Prenda Fácil, Enova Financial, CashNetUSA, QuickQuid, DollarsDirect, Pou Gear Hub, Primary Innovations and Gold Promise. The Company has a number of trademarks that are registered with the United States Patent and Trademark Office including, but not limited to, Cash America, Cashland, SuperPawn, CashNetUSA, Maxit, Pawn X-Change and Mr. Payroll. These trademarks have varying expiration dates. The trademark Prenda Fácil is registered with the Mexican Industrial Property Institute. The Company believes these trademarks are of material importance to the Company and each of its segments and anticipates maintaining and renewing them. In addition, the Company has various other trademark applications pending in the United States and other countries in which it operates.

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Franchises. Each of the Company s unconsolidated franchised retail services and check cashing locations are subject to franchise agreements that have varying durations that are negotiated individually with each franchisee. As of December 31, 2010, the Company had nine unconsolidated franchised retail services locations and 116 unconsolidated franchised check cashing locations.

Personnel. At December 31, 2010, the Company employed 6,017 persons in its operations, of whom 578 were in executive and administrative functions. In addition to the employee count above, a third-party, Huminal, S.A. de C.V., a Mexican *sociedad anónima de capital variable* (Huminal), employs 588 persons who provide full-time services to Prenda Fácil.

Future Expansion

Storefront Expansion

The Company historically has expanded by acquiring existing retail services locations and by establishing new start-up locations. The Company intends to continue expanding its retail services business within its existing geographic markets and into other markets that meet its risk/reward considerations. Management believes that such expansion will continue to provide economies of scale in supervision, purchasing, administration and marketing by decreasing the overall average cost of such functions per unit owned. By concentrating multiple lending units in regional and local markets, the Company seeks to expand marke