

## GENERAL

The Company is a diversified 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 lending operations. The pawn loan portfolio generates finance and service charges revenue. A related but secondary source of revenue is the disposition of merchandise, primarily collateral from unredeemed pawn loans. The Company also provides rental of tires and wheels through its subsidiary, Rent-A-Tire, Inc. ("Rent-A-Tire") and check cashing services through its franchised and company owned Mr. Payroll® manned check cashing centers.

The Company expanded its lending operations during the three years ended December 31, 2000, by adding a net 77 locations. It acquired 66 operating units, established 12 locations, and combined or closed 13 locations. In addition, 15 franchise units were opened, including 3 company owned locations that were sold to a franchisee. As of December 31, 2000, the Company's lending operations consisted of 479 lending units — 410 owned units and 16 franchised units in 18 states in the United States, 42 jewelry-only units in the United Kingdom, and 11 loan-only and primarily jewelry-only units in Sweden.

Through January 31, 1998, the Company had a 49% ownership interest in Express Rent A Tire, Ltd. ("Express") and used the equity method of accounting whereby the Company recorded its proportionate share of Express' earnings or losses in its consolidated financial statements. Effective February 1, 1998, the Company increased its ownership interest to 99.9% and reorganized the operations of Express into Rent-A-Tire. The acquisition of additional interests was accounted for as a purchase and, accordingly, the assets and liabilities of Rent-A-Tire and the results of its operations have been included in the consolidated financial statements since February 1, 1998. As of December 31, 2000, Rent-A-Tire owned and operated 34 tire and wheel rental stores, including 19 that were previously managed and were purchased in 2000 and 1999, and 12 that were established in 2000 and 1999. Rent-A-Tire also manages 9 additional tire and wheel rental stores under its name for a third party.

During 1999, the Company restructured its check cashing operations. In January 1999, the Company transferred its manned check cashing operations into a new wholly owned consolidated subsidiary ("Mr. Payroll"). As of December 31, 2000, Mr. Payroll operated 125 franchised and 7 company owned manned check cashing centers in 20 states. On March 9, 1999, Wells Fargo Cash Centers, Inc. ("Cash Centers"), a wholly owned subsidiary of Wells Fargo Bank, N.A. ("Wells Fargo"), contributed \$27.0 million of cash and assets to the Company's automated check cashing machine subsidiary (now known as "innoVentry") and received newly issued shares of innoVentry's convertible Series A voting preferred stock (the "Series A preferred stock") representing 45% of innoVentry's voting interest. The Company exchanged all of innoVentry's then outstanding common stock for newly issued shares of Series A preferred stock representing 45% of innoVentry's voting interest and immediately assigned 10% of its shares to the former owners of innoVentry's predecessor in consideration for the termination of certain option rights. Concurrently, certain members of innoVentry's new management subscribed for newly issued shares of common stock of innoVentry, representing 10% of its voting interest. Upon completion of the transactions, the Company's residual ownership interest in innoVentry was 40.5%. The Company de-consolidated innoVentry and began using the equity method of accounting for its investment and its share of the results of innoVentry's operations after March 9, 1999. In October 1999, the Company, Cash Centers, and a third party each purchased \$10.0 million of innoVentry's newly issued convertible Series B voting preferred stock. During 1999 and 2000, innoVentry also issued additional shares of common stock. As of December 31, 2000, the Company's voting interest was 37.9%. See Notes 3 and 17 of Notes to Consolidated Financial Statements.

## RESULTS OF OPERATIONS

### *Year Ended 2000 Compared to Year Ended 1999*

**Net Revenue: Consolidated.** Consolidated net revenue decreased 2.1%, or \$4.4 million, to \$206.4 million during 2000 from \$210.8 million during 1999. Net revenue from lending activities and check cashing operations declined \$7.8 million and \$5.5 million, respectively, while rental operations net revenue increased \$3.9 million.

**Net Revenue: Lending Activities.** Lending operations net revenue decreased \$7.8 million to \$191.8 million during 2000 from \$199.6 million during 1999. The principal components of lending operations net revenue are finance and service charges, which decreased \$8.4 million; net revenue from the disposition of merchandise, which declined \$5.5 million; other domestic lending fees and franchise royalties, which increased \$1.1 million; and foreign check cashing operations, which was the same in both years.

Finance and service charges variations are caused by changes in the average balance of pawn loans outstanding, the annualized yield of the pawn loan portfolio, and the effects on translation of foreign currency amounts into United States dollars. During 2000, the company-wide average balance of pawn loans outstanding was 5.9% lower than during 1999. Lower average balances outstanding tend to result in lower amounts of finance and service charges. Excluding the effects on translation of exchange rate declines in both the foreign currencies in 2000 relative to 1999, the company-wide average balance of pawn loans outstanding was 3.0% lower than during 1999. Of the \$8.4 million decline in finance and service charges, \$5.5 million resulted from the lower average pawn loan balances, and a reduction in the annualized loan yield during 2000 accounted for \$1.0 million. The remaining \$1.9 million decrease was due to negative foreign currency translation adjustments resulting from the continued strengthening of the United States dollar against both foreign currencies. Same units (those in operation for more than one year during 2000) accounted for \$7.4 million of the \$8.4 million decrease in finance and service charges, including the \$1.9 million resulting from the translation effects discussed above. Management anticipates continued unfavorable currency translation adjustments, particularly in the first half of fiscal 2001.

A 6.4% decline in the average balance of domestic pawn loans outstanding caused a \$6.3 million decrease in domestic finance and service charges that was offset by an \$8 million increase in combined foreign finance and service charges. The domestic decline was driven by a 5.6% reduction in the average number of pawn loans outstanding during 2000, coupled with a .9% decline in the average amount per loan. Management believes the weakened demand for pawn loans, that became evident during the second quarter of 1999, may have been partly attributable to the sustained strength in the United States economy that continued throughout most of 2000. However, the average number of domestic pawn loans outstanding during the fourth quarter of 2000 was only down 2.9% compared to the fourth quarter of 1999, leading management to believe that the weakness in pawn loan demand may be dissipating. Excluding the negative effects of foreign currency translation adjustments, a 5.7% increase in the average balance of pawn loans outstanding in the United Kingdom resulted in a \$9 million increase in finance and service charges. The United Kingdom increase was slightly offset by a \$.1 million reduction in Sweden caused by a 1.6% decline in the average balance of pawn loans outstanding.

Excluding the negative effects of foreign currency translation adjustments, the consolidated annualized loan yield, which represents the blended result derived from the distinctive loan yields realized from operations in the three countries, was 93.4% in 2000, compared to 95.7% in 1999. The decline resulted in a \$1.0 million decrease in finance and service charges. Although a slight

increase in the domestic annualized loan yield to 123.3% for 2000, compared to 122.3% for 1999, contributed an additional \$.8 million of finance and service charges, a decline in the blended yield on foreign loans caused an offsetting \$1.8 million decrease. The blended yield on average foreign pawn loans outstanding declined to 49.1% for 2000, compared to 52.4% for 1999. Virtually all of the reduction of the blended yield occurred in the United Kingdom and was caused by a combination of lower loan redemption rates and lower returns on the disposition of unredeemed collateral at auction.

Net revenue from the disposition of merchandise represents the proceeds received from the disposition of merchandise in excess of the cost of merchandise disposed. Proceeds from the disposition of merchandise were 3.7%, or \$8.7 million, lower than in 1999 primarily due to lower average merchandise levels and lower sales prices in the domestic lending operations. Same unit proceeds declined \$7.6 million, including approximately \$.5 million resulting from declines in foreign currency exchange rates compared to 1999 rates. The margin on disposition of merchandise increased to 33.2% in 2000 from 32.2% in 1999. Excluding the effect of the disposition of scrap jewelry, the margin on disposition of merchandise increased to 35.3% in 2000 from 34.1% in 1999 due to a lower average cost of merchandise disposed. The margin on disposition of scrap jewelry was 2.6% in 2000 compared to 1.8% in 1999. The combination of reduced proceeds and higher margin caused a \$.5 million, or .7%, decrease in net revenue from the disposition of merchandise. The merchandise turnover rate increased to 2.5 times during 2000 from 2.4 times during 1999. Since the end of the second quarter of 1999, management has concentrated on discounting prices, lowering the average cost of merchandise held for disposition, and reducing aggregate merchandise levels. As a result, management believes that the margin on disposition should trend slightly higher in 2001.

Other domestic lending fees and franchising royalties increased a combined amount of \$1.1 million in 2000 as compared to 1999. Of the increase, \$1.0 million resulted from the initiation of a small consumer cash advance product that was introduced into 330 of the domestic lending units by the end of 2000, including 187 units that offer the product on behalf of a third party financial institution (the "Bank"), which pays the Company a fee for its administrative services. The product that is offered by the Company in 143 locations provides customers with cash in exchange for a promissory note or other repayment agreement supported by that customer's check for the amount of the cash advanced plus a service fee. The Company holds the check for a short period, typically less than 17 days. To repay the advance, customers may redeem their checks by paying cash or they may allow the checks to be processed for collection. (Although these cash advance transactions may take the form of loans or deferred check deposit transactions, the transactions are referred to throughout this discussion as "payday loans" for convenience.)

During 2000, \$10.1 million of payday loans were written, including \$1.4 million extended to customers by the Bank, for an average of \$187 per loan. As of December 31, 2000, \$1.6 million of gross payday loans were outstanding, including \$.6 million extended to customers by the Bank that is not included in the Company's consolidated balance sheet. A loan loss reserve of \$243 thousand, representing 23.1% of the Company's gross payday loans outstanding of \$1.0 million, has been provided in the consolidated financial statements. The Company plans to offer payday loans in approximately 110 more domestic lending and Rent-A-Tire locations during 2001.

**Net Revenue: Other Activities.** Net revenue of Rent-A-Tire increased \$3.9 million to \$11.4 million in 2000 from \$7.5 million in 1999. Tire and wheel rentals and sales net revenue increased \$5.1 million as a result of an average of 19 more stores in operation in 2000 as compared to 1999. Management fee revenue and other related revenue decreased \$1.2 million due to a reduction of an average of 3 managed stores in 2000 as compared to 1999.

The 1999 restructuring of the Company's check cashing operations and de-consolidation of innoVentry resulted in a \$.5 million decrease in other net revenue in 2000 as compared to 1999. Following de-consolidation, the Company began using the equity method of accounting for its investment in innoVentry and, accordingly, the Company's share of the results of operations of innoVentry is recorded in "Equity in loss of unconsolidated subsidiary." See "Other Items" below.

**Operations and Administration Expenses.** Due in part to the 2.1% decrease in consolidated net revenue, consolidated operations and administration expenses as a percentage of net revenue were 78.6% in 2000 compared to 74.3% in 1999. Combined operations and administration expenses increased \$5.6 million, or 3.6%, in 2000 as compared to 1999. Domestic lending expenses increased \$2.5 million primarily as a result of rollout costs and continuing expenses associated with the introduction of payday loans into 330 lending units. Also contributing to the increase were higher personnel benefits, occupancy, and travel expenses. Foreign lending operations contributed \$.2 million of the increase and Rent-A-Tire accounted for \$6.7 million of the increase due to an average of 19 more stores in operation during 2000. Check cashing operations expenses decreased \$3.8 million as a result of the de-consolidation of innoVentry in March 1999 and losses from fraudulently cashed income tax checks included in 1999 that did not recur in 2000.

**Depreciation and Amortization.** Depreciation and amortization expenses as a percentage of net revenue were 8.8% in 2000 compared to 9.2% in 1999. Total depreciation and amortization expenses decreased \$1.4 million, or 7.0%. The decreased expense resulted primarily from a moderation in the unit expansion of lending operations and retirements of property that occurred because of severe tornado damage to the Company's corporate headquarters in March 2000. The reduction was partially offset by an increase in Rent-A-Tire depreciation expense resulting from the increase in the number of tire rental stores in operation.

**Interest Expense.** Net interest expense as a percentage of net revenue declined to 6.3% in 2000 from 6.5% in 1999. The amount decreased a net \$.6 million, or 4.3%, due to the effect of a 7.2% reduction in the Company's average debt balance that was partially offset by higher blended borrowing costs. The average amount of debt outstanding decreased during 2000 to \$189.9 million from \$204.6 million during 1999. Factors contributing to the reduction were lower pawn loan and merchandise balances, and the receipt of insurance proceeds in 2000 from claims resulting from the tornado damage to the corporate headquarters. The effective blended borrowing cost increased slightly to 6.9% in 2000 from 6.7% in 1999.

**Other Items.** A \$9.7 million gain (before income tax expense of \$3.4 million) from the settlement of the insurance claims related to the tornado damage to the corporate headquarters was recorded in 2000. See Note 5 of Notes to Consolidated Financial Statements. In 1999, the Company recorded a \$2.2 million gain (before income tax expense of \$.8 million) from the sale of 3 lending units.

Equity in loss of unconsolidated subsidiary was \$15.7 million in 2000 compared to \$15.2 million in 1999. The Company recorded a pre-tax gain of \$.1 million from the issuance of innoVentry's common stock in 2000 compared to a pre-tax gain of \$5.2 million from the issuance of innoVentry's Series A and B voting preferred stock and common stock in 1999. As of June 30, 2000, the Company's proportionate share of innoVentry's losses exceeded the carrying amount of its investment in and advances to innoVentry. Since the Company has no obligation to provide financial support to innoVentry, as of June 30, 2000 it

suspended the recording of its equity in innoVentry's losses as well as gains or losses resulting from the issuance of innoVentry's common stock. The Company expects innoVentry's losses to continue as its operations continue to expand. See Notes 3 and 17 of Notes to Consolidated Financial Statements.

**Income Taxes.** The Company's consolidated effective tax rate is impacted in 2000 by the effect of the valuation allowance provided for the deferred tax assets arising from the Company's equity in the losses of innoVentry. Including the effect of the valuation allowance provided, the Company recognized no net deferred tax benefits in 2000 from its equity in the losses of innoVentry. In 1999, the effect of income taxes provided upon the de-consolidation of innoVentry was the major item influencing the consolidated effective tax rate. Excluding the effects of all items related to the Company's investment in innoVentry after de-consolidation and their related tax effects, the Company's consolidated effective tax rate varied slightly as it was 39.0% for 2000 and 38.3% for 1999.

In the event the Company is required to resume the recording of equity in innoVentry's losses, the tax benefit from such losses will be recognized when it is more likely than not that such benefits will be realized. As a result, management believes that the Company's consolidated effective tax rate will continue to vary from the statutory tax rate when any such losses as well as gains or losses resulting from the issuance of innoVentry's preferred stock or common stock are recorded in the Company's consolidated statement of income.

**Net Income (Loss).** Consolidated net income (loss) as a percentage of net revenue was (0.8)% for 2000, compared to 1.8% for 1999. Diluted net income (loss) per share was \$(.07) for 2000, compared to \$.15 for 1999.

### *Year Ended 1999 Compared to Year Ended 1998*

**Net Revenue: Consolidated.** Consolidated net revenue increased 5.1%, or \$10.2 million, to \$210.8 million during 1999 from \$200.6 million during 1998. Lending activities, rental operations, and check cashing operations contributed \$4.9 million, \$5.0 million, and \$.3 million, respectively, of the \$10.2 million increase.

**Net Revenue: Lending Activities.** Lending operations net revenue increased \$4.9 million to \$199.6 million during 1999 from \$194.7 million during 1998. The new lending units in operation for less than one year during 1999 accounted for a \$6.4 million increase that was partially offset by a \$1.5 million decrease from same units. Finance and service charges increased \$6.0 million; net revenue from the disposition of merchandise declined \$1.1 million; and foreign check cashing operations was the same in both years.

New lending units generated \$3.4 million of the total finance and service charges increase of \$6.0 million. A 5.7% increase in the company-wide average balance of pawn loans outstanding resulted in \$6.2 million of additional finance and service charges. However, a fractional decline in the loan yield offset this amount by \$.2 million. The growth in the average balance of pawn loans occurred domestically and in the United Kingdom, while the average balance in Sweden declined slightly. An increase in the United States average balance of pawn loans outstanding caused 48% of the consolidated growth and resulted principally from the new unit additions. The average number of domestic pawn loans outstanding during 1999 increased 2.7% and the average amount per loan during 1999 increased 1.5%. Growth in the United Kingdom caused 63% of the consolidated increase in the average balance of pawn loans outstanding as a result of an 18.5% increase in the average number of pawn loans outstanding and a 10.3% increase in the average amount per loan. The increase in the average investment in pawn loans from same units in the United Kingdom was strong

with new units contributing to a lesser degree. Although the average balance of pawn loans outstanding during 1999 was higher than during 1998, loan balances at December 31, 1999 were \$3.3 million, or 2.6%, lower than at December 31, 1998. This decline is primarily attributable to a decrease in loan demand beginning in the second quarter of 1999 which led to a 5% reduction in the number of pawn loans outstanding at December 31, 1999, that was slightly offset by a 2.6% increase in the average amount per loan.

The consolidated annualized loan yield was 95.7% in 1999 compared to 96.2% in 1998, resulting in a \$.2 million decrease in finance and service charges. The domestic annualized loan yield was slightly higher at 122.3% for 1999 compared to 121.8% for 1998. The blended yield on average foreign pawn loans outstanding declined slightly to 52.4% in 1999 compared to 52.9% in 1998. Slightly higher loan yields on redeemed loans in Sweden were offset by a slightly lower loan yield on redeemed loans in the United Kingdom and marginally lower returns on the disposition of unredeemed collateral at auction in both countries.

Proceeds from the disposition of merchandise were 8.8%, or \$19.0 million, higher than in 1998. Same unit increases accounted for \$8.1 million of the \$19.0 million increase. The margin on disposition of merchandise declined to 32.2% in 1999 from 35.5% in 1998. Excluding the effect of the disposition of scrap jewelry, the margin on disposition of merchandise fell to 34.1% for 1999 from 36.9% in 1998 primarily due to price discounting (especially in several electronics categories) to accelerate the disposition of merchandise and a higher average cost of items disposed. The margin on disposition of scrap jewelry was negligible and contributed to the lower overall margin on all merchandise disposed in 1999. The net result of the increased proceeds and reduced margin was a \$1.1 million, or 1.5%, decrease in net revenue from the disposition of merchandise. The merchandise turnover rate was 2.4 times during both 1999 and 1998.

**Net Revenue: Other Activities.** Net revenue of Rent-A-Tire increased to \$7.5 million in 1999 from \$2.5 million in 1998. The addition of 20 stores during 1999 resulted in an increase in tire and wheel rentals and sales net revenue of \$2.1 million. An increase in the average number of managed stores to 15 during 1999 compared to eight during 1998 resulted in increased management fees and related revenue of \$2.9 million.

The restructuring of the Company's check cashing operations and de-consolidation of innoVentry resulted in a \$.3 million increase in other net revenue in 1999 over 1998. Following de-consolidation, the Company began using the equity method of accounting for its investment in innoVentry. See the "Other Items" discussion below.

**Operations and Administration Expenses.** Consolidated operations and administration expenses as a percentage of net revenue remained constant at 74% in 1999 and 1998. Total operations and administration expenses increased \$8.2 million, or 5.5%, during 1999 compared to 1998. Total operations and administration expense ratios to net revenue and year-to-year comparative amounts were impacted by the effect of a decrease in innoVentry's operations and administration expenses of \$7.1 million during 1999 compared to 1998. The reduction resulted from innoVentry's de-consolidation in March 1999. Excluding the effects of innoVentry's expenses and net revenue, operations and administration expenses as a percentage of net revenue were 73% in 1999 compared to 69% in 1998 and total operations and administration expenses increased \$15.3 million, or 11.0%, during 1999 compared to 1998. These expenses were primarily greater due to higher operations expenses in the domestic lending and rental segments and higher administration expenses in the domestic lending operations. Domestic lending operations contributed \$8.4 million of the total increase as a result of higher personnel and occupancy expenses primarily attributable to new unit operations expenses that accounted for \$5.3 million of the domestic increase.

## Management's Discussion and Analysis of Results of Operations and Financial Condition

Same units accounted for an additional \$1.4 million of the \$8.4 million increase and administration expenses increased \$1.7 million, primarily due to higher marketing, Year 2000 software remediation and other administration expenses.

Foreign lending operations contributed \$1.4 million of the increase. Rent-A-Tire accounted for \$4.0 million of the increase as a result of the expansion of its operations from 4 rental stores at the beginning of 1998 to 39 owned and managed stores at the end of 1999. Domestic manned check cashing operations accounted for the remaining \$1.5 million increase including \$0.3 million of losses from fraudulently cashed income tax refund checks.

**Depreciation and Amortization.** Depreciation and amortization expenses as a percentage of net revenue were 9% in both 1999 and 1998. Total depreciation and amortization expenses increased \$1.3 million, primarily due to the increase in the number of tire rental stores in operation and the effects of a full year of depreciation and amortization on the new lending units added in 1998.

**Interest Expense.** Net interest expense as a percentage of net revenue declined to 6.5% in 1999 from 6.8% in 1998. The amount decreased a net \$1 million, or 1.0%, due to the effect of a 10.1% reduction in the Company's blended borrowing costs that was partially offset by a higher average amount of debt outstanding. The effective blended borrowing cost decreased to 6.7% in 1999 from 7.4% in 1998. The average amount of debt outstanding increased 12.9% to \$204.6 million during 1999 from \$181.2 million during 1998 due to the Company's additional investments in innoVentry and the acquisition of 13 tire rental stores by Rent-A-Tire during 1999.

**Other Items.** Equity in loss of unconsolidated subsidiary of \$15.2 million represents the Company's share of innoVentry's net losses following de-consolidation in March 1999. The Company recorded gains of \$5.2 million (before income tax expense of \$3.6 million) from the issuance of innoVentry's Series A and B preferred stock and common stock from March 9, 1999, through December 31, 1999. The Company recorded a \$2.2 million gain during 1999 from the sale of 3 lending units. See Note 14 of Notes to Consolidated Financial Statements.

**Income Taxes.** The Company's consolidated effective tax rate is impacted in 1999 by income taxes provided upon the de-consolidation of innoVentry in March 1999 and the effect of the valuation allowance provided for a portion of the deferred tax assets arising from the Company's equity in the losses of innoVentry. Including the effect of the valuation allowance provided, the Company recognized \$3.1 million of deferred tax benefits in 1999 from its equity in the losses of innoVentry. Excluding the effects of all items related to the Company's investment in innoVentry after de-consolidation and their related tax effects, the Company's consolidated effective tax rate for 1999 was 38.3% compared to 38.0% for 1998.

**Net Income.** Consolidated net income as a percentage of net revenue was 1.8% for 1999, compared to 6.3% for 1998. Diluted net income per share was \$.15 for 1999 compared to \$.48 for 1998.

### LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$31.1 million in 2000, \$34.7 million in 1999, and \$20.6 million in 1998. During 2000, investing activities provided an additional \$20.7 million from insurance claims resulting from tornado damage to the corporate headquarters and \$3.0 million from a reduction of the Company's investment in pawn loans. Financing activities also provided combined proceeds of \$4.2 million from the issuance of common shares pur-

suant to the Company's stock option plans and the collection of notes receivable from stockholders, and proceeds of \$2.1 million from the issuance of capital lease obligations.

The Company invested \$21.0 million in purchases of property and equipment during 2000, including \$12.8 million for property improvements, the remodeling of selected operating units and additions to computer systems of the lending operations, and \$2.8 million for the reconstruction of property and replacement of furniture and equipment destroyed by the tornado. Rent-A-Tire invested \$4.8 million for the purchase of equipment and the completion of a point-of-sale software system, and the check cashing operation invested \$0.6 million in various fixtures and additions to its point-of-sale software system. Rent-A-Tire also invested \$2.6 million to acquire 6 tire rental stores that it previously managed. During 2000, the Company also utilized cash in financing activities to make net payments of \$25.9 million on its bank lines of credit, a scheduled payment of \$4.3 million on its 8.33% senior unsecured notes, and scheduled payments of \$1.3 million on debt obligations in connection with capital leases and other unsecured notes. In addition, the Company purchased \$6.1 million of treasury shares under open market purchase authorizations, purchased \$1 million of treasury shares for the Company's Nonqualified Savings Plan, and paid \$1.3 million in dividends. The effect of exchange rate declines further reduced cash by \$1 million.

The Company plans to add approximately 10 to 20 new lending locations during 2001. These additions will likely occur through a combination of the opening of new locations, that will require an approximate investment of \$265 thousand per location, and the acquisition of existing locations. The Company also plans to complete the repairs to its corporate headquarters during 2001. In January 2001, Rent-A-Tire invested \$3.9 million in cash for the purchase of 9 tire rental stores that it previously managed. Rent-A-Tire does not plan to add any additional locations during the remainder of 2001.

As of December 31, 2000, the Company's voting interest in innoVentry was 37.9%. Management believes that innoVentry intends to continue to develop and market its RPM™ Cash Management Machine. The Company anticipates that innoVentry will incur future losses and require additional capital until sufficient revenues are generated from its sales and operations. See Notes 3 and 17 of Notes to Consolidated Financial Statements.

On October 26, 2000, the Company announced that its Board of Directors authorized management to purchase up to one million shares of its common stock in the open market and terminated the open market purchase authorization established in 1999. During 2000, the Company purchased 700,900 shares for an aggregate amount of \$3.3 million under the 2000 authorization and 415,100 shares for an aggregate amount of \$2.8 million under the 1999 authorization. Additional purchases may be made from time to time in the open market and it is expected that funding will come from operating cash flow and existing credit facilities.

At December 31, 2000, \$84.0 million was outstanding on the Company's \$150 million U. S. revolving line of credit. In addition, the Company's £15 million (approximately \$22.4 million) line of credit in the United Kingdom had a balance outstanding of £5.3 million (approximately \$7.9 million) and the Company's Swedish lines of credit totaling SEK 215 million (approximately \$22.9 million) had a combined balance outstanding of SEK 89.8 million (approximately \$9.6 million). Management believes that borrowings available under these revolving credit facilities, cash generated from operations and current working capital of \$190.3 million should be sufficient to meet the Company's anticipated future capital requirements.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

---

Market risks relating to the Company's operations result primarily from changes in interest rates, foreign exchange rates, and gold prices. The Company does not engage in speculative or leveraged transactions, nor does it hold or issue financial instruments for trading purposes.

**Interest Rate Risk.** Management's objective is to minimize the cost of borrowing through an optimal mix of fixed and floating rate debt. Derivative financial instruments, such as interest rate cap agreements, are used for the purpose of managing fluctuating interest rate exposures that exist from ongoing business operations. After considering the effect of the interest rate cap agreements, the Company had net variable rate borrowings outstanding of \$71.4 million and \$79.9 million at December 31, 2000 and 1999, respectively. If LIBOR were to increase 100 basis points over the rates at December 31, 2000 and 1999, respectively, and the variable rate borrowings outstanding remained constant, the Company's interest expense would increase by \$.9 million and \$.8 million, and net income after taxes would decrease by \$.6 million and \$.5 million in 2000 and 1999, respectively. If LIBOR were to decrease 100 basis points from the rates at December 31, 2000 and 1999, respectively, the combined fair values of the Company's outstanding fixed rate plus capped rate debt (\$99.2 million and \$119.6 million, respectively) would increase by \$2.1 million and \$2.6 million as of December 31, 2000 and 1999, respectively.

**Foreign Exchange Risk.** The Company is subject to the risk of unexpected changes in foreign currency exchange rates by virtue of its operations in the United Kingdom and Sweden. Foreign assets, liabilities, and earnings are translated into U.S. dollars for consolidation into the Company's financial statements. As a result of fluctuations in foreign currency exchange rates, the Company has recorded cumulative other comprehensive losses of \$8.5 million and \$4.0 million at December 31, 2000 and 1999, respectively. A hypothetical 10% decline in the exchange rates of the British pound sterling and the Swedish kronor at December 31, 2000 and 1999, would have resulted in additional other comprehensive losses of \$5.5 million in each year.

Net income from foreign operations during 2000, 1999 and 1998 translated to \$4.9 million, \$7.5 million and \$6.7 million, respectively. A hypothetical 10% decline in the weighted average exchange rates for each of the foreign currencies during the years ended December 31, 2000 and 1999, would have decreased net income after taxes by \$.5 million and \$.7 million in 2000 and 1999, respectively.

At this time, the Company does not use derivative instruments to manage exchange rate risk of net investments in or earnings of its foreign operations. From time-to-time the Company transfers funds between currencies and may concurrently enter into short-term currency swaps to eliminate the risk of currency fluctuations. No foreign currency swaps were outstanding at December 31, 2000 or 1999.

**Gold Price Risk.** The Company periodically uses forward sale contracts with a major bullion bank to sell the fine gold produced in the normal course of business from its liquidation of forfeited gold merchandise. The Company has no significant gold price risk exposure at December 31, 2000 or 1999.

### CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE RESULTS

---

This Annual Report to Shareholders, including management's discussion and analysis, contains statements that are forward-looking, as that term is defined by the Private Securities Litigation Reform Act of 1995 or by the Securities and Exchange Commission in its rules. The Company intends that all forward-looking statements be subject to the safe harbors created by these laws and rules. When used in this Annual Report to Shareholders, the words "believes," "estimates," "plans," "expects," "anticipates" and similar expressions as they relate to the Company or its management are intended to identify forward-looking statements. All forward-looking statements are based on current expectations regarding important risk factors. These risks and uncertainties are beyond the ability of the Company to control, and, in many cases, the Company cannot predict all of the risks and uncertainties that could cause its actual results to differ materially from those expressed in the forward-looking statements. Accordingly, actual results may differ materially from those expressed in the forward-looking statements, and the making of such statements should not be regarded as a representation by the Company or any other person that the results expressed in the statements will be achieved. Important risk factors include, but are not limited to, the following: changes in demand for the Company's services, changes in competition, the ability of the Company to open new operating units in accordance with its plans, economic conditions, real estate market fluctuations, interest rate fluctuations, changes in the capital markets, changes in tax and other laws and governmental rules and regulations applicable to the Company's business, and other risks indicated in the Company's filings with the Securities and Exchange Commission.

## Management's Discussion and Analysis of Results of Operations and Financial Condition

### SUMMARY

The Company has expanded its lending operations over the past three years by increasing from 402 operating locations at December 31, 1997, to 463 owned and 16 franchised operating locations at December 31, 2000. The growth in lending locations is attributable to acquisitions, the start-up of new Company units and the sale of new franchises. Rent-A-Tire, Inc. has expanded its operations by increasing the number of tire and wheel rental stores it owns or manages under its name from 8 to 43 at December 31, 2000. Effective January 1, 1999, the Company restructured its check cashing operations. Thereafter, the manned check cashing operations have been conducted by Mr. Payroll Corporation, a wholly owned consolidated subsidiary, and the automated check cashing operations have been conducted by innoVentry Corp. Since March 9, 1999, the Company has used the equity method of accounting for its investment in, and its share of the results of operations of innoVentry. See Note 3 of Notes to Consolidated Financial Statements. At December 31, 2000, the company owned 37.9% of innoVentry. Selected consolidated and operations data for the three years ended December 31, 2000, are presented below.

	2000	1999	1998
<b>REVENUE</b>			
Finance and service charges	\$ 114,711	\$ 123,111	\$ 117,078
Proceeds from disposition of merchandise	226,535	235,245	216,380
Other lending fees and royalties	1,233	129	42
Rental operations	17,354	10,253	3,346
Check cashing operations	3,881	4,410	4,135
<b>TOTAL REVENUE</b>	<b>363,714</b>	<b>373,148</b>	<b>340,981</b>
<b>Costs of Revenue</b>			
Disposed merchandise	151,407	159,602	139,502
Rental operations	5,910	2,732	832
<b>NET REVENUE</b>	<b>\$ 206,397</b>	<b>\$ 210,814</b>	<b>\$ 200,647</b>
<b>Other Data</b>			
Consolidated Operations:			
Net revenue contribution by source —			
Finance and service charges	56.2%	58.4%	58.3%
Margin on disposition of merchandise	36.4%	35.9%	38.3%
Rental operations	5.5%	3.6%	1.3%
Check cashing operations	1.9%	2.1%	2.1%
Expenses as a percentage of net revenue —			
Operations and administration	78.6%	74.3%	74.0%
Depreciation and amortization	8.8%	9.2%	9.0%
Interest, net	6.3%	6.5%	6.8%
Income from operations as a percentage of total revenue	7.2%	9.3%	10.0%
<b>Lending Operations:</b>			
Annualized yield on pawn loans	94.8%	95.7%	96.2%
Average pawn loan balance per average location in operation	\$ 261	\$ 277	\$ 276
Average pawn loan amount at year-end (not in thousands)	\$ 101	\$ 105	\$ 102
Margin on disposition of merchandise as a percentage of proceeds from disposition of merchandise	33.2%	32.2%	35.5%
Average annualized merchandise turnover	2.5x	2.4x	2.4x
Average merchandise held for disposition per average location	\$ 128	\$ 145	\$ 133
Owned locations in operation —			
Beginning of year	466	464	401
Acquired	—	5	61
Start-ups	1	4	7
Combined, closed or sold	(4)	(7)	(5)
End of year	463	466	464
Additional franchise locations at end of year	16	11	5
Total locations at end of year	479	477	469
Average number of owned locations in operation	464	465	441
<b>Rental Operations:</b>			
Owned rental locations —			
Rental agreements outstanding at end of year	\$ 10,059	\$ 5,938	\$ 1,231
Average balance per rental agreement at end of year (not in thousands)	964	1,036	834
Locations in operation at end of year	34	24	4
Average locations in operation for the year	30	11	4
Managed rental locations —			
Locations in operation at end of year	9	15	14
Average locations in operation for the year	12	15	8
<b>Check Cashing Operations:</b>			
Franchised and owned check cashing centers —			
Centers in operation at end of year	132	137	137
Average centers in operation for the year	136	139	143

## Consolidated Balance Sheets — December 31

(In thousands, except share data)

	2000	1999
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,626	\$ 6,186
Loans	117,982	125,349
Merchandise held for disposition, net	58,817	64,419
Inventory	4,419	2,801
Finance and service charges receivable	19,918	21,052
Other receivables and prepaid expenses	8,239	6,279
Income taxes recoverable	2,992	8,824
Deferred tax assets	5,455	5,548
Total current assets	222,448	240,458
Property and equipment, net	61,898	60,961
Intangible assets, net	87,504	90,901
Other assets	6,383	9,911
Investments in and advances to unconsolidated subsidiary	—	15,392
Total assets	\$ 378,233	\$ 417,623
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 21,974	\$ 20,931
Customer deposits	3,931	4,131
Income taxes currently payable	379	1,587
Current portion of long-term debt	5,853	5,390
Total current liabilities	32,137	32,039
Deferred tax liabilities	3,027	1,668
Long-term debt	164,611	196,976
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Common stock, \$.10 par value per share, 80,000,000 shares authorized; 30,235,164 shares issued in 2000 and 1999	3,024	3,024
Paid in surplus	127,820	127,350
Retained earnings	102,326	105,331
Accumulated other comprehensive loss	(8,487)	(3,989)
Notes receivable — stockholders	(5,755)	(5,820)
Less — shares held in treasury, at cost (5,577,318 in 2000 and 5,055,170 in 1999)	218,928	225,896
	(40,470)	(38,956)
Total stockholders' equity	178,458	186,940
Total liabilities and stockholders' equity	\$ 378,233	\$ 417,623

See notes to consolidated financial statements.

## Consolidated Statements of Operations — Years Ended December 31

(In thousands, except per share data)

	2000	1999	1998
<b>REVENUE</b>			
Finance and service charges	\$ 114,711	\$ 123,111	\$ 117,078
Proceeds from disposition of merchandise	226,535	235,245	216,380
Other lending fees and royalties	1,233	129	42
Rental operations	17,354	10,253	3,346
Check cashing operations	3,881	4,410	4,135
<b>TOTAL REVENUE</b>	<b>363,714</b>	<b>373,148</b>	<b>340,981</b>
<b>COSTS OF REVENUE</b>			
Disposed merchandise	151,407	159,602	139,502
Rental operations	5,910	2,732	832
<b>NET REVENUE</b>	<b>206,397</b>	<b>210,814</b>	<b>200,647</b>
<b>OPERATING EXPENSES</b>			
Lending operations	123,710	121,242	113,696
Rental operations	10,954	4,952	1,389
Check cashing operations	1,258	3,510	7,182
Administration	26,397	27,019	26,270
Depreciation	13,713	14,810	13,935
Amortization	4,358	4,615	4,174
Total operating expenses	180,390	176,148	166,646
<b>INCOME FROM OPERATIONS</b>	<b>26,007</b>	<b>34,666</b>	<b>34,001</b>
Interest expense, net	13,095	13,690	13,557
Loss (gain) from disposal of assets	(9,729)	(2,224)	—
Equity in loss of unconsolidated subsidiary	15,653	15,238	80
Loss (gain) from issuance of subsidiary's stock	(136)	(5,222)	—
Income before income taxes	7,124	13,184	20,364
Provision for income taxes	8,854	9,308	7,740
<b>NET INCOME (LOSS)</b>	<b>\$ (1,730)</b>	<b>\$ 3,876</b>	<b>\$ 12,624</b>
Net income (loss) per share:			
Basic	\$ (.07)	\$ .15	\$ .51
Diluted	\$ (.07)	\$ .15	\$ .48
Weighted average shares:			
Basic	25,461	25,346	24,829
Diluted	25,461	26,229	26,226

See notes to consolidated financial statements.

## Consolidated Statements of Cash Flows — Years Ended December 31

(In thousands)

	2000	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss)	\$ (1,730)	\$ 3,876	\$ 12,624
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	13,713	14,810	13,935
Amortization	4,358	4,615	4,174
Loss (gain) from disposal of assets	(9,729)	(2,224)	—
Equity in loss of unconsolidated subsidiary	15,653	15,238	80
Loss (gain) from issuance of subsidiary's stock	(136)	(5,222)	—
Changes in operating assets and liabilities —			
Merchandise held for disposition and inventory	4,477	254	(7,829)
Finance and service charges receivable	513	(1,792)	(1,572)
Other receivables and prepaid expenses	174	(1,541)	(4,386)
Accounts payable and accrued expenses	(5,178)	3,230	3,348
Customer deposits, net	(200)	29	45
Current income taxes	5,993	(2,125)	(5,748)
Deferred taxes, net	3,163	5,540	5,885
Net cash provided by operating activities	31,071	34,688	20,556
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Loans forfeited and transferred to merchandise held for disposition	135,525	145,664	134,414
Loans repaid or renewed	275,566	296,492	291,371
Loans made, including loans renewed	(408,091)	(439,970)	(435,341)
Net decrease (increase) in loans	3,000	2,186	(9,556)
Acquisitions, net of cash acquired	(2,608)	(9,989)	(23,090)
Purchases of property and equipment	(21,059)	(21,067)	(22,412)
Proceeds from sales of property and equipment	—	5,831	1,142
Proceeds from property insurance claims	20,685	—	—
Cash of subsidiary at date of de-consolidation	—	(4,795)	—
Investment in and advances to unconsolidated subsidiary	—	(10,654)	(120)
Net cash provided (used) by investing activities	18	(38,488)	(54,036)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net (payments) borrowings under bank lines of credit	(25,912)	10,868	45,670
Proceeds from capital lease obligations	2,115	3,257	2,183
Payments on notes payable, capital leases and other obligations	(5,571)	(4,755)	(10,978)
Change in notes receivable — stockholders	845	(80)	(46)
Net proceeds from reissuance of treasury shares	3,419	1,465	1,512
Treasury shares purchased	(6,170)	(3,876)	(349)
Dividends paid	(1,275)	(1,267)	(1,239)
Net cash (used) provided by financing activities	(32,549)	5,612	36,753
Effect of exchange rate changes on cash	(100)	(43)	25
Change in cash and cash equivalents	(1,560)	1,769	3,298
Cash and cash equivalents at beginning of year	6,186	4,417	1,119
Cash and cash equivalents at end of year	\$ 4,626	\$ 6,186	\$ 4,417
<b>SUPPLEMENTAL DISCLOSURES</b>			
<b>Noncash investing and financing activities:</b>			
Loans to stockholders for exercise of stock options	\$ 481	\$ 2,336	\$ 730
Purchase transactions —			
Liabilities assumed and notes payable issued	—	12	8,815
Treasury shares reissued	—	—	7,131

See notes to consolidated financial statements.

## Consolidated Statements of Stockholders' Equity — Years Ended December 31

(In thousands, except share data)

	Common Stock		Paid in Surplus	Retained Earnings	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Notes Receivable- Stock- holders	Treasury Stock	
	Shares	Amount						Shares	Amount
<b>Balance at</b>									
December 31, 1997	30,235,164	\$ 3,024	\$ 122,155	\$ 91,337		\$ (2,458)	\$ (2,362)	5,812,519	\$ (44,400)
Comprehensive income:									
Net income				12,624	\$ 12,624				
Other comprehensive income — Foreign currency translation adjustments					<u>44</u>	44			
Comprehensive income					<u>\$ 12,668</u>				
Dividends declared — \$.05 per share				(1,239)					
Treasury shares purchased								27,475	(380)
Treasury shares reissued			3,864					(725,776)	5,540
Tax benefit from exercise of option shares			596						
Change in notes receivable — stockholders							(901)		
<b>Balance at</b>									
December 31, 1998	30,235,164	3,024	126,615	102,722		(2,414)	(3,263)	5,114,218	(39,240)
Comprehensive income:									
Net income				3,876	\$ 3,876				
Other comprehensive loss — Foreign currency translation adjustments					<u>(1,575)</u>	(1,575)			
Comprehensive income					<u>\$ 2,301</u>				
Dividends declared — \$.05 per share				(1,267)					
Treasury shares purchased								485,759	(3,876)
Treasury shares reissued			(218)					(544,807)	4,160
Tax benefit from exercise of option shares			953						
Change in notes receivable — stockholders							(2,557)		
<b>Balance at</b>									
December 31, 1999	30,235,164	3,024	127,350	105,331		(3,989)	(5,820)	5,055,170	(38,956)
Comprehensive loss:									
Net loss				(1,730)	\$ (1,730)				
Other comprehensive loss — Foreign currency translation adjustments					<u>(4,498)</u>	(4,498)			
Comprehensive loss					<u>\$ (6,228)</u>				
Dividends declared — \$.05 per share				(1,275)					
Treasury shares purchased								1,129,223	(6,170)
Treasury shares reissued			(756)					(607,075)	4,656
Tax benefit from exercise of option shares			1,226						
Change in notes receivable — stockholders							65		
<b>Balance at</b>									
<b>December 31, 2000</b>	<b>30,235,164</b>	<b>\$ 3,024</b>	<b>\$ 127,820</b>	<b>\$ 102,326</b>		<b>\$ (8,487)</b>	<b>\$ (5,755)</b>	<b>5,577,318</b>	<b>\$ (40,470)</b>

See notes to consolidated financial statements.

### 1. Nature of the Company

**History and Operations** • Cash America International, Inc. (“the Company”) is a diversified 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 lending operations. A related but secondary activity of the lending operations is the disposition of merchandise, primarily collateral from unredeemed pawn loans. As of December 31, 2000, the Company’s lending operations consisted of 479 lending units, including 410 owned units and 16 franchised units in the United States, and 53 owned units in Europe.

The Company also provides rental of tires and wheels through its consolidated subsidiary, Rent-A-Tire, Inc. (“Rent-A-Tire”). At December 31, 2000, Rent-A-Tire owned and operated 34 tire rental stores and managed 9 additional stores under the Rent-A-Tire name.

During 1999, the Company restructured its check cashing operations. As a result of the restructuring and a change in corporate name, the automated check cashing machine operations are conducted in innoVentry Corp. (“innoVentry”). The machine functions have been enhanced and it is now branded as the RPM™ Cash Management Machine (“RPM”). The Company’s voting interest in innoVentry was 37.9% at December 31, 2000. The Company retained its manned check cashing operations in a new wholly owned, consolidated subsidiary, Mr. Payroll Corporation (“Mr. Payroll”). At December 31, 2000, Mr. Payroll had 125 franchised and 7 owned check cashing centers in operation.

### 2. Summary of Significant Accounting Policies

**Basis of Presentation** • The consolidated financial statements include the accounts of the Company’s majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Through March 9, 1999, innoVentry was wholly owned and its assets and liabilities and the results of its operations were included in the consolidated financial statements. Effective as of the close of business on March 9, 1999, innoVentry sold, in a private placement, newly issued shares of its convertible Series A voting preferred stock (the “Series A preferred stock”) and common stock and the Company began using the equity method of accounting for its investment and its share of the results of innoVentry’s operations after March 9, 1999 (see Note 3).

Through January 31, 1998, the Company had a 49% ownership interest in Express Rent A Tire, Ltd. (“Express”) and used the equity method of accounting. Effective February 1, 1998, the Company increased its ownership interest in Express to 99.9% and reorganized it into Rent-A-Tire, a new corporation (see Note 4). The acquisition of additional interests was accounted for as a purchase and, accordingly, the assets and liabilities of Rent-A-Tire and the results of its operations have been included in the consolidated financial statements since February 1, 1998.

**Use of Estimates** • The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

**Foreign Currency Translation** • The functional currencies for the Company’s foreign subsidiaries are the local currencies. The assets and liabilities of those subsidiaries are translated into U.S. dollars at the exchange rates in effect at each balance sheet date, and resulting adjustments are accumulated in other compre-

hensive income (loss) as a separate component of stockholders’ equity. Revenue and expenses are translated at the monthly average exchange rates occurring during each year.

**Cash and Cash Equivalents** • The Company considers cash on hand in units, deposits in banks and short-term marketable securities with original maturities of 90 days or less as cash and cash equivalents.

**Revenue Recognition** • Pawn loans (“loans”) are made on the pledge of tangible personal property. The Company accrues finance and service charges revenue on all 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 of disposition of merchandise. Interim customer payments for layaway sales are recorded as deferred revenue and subsequently recognized as revenue during the period in which final payment is received.

Tire and wheel rentals are paid on a weekly basis in advance and revenue is recognized in the period earned. Rental payments received prior to the period due are recorded as deferred revenue. Customers may return the rented tires and wheels at any time and have no obligation to complete the rental agreement. Rent-A-Tire has also entered into agreements to operate and manage stores for unrelated investors. The investors own the stores and incur all non-personnel costs to operate them. Management fees earned by Rent-A-Tire are recorded in revenue over the life of the agreement. In addition, Rent-A-Tire receives compensation for its efforts in constructing and opening each store that it manages for a third party.

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

**Merchandise Held for Disposition and Cost of Disposed Merchandise** •

Merchandise held for disposition includes merchandise acquired from unredeemed loans, merchandise purchased directly from the public and merchandise purchased from vendors. Merchandise held for disposition is stated at the lower of cost (specific identification) or market. The Company provides an allowance for shrinkage and valuation based on management’s evaluation of the merchandise. The allowance deducted from the carrying value of merchandise held for disposition amounted to \$2,012,000 and \$2,008,000 at December 31, 2000 and 1999, respectively.

The cost of merchandise, computed on the specific identification basis, is removed from merchandise held for disposition and recorded as a cost of revenue at the time of disposition.

**Property and Equipment** • Property and equipment are recorded at cost.

Depreciation expense is generally provided on a straight-line basis, using estimated useful lives of 10 to 30 years for buildings and 2 to 10 years for equipment and leasehold improvements. The cost of property retired or sold and the related accumulated depreciation is removed from the accounts, and any resulting gain or loss is recognized in the statement of operations.

**Software Development Costs** • The Company develops computer software for internal use. Internal and external costs incurred for the development of computer applications, as well as for upgrades and enhancements that result in additional functionality of the applications, are capitalized. Internal and external training and maintenance costs are charged to expense as incurred. When an

application is placed in service, the Company begins amortizing the related capitalized software costs using the straight-line method and an estimated useful life varying from 3 to 5 years.

**Intangible Assets** • Approximately 94% of net intangible assets consists of excess purchase price over net assets acquired. Amortization is recorded on a straight-line basis over the expected periods of benefit, generally 15 to 40 years.

Accumulated amortization of intangible assets was \$26,650,000 and \$24,364,000 at December 31, 2000 and 1999, respectively.

The costs of start-up activities and organization costs are charged to expense as incurred.

**Long-Lived Assets** • An evaluation of property and equipment and intangible assets recoverability is performed whenever the facts and circumstances indicate that the carrying value may be impaired. An impairment loss is recognized if the future undiscounted cash flows associated with the asset exceed the asset's corresponding carrying value. The amount of the impairment loss, if any, is the excess of the asset's carrying value over its estimated fair value.

**Income Taxes** • The provision for income taxes is based on income before income taxes as reported for financial statement purposes. Deferred income taxes are provided in accordance with the assets and liability method of accounting for income taxes to recognize the tax effects of temporary differences between financial statement and income tax accounting. Deferred federal income taxes are not provided on the undistributed earnings of foreign subsidiaries to the extent the Company intends to indefinitely reinvest such earnings.

**Hedging and Derivatives Activity** • As a policy, the Company does not engage in speculative or leveraged transactions, nor does it hold or issue financial instruments for trading purposes. The Company does use derivative financial instruments, such as interest rate cap agreements, for the purpose of managing interest rate exposures that exist from ongoing business operations. The costs of the agreements are recognized as adjustments to interest expense during the terms of the agreements and any benefits received under the terms of the agreements are recognized in the periods of the benefits. The Company may also periodically enter into forward sale contracts with a major bullion bank to sell fine gold that is produced in the normal course of business from the Company's liquidation of forfeited gold merchandise. In addition, the Company transfers funds between currencies from time-to-time and may concurrently enter into short-term currency swaps to eliminate the risk of currency fluctuations.

**Advertising Costs** • Costs of advertising are expensed at the time of first occurrence. Advertising expense was, \$5,321,000, \$3,671,000 and \$3,685,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

**Year 2000 Expenses** • The costs of identifying, correcting, reprogramming and testing of computer systems for Year 2000 compliance were recorded as expenses when incurred.

**Stock-Based Compensation** • The Company applies the intrinsic value based method of accounting for the costs of its stock-based employee compensation plans and, accordingly, discloses the pro forma effect on net income and net income per share as if the fair value based method of accounting for the cost of such plans had been applied.

**Issuance of Investee Stock** • In accordance with SEC Staff Accounting Bulletin Topic 5H, the Company has elected to record, in income, non-operating gains or losses arising from subsidiary or investee issuances of its own stock. When an investee sells additional shares to parties other than the Company, the Company's percentage ownership in the investee decreases. In the event the selling price per share is more or less than the Company's average carrying amount per share, the Company records a gain or loss in income. When an investee sells additional shares to the Company and third parties, the Company's percentage ownership may change. In comparing the Company's new carrying amount to its resulting proportionate share of the investee's equity, the Company records a gain or loss in income. Applicable deferred income tax expenses or benefits are recognized on such gains or losses. The Company adopted this accounting method for the March 1999 transaction that resulted in innoVentry's de-consolidation (see Note 3).

**Net Income Per Share** • Basic net income per share is computed by dividing net income by the weighted average number of shares outstanding during the year. Diluted net income per share is calculated by giving effect to the potential dilution that could occur if securities or other contracts to issue common shares were exercised and converted into common shares during the year.

The reconciliation of basic and diluted weighted average common shares outstanding for the three years ended December 31, 2000, follows (in thousands):

	2000	1999	1998
Weighted average shares – Basic	25,461	25,346	24,829
Effect of shares applicable to stock option plans	307	843	1,368
Effect of shares applicable to nonqualified savings plan	49	40	29
Antidilutive effect resulting from net loss	(356)	—	—
Weighted average shares – Diluted	25,461	26,229	26,226

**New Accounting Standards** • In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") that, as amended, is required to be adopted by the Company for the year ended December 31, 2001. SFAS 133, as amended, establishes new accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivative instruments as either assets or liabilities on the balance sheet and measure them at fair value. The accounting for the gains or losses resulting from changes in the values of the derivatives will depend on the intended use of the derivatives and whether they qualify for hedge accounting treatment. The transition adjustments resulting from adopting SFAS 133 will be reported in net income or in accumulated other comprehensive income (loss) in stockholders' equity, as appropriate, as the effect of a change in accounting principle and presented in a manner similar to the cumulative effect of a change in accounting principle. The Company currently believes its only derivative instruments are interest rate caps. The Company does not expect that the transition effects from the adoption of SFAS 133 will have a material effect on its financial position and results of operations.

**Reclassifications** • Certain amounts in the consolidated financial statements for 1999 and 1998 have been reclassified to conform to the presentation format adopted in 2000. These reclassifications have no effect on the net income previously reported.

### 3. Investment in innoVentry

In March 1999, Wells Fargo Cash Centers, Inc. (“Cash Centers”), a wholly owned subsidiary of Wells Fargo Bank, N.A. (“Wells Fargo”), contributed \$20,975,000 of cash and operating assets valued at \$6,025,000 to innoVentry and received newly issued shares of innoVentry’s Series A preferred stock representing 45% of innoVentry’s voting interest. Wells Fargo also agreed to provide innoVentry a revolving credit facility, equipment lease financing, and cash for use in its RPMs. The Company exchanged all of innoVentry’s then outstanding common stock for newly issued shares of Series A preferred stock representing 45% of innoVentry’s voting interest and immediately assigned 10% of its shares to the former owners of innoVentry’s predecessor in consideration for the termination of certain option rights. Additionally, certain members of innoVentry’s newly constituted management subscribed for newly issued shares of common stock of innoVentry, representing the remaining 10% of its voting interest. Following the transactions, innoVentry was de-consolidated and the Company began using the equity method of accounting for its investment and its share of the results of innoVentry’s operations after March 9, 1999. In conjunction with these transactions, innoVentry issued a \$2,900,000 note payable to the Company bearing interest at 7%. The principal and accrued interest of \$357,000 is outstanding as of December 31, 2000.

In October 1999, the Company, Cash Centers, and a third party each purchased \$10,000,000 of innoVentry’s newly issued convertible Series B voting preferred stock. After the issuance of Series A and B preferred stock and other common stock sold by innoVentry in 1999 and 2000, the Company’s voting interest at December 31, 2000, was 37.9%. The Company recognized pre-tax gains of \$136,000 and \$5,222,000 for the years ended December 31, 2000, and 1999, respectively, as a result of issuances of innoVentry preferred and common stock.

Summarized financial information for innoVentry at December 31, 2000, and 1999, and for the years ended December 31, 2000, and 1999 follows (in thousands):

	2000	1999
Total current assets	\$ 19,810	\$ 32,837
Property, equipment, computer software and leasehold improvements, net	67,140	35,867
Non-current assets	4,484	3,035
Total assets	\$ 91,434	\$ 71,739
Total current liabilities	\$ 145,066	\$ 34,140
Non-current liabilities	31,365	8,540
Total stockholders’ (deficit) equity	(84,997)	29,059
Total liabilities and equity	\$ 91,434	\$ 71,739
Total net revenue	\$ 16,574	\$ 9,117
Expenses including net interest expense	(140,364)	(52,946)
Income tax (expense) benefit	(21)	2,787
Net loss	\$ (123,811)	\$ (41,042)

Results for 1999 include \$2,515,000 of net loss recorded in the Company’s consolidated statement of income prior to de-consolidation on March 9, 1999. No dividends were received from innoVentry during the period from March 10, 1999 through December 31, 2000.

As of June 30, 2000, the Company’s proportionate share of innoVentry’s losses exceeded the carrying amount of its investment and advances. The Company has no obligation to provide financial support to innoVentry. Accordingly, it suspended the recording of its equity in the losses and the net carrying value of its investment and advances is zero at December 31, 2000.

In February 2001, innoVentry completed a private placement of newly issued senior convertible Series C voting preferred stock (the “Series C preferred

stock”) and re-negotiated its financing arrangements with Wells Fargo (see Note 17).

### 4. Acquisitions

During 2000, Rent-A-Tire acquired 6 tire rental stores that it previously managed, in purchase transactions for \$2,608,000 of cash. During 1999, the Company acquired 5 pawnshops in purchase transactions for an aggregate cash consideration of \$4,322,000, and Rent-A-Tire acquired 13 tire rental stores, that it previously managed, in purchase transactions for \$5,667,000 of cash. The excess of the aggregate purchase price over the aggregate fair market value of net assets acquired of approximately \$1,836,000 and \$6,092,000 during 2000 and 1999, respectively, is being amortized over periods ranging from 15 to 40 years. The related assets and liabilities and results of operations have been included in the Company’s financial statements from the dates of acquisition.

In September 1995, the Company acquired a 49% interest in Express and also acquired an option for \$1,000,000 to purchase an additional 41% interest. Effective February 1, 1998, in a series of transactions accounted for as a purchase, the Company exercised its option and increased its ownership interest in Express from 49% to 90%. In conjunction with the reorganization of Express into Rent-A-Tire, the Company also acquired an additional 9.9% ownership interest. The aggregate purchase price of the additional 41% interest was to be paid in four annual installments in an amount equal to .5835 times the defined after-tax net income of Express for the 1997 fiscal year and Rent-A-Tire for the 1998, 1999 and 2000 fiscal years, respectively. No consideration was payable based on Express’ results of operations in 1997 and Rent-A-Tire’s results of operations in 1998, 1999 and 2000. The sellers have an option to repurchase 9.9% of Rent-A-Tire for a nominal amount. The option is exercisable upon sixty days written notice.

### 5. Property and Equipment

Major classifications of property and equipment at December 31, 2000 and 1999 were as follows (in thousands):

	2000	1999
Land	\$ 2,605	\$ 1,838
Buildings and leasehold improvements	68,146	69,190
Furniture, fixtures and equipment	47,771	46,691
Computer software	22,082	17,739
Total	140,604	135,458
Less – accumulated depreciation	78,706	74,497
Property and equipment – net	\$ 61,898	\$ 60,961

On March 28, 2000, a tornado severely damaged the Company’s corporate headquarters in Fort Worth, Texas. Headquarters operations were relocated to temporary facilities. The Company’s operating locations were not affected. The Company owns the building and restoration began in the fourth quarter of 2000. The Company’s insurance coverage provides proceeds for repairs to the building; replacement of furniture, improvements, and equipment; recovery of losses resulting from business interruption; and recovery of other general expenses. The Company recognized a gain of \$9,729,000 from the settlement of the insurance claims. Income tax expense of \$3,405,000 related to the gain is included in the provision for income taxes. At December 31, 2000, \$790,000 of insurance claim proceeds receivable is included in other receivables and prepaid expenses in the accompanying consolidated balance sheet.

During 1999, under sale-leaseback agreements, the Company sold certain buildings and improvements utilized in lending operations with a net book value of \$4,201,000 for \$5,831,000 of cash. Annual payments under the operating

lease agreements are \$687,000. The gain of \$1,630,000 is being amortized over the 15-year basic lease term.

At December 31, 2000, property and equipment included \$7,556,000 of cost and \$1,613,000 of accumulated depreciation relating to assets held under capital leases.

## 6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at December 31, 2000 and 1999 were as follows (in thousands):

	2000	1999
Trade accounts payable	\$ 7,435	\$ 5,382
Accrued taxes, other than income taxes	3,988	4,291
Accrued payroll and fringe benefits	6,901	5,594
Accrued interest payable	1,517	2,010
Other accrued liabilities	2,133	3,654
Total	\$ 21,974	\$ 20,931

## 7. Long-term Debt

The Company's long-term debt instruments and balances outstanding at December 31, 2000 and 1999 were as follows (in thousands):

	2000	1999
U.S. Line of Credit up to \$150,000 due June 30, 2003	\$ 84,000	\$ 101,000
U.K. Line of Credit up to £15,000 due April 30, 2002	7,876	15,346
Swedish Lines of Credit up to SEK 215,000	9,551	13,528
8.33% senior unsecured notes due 2003	12,857	17,143
8.14% senior unsecured notes due 2007	20,000	20,000
7.10% senior unsecured notes due 2008	30,000	30,000
Capital lease obligations payable	5,780	4,849
6.25% subordinated unsecured notes due 2004	400	500
	170,464	202,366
Less current portion	5,853	5,390
Total long-term debt	\$ 164,611	\$ 196,976

Interest on the U.S. Line of Credit is charged, at the Company's option, at either a margin over LIBOR (1.25% at December 31, 2000) or at the Agent's base rate. The Company pays a fee of .25% per annum on the unused portion. The Company has an interest rate cap agreement totaling \$20,000,000 that expires in January 2003 and limits the maximum LIBOR rate to 7% and an interest rate cap agreement totaling \$30,000,000 that expires in February 2004 and limits the maximum LIBOR rate to 5.5%. The interest rate on the line of credit at December 31, 2000, is 7.72% after taking into account the effects of the interest rate cap agreements.

The £15,000,000 U.K. Line of Credit (approximately \$22,397,000 as of December 31, 2000) bears interest at the Bank's cost of funds plus a margin of 60 basis points for borrowings less than 14 days, and a margin of 55 basis points for borrowings of 14 days or more. The Company pays a fee of .25% per annum on the unused portion. The interest rate at December 31, 2000, is 6.37%.

The Company has an SEK 185,000,000 (approximately \$19,667,000 as of December 31, 2000) line of credit maturing September 30, 2002. Interest is charged at a margin over the Stockholm InterBank Offered Rate ("STIBOR") (.75% at December 31, 2000). The Company pays a fee of .25% per annum on the unused portion. The interest rate at December 31, 2000, is 5.15%. The Company also has an SEK 30,000,000 (approximately \$3,189,000 as of

December 31, 2000) line of credit with a commercial bank maturing June 30, 2002. Interest is charged at the Bank's base funding rate plus 1.0%. The Company pays a fee of .375% per annum on the unused portion. The interest rate at December 31, 2000, is 7.30%. As of December 31, 2000, amounts outstanding under the lines of credit were SEK 86,000,000 (approximately \$9,142,000), and SEK 3,847,000 (approximately \$409,000), respectively. The Company has an interest rate cap agreement for SEK 100,000,000 (approximately \$10,631,000 as of December 31, 2000) that expires in August 2003 and limits the maximum STIBOR rate to 5.5%.

All debt instruments are unsecured and governed by agreements that have provisions that require the Company to maintain certain financial ratios and limit specific payments and equity distributions.

Annual maturities of long-term debt (including capital lease obligations) through 2005 are: 2001 - \$5,853,000; 2002 - \$18,412,000; 2003 - \$98,439,000; 2004 - \$18,618,000; and 2005 - \$8,286,000.

Cash payments for interest on long-term debt were \$14,402,000, \$13,991,000 and \$12,576,000 in 2000, 1999 and 1998, respectively.

## 8. Income Taxes

The components of the Company's deferred tax assets and liabilities as of December 31, 2000 and 1999 are as follows (in thousands):

	2000	1999
Deferred tax assets:		
Provision for valuation of merchandise held for disposition	\$ 421	\$ 473
Tax over book accrual of finance and service charges	4,249	4,655
Property and equipment	—	2,461
Deferred compensation	585	475
Investment in unconsolidated subsidiary	8,229	2,727
Net operating loss carryforwards	—	16
Other	1,279	1,227
Total deferred tax assets	14,763	12,034
Valuation allowance for deferred tax assets	(7,919)	(2,604)
Deferred tax assets, net	\$ 6,844	\$ 9,430
Deferred tax liabilities:		
Amortization of acquired intangibles	\$ 1,670	\$ 1,338
Deferred installment gain	514	777
Foreign tax reserves	1,170	1,066
Property and equipment	453	—
Other	609	799
Total deferred tax liabilities	4,416	3,980
Net deferred tax assets	\$ 2,428	\$ 5,450
Balance sheet classification:		
Current deferred tax assets	\$ 5,455	\$ 5,548
Non-current deferred tax liabilities	(3,027)	(1,668)
Included in non-current other assets	—	1,570
Net deferred tax assets	\$ 2,428	\$ 5,450

The components of the provision for income taxes and the income to which it relates for the years ended December 31 are shown below (in thousands):

	2000	1999	1998
Income (loss) before income taxes:			
United States entities	\$ (102)	\$ 2,405	\$ 10,531
Foreign entities	7,226	10,779	9,833
	<b>\$ 7,124</b>	<b>\$ 13,184</b>	<b>\$ 20,364</b>
Current provision (benefit):			
Federal	\$ 3,218	\$ 1,006	\$ (2,658)
Foreign	2,028	2,899	2,797
State and local	347	197	447
	<b>\$ 5,593</b>	<b>\$ 4,102</b>	<b>\$ 586</b>
Deferred provision (benefit):			
Federal	\$ 3,051	\$ 4,654	\$ 6,929
Foreign	265	430	221
State and local	(55)	122	4
	<b>\$ 3,261</b>	<b>\$ 5,206</b>	<b>\$ 7,154</b>
Total provision	<b>\$ 8,854</b>	<b>\$ 9,308</b>	<b>\$ 7,740</b>

The effective tax rate differs from the federal statutory rate for the following reasons (in thousands):

	2000	1999	1998
Tax provision computed at the statutory federal income tax rate	\$ 2,493	\$ 4,614	\$ 7,127
Non-deductible amortization of intangible assets	654	663	617
Taxes provided upon de-consolidation of subsidiary	—	1,763	—
Foreign tax rate difference	(439)	(620)	(621)
Valuation allowance	5,457	2,172	—
Other	689	716	617
Total provision	<b>\$ 8,854</b>	<b>\$ 9,308</b>	<b>\$ 7,740</b>
Effective tax rate	<b>124.3%</b>	<b>70.6%</b>	<b>38.0%</b>

As of December 31, 2000, \$290,000 of the valuation allowance for deferred tax assets relates to preacquisition deductible temporary differences from the 1998 acquisition of Doc Holliday's Pawnbrokers and Jewellers, Inc. ("Doc Holliday's"). The tax benefits realized from these differences will be utilized to reduce goodwill from the Doc Holliday's acquisition. Such reductions of goodwill were \$83,000 and \$520,000 in 2000 and 1999, respectively.

Domestic income taxes have not been provided on undistributed earnings of foreign subsidiaries to the extent that it is the Company's intent to reinvest these earnings overseas indefinitely. Upon distribution of accumulated earnings of all foreign subsidiaries, the Company would be subject to U.S. income taxes (net of foreign tax credits) of approximately \$1,000,000.

Net cash income tax refunds received in 2000 were \$390,000. Cash payments for income taxes were \$6,628,000 and \$7,599,000 in 1999 and 1998, respectively.

## 9. Employee Benefit Plans

The Cash America International, Inc. 401(k) Savings Plan is open to substantially all domestic employees that meet specific length of employment and age requirements. The Cash America International, Inc. Nonqualified Savings Plan is available to certain members of management. Participants may contribute up to 22% of their earnings to these plans. The Company makes matching contributions of 50% of each participant's contributions, based on participant contributions of up to 5% of compensation. Company contributions vest at the rate of 20% each

year after one year of service; thus a participant is 100% vested after five years of service. The Company provides benefits under separate retirement plans for eligible employees in foreign countries.

Total Company contributions to retirement plans were \$674,000, \$700,000 and \$681,000 in 2000, 1999 and 1998, respectively.

## 10. Stockholders' Equity

In October 2000, the Board of Directors authorized the purchase of up to 1,000,000 shares of the Company's common stock and terminated an open market purchase authorization established in 1999. During 2000, the Company purchased 700,900 shares for an aggregate amount of \$3,254,000 under the 2000 authorization and 415,100 shares for an aggregate amount of \$2,841,000 under the 1999 authorization. In 1999, the Company purchased 158,300 shares for an aggregate amount of \$1,339,000 under the 1999 authorization and 320,000 shares for an aggregate amount of \$2,470,000 authorized in 1997.

The Company also purchased 13,223 shares of the Company's common stock for \$75,000, 7,459 shares for \$67,000 and 25,693 shares for \$349,000 during 2000, 1999 and 1998, respectively, for the Nonqualified Savings Plan. The Company received 1,782 shares of its common stock valued at \$31,000 during 1998 as partial payment for shares issued under stock option plans.

The Board of Directors adopted an officer stock loan program (the "Program") in 1994 and modified it in 1996 and 1999. Program participants may utilize loan proceeds to acquire and hold the Company's and affiliates' common stock by means of stock option exercises or otherwise. Common stock held as a result of the loan must be pledged to the Company in support of the obligation. Interest accrues at the "applicable Federal rate" as published periodically by the Internal Revenue Service, is payable annually and may be paid with additional loan proceeds. Each loan has a one-year maturity and is renewable for successive one-year terms subject to the discretion of the Executive Compensation Committee of the Board of Directors. Amounts due from officers under the Program are reflected as a reduction of stockholders' equity in the accompanying consolidated balance sheets.

## 11. Stock Purchase Rights

In August 1997, the Board of Directors declared a dividend distribution of one Common Stock Purchase Right (the "Right") for each outstanding share of its common stock. The Rights become exercisable in the event a person or group acquires 15% or more of the Company's common stock or announces a tender offer, the consummation of which would result in ownership by a person or group of 15% or more of the common stock. If any person becomes a 15% or more shareholder of the Company, each Right (subject to certain limits) will entitle its holder (other than such person or members of such group) to purchase, for \$37.00, the number of shares of the Company's common stock determined by dividing \$74.00 by the then current market price of the common stock. The rights will expire on August 5, 2007.

## 12. Stock Options

Under various plans (the "Plans") it sponsors, the Company is authorized to issue 7,100,000 shares of Common Stock pursuant to "Awards" granted as incentive stock options (intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended) and nonqualified stock options. Stock options granted under the plans have contractual terms of five 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 7-year vesting periods and certain of the 5-year vesting periods accelerate if specified share price appreciation criteria are met.

## Notes to Consolidated Financial Statements — Continued

A summary of the Company's stock option activity for the three years ending December 31, 2000 is as follows (shares in thousands):

	2000		1999		1998	
	Shares	Weighted Average Exercise Prices	Shares	Weighted Average Exercise Prices	Shares	Weighted Average Exercise Prices
Outstanding at beginning of year	3,729	\$ 7.59	4,228	\$ 7.41	4,434	\$ 7.40
Granted	977	10.11	137	13.78	87	13.80
Exercised	607	6.42	545	7.23	250	9.07
Forfeited	103	10.23	84	10.98	43	8.94
Expired	2	7.13	7	7.75	—	—
Outstanding at end of year	3,994	\$ 8.32	3,729	\$ 7.59	4,228	\$ 7.41
Exercisable at end of year	2,618	\$ 7.13	2,947	\$ 6.83	3,427	\$ 6.85
Weighted average fair value of options granted	\$ 6.32		\$ 7.36		\$ 5.61	

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted average assumptions:

	2000	1999	1998
Expected term (years)	7.3	8.8	8.0
Risk-free interest rate	6.70%	5.29%	5.50%
Expected dividend yield	0.42%	0.50%	0.61%
Expected volatility	49.2%	36.8%	27.3%

Stock options outstanding and exercisable as of December 31, 2000 are summarized below (shares in thousands):

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Years of Remaining Contractual Life	Number Exercisable	Weighted Average Exercise Price
\$5.63 to \$7.00	1,994	\$ 6.33	3.8	1,994	\$ 6.33
\$7.01 to \$10.81	1,807	9.92	7.1	576	9.24
\$10.82 to \$16.69	193	13.87	7.8	48	15.38
\$5.63 to \$16.69	3,994	\$ 8.32	5.5	2,618	\$ 7.13

The Company applies the intrinsic value based method of accounting for the Plans and, accordingly, no compensation cost has been recognized. If compensation costs for the Company's stock options had been determined on the fair value based method of accounting, the Company's net income (loss) and net income (loss) per share basic and diluted for each of the years ended December 31 would have been reported as follows (in thousands except per share amounts):

	2000	1999	1998
Net income (loss)			
As reported	\$ (1,730)	\$ 3,876	\$ 12,624
Pro forma	(3,530)	3,076	11,989
Net income (loss) per share			
Basic:			
As reported	\$ (.07)	\$ .15	\$ .51
Pro forma	(.14)	.12	.48
Diluted:			
As reported	(.07)	.15	.48
Pro forma	(.14)	.12	.46

The effects of applying the fair value based method of accounting in the pro forma amounts above are not indicative of future effects and its application does not apply to awards granted prior to 1995.

### 13. Operating Segment Information

The Company has two reportable operating segments in the lending industry and one each in the check cashing and rental industries. The United States and foreign lending segments offer secured non-recourse pawn loans to individuals. In the United States segment, loan terms are generally for one month with provisions for renewals and extensions and the loans average approximately 50 days in length. The loan collateral includes a wide variety of personal property items. However, in the foreign segment, loan terms are 6 months, the loan amounts are generally larger, and the collateral is predominately jewelry. The rental segment rents vehicle tires and wheels to individuals. The check cashing segment provides check cashing services to individuals through franchised and company owned Mr. Payroll service centers and through automated service centers operated by innoVentry.

The accounting policies of the segments are the same as those described in Note 2. Management of the Company evaluates performance based on income or loss from operations before net interest expense, other miscellaneous items of income or expense, and the provision for income taxes. There are no intersegmental sales.

While the United States and foreign lending segments offer the same services, each is managed separately due to the different operational strategies required. The rental operation offers different services and products thus requiring its own technical, marketing and operational strategy. The same is true with respect to the check cashing operations. However, the Company has not controlled the operations of innoVentry since March 9, 1999 (see Note 3).

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

	United States	Lending Foreign	Total	Rental	Check Cashing	Consolidated
<b>2000</b>						
Total revenue	\$ 310,881	\$ 32,302	\$343,183	\$ 17,354	\$ 3,177	\$ 363,714
Depreciation and amortization	13,701	1,949	15,650	1,713	708	18,071
Income (loss) from operations	20,733	8,615	29,348	(3,708)	367	26,007
Equity in loss of unconsolidated subsidiary	—	—	—	—	(15,653)	(15,653)
Total assets at December 31	262,461	76,251	338,712	27,266	12,255	378,233
Expenditures for property and equipment	13,895	1,762	15,657	4,840	562	21,059
<b>1999</b>						
Total revenue	327,117	32,118	359,235	10,253	3,660	373,148
Depreciation and amortization	15,864	1,885	17,749	848	828	19,425
Income (loss) from operations	25,721	12,134	37,855	(80)	(3,109)	34,666
Equity in loss of unconsolidated subsidiary	—	—	—	—	(15,238)	(15,238)
Total assets at December 31	285,594	89,031	374,625	18,187	24,811	417,623
Investment in and advances to unconsolidated subsidiary at December 31	—	—	—	—	15,392	15,392
Expenditures for property and equipment	5,669	4,656	10,325	6,588	4,154	21,067
<b>1998</b>						
Total revenue	305,981	28,294	334,275	3,346	3,360	340,981
Depreciation and amortization	15,420	1,427	16,847	368	894	18,109
Income (loss) from operations	31,781	11,893	43,674	(573)	(9,100)	34,001
Total assets at December 31	294,717	78,122	372,839	5,885	32,099	410,823
Expenditures for property and equipment	11,624	1,413	13,037	2,486	6,889	22,412

The geographic distribution of property and equipment at December 31, follows (in thousands):

	United States	Foreign	Consolidated
<b>2000</b>	<b>\$ 53,829</b>	<b>\$ 8,069</b>	<b>\$ 61,898</b>
1999	52,546	8,415	60,961
1998	68,056	5,291	73,347

#### 14. Related Party Transactions

In December 1999, the Company sold 3 lending units, including certain real estate, for \$4,520,000 to Ace Pawn, Inc. (“Ace”) whose sole stockholder, J.D. Credit, Inc. (“J.D. Credit”), is controlled by the Chairman of the Board of Directors of the Company. The price was determined by independent appraisal and approved by the Board of Directors of the Company. The Company received promissory notes from Ace that are collateralized by all of its assets. In addition, J.D. Credit has pledged the common stock of Ace and the Chairman of the Board has provided a personal guaranty for repayment of the notes. The notes bear interest at 10% per annum and require quarterly principal and interest payments and a final balloon payment in December 2002. The Company has the right of first refusal in the event of a proposed resale of the lending units. A gain of \$2,224,000 was recognized on the transactions. Amounts due on the notes were \$3,156,000 and \$4,520,000 as of December 31, 2000 and 1999, respectively, and are included in other assets in the accompanying balance sheet. The Company recorded interest income from the notes of \$378,000 and \$21,000 in 2000 and 1999, respectively.

The 3 lending units were converted to Company franchise units, and the Company continued to manage the units pursuant to a management agreement for a brief interim period immediately following the closing of the transaction. During 2000, the Company recorded royalties of \$79,000 and management fee income of \$60,000. The Company recorded franchise fee revenue of \$30,000, management fee income of \$35,000 and royalties of \$7,000 in December 1999.

#### 15. Fair Values of Financial Instruments

Cash and cash equivalents bear interest at market rates and have maturities less than 90 days. Pawn loans have relatively short maturity periods depending on local regulations, generally 90 days or less in the United States and 180 days or less in the United Kingdom and Sweden. Finance and service charge rates are determined by regulations and bear no valuation relationship to capital markets’ interest rate movements. Generally, pawn loans may only be resold to a licensed pawnbroker. The Company’s interest rate cap agreements are evaluated pursuant to the terms of the agreements and settled in specific three-month intervals. The fair values of the interest rate caps are based on quoted market prices for interest rate caps currently available with similar terms.

The Company’s bank credit facilities bear interest at rates that are frequently adjusted on the basis of market rate changes. The fair values of the remaining long-term debt instruments are estimated based on market values for debt issues with similar characteristics or rates currently available for debt with similar terms.

The carrying amounts and estimated fair values of financial instruments at December 31, 2000 and 1999 were as follows (in thousands):

	2000		1999	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	\$ 4,626	\$ 4,626	\$ 6,186	\$ 6,186
Pawn loans	117,982	117,982	125,349	125,349
Notes receivable	3,156	3,363	4,520	4,432
Interest rate caps	734	625	783	2,036
Financial liabilities:				
Bank lines of credit	101,427	101,427	129,874	129,874
Senior unsecured notes	62,857	63,165	67,143	64,363
Capital lease obligations and other notes	6,180	6,075	5,349	5,272

## 16. Commitments and Contingencies

**Leases** • The Company leases certain of its facilities under operating leases with terms ranging from 3 to 15 years, with certain rights to extend for additional periods. Future minimum rentals due under non-cancelable leases are as follows for each of the years ending December 31 (in thousands):

2001	\$ 21,903
2002	19,403
2003	14,899
2004	10,570
2005	5,791
Thereafter	14,526
<hr/>	
Total	\$ 87,092

Rent expense was \$22,736,000, \$21,042,000 and \$18,567,000 for 2000, 1999 and 1998, respectively.

**Litigation** • The Alabama Supreme Court recently upheld a trial court verdict awarding \$300,000 in damages plus interest to a former employee who claimed that the Company did not pay him certain incentive compensation he believed he had earned. Of the total award, \$225,000 consisted of punitive damages. The Company has petitioned the United States Supreme Court to hear the case and rule on the propriety of awarding punitive damages in this particular case. Although management is optimistic that it will achieve a favorable outcome in this case, there can be no assurance that the United States Supreme Court will grant its petition to hear the case or that it will rule in the Company's favor.

The Company is also party to a number of other lawsuits arising in the normal course of business. In the opinion of management, the resolution of the above matters, individually and in the aggregate, will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

## 17. Subsequent Event

innoVentry sold \$115,734,000 of newly issued shares of Series C preferred stock in a private placement completed as of February 2, 2001. The Company participated in the transaction by canceling its \$2,900,000 note receivable from innoVentry plus accrued interest of \$370,000 in exchange for newly issued shares of Series C preferred stock. In conjunction with the preferred stock sale, Wells Fargo amended its financing agreements to provide a \$55,000,000 revolving secured credit agreement, up to \$85,050,000 of equipment lease financing, and a restructured RPM funding arrangement. Upon completion of the transactions, the Company owned 19.3% of the voting interest in innoVentry.

## Report of Independent Accountants

### To the Board of Directors and Stockholders

#### Cash America International, Inc.

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows and stockholders' equity present fairly, in all material respects, the financial position of Cash America International, Inc. and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of innoVentry Corp. as of December 31, 2000 and 1999 and for the years then ended, the investment and loss in which is reflected in the accompanying financial statements using the equity method of accounting (see Notes 2 and 3). The Company's proportionate share of innoVentry Corp.'s net assets and advances from the Company reflects \$15.4 million as of December 31, 1999 and total operating losses of \$15.7 and \$15.2 million for each of the two years in the period ended December 31, 2000. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for innoVentry Corp., is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

#### PricewaterhouseCoopers LLP

Fort Worth, Texas

March 28, 2001

## Quarterly Financial Data (Unaudited)

(In thousands, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2000</b>				
Total revenue	\$96,996	\$82,761	\$84,847	\$99,110
Costs of revenue	43,658	34,851	34,591	44,217
Net income (loss)	(4,637)	(7,542)	7,191	3,258
Net income (loss) per share – Diluted	(0.18)	(0.29)	0.28	0.13
Weighted average shares – Diluted	25,282	25,759	25,929	25,147
<b>1999</b>				
Total revenue	\$95,648	\$86,335	\$85,568	\$105,597
Costs of revenue	40,739	35,641	35,653	50,301
Net income (loss)	4,800	1,924	422	(3,270)
Net income (loss) per share – Diluted	0.18	0.07	0.02	(0.13)
Weighted average shares – Diluted	26,419	26,552	26,021	25,315

## Five Year Summary of Selected Financial Data (Unaudited)

(Dollars in thousands, except per share data)

	2000	1999	1998	1997	1996
<b>OPERATIONS</b> — years ended December 31					
Total revenue	\$ 363,714	\$373,148	\$ 340,981	\$ 302,698	\$ 280,968
Income from operations	26,007	34,666	34,001	38,335	35,536
Income before income taxes	7,124	13,184	20,364	26,157	25,108
Net income (loss)	\$ (1,730)	\$ 3,876	\$ 12,624	\$ 16,579	\$ 15,684
Net income (loss) per share:					
Basic	\$(.07)	\$ .15	\$ .51	\$ .68	\$ .55
Diluted	\$(.07)	\$ .15	\$ .48	\$ .66	\$ .54
Dividends per share	\$ .05	\$ .05	\$ .05	\$ .05	\$ .05
Weighted average shares:					
Basic	25,461	25,346	24,829	24,281	28,703
Diluted	25,461	26,229	26,226	25,158	28,806

### FINANCIAL POSITION — at December 31

Loans	\$ 117,982	\$125,349	\$ 128,637	\$ 112,240	\$ 107,679
Merchandise held for disposition, net	58,817	64,419	65,417	53,468	48,777
Working capital	190,311	208,419	213,612	176,582	163,948
Total assets	378,233	417,623	410,823	340,254	324,032
Total debt	170,464	202,366	193,974	150,428	150,365
Stockholders' equity	178,458	186,940	187,444	167,296	152,977
Current ratio	6.9x	7.5x	7.9x	7.6x	7.6x
Debt to equity ratio	95.5%	108.3%	103.5%	89.9%	98.3%

### OWNED AND FRANCHISED LOCATIONS — at December 31

Lending operations	479	477	469	402	382
Rental operations	34	24	4	—	—
Manned check cashing operations	132	137	137	145	152

## Common Stock Data

The New York Stock Exchange is the principal exchange on which Cash America International, Inc. common stock is traded. There were 808 stockholders of record (not including individual participants in security listings) as of February 7, 2001. The high and low sales prices of common stock as quoted on the composite tape of the New York Stock Exchange and cash dividends per share during 2000 and 1999 were as follows:

2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	\$13.00	\$12.81	\$8.25	\$7.31
Low	9.00	6.81	6.19	3.63
Close	12.44	7.38	7.31	4.38
Cash dividend per share	.01¼	.01¼	.01¼	.01¼
1999				
High	\$15.94	\$15.50	\$13.13	\$11.44
Low	10.38	11.50	6.75	7.50
Close	12.88	12.88	9.44	9.75
Cash dividend per share	.01¼	.01¼	.01¼	.01¼

# Corporate Information

---

## Board of Directors

**Jack R. Daugherty** *(a)*  
Chairman of the Board  
Cash America International, Inc.

**B. D. Hunter** *(a) (b)*  
Chairman of the Board  
Huntco, Inc.

**Carl P. Motheral** *(d)*  
Chairman of the Board  
Motheral Printing Company

**A. R. Dike** *(b) (d)*  
Chief Executive Officer and President  
The Dike Company

**Timothy J. McKibben** *(a) (d)*  
Chairman of the Board  
Ancor Holdings L.L.C.

**Samuel W. Rizzo** *(a) (c)*  
Consultant; Private Investor

**Daniel R. Feehan** *(a)*  
Chief Executive Officer and President  
Cash America International, Inc.

**Alfred M. Micallef** *(d)*  
Chief Executive Officer  
JMK International, Inc.

**Rosalin Rogers** *(a) (c)*  
Private Investor

**James H. Graves** *(a) (b)*  
Managing Director – Investment Banking  
UBS Warburg

**Clifton H. Morris, Jr.** *(a) (b) (c)*  
Executive Chairman of the Board  
AmeriCredit Corp.

*(a) Executive Committee Member*  
*(b) Compensation Committee Member*  
*(c) Audit Committee Member*  
*(d) Stock Option Committee Member*

## Executive Officers of Cash America International, Inc.

---

**Daniel R. Feehan**  
Chief Executive Officer and President

**Jerry D. Finn**  
Executive Vice President  
United States Lending Operations

**James H. Kauffman**  
Executive Vice President  
Foreign Operations  
President  
Rent-A-Tire, Inc.

**Thomas A. Bessant, Jr.**  
Executive Vice President  
Chief Financial Officer

**Michael D. Gaston**  
Executive Vice President  
Business Development

**Hugh A. Simpson**  
Executive Vice President  
General Counsel and Secretary

**Robert D. Brockman**  
Executive Vice President  
Administration

**William R. Horne**  
Executive Vice President  
Information Technology

## Other Information

---

**Corporate Offices**  
Cash America International Building  
1600 West 7th Street  
Fort Worth, Texas 76102-2599  
(817) 335-1100  
www.cashamerica.com

**Independent Public Accountants**  
PricewaterhouseCoopers LLP  
Fort Worth, Texas

**Annual Stockholders' Meeting**  
May 16, 2001  
9:00 AM  
Fort Worth Club Building  
12th Floor  
306 West 7th Street  
Fort Worth, Texas

**Transfer Agent and Registrar**  
Mellon Investor Services LLC  
85 Challenger Road  
Overpeck Center  
Ridgefield Park, NJ 07660  
(800) 635-9270  
www.mellon-investor.com

**Investor Relations**  
Information requests  
should be forwarded to:  
L. Dee Littrell

**Stock Listing**  
Symbol: PWN



*A copy of the Company's Annual Report to the Securities and Exchange Commission on Form 10-K can be obtained without charge upon written request to the office of Investor Relations.*



*tops in the industry*

*we take pride in our work*

**Cash America International, Inc.**

1600 West 7th Street  
Fort Worth, Texas 76102-2599  
(817) 335-1100  
[www.cashamerica.com](http://www.cashamerica.com)