

EZCORP INC
Form 10-Q
May 05, 2011

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q**

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from _____ to _____

**Commission File No. 0-19424
EZCORP, INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

74-2540145

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

**1901 Capital Parkway
Austin, Texas**

(Address of principal executive offices)

78746

(Zip Code)

(512) 314-3400

Registrant's telephone number, including area code:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The only class of voting securities of the registrant issued and outstanding is the Class B Voting Common Stock, par value \$.01 per share, all of which is owned by an affiliate of the registrant. There is no trading market for the Class B Voting Common Stock.

Edgar Filing: EZCORP INC - Form 10-Q

As of March 31, 2011, 46,954,535 shares of the registrant's Class A Non-voting Common Stock, par value \$.01 per share, and 2,970,171 shares of the registrant's Class B Voting Common Stock, par value \$.01 per share, were outstanding.

EZCORP, INC.
INDEX TO FORM 10-Q

	Page
<u>PART I FINANCIAL INFORMATION</u>	
<i><u>Item 1 Financial Statements (Unaudited)</u></i>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2011, March 31, 2010 and September 30, 2010 (audited)</u>	1
<u>Condensed Consolidated Statements of Operations for the Three Months and Six Months Ended March 31, 2011 and 2010</u>	2
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended March 31, 2011 and 2010</u>	3
<u>Notes to Interim Condensed Consolidated Financial Statements</u>	4
<i><u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u></i>	18
<i><u>Item 3 Quantitative and Qualitative Disclosures about Market Risk</u></i>	37
<i><u>Item 4 Controls and Procedures</u></i>	39
<u>PART II OTHER INFORMATION</u>	
<i><u>Item 1 Legal Proceedings</u></i>	40
<i><u>Item 1A Risk Factors</u></i>	40
<i><u>Item 6 Exhibits</u></i>	41
<u>SIGNATURE</u>	42
<u>EXHIBIT INDEX</u>	43
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

Table of Contents**PART I****Item 1. Financial Statements**

Condensed Consolidated Balance Sheets

	March 31, 2011 <i>(Unaudited)</i>	March 31, 2010 <i>(Unaudited)</i> <i>(In thousands)</i>	September 30, 2010
Assets:			
Current assets:			
Cash and cash equivalents	\$ 59,785	\$ 51,192	\$ 25,854
Pawn loans	106,525	89,040	121,201
Signature loans, net	9,926	7,287	10,775
Auto title loans, net	2,022	1,939	3,145
Pawn service charges receivable, net	19,976	16,353	21,626
Signature loan fees receivable, net	4,841	4,607	5,818
Auto title loan fees receivable, net	1,185	850	1,616
Inventory, net	70,275	56,403	71,502
Deferred tax asset	23,319	15,673	23,208
Income tax receivable	1,427	13,414	
Prepaid expenses and other assets	20,045	15,625	17,427
Total current assets	319,326	272,383	302,172
Investments in unconsolidated affiliates	112,364	90,854	101,386
Property and equipment, net	70,105	54,044	62,293
Deferred tax asset, non-current		5,318	60
Goodwill	143,404	101,456	117,305
Other assets, net	23,694	22,223	23,196
Total assets	\$ 668,893	\$ 546,278	\$ 606,412
Liabilities and stockholders' equity:			
Current liabilities:			
Current maturities of long-term debt	\$ 10,000	\$ 10,000	\$ 10,000
Accounts payable and other accrued expenses	44,754	38,592	49,663
Customer layaway deposits	6,844	4,487	6,109
Income taxes payable			3,687
Total current liabilities	61,598	53,079	69,459
Long-term debt, less current maturities	10,000	20,000	15,000
Deferred tax liability	1,192		
Deferred gains and other long-term liabilities	2,314	2,735	2,525
Total liabilities	75,104	75,814	86,984

Commitments and contingencies

Stockholders' equity:

Class A Non-voting Common Stock, par value \$.01 per

share; authorized 54 million shares; issued and outstanding:

46,954,535 at March 31, 2011; 46,192,698 at March 31,

2010; and 46,256,051 at September 30, 2010

469

462

463

Class B Voting Common Stock, convertible, par value \$.01

per share; 3 million shares authorized; issued and

outstanding: 2,970,171

30

30

30

Additional paid-in capital

231,263

222,423

225,374

Retained earnings

359,203

252,122

299,936

Accumulated other comprehensive income (loss)

2,824

(4,573)

(6,375)

Total stockholders' equity

593,789

470,464

519,428

Total liabilities and stockholders' equity

\$ 668,893

\$ 546,278

\$ 606,412

See accompanying notes to interim condensed consolidated financial statements (unaudited).

Table of Contents

Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
	<i>(In thousands, except per share amounts)</i>			
Revenues:				
Sales	\$ 125,768	\$ 102,536	\$ 248,313	\$ 204,594
Pawn service charges	46,769	38,306	96,579	79,103
Signature loan fees	35,103	31,642	75,169	70,320
Auto title loan fees	5,369	3,956	11,613	7,058
Other	245	144	406	260
Total revenues	213,254	176,584	432,080	361,335
Cost of goods sold	76,564	62,162	150,130	124,732
Signature loan bad debt	5,438	4,397	15,484	13,187
Auto title loan bad debt	302	320	1,284	780
Net revenues	130,950	109,705	265,182	222,636
Operating expenses:				
Operations	66,045	58,205	130,549	116,386
Administrative	15,733	13,483	41,871	25,780
Depreciation and amortization	4,466	3,573	8,645	6,929
(Gain) loss on sale / disposal of assets	(178)	356	(171)	567
Total operating expenses	86,066	75,617	180,894	149,662
Operating income	44,884	34,088	84,288	72,974
Interest income	(11)	(8)	(14)	(16)
Interest expense	300	395	600	760
Equity in net income of unconsolidated affiliates	(4,691)	(3,306)	(8,058)	(4,589)
Other	4	12	(57)	(3)
Income before income taxes	49,282	36,995	91,817	76,822
Income tax expense	17,444	13,222	32,550	27,342
Net income	\$ 31,838	\$ 23,773	\$ 59,267	\$ 49,480
Net income per common share:				
Basic	\$ 0.64	\$ 0.49	\$ 1.19	1.01
Diluted	\$ 0.63	\$ 0.48	\$ 1.18	1.00

Edgar Filing: EZCORP INC - Form 10-Q

Weighted average shares outstanding:

Basic	49,924	48,987	49,810	48,853
Diluted	50,362	49,558	50,243	49,486

See accompanying notes to interim condensed consolidated financial statements (unaudited).

2

Table of Contents

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended March 31,	
	2011	2010
	<i>(In thousands)</i>	
Operating Activities:		
Net income	\$ 59,267	\$ 49,480
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,645	6,929
Signature loan and auto title loan loss provisions	6,863	4,530
Deferred taxes	1,167	992
(Gain) loss on sale or disposal of assets	(171)	567
Stock compensation	10,028	2,344
Income from investments in unconsolidated affiliates	(8,058)	(4,589)
Changes in operating assets and liabilities, net of business acquisitions:		
Service charges and fees receivable, net	3,647	2,559
Inventory, net	830	2,153
Prepaid expenses, other current assets, and other assets, net	(2,174)	(4,264)
Accounts payable and accrued expenses	(5,648)	4,469
Customer layaway deposits	629	302
Deferred gains and other long-term liabilities	(156)	(525)
Excess tax benefit from stock compensation	(3,072)	(1,645)
Income taxes	(1,913)	(12,223)
Net cash provided by operating activities	69,884	51,079
Investing Activities:		
Loans made	(292,544)	(243,563)
Loans repaid	203,672	169,503
Recovery of pawn loan principal through sale of forfeited collateral	104,547	89,013
Additions to property and equipment	(15,248)	(9,619)
Proceeds on disposal of assets		1,347
Acquisitions, net of cash acquired	(31,461)	(31)
Investments in unconsolidated affiliates		(50,932)
Dividends from unconsolidated affiliates	4,218	1,689
Net cash used in investing activities	(26,816)	(42,593)
Financing Activities:		
Proceeds from exercise of stock options	205	1,294
Excess tax benefit from stock compensation	3,072	1,645
Debt issuance costs		3
Taxes paid related to net share settlement of equity awards	(7,409)	
Payments on bank borrowings	(5,005)	(5,000)
Net cash used in financing activities	(9,137)	(2,058)
Change in cash and cash equivalents	33,931	6,428

Edgar Filing: EZCORP INC - Form 10-Q

Cash and cash equivalents at beginning of period	25,854	44,764
Cash and cash equivalents at end of period	\$ 59,785	\$ 51,192
Non-cash Investing and Financing Activities:		
Pawn loans forfeited and transferred to inventory	\$ 102,145	\$ 83,339
Foreign currency translation adjustment	\$ (8,708)	\$ (47)
Acquisition-related stock issuance	\$	\$ (31)

See accompanying notes to interim condensed consolidated financial statements (unaudited).

Table of Contents

EZCORP, Inc. and Subsidiaries
Notes to Interim Condensed Consolidated Financial Statements (Unaudited)
March 31, 2011

Note A: Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Our management has included all adjustments it considers necessary for a fair presentation. These adjustments are of a normal, recurring nature except for those related to acquired businesses (described in Note C). The accompanying financial statements should be read with the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended September 30, 2010. The balance sheet at September 30, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Certain prior period balances have been reclassified to conform to the current presentation.

Our business is subject to seasonal variations and operating results for the three and six month periods ended March 31, 2011 (the current quarter and current year-to-date period) are not necessarily indicative of the results of operations for the full fiscal year.

Note B: Significant Accounting Policies

Consolidation: The consolidated financial statements include the accounts of EZCORP, Inc. and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. We account for our investments in Albemarle & Bond Holdings, PLC and Cash Converters International Limited using the equity method.

Pawn Loan and Sales Revenue Recognition: We record pawn service charges using the interest method for all pawn loans we believe to be collectible. We base our estimate of collectible loans on several factors, including recent redemption rates, historical trends in redemption rates and the amount of loans due in the following two months. Unexpected variations in any of these factors could change our estimate of collectible loans, affecting our earnings and financial condition. If a pawn loan is not repaid, we value the forfeited collateral (inventory) at the lower of cost (pawn loan principal) or market value of the property. We record sales revenue and the related cost when this inventory is sold, or when we receive the final payment on a layaway sale. Sales tax collected upon the sale of inventory is excluded from the amount recognized as sales and instead recorded as a liability in Accounts payable and other accrued expenses on our balance sheets until remitted to the appropriate governmental authorities.

Signature Loan Credit Service Fee Revenue Recognition: We earn credit service fees when we assist customers in obtaining signature loans from unaffiliated lenders. We initially defer recognition of the fees we expect to collect, net of direct expenses, and recognize that deferred net amount over the life of the related loans. We reserve the percentage of credit service fees we expect not to collect. Accrued fees related to defaulted loans reduce credit service fee revenue upon loan default, and increase credit service fee revenue upon collection. Signature loan credit service fee revenue is included in Signature loan fees on our statements of operations.

Signature Loan Credit Service Bad Debt: We issue letters of credit to enhance the creditworthiness of our customers seeking signature loans from unaffiliated lenders. The letters of credit assure the lenders that if borrowers default on the loans, we will pay the lenders, upon demand, the principal and accrued interest owed to the lenders by the borrowers plus any insufficient funds fees and late fees. Although amounts paid under letters of credit may be collected later, we charge those amounts to signature loan bad debt upon default. We record recoveries under the letters of credit as a reduction of bad debt at the time of collection. After attempting collection of bad debts internally, we occasionally sell them to an unaffiliated company as another method of recovery, and record the proceeds from such sales as a reduction of bad debt at the time of the sale.

Table of Contents

The majority of our credit service customers obtain short-term signature loans with a single maturity date. These short-term loans, with maturity dates averaging about 16 days, are considered defaulted if they have not been repaid or renewed by the maturity date. Other credit service customers obtain installment loans with a series of payments due over as much as a five-month period. If one payment of an installment loan is delinquent, that one payment is considered defaulted. If more than one installment payment is delinquent at any time, the entire loan is considered defaulted.

Allowance for Losses on Signature Loan Credit Services: We provide an allowance for losses we expect to incur under letters of credit for brokered signature loans that have not yet matured. The allowance is based on recent loan default experience adjusted for seasonal variations. It includes all amounts we expect to pay to the unaffiliated lenders upon loan default, including loan principal, accrued interest, insufficient funds fees and late fees, net of the amounts we expect to collect from borrowers (collectively, *Expected LOC Losses*). Changes in the allowance are charged to signature loan bad debt. We include the balance of *Expected LOC Losses* in *Accounts payable and other accrued expenses* on our balance sheets. At March 31, 2011, the allowance for *Expected LOC Losses* on signature loans was \$0.8 million and our maximum exposure for losses on letters of credit, if all brokered signature loans defaulted and none was collected, was \$18.8 million. This amount includes principal, interest, insufficient funds fees and late fees. Based on the expected loss and collection percentages, we also provide an allowance for the signature loan credit service fees we expect not to collect, and charge changes in this allowance to signature loan fee revenue.

Signature Loan Revenue Recognition: We accrue fees in accordance with state and provincial laws on the percentage of signature loans (payday loans and installment loans) we have made that we believe to be collectible. Accrued fees related to defaulted loans reduce fee revenue upon loan default, and increase fee revenue upon collection.

Signature Loan Bad Debt: We consider a payday loan defaulted if it has not been repaid or renewed by the maturity date. If one payment of an installment loan is delinquent, that one payment is considered defaulted. If more than one installment payment is delinquent at any time, the entire installment loan is considered defaulted. Although defaulted loans may be collected later, we charge the loan principal to signature loan bad debt upon default, leaving only active loans in the reported balance. We record collections of principal as a reduction of signature loan bad debt when collected. After attempting collection of bad debts internally, we occasionally sell them to an unaffiliated company as another method of recovery and record the proceeds from such sales as a reduction of bad debt at the time of the sale.

Signature Loan Allowance for Losses: We provide an allowance for losses on signature loans that have not yet matured and related fees receivable, based on recent loan default experience adjusted for seasonal variations. We charge any changes in the principal valuation allowance to signature loan bad debt. We record changes in the fee receivable valuation allowance to signature loan fee revenue.

Auto Title Loan Credit Service Fee Revenue Recognition: We earn auto title credit service fees when we assist customers in obtaining auto title loans from unaffiliated lenders. We recognize the fee revenue ratably over the life of the loan, and reserve the percentage of fees we expect not to collect. Auto title loan credit service fee revenue is included in *Auto title loan fees* on our statements of operations.

Bad Debt and Allowance for Losses on Auto Title Loan Credit Services: We issue letters of credit to enhance the creditworthiness of our customers seeking auto title loans from unaffiliated lenders. The letters of credit assure the lenders that if borrowers default on the loans, we will pay the lenders, upon demand, all amounts owed to the lenders by the borrowers plus any late fees. Through a charge to auto title loan bad debt, we provide an allowance for losses we expect to incur under letters of credit for brokered auto title loans, and record actual charge-offs against this allowance. The allowance includes all amounts we expect to pay to the unaffiliated lenders upon loan default, including principal, accrued interest and late fees, net of the amounts we expect to collect from borrowers or through the sale of repossessed vehicles. We include the allowance for expected losses in *Accounts payable and other accrued expenses* on our balance sheets. At March 31, 2011, the allowance was \$0.2 million and our maximum exposure for losses on letters of credit, if all brokered auto title loans defaulted and none was collected, was \$7.7 million.

Table of Contents

Auto Title Loan Revenue Recognition: We accrue fees in accordance with state laws on the percentage of auto title loans we have made that we believe to be collectible. We recognize the fee revenue ratably over the life of the loan.

Auto Title Loan Bad Debt and Allowance for Losses: Based on historical collection experience, the age of past-due loans and amounts we expect to receive through the sale of repossessed vehicles, we provide an allowance for losses on auto title loans and related fees receivable. We charge any increases in the principal valuation allowance to auto title loan bad debt and charge uncollectable loans against this allowance. We record changes in the fee receivable valuation allowance to auto title loan fee revenue.

Cash and Cash Equivalents and Cash Concentrations: Cash and cash equivalents consist primarily of cash on deposit or highly liquid investments or mutual funds with original contractual maturities of three months or less. We hold cash at major financial institutions that often exceed FDIC insured limits. We manage our credit risk associated with cash and cash equivalents and cash concentrations by investing in high quality instruments or funds, concentrating our cash deposits in high quality financial institutions and by periodically evaluating the credit quality of the primary financial institutions issuing investments or holding such deposits. Historically, we have not experienced any losses due to such cash concentrations.

Inventory: If a pawn loan is not redeemed, we record the forfeited collateral at cost (the principal amount of the pawn loan). We do not record loan loss allowances or charge-offs on the principal portion of pawn loans, as they are fully collateralized. In order to state inventory at the lower of cost (specific identification) or market value, we record an allowance for excess, obsolete or slow-moving inventory based on the type and age of merchandise. At March 31, 2011, the inventory valuation allowance was \$7.0 million or 9.1% of gross inventory. We record changes in the inventory valuation allowance as cost of goods sold.

Intangible Assets: Goodwill and other intangible assets having indefinite lives are not subject to amortization. They are tested for impairment each July 1st, or more frequently if events or changes in circumstances indicate that they might be impaired, based on cash flows and other market valuation methods. We recognized no impairment of our intangible assets in the current or prior year periods. We amortize intangible assets with definite lives over their estimated useful lives, using the straight-line method.

Property and Equipment: We record property and equipment at cost. We depreciate these assets on a straight-line basis using estimated useful lives of 30 years for buildings and 2 to 7 years for furniture, equipment, and software development costs. We depreciate leasehold improvements over the shorter of their estimated useful life (typically 10 years) or the reasonably assured lease term at the inception of the lease. Property and equipment is shown net of accumulated depreciation of \$121.4 million at March 31, 2011.

Valuation of Tangible Long-Lived Assets: We assess the impairment of tangible long-lived assets whenever events or changes in circumstances indicate that the net recorded amount may not be recoverable. The following factors could trigger an impairment review: significant underperformance relative to historical or projected future cash flows, significant changes in the manner of use of the assets or the strategy for the overall business, significant negative industry trends or legislative changes prohibiting us from offering our loan products. When we determine that the net recorded amount of tangible long-lived assets may not be recoverable, we measure impairment based on the excess of the assets' net recorded amount over the estimated fair value. No impairment of tangible long-lived assets was recognized in the current or prior year periods.

Fair Value of Financial Instruments: We have elected not to measure at fair value any eligible items for which fair value measurement is optional. We determine the fair value of financial instruments by reference to various market data and other valuation techniques, as appropriate. Unless otherwise disclosed, the fair values of financial instruments approximate their recorded values, due primarily to their short-term nature. The recorded value of our outstanding debt is assumed to estimate its fair value, as it has no prepayment penalty and a floating interest rate based on market rates.

Foreign Currency Translation: Our equity investments in Albemarle & Bond and Cash Converters are translated from British pounds and Australian dollars, respectively, into U.S. dollars at the exchange rates as of the investees balance sheet date. The related interest in the investees' net income is translated at the average exchange rates for each six-month period reported by the investees. The functional currency of our wholly-owned Empeño Fácil pawn

Table of Contents

segment is the Mexican peso and the functional currency of our wholly-owned foreign subsidiary CASHMAX is the Canadian dollar. Empeño Fácil's and CASHMAX's balance sheet accounts are translated from their respective functional currencies into U.S. dollars at the exchange rate at the end of each quarter, and their earnings are translated into U.S. dollars at the average exchange rate each quarter. We present resulting translation adjustments from Albemarle & Bond, Cash Converters, Empeño Fácil and CASHMAX as a separate component of stockholders' equity. Foreign currency transaction gains and losses have not been significant, and are reported as Other expense in our statements of operations.

Income Taxes: We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying value of assets and liabilities and their tax basis and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the related temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized when the rate change is enacted.

Stock Compensation: We account for stock compensation in accordance with the fair value recognition provisions of FASB ASC 718-10-25 (Compensation - Stock Compensation). The fair value of restricted shares is measured as the closing market price of our stock on the date of grant, which is amortized over the vesting period for each grant. We have not granted any stock options since fiscal 2007. When granted, our policy is to estimate the grant-date fair value of options using the Black-Scholes-Merton option-pricing model and amortize that fair value to compensation expense on a ratable basis over the options' vesting periods.

Recently Issued Accounting Pronouncements: In June 2009, FASB amended ASC 810-10-65 (Consolidation). Amended ASC 810-10-65 relates to the consolidation of variable interest entities. It eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and requires ongoing qualitative reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. This guidance also requires additional disclosures about an enterprise's involvement in variable interest entities. We adopted this amended standard October 1, 2010, resulting in no effect on our financial position, results of operations or cash flows.

In July 2010, FASB issued Accounting Standards Update (ASU) 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This update amends FASB ASC 310 (Receivables) to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide new disclosures about its financing receivables and related allowance for credit losses. We adopted this amended standard on October 1, 2010, resulting in no effect on our financial position, results of operations or cash flows. The additional required disclosures are included in Note M.

Note C: Acquisitions

Between June and September 2010, we acquired, through asset purchases, five pawn stores located in the Chicago metropolitan area, eight pawn stores located in Central and South Florida, two pawn stores located in Corpus Christi, Texas and one pawn store in Las Vegas, Nevada for approximately \$21.8 million in cash. The stores were acquired from five separate sellers. We recorded approximately \$4.9 million of net tangible assets and \$1.0 million of intangible assets attributable to non-compete agreements and a pawn license. Goodwill of \$15.9 million, which is expected to be fully tax deductible, was recorded in the U.S. Pawn Operations segment as part of these acquisitions. The factors contributing to the recognition of goodwill were based on several strategic and synergistic benefits we expect to realize from the acquisitions. These benefits include our initial entry into Chicago, a greater presence in prime pawn markets and the ability to further leverage our expense structure through increased scale.

In the quarter ended December 31, 2010, we acquired three pawn stores located in the Chicago metropolitan area and one pawn store located in Marietta, Georgia for approximately \$13.7 million in cash. The stores were acquired from four separate sellers. One of the stores in Chicago was acquired by purchasing all of the capital stock of the corporation that owned it, and the other three were acquired through asset purchases. We recorded approximately \$2.8 million of net tangible assets, \$0.1 million of intangible assets attributable to non-compete agreements and \$10.8 million of goodwill, all of which was recorded in the U.S. Pawn Operations segment. Of the total goodwill,

Table of Contents

\$6.1 million is expected to be fully tax deductible and \$4.7 million is expected to be non-deductible. The factors contributing to the recognition of goodwill were based on several strategic and synergistic benefits we expect to realize from the acquisitions. These benefits include a greater presence in a prime pawn market and the ability to further leverage our expense structure through increased scale.

In the quarter ended March 31, 2011, we acquired five pawn stores located in Central and South Florida for approximately \$17.8 million in cash. The stores were acquired from two separate sellers. One of the stores was acquired by purchasing all of the capital stock of the corporation that owned it, and the other four were acquired through asset purchases. We recorded approximately \$2.8 million of net tangible assets, \$0.1 million of intangible assets attributable to non-compete agreements and \$14.9 million of goodwill, all of which was recorded in the U.S. Pawn Operations segment. Of the total goodwill, \$10.0 million is expected to be fully tax deductible and \$4.9 million is expected to be non-deductible. The factors contributing to the recognition of goodwill were based on several strategic and synergistic benefits we expect to realize from the acquisitions. These benefits include a greater presence in a prime pawn market and the ability to further leverage our expense structure through increased scale.

All stores were acquired as part of our continuing strategy to acquire domestic pawn stores to enhance and diversify our earnings. Transaction related expenses were not material and were expensed as incurred. The results of all acquired stores have been consolidated with our results since their acquisition. The purchase price allocation of stores acquired in the twelve months ended March 31, 2011 is preliminary as we continue to receive information regarding the acquired assets. Pro forma results of operations have not been presented because the acquisitions were not significant on either an individual or an aggregate basis.

Note D: Earnings per Share

We compute basic earnings per share on the basis of the weighted average number of shares of common stock outstanding during the period. We compute diluted earnings per share on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and restricted stock awards.

Potential common shares are required to be excluded from the computation of diluted earnings per share if the assumed proceeds upon exercise or vest, as defined by FASB ASC 718-10-25, are greater than the cost to re-acquire the same number of shares at the average market price, and therefore the effect would be anti-dilutive.

Components of basic and diluted earnings per share and excluded anti-dilutive potential common shares are as follows (in thousands except per share amounts):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Net income (A)	\$ 31,838	\$ 23,773	\$ 59,267	\$ 49,480
Weighted average outstanding shares of common stock (B)	49,924	48,987	49,810	48,853
Dilutive effect of stock options and restricted stock	438	571	433	633
Weighted average common stock and common stock equivalents (C)	50,362	49,558	50,243	49,486
Basic earnings per share (A/B)	\$ 0.64	\$ 0.49	\$ 1.19	\$ 1.01
Diluted earnings per share (A/C)	\$ 0.63	\$ 0.48	\$ 1.18	\$ 1.00

Potential common shares excluded from the calculation of diluted earnings per share	8	1	2	2	1
---	---	---	---	---	---

Table of Contents**Note E: Strategic Investments and Fair Value of Financial Instruments**

At March 31, 2011, we owned 16,644,640 common shares of Albemarle & Bond Holdings, PLC, representing almost 30% of its total outstanding shares. Our total cost for those shares was approximately \$27.6 million. Albemarle & Bond is primarily engaged in pawnbroking, retail jewelry sales, check cashing and lending in the United Kingdom. We account for the investment using the equity method. Since Albemarle & Bond's fiscal year ends three months prior to ours, we report the income from this investment on a three-month lag. Albemarle & Bond files semi-annual financial reports for its fiscal periods ending December 31 and June 30. The income reported for our year-to-date period ended March 31, 2011 represents our percentage interest in the results of Albemarle & Bond's operations from July 1, 2010 to December 31, 2010.

In its functional currency of British pounds, Albemarle & Bond's total assets increased 16% from December 31, 2009 to December 31, 2010 and its net income for the six months ended December 31, 2010 decreased 1% including the drag from new stores. Below is summarized financial information for Albemarle & Bond's most recently reported results after translation to U.S. dollars (using the exchange rate as of December 31 of each year for balance sheet items and average exchange rates for the income statement items for the periods indicated):

	As of December 31,	
	2010	2009
	<i>(In thousands)</i>	
Current assets	\$ 121,519	\$ 104,537
Non-current assets	56,755	53,128
Total assets	\$ 178,274	\$ 157,665
Current liabilities	\$ 25,801	\$ 21,128
Non-current liabilities	53,497	48,025
Shareholders' equity	98,976	88,512
Total liabilities and shareholders' equity	\$ 178,274	\$ 157,665

	Six Months Ended December 31,	
	2010	2009
	<i>(in thousands)</i>	
Turnover (gross revenues)	\$ 76,424	\$ 64,572
Gross profit	46,745	43,054
Profit for the year (net income)	12,088	12,752

At March 31, 2011, we owned 124,418,000 shares, or approximately 33% of the total common shares of Cash Converters International Limited, which is a publicly traded company headquartered in Perth, Australia. We acquired the shares between November 2009 and May 2010 for approximately \$57.8 million. Cash Converters franchises and operates a worldwide network of over 600 specialty financial services and retail stores that provide pawn loans, short-term unsecured loans and other consumer finance products, and buy and sell second-hand goods. Cash Converters has significant store concentrations in Australia and the United Kingdom.

We account for our investment in Cash Converters using the equity method. Since Cash Converters' fiscal year ends three months prior to ours, we report the income from this investment on a three-month lag. Cash Converters files semi-annual financial reports for its fiscal periods ending December 31 and June 30. The income reported for our year-to-date period ended March 31, 2011 represents our percentage interest in the results of Cash Converters' operations from July 1, 2010 to December 31, 2010. Our results for the quarter ended March 31, 2010 reflect our share

of Cash Converters 56 days of earnings from November 6, 2009 to December 31, 2009. This amount was estimated through daily proration of Cash Converters reported results for the six months ended December 31, 2009.

Table of Contents

In its functional currency of Australian dollars, Cash Converters' total assets increased 17% from December 31, 2009 to December 31, 2010 and its net income improved 42% for the six months ended December 31, 2010. Below is summarized financial information for Cash Converters' most recently reported results after translation to U.S. dollars (using the exchange rate as of December 31 of each year for balance sheet items and average exchange rates for the income statement items for the periods indicated):

	As of December 31,	
	2010	2009
	<i>(In thousands)</i>	
Current assets	\$ 104,408	\$ 96,680
Non-current assets	109,336	64,212
Total assets	\$ 213,744	\$ 160,892
Current liabilities	\$ 30,844	\$ 19,251
Non-current liabilities	11,970	11,010
Shareholders' equity	170,930	130,631
Total liabilities and shareholders' equity	\$ 213,744	\$ 160,892

	Six Months Ended December 31,	
	2010	2009
	<i>(in thousands)</i>	
Gross revenues	\$ 83,109	\$ 51,609
Gross profit	62,037	38,315
Profit for the year (net income)	13,528	8,759

The table below summarizes the recorded value and fair value of each of these strategic investments at the dates indicated. These fair values are considered level one estimates within the fair value hierarchy of FASB ASC 820-10-50, and were calculated as (a) the quoted stock price on each company's principal market multiplied by (b) the number of shares we owned multiplied by (c) the applicable foreign currency exchange rate at the dates indicated. We included no control premium for owning a large percentage of outstanding shares.

	March 31, 2011	March 31, 2010 <i>(In thousands of U.S. dollars)</i>	September 30, 2010
Albemarle & Bond:			
Recorded value	\$ 44,784	\$ 41,606	\$ 43,127
Fair value	81,655	61,235	75,520
Cash Converters:			
Recorded value	67,580	49,248	58,259
Fair value	102,610	57,714	70,005

Included in Other Assets, net on our balance sheets are available for sale securities with a fair value of \$4.7 million at March 31, 2011, \$3.8 million at March 31, 2010 and \$4.9 million at September 30, 2010. This is considered to be a level one measurement of fair value as it is based on the ending market price for the securities at that date, as quoted

on an active public securities exchange.

In March 2011, we announced plans to increase our ownership of Cash Converters' outstanding shares from 33% to 53% for a total cost of approximately \$70 million. Following the additional investment, we and Cash Converters plan to establish two joint ventures, under which we will roll out a suite of financial services products globally under the Cash Converters brand. The joint ventures are conditional upon the share purchase which, in turn, requires the approval of Cash Converters' shareholders. We expect to close the transaction in our fiscal quarter ending September 30, 2011, at which point we will begin to consolidate Cash Converters' results with ours and discontinue use of the equity method for our current investment in Cash Converters.

Table of Contents**Note F: Goodwill and Other Intangible Assets**

The following table presents the balance of each major class of indefinite-lived intangible asset at the specified dates (in thousands):

	March 31, 2011	March 31, 2010	September 30, 2010
Pawn licenses	\$ 8,836	\$ 8,229	\$ 8,836
Trade name	4,870	4,870	4,870
Goodwill	143,404	101,456	117,305
Total	\$ 157,110	\$ 114,555	\$ 131,011

The following table presents the changes in the carrying value of goodwill, by segment, over the periods presented (in thousands):

	U.S. Pawn Operations	Empeño Fácil	EZMONEY Operations	Consolidated
Balance at September 30, 2010	\$ 110,255	\$ 7,050	\$	\$ 117,305
Acquisitions	25,784			25,784
Effect of foreign currency translation changes		315		315
Balance at March 31, 2011	\$ 136,039	\$ 7,365	\$	\$ 143,404

	U.S. Pawn Operations	Empeño Fácil	EZMONEY Operations	Consolidated
Balance at September 30, 2009	\$ 94,192	\$ 6,527	\$	\$ 100,719
Post-closing purchase price allocation adjustments for prior year acquisitions	193			193
Effect of foreign currency translation changes		544		544
Balance at March 31, 2010	\$ 94,385	\$ 7,071	\$	\$ 101,456

The following table presents the gross carrying amount and accumulated amortization for each major class of definite-lived intangible asset at the specified dates (in thousands):

	March 31, 2011		March 31, 2010		September 30, 2010	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
License application fees	\$ 345	\$ (345)	\$ 345	\$ (344)	\$ 345	\$ (345)
Real estate finders fees	1,098	(442)	699	(382)	948	(401)
Non-compete agreements	3,313	(2,277)	2,666	(1,514)	3,081	(1,834)
Favorable lease	644	(264)	644	(158)	644	(219)
Other	63	(9)	39	(3)	48	(6)

Edgar Filing: EZCORP INC - Form 10-Q

Total \$ 5,463 \$ (3,337) \$ 4,393 \$ (2,401) \$ 5,066 \$ (2,805)

The amortization of most definite lived intangible assets is recorded as amortization expense. The favorable lease asset and other intangibles are amortized to Operations expense (rent expense) over the related lease terms. The following table presents the amount and classification of amortization recognized as expense in each of the periods presented (in thousands):

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2011	2010	2011	2010
Amortization expense	\$ 221	\$ 156	\$ 433	\$ 282
Operations expense	25	34	48	66
Total expense from the amortization of definite-lived intangible assets	\$ 246	\$ 190	\$ 481	\$ 348

Table of Contents

The following table presents our estimate of the amount and classification of amortization expense for definite-lived intangible assets for each of the five succeeding full fiscal years beginning October 1, 2010 (in thousands):

Fiscal Year	Amortization Expense	Operations Expense
2011	\$813	\$99
2012	662	84
2013	174	68
2014	89	54
2015	80	43

As acquisitions and dispositions occur in the future, amortization and operations expense may vary from these estimates.

Note G: Long-term Debt

Our syndicated credit agreement provides for, among other things, (i) an \$80 million revolving credit facility, maturing December 31, 2011, that we may, under the terms of the agreement, request to be increased to a total of \$110 million and (ii) a \$40 million term loan, maturing December 31, 2012. Our term loan requires \$2.5 million quarterly principal payments. At March 31, 2011, \$20 million was outstanding under the term loan and bank letters of credit totaling \$5 million were outstanding, leaving \$75 million available on our revolving credit facility. The outstanding bank letters of credit secure our obligations under letters of credit we issue to unaffiliated lenders as part of our credit service operations.

Pursuant to the credit agreement, we may choose to pay interest to the lenders for outstanding borrowings at the Eurodollar rate plus 175 to 250 basis points or the bank's base rate plus 0 to 50 basis points, depending on our leverage ratio computed at the end of each calendar quarter. Our rates are currently at the minimum of the range. On the unused amount of the revolving credit facility, we pay a commitment fee of 25 to 30 basis points depending on our leverage ratio calculated at the end of each quarter. Terms of the credit agreement require, among other things, that we meet certain financial covenants. We were in compliance with all covenants at March 31, 2011. The payment of dividends and additional debt are restricted. The recorded value of our debt approximates its fair value as it is all variable rate debt and carries no pre-payment penalty.

Deferred financing costs of \$0.3 million related to our credit agreement are included in Other assets, net in our March 31, 2011 balance sheet. These costs are being amortized to interest expense over their three-year estimated useful life.

Note H: Stock Compensation

Our net income includes the following compensation costs related to our stock compensation arrangements (in thousands):

	Three Months Ended March		Six Months Ended March	
	31, 2011	31, 2010	31, 2011	31, 2010
Gross compensation cost	\$ 1,480	\$ 1,288	\$ 10,028	\$ 2,344
Income tax benefits	(479)	(473)	(3,453)	(831)
Stock compensation cost, net of tax benefit	\$ 1,001	\$ 815	\$ 6,575	\$ 1,513

Included in the compensation cost for the six months ended March 31, 2011 is \$7.3 million for the accelerated vesting of restricted stock upon the retirement of our former Chief Executive Officer on October 31, 2010, and a related \$2.5 million income tax benefit. In the six months ended March 31, 2011, stock option exercises resulted in the issuance of 23,800 shares of our Class A Non-voting Common Stock for total proceeds of \$0.2 million. All options and restricted stock relate to our Class A Non-voting Common Stock.

Table of Contents

Note I: Income Taxes

The current quarter's effective tax rate is 35.4% of pretax income compared to 35.7% for the prior year quarter. For the current year-to-date period, the effective tax rate is 35.5% compared to 35.6% in the prior year-to-date period. The decrease in effective tax rates is primarily due to an increase in both domestic tax credits and the foreign tax credit on overseas earnings, partially offset by the valuation allowance established for operating losses in our Canada operations during their start-up period.

Note J: Contingencies

Currently and from time to time, we are defendants in various legal and regulatory actions. While we cannot determine the ultimate outcome of these actions, we believe their resolution will not have a material adverse effect on our financial condition, results of operations or liquidity. However, we cannot give any assurance as to their ultimate outcome.

Note K: Comprehensive Income

Comprehensive income includes net income and other revenues, expenses, gains and losses that are excluded from net income but are included as a component of total stockholders' equity. Comprehensive income for the fiscal quarter and year-to-date period ended March 31, 2011 was \$34.0 million and \$68.5 million. For the comparable 2010 periods, comprehensive income was \$23.7 million and \$49.5 million. The difference between comprehensive income and net income results primarily from the effect of foreign currency translation adjustments and the unrealized gain or loss on available for sale securities. At March 31, 2011, the accumulated balance of net foreign currency and unrealized gain activity excluded from net income was \$4.7 million, net of applicable tax of \$1.9 million. The net \$2.8 million is presented as Accumulated other comprehensive income (loss) in the balance sheet at March 31, 2011.

Note L: Operating Segment Information

We manage our business and internal reporting as three reportable segments with operating results reported separately for each segment.

The U.S. Pawn Operations segment offers pawn related activities in our 403 U.S. pawn stores, offers signature loans in 29 pawn stores and six EZMONEY stores and offers auto title loans in 44 pawn stores.

The Empeño Fácil segment offers pawn related activities in 147 Mexico pawn stores.

The EZMONEY Operations segment offers signature loans in 442 U.S. EZMONEY stores and 59 Canadian CASHMAX stores. The segment also offers auto title loans in 368 of its U.S. stores.

Table of Contents

There are no inter-segment revenues, and the amounts below were determined in accordance with the same accounting principles used in our consolidated financial statements. The following tables present operating segment information (in thousands):

Three Months Ended March 31,

	U.S. Pawn Operations		Empeño Fácil		EZMONEY Operations	
	2011	2010	2011	2010	2011	2010
Revenues:						
Merchandise sales	\$ 72,420	\$ 63,049	\$ 5,353	\$ 3,259	\$	\$
Jewelry scrapping sales	44,058	34,414	3,644	1,762	293	52
Pawn service charges	43,073	36,256	3,696	2,050		
Signature loan fees	407	434			34,696	31,208
Auto title loan fees	347	427			5,022	3,529
Other	142	144	25		78	
Total revenues	160,447	134,724	12,718	7,071	40,089	34,789
Merchandise cost of goods sold	41,484	37,058	3,155	2,023		
Jewelry scrapping cost of goods sold	28,687	21,483	3,077	1,574	161	24
Signature loan bad debt	93	101			5,345	4,296
Auto title loan bad debt	(20)	52			322	268
Net revenues	90,203	76,030	6,486	3,474	34,261	30,201
Operations expense	43,817	39,912	4,849	2,573	17,379	15,720
Store operating income	\$ 46,386	\$ 36,118	\$ 1,637	\$ 901	\$ 16,882	\$ 14,481

Six Months Ended March 31,

	U.S. Pawn Operations		Empeño Fácil		EZMONEY Operations	
	2011	2010	2011	2010	2011	2010
Revenues:						
Merchandise sales	\$ 138,725	\$ 124,311	\$ 10,928	\$ 6,613	\$	\$
Jewelry scrapping sales	91,064	71,237	7,106	2,369	490	64
Pawn service charges	89,509	75,197	7,070	3,906		
Signature loan fees	916	987			74,253	69,333
Auto title loan fees	740	902			10,873	6,156
Other	259	260	28		119	
Total revenues	321,213	272,894	25,132	12,888	85,735	75,553
Merchandise cost of goods sold	79,681	73,964	6,269	4,381		
Jewelry scrapping cost of goods sold	58,225	44,307	5,715	2,049	240	31

Edgar Filing: EZCORP INC - Form 10-Q

Signature loan bad debt	258	287			15,226	12,900
Auto title loan bad debt	41	122			1,243	658
Net revenues	183,008	154,214	13,148	6,458	69,026	61,964
Operations expense	87,013	80,111	9,127	4,737	34,409	31,538
Store operating income	\$ 95,995	\$ 74,103	\$ 4,021	\$ 1,721	\$ 34,617	\$ 30,426

Table of Contents

The following table reconciles store operating income, as shown above, to our consolidated income before income taxes (in thousands):

	Three Months Ended March		Six Months Ended March	
	2011	2010	2011	2010
U.S. Pawn Operations store operating income	\$ 46,386	\$ 36,118	\$ 95,995	\$ 74,103
Empeño Fácil store operating income	1,637	901	4,021	1,721
EZMONEY Operations store operating income	16,882	14,481	34,617	30,426
Consolidated store operating income	64,905	51,500	134,633	106,250
Administrative expenses	15,733	13,483	41,871	25,780
Depreciation and amortization	4,466	3,573	8,645	6,929
(Gain) loss on sale / disposal of assets	(178)	356	(171)	567
Interest income	(11)	(8)	(14)	(16)
Interest expense	300	395	600	760
Equity in net income of unconsolidated affiliates	(4,691)	(3,306)	(8,058)	(4,589)
Other	4	12	(57)	(3)
Consolidated income before income taxes	\$ 49,282	\$ 36,995	\$ 91,817	\$ 76,822

The following table presents separately identified segment assets (in thousands):

	U.S. Pawn	Empeño	EZMONEY	Consolidated
	Operations	Fácil	Operations	
Assets at March 31, 2011:				
Pawn loans	\$ 97,375	\$ 9,150	\$	\$ 106,525
Signature loans, net	405		9,521	9,926
Auto title loans, net	595		1,427	2,022
Service charges and fees receivable, net	18,815	1,355	5,832	26,002
Inventory, net	63,164	7,033	78	70,275
Goodwill	136,039	7,365		143,404
Total separately identified recorded segment assets	\$ 316,393	\$ 24,903	\$ 16,858	\$ 358,154
Brokered signature loans outstanding from unaffiliated lenders	\$ 144	\$	\$ 16,316	\$ 16,460
Brokered auto title loans outstanding from unaffiliated lenders	\$ 140	\$	\$ 4,904	\$ 5,044
Assets at March 31, 2010:				
Pawn loans	\$ 84,116	\$ 4,924	\$	\$ 89,040
Signature loans, net	371		6,916	7,287
Auto title loans, net	577		1,362	1,939
Service charges and fees receivable, net	15,885	679	5,246	21,810
Inventory, net	53,122	3,262	19	56,403

Edgar Filing: EZCORP INC - Form 10-Q

Goodwill	94,385	7,071		101,456
Total separately identified recorded segment assets	\$ 248,456	\$ 15,936	\$ 13,543	\$ 277,935
Brokered signature loans outstanding from unaffiliated lenders	\$ 170	\$	\$ 17,571	\$ 17,741
Brokered auto title loans outstanding from unaffiliated lenders	\$ 193	\$	\$ 3,719	\$ 3,912
Assets at September 30, 2010:				
Pawn loans	\$ 113,944	\$ 7,257	\$	\$ 121,201
Signature loans, net	456		10,319	10,775
Auto title loans, net	651		2,494	3,145
Service charges and fees receivable, net	20,830	1,053	7,177	29,060
Inventory, net	66,542	4,935	25	71,502
Goodwill	110,255	7,050		117,305
Total separately identified recorded segment assets	\$ 312,678	\$ 20,295	\$ 20,015	\$ 352,988
Brokered signature loans outstanding from unaffiliated lenders	\$ 231	\$	\$ 22,709	\$ 22,940
Brokered auto title loans outstanding from unaffiliated lenders	\$ 236	\$	\$ 6,589	\$ 6,825
	15			

Table of Contents

Brokered loans are not recorded as an asset on our balance sheets, as we do not own a participation in the loans made by independent lenders. We monitor the principal balance of these loans, as our credit service fees and bad debt are directly related to their volume due to the letters of credit we issue on these loans. The balances shown above are the gross principal balances of the loans outstanding at the specified dates.

Note M: Allowance for Losses and Credit Quality of Financing Receivables

We offer a variety of loan products and credit services to customers who do not have cash resources or access to credit to meet their short-term cash needs. Our customers are considered to be in a higher risk pool with regard to creditworthiness when compared to those of typical financial institutions. As a result, our receivables do not have a credit risk profile that can easily be measured by the normal credit quality indicators used by the financial markets. We manage the risk through closely monitoring the performance of the portfolio and through our underwriting process. This process includes review of customer information, such as making a credit reporting agency inquiry, evaluating and verifying income sources and levels, verifying employment and verifying a telephone number where customers may be contacted. For auto title loans, we additionally inspect the automobile, title and reference to market values of used automobiles.

As described in Note B, Significant Accounting Policies, we consider a signature loan defaulted if it has not been repaid or renewed by the maturity date. If one payment of an installment loan is delinquent, that one payment is considered defaulted. If more than one installment payment is delinquent at any time, the entire installment loan is considered defaulted. Although defaulted loans may be collected later, we charge the loan principal to signature loan bad debt upon default, leaving only active loans in the reported balance. Accrued fees related to defaulted loans reduce fee revenue upon loan default, and increase fee revenue upon collection. Based on historical collection experience, the age of past-due loans and amounts we expect to receive through the sale of repossessed vehicles, we provide an allowance for losses on auto title loans.

The accuracy of our allowance estimates is dependent upon several factors, including our ability to predict future default rates based on historical trends and expected future events. We base our estimates on observable trends and various other assumptions that we believe to be reasonable under the circumstances.

The following table presents changes in the allowance for credit losses as well as the recorded investment in our financing receivables by portfolio segment for the periods presented (*in thousands*):

Description	Allowance Balance at Beginning of Period	Charge-offs	Recoveries	Provision	Allowance Balance at End of Period	Financing Receivable End of Period
Allowance for losses on signature loans:						
Three-months ended March 31, 2011	\$ 1,210	\$ (3,985)	\$ 1,574	\$ 2,311	\$ 1,110	\$ 11,036
Three-months ended March 31, 2010	789	(3,045)	1,490	1,269	503	7,790
Six-months ended March 31, 2011	\$ 750	\$ (8,245)	\$ 3,070	\$ 5,535	\$ 1,110	\$ 11,036
Six-months ended March 31, 2010	532	(6,810)	2,934	3,847	503	7,790
Allowance for losses on auto title loans:						
Three-months ended March 31, 2011	\$ 1,316	\$ (3,437)	\$ 2,857	\$ 74	\$ 810	\$ 2,832

Edgar Filing: EZCORP INC - Form 10-Q

Three-months ended						
March 31, 2010	579	(1,745)	1,764	213	811	2,750
Six-months ended						
March 31, 2011	\$ 1,137	\$ (6,882)	\$ 5,572	\$ 983	\$ 810	\$ 2,832
Six-months ended						
March 31, 2010	291	(3,296)	3,302	514	811	2,750

The provision presented in the table above includes only principal and excludes items such as NSF fees, late fees, repossession fees, auction fees and interest. In addition, all credit service expenses and fees related to loans made by our unaffiliated lenders are excluded, as we do not own the loans made in connection with our credit services and they are not recorded as assets on our balance sheet. Expected losses on credit services are accrued and reported in Accounts payable and other accrued expenses on our balance sheets.

Table of Contents

Auto title loans are our only loans that remain as recorded investments when in delinquent/nonaccrual status. We consider an auto title loan past due if it has not been repaid or renewed by the maturity date. Based on experience, we establish a reserve on all auto title loans. On auto title loans more than 90 days past due, we reserve the percentage we estimate will not be recoverable through auction and reserve 100% of loans for which we have not yet repossessed the underlying collateral. No fees are accrued on any auto title loans more than 90 days past due.

The following table presents an aging analysis of past due financing receivables by portfolio segment for the periods presented (*in thousands*):

	Days Past Due				Total Past Due	Current Receivable	Total Financing Receivable	Recorded Investment > 90 Days & Accruing
	1-30	31-60	61-90	>90				
March 31, 2011								
Auto title loans	\$ 324	\$ 272	\$ 368	\$ 493	\$ 1,457	\$ 1,375	\$ 2,832	\$
Reserve	\$ 82	\$ 76	\$ 151	\$ 427	\$ 736	\$ 74	\$ 810	\$
Reserve %	25%	28%	41%	87%	51%	5%	29%	
March 31, 2010								
Auto title loans	\$ 332	\$ 226	\$ 180	\$ 586	\$ 1,324	\$ 1,426	\$ 2,750	\$
Reserve	\$ 47	\$ 88	\$ 113	\$ 524	\$ 772	\$ 39	\$ 811	\$
Reserve %	14%	39%	63%	89%	58%	3%	29%	
September 30, 2010								
Auto title loans	\$ 797	\$ 552	\$ 432	\$ 532	\$ 2,313	\$ 1,970	\$ 4,283	\$
Reserve	\$ 188	\$ 229	\$ 256	\$ 367	\$ 1,040	\$ 97	\$ 1,137	\$
Reserve %	24%	41%	59%	69%	45%	5%	27%	

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The discussion in this section contains forward-looking statements that are based on our current expectations. Actual results could differ materially from those expressed or implied by the forward-looking statements due to a number of risks, uncertainties and other factors, including those identified in Part II, Item 1A Risk Factors of this report.

Three Months Ended March 31, 2011 vs. Three Months Ended March 31, 2010

The following table presents selected, unaudited, consolidated financial data for our three-month periods ended March 31, 2011 and 2010 (the current and prior year quarters):

	Three Months Ended March 31, 2011 2010 <i>(in thousands)</i>		Percentage Change
Net revenues:			
Sales	\$ 125,768	\$ 102,536	22.7%
Pawn service charges	46,769	38,306	22.1%
Signature loan fees	35,103	31,642	10.9%
Auto title loan fees	5,369	3,956	35.7%
Other	245	144	70.1%
Total revenues	213,254	176,584	20.8%
Cost of goods sold	76,564	62,162	23.2%
Signature loan bad debt	5,438	4,397	23.7%
Auto title loan bad debt	302	320	(5.6)%
Net revenues	\$ 130,950	\$ 109,705	19.4%
Net income	\$ 31,838	\$ 23,773	33.9%

Six Months Ended March 31, 2011 vs. Six Months Ended March 31, 2010

The following table presents selected, unaudited, consolidated financial data for our six-month periods ended March 31, 2011 and 2010 (the current and prior year-to-date periods):

	Six Months Ended March 31, 2011 2010 <i>(in thousands)</i>		Percentage Change
Net revenues:			
Sales	\$ 248,313	\$ 204,594	21.4%
Pawn service charges	96,579	79,103	22.1%
Signature loan fees	75,169	70,320	6.9%
Auto title loan fees	11,613	7,058	64.5%
Other	406	260	56.2%
Total revenues	432,080	361,335	19.6%
Cost of goods sold	150,130	124,732	20.4%
Signature loan bad debt	15,484	13,187	17.4%

Auto title loan bad debt	1,284	780	64.6%
Net revenues	\$ 265,182	\$ 222,636	19.1%
Net income	\$ 59,267	\$ 49,480	19.8%

Beginning in the current quarter, we reclassified fees from our Product Protection Plan and Jewelry VIP Program as well as layaway fees from Other revenue to Sales on the basis that fees from these products are incidental to sales of merchandise. Prior year figures have been reclassified to conform to this presentation and margins have been recalculated accordingly throughout management's discussion and analysis.

Table of Contents**Overview**

We are a leading provider of specialty consumer financial services. We provide collateralized, non-recourse loans, commonly known as pawn loans, and a variety of short-term consumer loans including payday loans, installment loans and auto title loans, or fee-based credit services to customers seeking loans.

At March 31, 2011, we operated a total of 1,057 locations, consisting of 403 U.S. pawn stores (operating as EZPAWN or Value Pawn), 147 pawn stores in Mexico (operating as Empeño Fácil or Empeñe su Oro), 448 U.S. short-term consumer loan stores (operating primarily as EZMONEY) and 59 short-term consumer loan stores in Canada (operating as CASHMAX). We also own almost 30% of Albemarle & Bond Holdings, PLC, one of the U.K.'s largest pawnbroking businesses with over 140 stores, and almost 33% of Cash Converters International Limited, which franchises and operates a worldwide network of over 600 locations that provide financial services and buy and sell second-hand goods.

We manage our business as three segments. The U.S. Pawn Operations segment operates only in the United States. The Empeño Fácil segment operates only in Mexico. The EZMONEY Operations segment operates 442 stores in the United States and 59 stores in Canada. The following tables present store data and products offered in each segment:

	Three Months Ended March 31, 2011			
	U.S. Pawn Operations	Empeño Fácil	EZMONEY Operations	Consolidated
Stores in operation:				
Beginning of period	402	132	498	1,032
New openings	2	15	5	22
Acquired	5			5
Sold, combined, or closed			(2)	(2)
End of period	409	147	501	1,057
Average number of stores during the period	407	139	499	1,044

	Six Months Ended March 31, 2011			
	U.S. Pawn Operations	Empeño Fácil	EZMONEY Operations	Consolidated
Stores in operation:				
Beginning of period	396	115	495	1,006
New openings	5	32	10	47
Acquired	9			9
Sold, combined, or closed	(1)		(4)	(5)
End of period	409	147	501	1,057
Average number of stores during the period	402	132	497	1,031
Composition of ending stores:				
Pawn	403	147		550
Short-term consumer loan stores	6		501	507
Total stores in operation	409	147	501	1,057

Edgar Filing: EZCORP INC - Form 10-Q

Stores offering payday loans (a)	35	432	467
Stores offering installment loans (a)		415	415
Stores offering auto title loans (a)	44	368	412

Three Months Ended March 31, 2010

	U.S. Pawn Operations	Empeño Fácil	EZMONEY Operations	Consolidated
Stores in operation:				
Beginning of period	376	70	474	920
New openings	1	9	12	22
Acquired				
Sold, combined, or closed			(10)	(10)
End of period	377	79	476	932
Average number of stores during the period	377	74	474	925

Table of Contents

	Six Months Ended March 31, 2010			
	U.S. Pawn Operations	Empeño Fácil	EZMONEY Operations	Consolidated
Stores in operation:				
Beginning of period	375	62	473	910
New openings	2	17	18	37
Acquired				
Sold, combined, or closed			(15)	(15)
End of period	377	79	476	932
Average number of stores during the period	376	70	473	919
Composition of ending stores:				
Pawn	371	79		450
Short-term consumer loan stores	6		476	482
Total stores in operation	377	79	476	932
Stores offering payday loans (a)	60		476	536
Stores offering installment loans (a)			197	197
Stores offering auto title loans (a)	54		391	445

(a) Including credit services

Pawn Activities

We earn pawn service charge revenues on our pawn lending. While allowable service charges vary by state and loan size, a majority of our U.S. pawn loans earn 20% per month. Our average U.S. pawn loan amount typically ranges between \$80 and \$120 but varies depending on the valuation of each item pawned. The total U.S. loan term ranges between 60 and 120 days, consisting of the primary term and grace period. In Mexico, pawn service charges range from 15% to 21% per month including applicable taxes, with the majority of loans earning 21%. The total Mexico pawn loan term is 40 days, consisting of the primary term and grace period. Individual loans are made in Mexican pesos and vary depending on the valuation of each item pawned, but typically equate to between \$50 and \$75 U.S. dollars.

In our pawn stores, we acquire inventory for retail sales through pawn loan forfeitures and, to a lesser extent, through purchases of customers' merchandise and purchases of new or refurbished merchandise from third party vendors. The gross profit on sales of inventory depends primarily on our assessment of the loan or purchase value at the time the property is either accepted as loan collateral or purchased. Improper value assessment in the lending or purchasing process can result in lower margins or reduced marketability of the merchandise.

We record a valuation allowance for obsolete or slow-moving inventory based on the type and age of merchandise. We generally establish a higher allowance percentage on general merchandise, as it is more susceptible to obsolescence, and establish a lower allowance percentage on jewelry, as it retains much greater commodity value. The total allowance was 9.1% of gross inventory at March 31, 2011 compared to 8.8% at March 31, 2010 and 7.4% at September 30, 2010. Changes in the valuation allowance are charged to merchandise cost of goods sold.

Signature Loans and Auto Title Loan Activities

At March 31, 2011, 289 of our U.S. short-term consumer loan stores and 25 of our U.S. pawn stores offered credit services to customers seeking short-term consumer signature loans from unaffiliated lenders. We do not participate in

any of the loans made by the lenders, but earn a fee for helping customers obtain credit and for enhancing customers creditworthiness by providing letters of credit.

In connection with our credit services, the unaffiliated lenders offer customers two types of signature loans. In all stores offering signature loan credit services, customers can obtain payday loans, with principal amounts up to \$1,500 but averaging about \$520. Terms of these loans are generally less than 30 days, averaging about 16 days, with due dates corresponding with the customers' next payday. We typically earn a fee of 21.75% of the loan

Table of Contents

amount for our credit services offered in connection with payday loans. In 289 of the U.S. short-term consumer loan stores offering credit services, customers can obtain longer-term unsecured installment loans from the unaffiliated lenders. The installment loans offered in connection with our credit services typically carry terms of about five months with ten equal installment payments due on customers' paydays. Installment loan principal amounts range from \$1,525 to \$3,000, but average about \$2,075. With each semi-monthly or bi-weekly installment payment, we earn a fee of 10% of the initial loan amount. At March 31, 2011, payday loans comprised 94% of the balance of signature loans brokered through our credit services, and installment loans comprised the remaining 6%.

We earn signature loan fee revenue on our payday loans. In four U.S. pawn stores, 90 U.S. short-term consumer loan stores and 59 Canadian short-term consumer loan stores, we make payday loans subject to state or provincial law. The average payday loan amount is approximately \$435 and the term is generally less than 30 days, averaging about 16 days. We typically charge a fee of 15% to 22% of the loan amount for a 7 to 23-day period.

In 126 of our U.S. short-term consumer loan stores, we make installment loans subject to state law. Outside Colorado and Wisconsin, these installment loans typically carry a term of five months, with ten equal installment payments due on customers' paydays. On those loans, we typically charge a fee of 10% of the initial loan amount with each semi-monthly or bi-weekly installment payment. In August 2010, we stopped offering payday loans in Colorado following a legislative change and instead began offering six-month installment loans with a 45% annual interest rate plus certain finance charges and maintenance fees. In January 2011, we stopped offering payday loans in Wisconsin following a legislative change but continue to offer installment loans that carry terms of four to seven months. On those loans, we typically charge a fee of 12.5% to 31.25% of the initial loan amount with each monthly, semi-monthly or bi-weekly installment payment. Installment loan principal amounts range from \$100 to \$3,000, but average approximately \$530.

At March 31, 2011, 368 of our U.S. short-term consumer loan stores and 44 of our U.S. pawn stores offered auto title loans or credit services to assist customers in obtaining auto title loans from unaffiliated lenders. Auto title loans are 30-day loans secured by the titles to customers' automobiles. Loan principal amounts range from \$100 to \$9,000, but average about \$815. We earn a fee of 12.5% to 25% of auto title loan amounts.

In fiscal 2010, legislation adversely affecting our business was enacted in Colorado and Wisconsin. The Colorado law, which became effective in August 2010, essentially eliminated the traditional short-term payday loan product by requiring that payday loans have a minimum term of six months and changed the allowed fees. The Wisconsin law, which became effective January 1, 2011, limits the availability of payday loans and prohibits auto title loans. Although we closed or consolidated several short-term consumer loan stores in those states, we continue to operate the remaining stores with new or modified products that fit within the new regulatory frameworks and continue to evaluate the feasibility of additional product offerings to enhance our business in those stores. If we are unable to continue to operate profitably under the new laws in either or both of these states, we may decide to close or consolidate additional stores.

Acquisitions

In the fiscal year ended September 30, 2010, we acquired sixteen pawn stores located in the Chicago metropolitan area, Central and South Florida, Corpus Christi, Texas and Las Vegas, Nevada for approximately \$21.8 million in cash. In the quarter ended December 31, 2010 we acquired three pawn stores located in the Chicago metropolitan area and one located in Marietta, Georgia for approximately \$13.7 million in cash. In the current quarter, we acquired five pawn stores located in Central and South Florida for approximately \$17.8 million in cash. All stores were acquired as part of our continuing strategy to acquire domestic pawn stores to enhance and diversify our earnings. The results of all acquired stores have been consolidated with our results since their acquisition.

In March 2011, we announced plans to increase our ownership of Cash Converters' outstanding shares from 33% to 53% for a total cost of approximately \$70 million. Following the additional investment, we and Cash Converters plan to establish two joint ventures, under which we will roll out a suite of financial services products globally under the Cash Converters brand. The joint ventures are conditional upon the share purchase which, in turn, requires the approval of Cash Converters' shareholders. We expect to close the transaction in our fiscal quarter ending September 30, 2011, at which point we will begin to consolidate Cash Converters' results with ours and discontinue use of the equity method for our current investment in Cash Converters.

Table of Contents

Other

Included in the current year-to-date period results is a pre-tax administrative expense charge of \$10.9 million related to the October 2010 retirement of our former Chief Executive Officer, including \$3.4 million attributable to a cash payment and \$7.5 million attributable to the vesting of restricted stock. The current year-to-date period income tax expense reflects a \$3.8 million tax benefit related to this charge.

Results of Operations

Three Months Ended March 31, 2011 vs. Three Months Ended March 31, 2010

The following discussion compares our results of operations for the quarter ended March 31, 2011 to the quarter ended March 31, 2010. It should be read with the accompanying financial statements and related notes.

In the current quarter, consolidated total revenues increased 21%, or \$36.7 million to \$213.3 million, compared to the prior year quarter. Same store total revenues increased 12%, with the remainder of the increase coming from new and acquired stores. The overall increase in total consolidated revenues was comprised primarily of a \$23.2 million increase in merchandise and jewelry scrapping sales, an \$8.5 million increase in pawn service charges, a \$3.5 million increase in signature loan fees, and a \$1.4 million increase in auto title loan fees.

In the current quarter, the U.S. Pawn Operations segment contributed \$10.3 million greater store operating income compared to the prior year quarter, primarily as the result of a \$7.4 million increase in gross profit on merchandise and jewelry scrapping sales and a \$6.8 million increase in pawn service charges, partially offset by higher operating costs. The Empeño Fácil segment contributed \$0.7 million greater store operating income compared to the prior year quarter, primarily as the result of a \$1.6 million increase in pawn service charges and a \$1.3 million increase in gross profit on merchandise and jewelry scrapping sales, partially offset by higher operating expenses at new stores. Our EZMONEY Operations segment contributed \$2.4 million greater store operating income, primarily from installment and auto title loans, partially offset by an increase in bad debt as a percent of fees and higher operating expenses at new stores. After a \$2.2 million increase in administrative expenses, a \$0.9 million increase in depreciation and amortization and a \$0.5 million improved gain on disposal of assets, consolidated operating income improved \$10.8 million to \$44.9 million. After a \$1.4 million increase in our equity in the net income of unconsolidated affiliates and a \$4.2 million increase in income taxes and other smaller items, our consolidated net income improved 34% to \$31.8 million from \$23.8 million in the prior year quarter.

Table of Contents**U.S. Pawn Operations Segment**

The following table presents selected financial data for the U.S. Pawn Operations segment:

	Three Months Ended March 31,	
	2011	2010
	<i>(Dollars in thousands)</i>	
Merchandise sales	\$ 72,420	\$ 63,049
Jewelry scrapping sales	44,058	34,414
Pawn service charges	43,073	36,256
Signature loan fees	407	434
Auto title loan fees	347	427
Other	142	144
Total revenues	160,447	134,724
Merchandise cost of goods sold	41,484	37,058
Jewelry scrapping cost of goods sold	28,687	21,483
Signature loan bad debt	93	101
Auto title loan bad debt	(20)	52
Net revenues	90,203	76,030
Operations expense	43,817	39,912
Store operating income	\$ 46,386	\$ 36,118
Other data:		
Gross margin on merchandise sales	42.7%	41.2%
Gross margin on jewelry scrapping sales	34.9%	37.6%
Gross margin on total sales	39.8%	39.9%
Average pawn loan balance per pawn store at quarter-end	\$ 242	\$ 227
Average yield on pawn loan portfolio (a)	163%	163%
Pawn loan redemption rate	83%	83%

(a) Average yield on pawn loan portfolio is calculated as annualized pawn service charge revenues for the period divided by the average pawn loan balance during the period.

The U.S. Pawn Operations segment total revenues increased \$25.7 million, or 19% from the prior year quarter to \$160.4 million. Same store total revenues increased \$14.8 million, or 11%, and new and acquired stores net of closed stores contributed \$10.9 million. The overall increase in total revenues was comprised primarily of a \$19.0 million increase in merchandise and jewelry scrapping sales and a \$6.8 million increase in pawn service charges.

Our current quarter U.S. pawn service charge revenues increased \$6.8 million, or 19% from the prior year quarter to \$43.1 million. Same store pawn service charges increased \$4.4 million, or 12% due primarily to a higher average pawn loan balance, while new and acquired stores net of closed stores contributed \$2.4 million. Inventory purchases from customers represent 31% of total inventory additions, excluding acquisitions, in the current and prior year quarters.

The current quarter's merchandise sales gross profit increased \$4.9 million, or 19% from the prior year quarter to \$30.9 million. This was due to a \$4.7 million, or 8% increase in same store sales, a \$4.7 million increase in sales from

new and acquired stores net of closed stores and a 1.5 percentage point improvement in gross margins to 42.7%. The current quarter's gross profit on jewelry scrapping sales increased \$2.4 million, or 19% from the prior year quarter to \$15.4 million. Jewelry scrapping revenues increased \$9.6 million, or 28% due to an 18% increase in proceeds realized per gram of jewelry scrapped and a 7% increase in volume. The current quarter's jewelry scrapping sales include the sale of approximately \$0.7 million of loose diamonds removed from scrapped jewelry with nominal loose diamond sales in the prior year quarter. As a result of the higher average cost per gram of jewelry scrapped, scrap cost of goods increased \$7.2 million, or 34%. Gross margins on gold scrapping decreased 2.7 percentage points to 34.9% due to our more aggressive buying and lending programs designed to be competitive and maximize overall income including pawn service charges.

Table of Contents

Operations expense increased to \$43.8 million (49% of net revenues) in the current quarter from \$39.9 million (52% of net revenues) in the prior year quarter. The dollar increase in expense was primarily due to higher operating costs at new and acquired stores and higher incentive compensation and related taxes. The improvement as a percent of net revenues is from greater scale at same stores and from expense management improvements made at acquired and existing stores.

In the current quarter, the \$14.2 million greater net revenues from U.S. pawn activities, partially offset by the \$3.9 million higher operations expense and other smaller items resulted in a \$10.3 million overall increase in store operating income from the U.S. Pawn Operations segment. The segment comprised 71% of consolidated store operating income in the current quarter compared to 70% in the prior year quarter.

Empeño Fácil Segment

The following table presents selected financial data for the Empeño Fácil segment after translation to U.S. dollars and in its functional currency of the Mexican peso:

	Three Months Ended March 31,			
	2011 (Dollars in thousands)	2010 (Dollars in thousands)	2011 (Pesos in thousands)	2010 (Pesos in thousands)
Merchandise sales	\$ 5,353	\$ 3,259	\$ 64,692	\$ 41,696
Jewelry scrapping sales	3,644	1,762	44,020	22,530
Pawn service charges	3,696	2,050	44,644	26,233
Other	25		296	
Total revenues	12,718	7,071	153,652	90,459
Merchandise cost of goods sold	3,155	2,023	38,122	25,862
Jewelry scrapping cost of goods sold	3,077	1,574	37,168	20,126
Net revenues	6,486	3,474	78,362	44,471
Operations expense	4,849	2,573	58,582	32,894
Store operating income	\$ 1,637	\$ 901	\$ 19,780	\$ 11,577
Other data:				
Gross margin on merchandise sales	41.1%	37.9%	41.1%	37.9%
Gross margin on jewelry scrapping sales	15.6%	10.7%	15.6%	10.7%
Gross margin on total sales	30.7%	28.4%	30.7%	28.4%
Average pawn loan balance per pawn store at quarter end	\$ 62	\$ 62	\$ 742	\$ 777
Average yield on pawn loan portfolio (a)	186%	177%	186%	177%
Pawn loan redemption rate	73%	74%	73%	74%

(a) Average yield on pawn loan portfolio is calculated as annualized pawn service charge revenue for the period divided by the average pawn loan balance during the period.

The average exchange rate used to translate Empeño Fácil's current quarter results from Mexican pesos to U.S. dollars was 6% stronger than in the prior year quarter, affecting all revenue and expense items. Store operating income improved 82% in the current quarter in dollars and 71% in peso terms. The 87% increase in net revenues was partially offset by higher operating costs from new stores that we expect will be a drag on earnings until they become profitable in their second year of operation. Approximately 46% of the stores open at March 31, 2011 had been open less than a year. We opened 15 new stores in the current quarter, one of which is an Empeño su Oro jewelry-only pawn store. Our jewelry-only stores are much smaller and require less staff than our typical pawn stores, but also carry smaller average

loan balances per store and immediately sell for scrap any forfeited loan collateral.

Empeño Fácil's total revenues increased \$5.6 million, or 80% in the current quarter to \$12.7 million. Same store total revenues increased \$1.6 million or 23%, and new stores contributed \$4.0 million. The overall increase in total revenues was comprised of a \$4.0 million increase in merchandise and jewelry scrapping sales and a \$1.6 million improvement in pawn service charges.

Table of Contents

Empeño Fácil's pawn service charge revenues increased \$1.6 million, or 80% in the current quarter to \$3.7 million. Same store pawn service charges increased approximately \$0.7 million, or 37% and new stores contributed \$0.9 million. The same store increase was due to an increase in average loan balance during the quarter, coupled with an improvement in the average pawn loan yield. The yield increased primarily due to an increase in pawn service charge rates in certain geographic areas compared to the prior year, partially offset by a slightly lower loan redemption rate.

The current quarter's merchandise gross profit increased \$1.0 million from the prior year quarter to \$2.2 million. This was due to a \$0.7 million, or 22% same store sales increase and \$1.4 million in sales from new stores, combined with a 3.2 percentage point improvement in gross margins to 41.1%. The prior year cost of goods sold was slightly higher than normally expected due to promotions to liquidate aged and damaged inventory.

The current quarter's gross profit on jewelry scrapping sales increased \$0.4 million from the prior year quarter to \$0.6 million. Jewelry scrapping revenues increased \$1.9 million due to an increase in volume and the sales proceeds per gram. Margins improved 4.9 percentage points to 15.6%. The significant volume increase is due primarily to new store openings and the continuing maturation of stores opened in the prior year. Increased purchases from customers in our jewelry-only pawn stores contributed to the margin improvement.

Operations expense increased to \$4.9 million (75% of net revenues) in the current quarter from \$2.6 million (74% of net revenues) in the prior year quarter. The dollar increase in expense was primarily due to new stores. We expect percentage improvements in future periods as we continue to build a larger base of maturing stores to support our new store growth.

In the current quarter, the \$3.0 million greater net revenues were partially offset by the \$2.3 million higher operations expense, resulting in a \$0.7 million increase in store operating income from the Empeño Fácil segment. Empeño Fácil comprised 3% of consolidated store operating income in the current quarter compared to 2% in the prior year quarter.

Table of Contents**EZMONEY Operations Segment**

The following table presents selected financial data for the EZMONEY Operations segment:

	Three Months Ended March 31,	
	2011	2010
	<i>(Dollars in thousands)</i>	
Signature loan fees	\$ 34,696	\$ 31,208
Auto title loan fees	5,022	3,529
Jewelry scrapping sales	293	52
Other revenues	78	
 Total revenues	 40,089	 34,789
Signature loan bad debt	5,345	4,296
Auto title loan bad debt	322	268
Jewelry scrapping cost of goods sold	161	24
 Net revenues	 34,261	 30,201
 Operations expense	 17,379	 15,720
 Store operating income	 \$ 16,882	 \$ 14,481
 Other data:		
Signature loan bad debt as a percent of signature loan fees	15.4%	13.8%
Auto title loan bad debt as a percent of auto title loan fees	6.4%	7.6%
Average signature loan balance per store offering signature loans at quarter end		
(a)	\$ 52	\$ 51
Average auto title loan balance per store offering title loans at quarter end (b)	\$ 17	\$ 13

(a) Signature loan balances include payday and installment loans (net of valuation allowance) recorded on our balance sheets and the principal portion of active signature loans outstanding from unaffiliated lenders, the balance of which is not included on our balance sheets.

(b) Auto title loan balances include title loans (net of valuation allowance) recorded on our balance sheets and the principal portion of active brokered loans outstanding from unaffiliated lenders, the balance of which is not included on our balance sheets.

The EZMONEY Operations segment total revenues increased \$5.3 million, or 15% to \$40.1 million, compared to the prior year quarter. This was due to a \$4.3 million, or 13% increase in same store total revenues and \$1.0 million of total revenues at new stores net of closed or consolidated stores. The overall increase in total revenues was comprised primarily of a \$1.5 million increase in auto title loan revenues and a \$3.5 million increase in signature loan fees, which includes both installment loans and payday loans. In August 2010 and January 2011, we introduced installment loans in Colorado and Wisconsin, respectively, as a replacement product for payday loans. This contributed to the migration of some customers from payday loans to installment loans.

In the quarter, we opened five stores and closed two stores in Canada bringing our total there to 59. At March 31, 2010, we had 20 Canadian stores.

The segment's signature loan net revenues increased \$2.5 million, or 9% to \$29.4 million, compared to the prior year quarter. The increase resulted from the growth in installment loans as the product continues to mature and following its introduction in Colorado and Wisconsin, partially offset by a 1.6 percentage point increase in bad debt to 15.4% of fees. Same store signature loan fees increased 9% compared to the prior year quarter.

The segment's net revenues from auto title loans increased to \$4.7 million in the current quarter, compared to \$3.3 million in the prior year quarter, as the product continues to mature. Same store auto title loan fees increased 44%, partially offset by the regulatory elimination of auto title loans in Wisconsin beginning January 1, 2011. Bad debt decreased to 6.4% of related fees from 7.6% in the prior year quarter, mainly due to some operational improvements

Table of Contents

at our collections center. We expect continued growth in the contribution from auto title loans as the product continues to reach maturity in the EZMONEY stores offering the product. We now offer auto title loans in 368 EZMONEY stores.

The EZMONEY segment began buying and scrapping gold jewelry in the prior year with very little volume. The segment generated \$0.1 million of jewelry scrapping gross profit in the current quarter, with a 45% gross margin. Operations expense increased to \$17.4 million (51% of net revenues) from \$15.7 million (52% of net revenues) in the prior year quarter. The improvement as a percent of net revenues was due to the growth in contribution from auto title and installment loan products, with minimal increases in costs at existing stores.

In the current quarter, the \$2.5 million increase in net revenues from signature loans, the \$1.4 million increase in net revenues from auto title loans, and the \$0.2 million increase in scrap sales gross profit and other revenues were partially offset by a \$1.7 million greater operations expense, resulting in a \$2.4 million, or 17% increase in the segment's store operating income. The EZMONEY Operations segment comprised 26% of consolidated store operating income in the current quarter compared to 28% in the prior year quarter.

Other Items

The following table reconciles our consolidated store operating income discussed above to net income, including items that affect our consolidated financial results but are not allocated among segments:

	Three Months Ended March 31,	
	2011	2010
	<i>(Dollars in thousands)</i>	
Consolidated store operating income	\$ 64,905	\$ 51,500
Administrative expenses	15,733	13,483
Depreciation and amortization	4,466	3,573
(Gain) loss on sale / disposal of assets	(178)	356
Interest income	(11)	(8)
Interest expense	300	395
Equity in net income of unconsolidated affiliates	(4,691)	(3,306)
Other	4	12
Consolidated income before income taxes	49,282	36,995
Income tax expense	17,444	13,222
Net income	\$ 31,838	\$ 23,773

Administrative expenses increased \$2.2 million in the current quarter, but remained unchanged at 12% of net revenues. The dollar increase is primarily due to a \$0.7 million increase in professional fees including acquisition-related services, a \$0.4 million increase in administrative labor and benefits and a \$0.9 million increase in other expenses.

Depreciation and amortization expense was \$4.5 million in the current quarter, compared to \$3.6 million in the prior year quarter. Depreciation on assets placed in service, primarily at new and acquired stores, was partially offset by assets that were retired or became fully depreciated during the period.

In the current quarter, we recognized a \$0.2 million gain on disposal of assets as insurance proceeds received for assets destroyed exceeded the net book value of those assets, most of which were replaced. In the prior year quarter we recognized a \$0.4 million loss on store closures or consolidations.

Our \$0.3 million net interest expense in the current quarter and \$0.4 million in the prior year quarter represent primarily interest on borrowed funds, the amortization of deferred financing costs and the commitment fee on our unused available credit. The only debt outstanding at the end of each period was our term debt, the terms of which require \$2.5 million quarterly principal repayments.

Table of Contents

Our equity in the net income of Albemarle & Bond decreased \$0.6 million, or 23% in the current quarter to \$1.9 million as a result of Albemarle & Bond's slightly lower earnings and a weaker British pound in relation to the U.S. dollar. On November 6, 2009, we acquired approximately 30% of the capital stock of Cash Converters International Limited, a publicly traded company headquartered in Perth, Australia. We acquired additional shares on May 20, 2010 which increased our ownership level to almost 33%. In the current quarter our equity in the net income of Cash Converters was \$2.8 million compared to \$0.8 million in the prior year quarter. As we account for our earnings from Cash Converters on a 3-month lag, the prior year quarter included our pro rata share of their results of operations for the 56-day period from our November 6, 2009 initial investment date to the December 31, 2009 end of Cash Converters' period.

The current quarter income tax expense was \$17.4 million (35.4% of pretax income) compared to \$13.2 million (35.7% of pretax income) for the prior year quarter. The decrease in effective tax rates is primarily due to an increase in both domestic employment tax credits and the foreign tax credit on overseas earnings, partially offset by the valuation allowance established for operating losses in our Canada operations during their start-up period.

Consolidated operating income for the current quarter improved \$10.8 million over the prior year quarter to \$44.9 million. Contributing to this were the \$10.3 million, \$0.7 million and \$2.4 million increases in store operating income in our U.S. Pawn, Empeño Fácil and EZMONEY segments and the \$0.5 million improvement in gain/loss on disposal of assets. Partially offsetting these was the \$2.2 million increase in other administrative expenses and the \$0.9 million increase in depreciation and amortization. After a \$1.4 million increase in our equity in the net income of unconsolidated affiliates, a \$4.2 million increase in income taxes and other smaller items, net income improved 34% to \$31.9 million from \$23.8 million in the prior year quarter.

Table of Contents**Six Months Ended March 31, 2011 vs. Six Months Ended March 31, 2010**

The following discussion compares our results of operations for the six months ended March 31, 2011 to the six months ended March 31, 2010. It should be read with the accompanying financial statements and related notes.

U.S. Pawn Operations Segment

The following table presents selected financial data for the U.S. Pawn Operations segment:

	Six Months Ended March 31,	
	2011	2010
	<i>(Dollars in thousands)</i>	
Merchandise sales	\$ 138,725	\$ 124,311
Jewelry scrapping sales	91,064	71,237
Pawn service charges	89,509	75,197
Signature loan fees	916	987
Auto title loan fees	740	902
Other	259	260
Total revenues	321,213	272,894
Merchandise cost of goods sold	79,681	73,964
Jewelry scrapping cost of goods sold	58,225	44,307
Signature loan bad debt	258	287
Auto title loan bad debt	41	122
Net revenues	183,008	154,214
Operations expense	87,013	80,111
Store operating income	\$ 95,995	\$ 74,103
Other data:		
Gross margin on merchandise sales	42.6%	40.5%
Gross margin on jewelry scrapping sales	36.1%	37.8%
Gross margin on total sales	40.0%	39.5%
Average pawn loan balance per pawn store at period end	\$ 242	\$ 227
Average yield on pawn loan portfolio (a)	163%	162%
Pawn loan redemption rate	82%	81%

(a) Average yield on pawn loan portfolio is calculated as annualized pawn service charge revenues for the period divided by the average pawn loan balance during the period.

The U.S. Pawn Operations segment total revenues increased \$48.3 million, or 18% from the prior year-to-date period to \$321.2 million. Same store total revenues increased \$30.6 million, or 11%, and new and acquired stores net of closed stores contributed \$17.7 million. The overall increase in total revenues was comprised primarily of a \$34.2 million increase in merchandise and jewelry scrapping sales and a \$14.3 million increase in pawn service charges.

Our current year-to-date period U.S. pawn service charge revenues increased \$14.3 million, or 19% from the prior year-to-date period to \$89.5 million. Same store pawn service charges increased \$10.2 million, or 14%, while new and acquired stores net of closed stores contributed \$4.1 million. The same store improvement was due to a higher average pawn loan balance coupled with a slightly higher yield. Inventory purchases from customers represent 31% of total

inventory additions, excluding acquisitions, compared to 29% of total inventory additions in the prior year-to-date period.

The current year-to-date period's merchandise sales gross profit increased \$8.7 million, or 17% from the prior year-to-date period to \$59.0 million. This was due to a \$7.2 million, or 6% increase in same store sales, a \$7.2 million increase in sales from new and acquired stores net of closed stores and a 2.1 percentage point improvement in gross margins to 42.6%.

Table of Contents

The current year-to-date period's gross profit on jewelry scrapping sales increased \$5.9 million, or 22% from the prior year-to-date period to \$32.8 million. Jewelry scrapping revenues increased \$19.8 million, or 28% due to a 24% increase in proceeds realized per gram of jewelry scrapped and a 2% increase in volume. Jewelry scrapping sales include the sale of approximately \$1.4 million in the current year-to-date period and \$0.4 million in the prior year-to-date period of loose diamonds removed from scrapped jewelry. As a result of the higher average cost per gram of jewelry scrapped, scrap cost of goods increased \$13.9 million, or 31%. Gross margins on gold scrapping decreased 1.7 percentage points to 36.1% due to our more aggressive buying and lending programs designed to be competitive and maximize overall income including pawn service charges.

Operations expense increased to \$87.0 million (48% of net revenues) in the current year-to-date period from \$80.1 million (52% of net revenues) in the prior year-to-date period. The dollar increase in expense was primarily due to higher operating costs at new and acquired stores and higher incentive compensation and related taxes. The improvement as a percent of net revenues is from greater scale at same stores and from expense management improvements made at acquired and existing stores.

In the current year-to-date period, the \$28.9 million greater net revenues from U.S. pawn activities, the \$6.9 million higher operations expense and other smaller items resulted in a \$21.9 million overall increase in store operating income from the U.S. Pawn Operations segment. The segment comprised 71% of consolidated store operating income compared to 70% in the prior year-to-date period.

Empeño Fácil Segment

The following table presents selected financial data for the Empeño Fácil segment after translation to U.S. dollars and in its functional currency of the Mexican peso:

	Six Months Ended March 31,			
	2011 (Dollars in thousands)	2010 (Dollars in thousands)	2011 (Pesos in thousands)	2010 (Pesos in thousands)
Merchandise sales	\$ 10,928	\$ 6,613	\$ 133,770	\$ 85,385
Jewelry scrapping sales	7,106	2,369	86,912	30,442
Pawn service charges	7,070	3,906	86,449	50,512
Other	28		337	
Total revenues	25,132	12,888	307,468	166,339
Merchandise cost of goods sold	6,269	4,381	76,710	56,543
Jewelry scrapping cost of goods sold	5,715	2,049	69,850	26,311
Net revenues	13,148	6,458	160,908	83,485
Operations expense	9,127	4,737	111,573	61,177
Store operating income	\$ 4,021	\$ 1,721	\$ 49,335	\$ 22,308
Other data:				
Gross margin on merchandise sales	42.6%	33.8%	42.6%	33.8%
Gross margin on jewelry scrapping sales	19.6%	13.5%	19.6%	13.5%
Gross margin on total sales	33.5%	28.4%	33.5%	28.4%
Average pawn loan balance per pawn store at period end	\$ 62	\$ 62	\$ 742	\$ 777
Average yield on pawn loan portfolio (a)	182%	179%	182%	179%
Pawn loan redemption rate	73%	77%	73%	77%

(a)

Average yield on pawn loan portfolio is calculated as annualized pawn service charge revenue for the period divided by the average pawn loan balance during the period.

The average exchange rate used to translate Empeño Fácil's current year-to-date period results from Mexican pesos to U.S. dollars was 6% stronger than in the prior year-to-date period, affecting all revenue and expense items. Store operating income improved 134% in the current year-to-date period in dollars and 121% in peso terms. The 104% increase in net revenues was further improved by greater scale at same stores. Approximately 46% of the stores open at March 31, 2011 had been open less than a year. We opened 32 new stores in the current year-to-date period, six of which are Empeñe su Oro jewelry-only pawn stores. These jewelry-only stores are much smaller and require

Table of Contents

less staff than our typical pawn stores, but also carry smaller average loan balances per store and immediately sell for scrap any forfeited loan collateral.

Empeño Fácil's total revenues increased \$12.2 million, or 95% in the current year-to-date period to \$25.1 million. Same store total revenues increased \$4.9 million, or 38% and new stores contributed \$7.3 million. The overall increase in total revenues was comprised of a \$9.0 million increase in merchandise and jewelry scrapping sales and a \$3.2 million improvement in pawn service charges.

Empeño Fácil's pawn service charge revenues increased \$3.2 million, or 81% in the current year-to-date period to \$7.1 million. Same store pawn service charges increased approximately \$1.7 million, or 42% and new stores contributed \$1.5 million. The same store increase was due to an increase in average loan balance during the year-to-date period, coupled with a slight improvement in the average pawn loan yield. The yield increased primarily due to an increase in pawn service charge rates in certain geographic areas compared to the prior year, partially offset by a lower loan redemption rate.

Merchandise gross profit increased \$2.4 million from the prior year-to-date period to \$4.7 million. This was due to a \$1.8 million, or 27% same store sales increase and \$2.5 million in sales from new stores, combined with an 8.8 percentage point improvement in gross margins to 42.6%. The prior year cost of goods sold was unusually high due to promotions to liquidate aged and damaged inventory in that period.

The gross profit on jewelry scrapping sales increased \$1.1 million from the prior year-to-date period to \$1.4 million. Jewelry scrapping revenues increased \$4.7 million due to an increase in volume and the sales proceeds per gram. Margins improved 6.1 percentage points to 19.6%. The significant volume increase is due primarily to new store openings and the continuing maturation of stores opened in the prior year. Increased purchases from customers in our jewelry-only pawn stores contributed to the margin improvement.

Operations expense increased to \$9.1 million (69% of net revenues) from \$4.7 million (73% of net revenues) in the prior year-to-date period. The dollar increase in expense was primarily due to new stores. The improvement as a percent of net revenues is primarily from greater scale at same stores as they mature. We expect further percentage improvements in future periods as we continue to build a larger base of maturing stores to support our new store growth.

In the current year-to-date period, the \$6.7 million greater net revenues were partially offset by the \$4.4 million higher operations expense, resulting in a \$2.3 million increase in store operating income from the Empeño Fácil segment. Empeño Fácil comprised 3% of consolidated store operating income compared to 2% in the prior year-to-date period.

Table of Contents**EZMONEY Operations Segment**

The following table presents selected financial data for the EZMONEY Operations segment:

	Six Months Ended March 31,	
	2011	2010
	<i>(Dollars in thousands)</i>	
Signature loan fees	\$ 74,253	\$ 69,333
Auto title loan fees	10,873	6,156
Jewelry scrapping sales	490	64
Other revenues	119	
Total revenues	85,735	75,553
Signature loan bad debt	15,226	12,900
Auto title loan bad debt	1,243	658
Jewelry scrapping cost of goods sold	240	31
Net revenues	69,026	61,964
Operations expense	34,409	31,538
Store operating income	\$ 34,617	\$ 30,426
Other data:		
Signature loan bad debt as a percent of signature loan fees	20.5%	18.6%
Auto title loan bad debt as a percent of auto title loan fees	11.4%	10.7%
Average signature loan balance per store offering signature loans at quarter end		
(a)	\$ 52	\$ 51
Average auto title loan balance per store offering title loans at quarter end (b)	\$ 17	\$ 13

(a) Signature loan balances include payday and installment loans (net of valuation allowance) recorded on our balance sheets and the principal portion of active signature loans outstanding from unaffiliated lenders, the balance of which is not included on our balance sheets.

(b) Auto title loan balances include title loans (net of valuation allowance) recorded on our balance sheets and the principal portion of active brokered loans outstanding from unaffiliated lenders, the balance of which is not included on our balance sheets.

The EZMONEY Operations segment total revenues increased \$10.2 million, or 13% to \$85.7 million, compared to the prior year-to-date period. This was due to an \$8.5 million, or 11% increase in same store total revenues and \$1.7 million of total revenues at new stores net of closed or consolidated stores. The overall increase in total revenues was comprised primarily of a \$4.9 million increase in signature loan revenues, including both installment loans and payday loans, and a \$4.7 million increase in auto title loan fees. In August 2010 and January 2011, we introduced installment loans in Colorado and Wisconsin, respectively, as a replacement product for payday loans. This contributed to the migration of some customers from payday loans to installment loans.

In the current year-to-date period, we opened ten stores in Canada and closed two stores, bringing our total there to 59. At March 31, 2010, we had 20 Canadian stores.

The segment's signature loan net revenues increased \$2.6 million, or 5%, to \$59.0 million, compared to the prior year-to-date period. The increase resulted from the growth in installment loans as the product continues to mature and following its introduction in Colorado and Wisconsin, partially offset by a 1.9 percentage point increase in bad debt to 20.5% of fees. Same store signature loan fees increased 5% compared to the prior year-to-date period.

The segment's net revenues from auto title loans increased to \$9.6 million in the current year-to-date period, compared to \$5.5 million in the prior year-to-date period, as the product continues to mature. Same store auto title loan fees increased 80%, partially offset by the regulatory elimination of auto title loans in Wisconsin beginning January 1, 2011. Bad debt increased to 11.4% of related fees from 10.7% in the prior year-to-date period, as we

Table of Contents

accepted slightly higher risk to drive revenue and overall earnings growth. We expect continued growth in the contribution from auto title loans as the product continues to reach maturity in the EZMONEY stores offering the product. We now offer auto title loans in 368 EZMONEY stores.

The EZMONEY segment began buying and scrapping gold jewelry in the prior year-to-date period with very little volume. The segment generated \$0.3 million of jewelry scrapping gross profit in the current year-to-date period, with a 51% gross margin.

Operations expense increased to \$34.4 million (50% of net revenues) from \$31.5 million (51% of net revenues) in the prior year-to-date period. The improvement as a percent of net revenues was due to the growth in contribution from auto title and installment loan products, with minimal increases in costs at existing stores.

In the current year-to-date period, the \$4.1 million increase in net revenues from auto title loans, the \$2.6 million increase in net revenues from signature loans, and the \$0.3 million increase in jewelry scrapping gross profit and other revenue were partially offset by a \$2.9 million greater operations expense, resulting in a \$4.2 million, or 14% increase in the segment's store operating income. The EZMONEY Operations segment comprised 26% of consolidated store operating income compared to 28% in the prior year-to-date period.

Other Items

The following table reconciles our consolidated store operating income discussed above to net income, including items that affect our consolidated financial results but are not allocated among segments:

	Six Months Ended March 31,	
	2011	2010
	<i>(Dollars in thousands)</i>	
Consolidated store operating income	\$ 134,633	\$ 106,250
Administrative expenses	41,871	25,780
Depreciation and amortization	8,645	6,929
(Gain) loss on sale / disposal of assets	(171)	567
Interest income	(14)	(16)
Interest expense	600	760
Equity in net income of unconsolidated affiliates	(8,058)	(4,589)
Other	(57)	(3)
Consolidated income before income taxes	91,817	76,822
Income tax expense	32,550	27,342
Net income	\$ 59,267	\$ 49,480

Administrative expenses in the current year-to-date period were \$41.9 million (16% of net revenues) compared to \$25.8 million (12% of net revenues) in the prior year-to-date period. This increase is primarily due to a pre-tax charge of \$10.9 million related to the retirement of our former Chief Executive Officer. This charge included \$3.4 million attributable to a cash payment and \$7.5 million attributable to the vesting of restricted stock. Excluding this charge, administrative expense increased \$5.2 million over the prior year-to-date period but remained unchanged at 12% of net revenues in the current year-to-date period.

Depreciation and amortization expense was \$8.6 million in the current year-to-date period, compared to \$6.9 million in the prior year-to-date period. Depreciation on assets placed in service, primarily at new and acquired stores, was partially offset by assets that were retired or became fully depreciated during the period.

In the current year-to-date period, we recorded a \$0.2 million gain on disposal of assets as insurance proceeds received for assets destroyed exceeded the net book value of those assets, most of which were replaced. In the prior year-to-date period we recognized a \$0.6 million loss on store closures or consolidations.

Table of Contents

Our \$0.6 million net interest expense in the current year-to-date period and \$0.7 million in the prior year-to-date period represent primarily interest on borrowed funds, the amortization of deferred financing costs and the commitment fee on our unused available credit. The only debt outstanding at the end of each period was our term debt, the terms of which require \$2.5 million quarterly principal repayments.

Our equity in the net income of Albemarle & Bond decreased \$0.2 million, or 4% in the current year-to-date period to \$3.6 million as a result of Albemarle & Bond's lower earnings and a weaker British pound in relation to the U.S. dollar. On November 6, 2009, we acquired approximately 30% of the capital stock of Cash Converters International Limited, a publicly traded company headquartered in Perth, Australia. We acquired additional shares on May 20, 2010 which increased our ownership level to almost 33%. In the current year-to-date period our equity in the net income of Cash Converters was \$4.4 million compared to \$0.8 million in the prior year-to-date period. As we account for our earnings from Cash Converters on a 3-month lag, the prior year-to-date period included our pro rata share of their results of operations for the 56-day period from our November 6, 2009 initial investment date to the December 31, 2009 end of Cash Converters' period.

Income tax expense was \$32.6 million (35.5% of pretax income) compared to \$27.3 million (35.6% of pretax income) for the prior year-to-date period. The decrease in effective tax rates is primarily due to an increase in both domestic employment tax credits and the foreign tax credit on overseas earnings, partially offset by the valuation allowance established for operating losses in our Canada operations during their start-up period.

Consolidated operating income for the current year-to-date period improved \$11.3 million over the prior year-to-date period to \$84.3 million. Contributing to this were the \$21.9 million, \$2.3 million and \$4.2 million increases in store operating income in our U.S. Pawn, Empeño Fácil and EZMONEY segments, respectively, and the \$0.7 improvement in gain/loss on disposal of assets. Partially offsetting these was the \$10.9 million charge related to the retirement of our former Chief Executive Officer, the \$5.2 million increase in other administrative expenses and the \$1.7 million increase in depreciation and amortization. After a \$3.5 million increase in our equity in the net income of unconsolidated affiliates, a \$5.2 million increase in income taxes and other smaller items, net income improved to \$59.3 million. Excluding the one-time \$10.9 million charge related to the retirement of our former Chief Executive Officer and the related tax benefit, net income increased 34% to \$66.4 million from \$49.5 million in the prior year-to-date period.

Liquidity and Capital Resources

In the current year-to-date period, our \$69.9 million cash flow from operations consisted of (a) net income plus several non-cash items, aggregating to \$77.7 million, net of (b) \$7.8 million of normal, recurring changes in operating assets and liabilities. In the prior year-to-date period, our \$51.1 million cash flow from operations consisted of (a) net income plus several non-cash items, aggregating to \$60.3 million, net of (b) \$9.2 million of normal, recurring changes in operating assets and liabilities.

The \$26.8 million of net cash used in investing activities during the current year-to-date period was funded by cash flow from operations. In the current year-to-date period, we acquired nine pawn stores for \$31.5 million and invested \$15.2 million in additional property and equipment. Partially offsetting these investments was \$15.7 million of customer loan repayments and the recovery of principal through the sale of forfeited loan collateral in excess of loans made. In the current year-to-date period, we also received \$4.2 million in dividends from our unconsolidated affiliates and repaid \$5.0 million of our term loan. Net of related tax benefits and proceeds from option exercises, we also paid \$4.1 million of withholding tax upon the net share settlement of restricted stock vesting.

The net effect of these cash flows was a \$33.9 million increase in cash on hand, providing a \$59.8 million ending cash balance.

Table of Contents

Below is a summary of our cash needs to meet future aggregate contractual obligations (in millions):

Contractual Obligations	Total	Payments due by Period			
		Less than 1 year	1-3 years	4-5 years	More than 5 years
Long-term debt obligations	\$ 20.0	\$ 10.0	\$ 10.0	\$	\$
Interest on long-term debt obligations	0.8	0.6	0.2		
Operating lease obligations	150.7	40.2	62.1	30.3	18.1
Total	\$ 171.5	\$ 50.8	\$ 72.3	\$ 30.3	\$ 18.1

In addition to the contractual obligations in the table above, we are obligated under letters of credit issued to unaffiliated lenders as part of our credit service operations. At March 31, 2011, our maximum exposure for losses on letters of credit, if all brokered loans defaulted and none was collected, was \$26.5 million. Of that total, \$7.7 million was secured by titles to customers' automobiles. These amounts include principal, interest, insufficient funds fees and late fees.

In addition to the operating lease obligations in the table above, we are responsible for the maintenance, property taxes and insurance at most of our locations. In the most recent fiscal year ended September 30, 2010, these collectively amounted to \$14.9 million.

The operating lease obligations in the table above include expected rent for all our store locations through the end of their current lease terms. Of the 448 U.S. EZMONEY short-term consumer loan stores, 159 adjoin an EZPAWN store. The lease agreements at approximately 94% of the remaining 289 free-standing EZMONEY stores contain provisions that limit our exposure to additional rent if laws were enacted that had a significant negative effect on our operations at these stores.

In the remaining six months of the fiscal year ending September 30, 2011, we plan to open approximately 25 to 30 Empeño Fácil pawn stores in Mexico, five to ten Cash Converters stores in Canada and five pawn stores in the United States for an aggregate investment of \$5.3 million of capital expenditures plus the funding of working capital and start-up losses related to these store openings. We believe new stores will create a drag on earnings and liquidity until their second year of operations. We also have agreed, subject to a vote of the selling shareholders, to acquire 15 pawn stores in May 2011 for \$18.5 million, and continue to evaluate additional acquisition opportunities.

Our syndicated credit agreement provides for, among other things, (i) an \$80 million revolving credit facility expiring December 31, 2011 that we may, under the terms of the agreement, request to be increased to a total of \$110 million and (ii) a \$40 million term loan maturing December 31, 2012. Our term loan requires \$2.5 million quarterly principal payments. At March 31, 2011, \$20 million was outstanding under the term loan and bank letters of credit totaling \$5 million were outstanding, leaving \$75 million available on our revolving credit facility. The outstanding bank letters of credit secure our obligations under letters of credit we issue to unaffiliated lenders as part of our credit service operations. Terms of the credit agreement require, among other things, that we meet certain financial covenants. We were in compliance with all covenants at March 31, 2011 and expect to remain in compliance based on our expected future performance. The payment of dividends and additional debt are restricted under our credit agreement.

We anticipate that cash flow from operations, cash on hand and availability under our revolving credit facility will be adequate to fund our contractual obligations, planned store growth, capital expenditures and working capital requirements during the coming year.

On January 13, 2011, the SEC declared effective our shelf Registration Statement on Form S-4, registering two million shares of our Class A Non-Voting Common Stock that we may offer from time to time in connection with future acquisitions of businesses, assets or securities. To date, we have not issued any of the shares covered by the registration statement.

Table of Contents***Off-Balance Sheet Arrangements***

We issue letters of credit (LOCs) to enhance the creditworthiness of our credit service customers seeking signature loans and auto title loans from unaffiliated lenders. The LOCs assure the lenders that if borrowers default on the loans, we will pay the lenders, upon demand, the principal and accrued interest owed them by the borrowers plus any insufficient funds fee or late fee. We do not record on our balance sheet the loans related to our credit services as the loans are made by unaffiliated lenders. We do not consolidate the unaffiliated lenders' results with our results as we do not have any ownership interest in the lenders, do not exercise control over them and do not otherwise meet the criteria for consolidation as prescribed by FASB ASC 810-10-25 regarding variable interest entities.

We include an allowance for Expected LOC Losses in Accounts payable and other accrued expenses on our balance sheet. At March 31, 2011, the allowance for Expected LOC Losses was \$0.9 million. At that date, our maximum exposure for losses on letters of credit, if all brokered loans defaulted and none was collected, was \$26.5 million. This amount includes principal, interest, insufficient funds fees and late fees.

We have no other off-balance sheet arrangements.

Seasonality

Historically, pawn service charges are highest in our fourth fiscal quarter (July through September) due to a higher average loan balance during the summer lending season. Merchandise sales are highest in the first and second fiscal quarters (October through March) due to the holiday season, jewelry sales surrounding Valentine's Day and the impact of tax refunds in the United States. Jewelry scrapping sales are heavily influenced by the timing of decisions to scrap excess jewelry inventory. Jewelry scrapping sales generally are greatest during our fourth fiscal quarter (July through September). This results from relatively low jewelry merchandise sales in that quarter and the higher loan balance, leading to a higher dollar amount of loan forfeitures in the summer lending season providing more inventory available for sale.

Signature loan fees are generally highest in our third and fourth fiscal quarters (April through September) due to a higher average loan balance during the summer lending season. Signature loan bad debt, both in dollar terms and as a percentage of related fees, is highest in the third and fourth quarters and lowest in the second quarter due primarily to the impact of tax refunds in the U.S.

The net effect of these factors is that net revenues and net income typically are strongest in the fourth fiscal quarter and weakest in the third fiscal quarter. Our cash flow typically is greatest in the second fiscal quarter due to a high level of loan redemptions and sales in the U.S. income tax refund season.

Use of Estimates and Assumptions

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our condensed consolidated financial statements, which have been prepared according to accounting principles generally accepted in the United States for interim financial information. The preparation of these financial statements require us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, inventory, loan loss allowances, long-lived and intangible assets, income taxes, contingencies and litigation. We base our estimates on historical experience, observable trends and various other assumptions that we believe are reasonable under the circumstances. We use this information to make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from the estimates under different assumptions or conditions.

Table of Contents***Item 3. Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to market risk related to interest rates, gold values and changes in foreign currency exchange rates. We do not use derivative financial instruments.

Our earnings are affected by changes in interest rates as our debt has a variable rate. If interest rates average 50 basis points more than our current rate in the remaining six months of the fiscal year ending September 30, 2011, our interest expense during that period would increase by approximately \$41,000. This amount is determined by considering the impact of the hypothetical interest rate change on our variable-rate term debt at March 31, 2011, including mandatory quarterly principal repayments of \$2.5 million.

Our earnings and financial position are affected by changes in gold values and the resulting impact on pawn lending, jewelry sales and jewelry cost of goods sold. The proceeds of scrap sales and our ability to sell jewelry inventory at an acceptable margin depend on gold values. The impact on our financial position and results of operations of a hypothetical change in gold values cannot be reasonably estimated. For further discussion, you should read Part I, Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended September 30, 2010.

Our earnings and financial position are affected by foreign exchange rate fluctuations related to our equity investments in Albemarle & Bond and Cash Converters, our Empeño Fácil pawn operations in Mexico, and our Canadian CASHMAX stores. Albemarle & Bond's functional currency is the British pound, Cash Converter's functional currency is the Australian dollar, Empeño Fácil's functional currency is the Mexican peso, and CASHMAX's functional currency is the Canadian dollar. The impact on our results of operations and financial position of hypothetical changes in foreign currency exchange rates cannot be reasonably estimated due to the interrelationship of operating results and exchange rates. Separate discussion regarding the Canadian dollar is not presented as our Canadian operations are not yet material.

The translation adjustment from Albemarle & Bond representing the weakening in the British pound during the quarter ended December 31, 2010 (included in our March 31, 2011 results on a three-month lag) was a \$0.4 million decrease to stockholders' equity. On March 31, 2011, the British pound strengthened to £1.00 to \$1.6032 U.S. compared to \$1.5471 at December 31, 2010.

The translation adjustment from Cash Converters representing the strengthening in the Australian dollar during the quarter ended December 31, 2010 (included in our March 31, 2011 results on a three-month lag) was a \$1.6 million increase to stockholders' equity. On March 31, 2011, the Australian dollar strengthened to \$1.00 Australian dollar to \$1.0309 U.S. from \$1.0163 at December 31, 2010.

The translation adjustment from Empeño Fácil representing the strengthening of the Mexican peso during the quarter ended March 31, 2011 was a \$1.2 million increase to stockholders' equity. We have currently assumed permanent reinvestment of earnings and capital in Mexico. Accumulated translation gains or losses related to any future repatriation of earnings or capital would impact our earnings in the period of repatriation. On March 31, 2011, the peso strengthened to \$1.00 Mexican peso to \$0.0836 U.S. from \$0.0809 at December 31, 2010.

We cannot predict the future valuation of foreign currencies or how further movements in them could affect our future earnings or financial position.

Forward-Looking Information

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend that all forward-looking statements be subject to the safe harbors created by these laws. All statements, other than statements of historical facts, regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives are forward-looking statements. These statements are often, but not always, made with words or phrases like may, should, could, will, predict, anticipate, believe, estimate, expect, intend, plan, projection and similar expressions. Forward-looking statements are only predictions of the outcome and timing of future events based on our current expectations and currently available information and, accordingly, are subject to

Table of Contents

substantial risks, uncertainties and assumptions. Actual results could differ materially from those expressed in the forward-looking statements due to a number of risks and uncertainties, many of which are beyond our control. In addition, we cannot predict all of the risks and uncertainties that could cause our actual results to differ from those expressed in the forward-looking statements. Accordingly, you should not regard any forward-looking statements as a representation that the expected results will be achieved. Important risk factors that could cause results or events to differ from current expectations are identified in Part II, Item 1A Risk Factors of this Quarterly Report and Part I, Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended September 30, 2010. We specifically disclaim any responsibility to publicly update any information contained in a forward-looking statement except as required by law. All forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary statement.

Table of Contents

Item 4. Controls and Procedures

This report includes the certifications of our Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 of the Securities Exchange Act of 1934 (the Exchange Act). See Exhibits 31.1 and 31.2. This Item 4 includes information concerning the controls and control evaluations referred to in those certifications.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2011. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2011.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Internal Controls

Notwithstanding the foregoing, management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met. Limitations inherent in any control system include the following:

Judgments in decision-making can be faulty, and control and process breakdowns can occur because of simple errors or mistakes.

Controls can be circumvented by individuals, acting alone or in collusion with others, or by management override.

The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures.

The design of a control system must reflect the fact that resources are constrained, and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Table of Contents

PART II

Item 1. Legal Proceedings

See Note J, Contingencies, in the Notes to Interim Condensed Consolidated Financial Statements (unaudited) included in this filing and incorporated herein by reference.

Item 1A. Risk Factors

Important risk factors that could affect our operations and financial performance, or that could cause results or events to differ from current expectations, are described in Part I, Item 1A, Risk Factors of our Annual Report on Form 10-K for the year ended September 30, 2010. These factors are supplemented by those discussed under Quantitative and Qualitative Disclosures about Market Risk in Part I, Item 3 of this report and in Part II, Item 7A of our Annual Report on Form 10-K for the year ended September 30, 2010.

Table of Contents

Item 6. Exhibits

Exhibit No.	Description of Exhibit
10.1	Transaction Implementation Agreement, dated March 21, 2011, between Cash Converters International Limited and EZCORP, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 21, 2011 and filed March 22, 2011, Commission File No. 0-19424)
31.1	Certification of Paul E. Rothamel, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Stephen A. Stamp, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of Paul E. Rothamel, Chief Executive Officer, and Stephen A. Stamp, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Label Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at March 31, 2011, March 31, 2010 and September 30, 2010; (ii) Consolidated Statements of Income for the three month and six month periods ended March 31, 2011 and March 31, 2010; (iii) Consolidated Statements of Cash Flows for the six month periods ended March 31, 2011 and March 31, 2010; and (iv) Notes to Consolidated Financial Statements (tagged as a block of text).

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EZCORP, INC.

Date: May 5, 2011

/s/ Stephen A. Stamp
Stephen A. Stamp
Senior Vice President and Chief Financial
Officer
42

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
10.1	Transaction Implementation Agreement, dated March 21, 2011, between Cash Converters International Limited and EZCORP, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 21, 2011 and filed March 22, 2011, Commission File No. 0-19424)
31.1	Certification of Paul E. Rothamel, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Stephen A. Stamp, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of Paul E. Rothamel, Chief Executive Officer, and Stephen A. Stamp, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Label Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at March 31, 2011, March 31, 2010 and September 30, 2010; (ii) Consolidated Statements of Income for the three month and six month periods ended March 31, 2011 and March 31, 2010; (iii) Consolidated Statements of Cash Flows for the six month periods ended March 31, 2011 and March 31, 2010; and (iv) Notes to Consolidated Financial Statements (tagged as a block of text).