

EZCORP INC  
Form 10-Q  
August 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 June 30, 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 June 30, 2011, 46,971,535 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**

**PART I. FINANCIAL INFORMATION**

*Item 1. Financial Statements (Unaudited)*

Condensed Consolidated Balance Sheets as of June 30, 2011, June 30, 2010 and September 30, 2010 (audited)

1

Condensed Consolidated Statements of Operations for the Three Months and Nine Months Ended June 30, 2011 and 2010

2

Condensed Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2011 and 2010

3

Notes to Interim Condensed Consolidated Financial Statements

4

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

18

*Item 3. Quantitative and Qualitative Disclosures about Market Risk*

36

*Item 4. Controls and Procedures*

38

**PART II. OTHER INFORMATION**

*Item 1. Legal Proceedings*

39

*Item 1A. Risk Factors*

39

*Item 6. Exhibits*

40

**SIGNATURE**

41

**EXHIBIT INDEX**

42

EX-31.1

EX-31.2

EX-32.1

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

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

## Condensed Consolidated Balance Sheets

|  | June 30,<br>2011<br><i>(Unaudited)</i> | June 30,<br>2010<br><i>(Unaudited)</i><br><i>(In thousands)</i> | September<br>30,<br>2010 |
|--|--|---|--------------------------|
| Assets:  |  |   |                          |
| Current assets:                                |  |   |                          |
| Cash and cash equivalents                      | \$ 27,492                              | \$ 14,912   | \$ 25,854                |
| Pawn loans                                     | 134,633                                | 112,807   | 121,201                  |
| Signature loans, net                           | 12,089                                 | 8,915   | 10,775                   |
| Auto title loans, net                          | 2,348                                  | 2,802   | 3,145                    |
| Pawn service charges receivable, net           | 24,372                                 | 19,899  | 21,626                   |
| Signature loan fees receivable, net            | 5,646                                  | 5,493   | 5,818                    |
| Auto title loan fees receivable, net           | 1,238                                  | 1,314   | 1,616                    |
| Inventory, net                                 | 79,031                                 | 61,027  | 71,502                   |
| Deferred tax asset                             | 16,150                                 | 15,857  | 23,208                   |
| Income taxes receivable                        | 3,099                                  | 10,655  |                          |
| Prepaid expenses and other assets              | 21,932                                 | 15,179  | 17,427                   |
| Total current assets                           | 328,030                                | 268,860   | 302,172                  |
| Investments in unconsolidated affiliates       | 114,777                                | 99,773  | 101,386                  |
| Property and equipment, net                    | 75,049                                 | 59,045  | 62,293                   |
| Deferred tax asset, non-current                |  | 5,472   | 60                       |
| Goodwill                                       | 167,017                                | 115,570   | 117,305                  |
| Other assets, net                              | 28,748                                 | 22,663  | 23,196                   |
| Total assets                                   | \$ 713,621                             | \$ 571,383  | \$ 606,412               |
| Liabilities and stockholders' equity:          |  |   |                          |
| Current liabilities:                           |  |   |                          |
| Current maturities of long-term debt           | \$                                     | \$ 10,000   | \$ 10,000                |
| Accounts payable and other accrued expenses    | 53,242                                 | 44,194  | 49,663                   |
| Customer layaway deposits                      | 6,131                                  | 5,404   | 6,109                    |
| Income taxes payable                           |  |   | 3,687                    |
| Total current liabilities                      | 59,373                                 | 59,598  | 69,459                   |
| Long-term debt, less current maturities        | 26,500                                 | 17,500  | 15,000                   |
| Deferred tax liability                         | 1,237                                  |   |                          |
| Deferred gains and other long-term liabilities | 2,209                                  | 2,630   | 2,525                    |
| Total liabilities                              | 89,319                                 | 79,728  | 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:

46,971,535 at June 30, 2011; 46,247,951 at June 30, 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

233,056

224,243

225,374

Retained earnings

385,730

272,084

299,936

Accumulated other comprehensive income (loss)

5,017

(5,164)

(6,375)

Total stockholders' equity

624,302

491,655

519,428

Total liabilities and stockholders' equity

\$ 713,621

\$ 571,383

\$ 606,412

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

**Table of Contents**

## Condensed Consolidated Statements of Operations (Unaudited)

|   | Three Months Ended                              |           | Nine Months Ended |            |
|---|---|-----------|-------------------|------------|
|   | June 30,  |           | June 30,          |            |
|   | 2011  | 2010      | 2011              | 2010       |
|   | <i>(in thousands, except per share amounts)</i> |           |                   |            |
| Revenues:   |   |           |                   |            |
| Sales   | \$ 115,345                                      | \$ 97,051 | \$ 363,658        | \$ 301,645 |
| Pawn service charges                              | 48,365  | 39,424    | 144,944           | 118,527    |
| Signature loan fees                               | 34,195  | 32,296    | 109,364           | 102,616    |
| Auto title loan fees                              | 4,675   | 4,658     | 16,288            | 11,716     |
| Other   | 572   | 113       | 978               | 373        |
| Total revenues                                    | 203,152   | 173,542   | 635,232           | 534,877    |
| Cost of goods sold                                | 69,128  | 58,985    | 219,258           | 183,717    |
| Signature loan bad debt                           | 10,491  | 8,917     | 25,975            | 22,104     |
| Auto title loan bad debt                          | 536   | 836       | 1,820             | 1,616      |
| Net revenues                                      | 122,997   | 104,804   | 388,179           | 327,440    |
| Operating Expenses:                               |   |           |                   |            |
| Operations  | 66,753  | 57,952    | 197,302           | 174,338    |
| Administrative                                    | 14,379  | 13,576    | 56,250            | 39,356     |
| Depreciation and amortization                     | 4,679   | 3,759     | 13,324            | 10,688     |
| (Gain) / loss on sale or disposal of assets       | 169   | 734       | (2)               | 1,301      |
| Total operating expenses                          | 85,980  | 76,021    | 266,874           | 225,683    |
| Operating income                                  | 37,017  | 28,783    | 121,305           | 101,757    |
| Interest income                                   | (21)  | (135)     | (35)              | (151)      |
| Interest expense                                  | 586   | 311       | 1,186             | 1,071      |
| Equity in net income of unconsolidated affiliates | (4,099)   | (2,930)   | (12,157)          | (7,519)    |
| Other   | (103)   | (100)     | (160)             | (103)      |
| Income before income taxes                        | 40,654  | 31,637    | 132,471           | 108,459    |
| Income tax expense                                | 14,127  | 11,675    | 46,677            | 39,017     |
| Net income  | \$ 26,527                                       | \$ 19,962 | \$ 85,794         | \$ 69,442  |
| Net income per common share:                      |   |           |                   |            |
| Basic   | \$ 0.53   | \$ 0.41   | \$ 1.72           | \$ 1.42    |
| Diluted   | \$ 0.53   | \$ 0.40   | \$ 1.71           | \$ 1.40    |

Edgar Filing: EZCORP INC - Form 10-Q

Weighted average shares outstanding:

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 49,926 | 49,201 | 49,849 | 48,969 |
| Diluted | 50,385 | 49,640 | 50,292 | 49,541 |

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

2

---



**Table of Contents**

## Condensed Consolidated Statements of Cash Flows (Unaudited)

|   | Nine Months Ended June 30, |           |
|---|----------------------------|-----------|
|   | 2011                       | 2010      |
|   | <i>(in thousands)</i>      |           |
| <b>Operating Activities:</b>  |                            |           |
| Net income  | \$ 85,794                  | \$ 69,442 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                            |           |
| Depreciation and amortization   | 13,324                     | 10,688    |
| Signature loan and auto title loan loss provisions                                | 11,182                     | 7,785     |
| Deferred taxes  | 8,562                      | 653       |
| (Gain) / loss on sale or disposal of assets                                       | (2)                        | 1,301     |
| Stock compensation  | 11,536                     | 3,457     |
| Income from investments in unconsolidated affiliates                              | (12,157)                   | (7,519)   |
| Changes in operating assets and liabilities, net of business acquisitions:        |                            |           |
| Service charges and fees receivable, net  | (984)                      | (2,019)   |
| Inventory, net  | (1,249)                    | 1,194     |
| Prepaid expenses, other current assets, and other assets, net                     | (4,274)                    | (4,043)   |
| Accounts payable and accrued expenses   | 2,301                      | 10,232    |
| Customer layaway deposits   | (157)                      | 1,120     |
| Deferred gains and other long-term liabilities                                    | (262)                      | (630)     |
| Excess tax benefit from stock compensation  | (3,165)                    | (1,850)   |
| Income taxes  | (3,459)                    | (9,287)   |
| Net cash provided by operating activities   | 106,990                    | 80,524    |
| <b>Investing Activities:</b>  |                            |           |
| Loans made  | (466,465)                  | (389,548) |
| Loans repaid  | 296,989                    | 247,724   |
| Recovery of pawn loan principal through sale of forfeited collateral              | 150,842                    | 127,180   |
| Additions to property and equipment   | (24,421)                   | (18,719)  |
| Proceeds on disposal of assets  |                            | 1,347     |
| Acquisitions, net of cash acquired  | (64,823)                   | (19,008)  |
| Investments in unconsolidated affiliates  |                            | (59,081)  |
| Dividends from unconsolidated affiliates  | 7,274                      | 3,840     |
| Net cash used in investing activities   | (100,604)                  | (106,265) |
| <b>Financing Activities:</b>  |                            |           |
| Proceeds from exercise of stock options   | 397                        | 1,536     |
| Excess tax benefit from stock compensation  | 3,165                      | 1,850     |
| Debt issuance costs   | (2,397)                    | 3         |
| Taxes paid related to net share settlement of equity awards                       | (7,409)                    |           |
| Net proceeds (payments) on revolving line of credit                               | 26,500                     |           |
| Payments on bank borrowings   | (25,004)                   | (7,500)   |
| Net cash used in financing activities   | (4,748)                    | (4,111)   |
| Change in cash and cash equivalents   | 1,638                      | (29,852)  |

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       | \$ 27,492 | \$ 14,912 |

Non-cash Investing and Financing Activities:

|   |             |            |
|---|-------------|------------|
| Pawn loans forfeited and transferred to inventory | \$ 152,415  | \$ 123,896 |
| Foreign currency translation adjustment           | \$ (10,901) | \$ 544     |
| Acquisition-related stock issuance                | \$          | \$ (31)    |
| Issuance of common stock to 401(k) plan           | \$          | \$ 260     |

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)**  
**June 30, 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 interim periods ended June 30, 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.

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.

**Table of Contents**

***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 June 30, 2011, the allowance for Expected LOC Losses on signature loans was \$1.5 million and our maximum exposure for losses on letters of credit, if all brokered signature loans defaulted and none was collected, was \$23.7 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 June 30, 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 \$5.9 million.

***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

**Table of Contents**

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 June 30, 2011, the inventory valuation allowance was \$8.0 million or 9.2% 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 1<sup>st</sup>, 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 \$125.7 million at June 30, 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 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 Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( 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

6

---



**Table of Contents**

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.

In June 2011, FASB issued ASU 2011-05, Presentation of Comprehensive Income. This update amends FASB ASC 220 (Comprehensive Income) and eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. We must adopt this amended standard in our fiscal year beginning October 1, 2012. Adoption of ASU 2011-05 will have no effect on our financial position, results of operations or cash flows other than the presentation of our results of operations.

***Note C: Acquisitions***

In the fiscal year ended 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. 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, \$6.1 million is expected to be fully tax deductible and \$4.7 million is expected to be non-deductible.

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.

**Table of Contents**

On April 8, 2011, we acquired for approximately \$1.7 million the trademark and licensing rights of Cash Converters in Canada, including rights to receive fees from 13 stores operated by franchisees in Canada. We recorded in the EZMONEY Operations segment approximately \$0.1 million of net tangible assets and \$1.6 million of intangible assets related to this acquisition.

In the quarter ended June 30, 2011, we acquired 23 stores located in Florida, Iowa, Wisconsin, Utah and the Chicago metropolitan area for approximately \$31.6 million in cash. The stores were acquired from three separate sellers. Fifteen of the stores were acquired by purchasing all of the capital stock of the corporation that owned it, and the other eight were acquired through asset purchases. We recorded approximately \$7.5 million of net tangible assets, \$0.6 million of intangible assets mostly attributable to non-compete agreements and \$23.5 million of goodwill, all of which was recorded in the U.S. Pawn Operations segment. Of the total goodwill, \$10.8 million is expected to be fully tax deductible and \$12.7 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 our initial entry into Chicago, Iowa, Wisconsin and Utah in addition to a greater presence in the prime pawn market of Florida 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 most recent twelve months 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<br>June 30, |           | Nine Months Ended<br>June 30, |           |
|--|--------------------------------|-----------|-------------------------------|-----------|
|  | 2011                           | 2010      | 2011                          | 2010      |
| Net income (A)   | \$ 26,527                      | \$ 19,962 | \$ 85,794                     | \$ 69,442 |
| Weighted average outstanding shares of common stock (B)        | 49,926                         | 49,201    | 49,849                        | 48,969    |
| Dilutive effect of stock options and restricted stock          | 459                            | 439       | 443                           | 572       |
| Weighted average common stock and common stock equivalents (C) | 50,385                         | 49,640    | 50,292                        | 49,541    |
| Basic earnings per share (A/B)                                 | \$ 0.53                        | \$ 0.41   | \$ 1.72                       | \$ 1.42   |
| Diluted earnings per share (A/C)                               | \$ 0.53                        | \$ 0.40   | \$ 1.71                       | \$ 1.40   |

|  |   |   |   |   |
|--|---|---|---|---|
| Potential common shares excluded from the calculation<br>of diluted earnings per share | 8 | 5 | 6 | 6 |
|--|---|---|---|---|

---

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

At June 30, 2011, we owned 16,644,640 ordinary 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 quarter ended June 30, 2011 represents our percentage interest in the estimated results of Albemarle & Bond's operations from January 1, 2011 to March 31, 2011.

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            |
| <b>Total assets</b>                               | <b>\$ 178,274</b>     | <b>\$ 157,665</b> |
| Current liabilities                               | \$ 25,801             | \$ 21,128         |
| Non-current liabilities                           | 53,497                | 48,025            |
| Shareholders' equity                              | 98,976                | 88,512            |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 178,274</b>     | <b>\$ 157,665</b> |

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

At June 30, 2011, we owned 124,418,000 shares, or approximately 33% of the total ordinary 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 approximately 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 quarter ended June 30, 2011 represents our percentage interest in the estimated results of Cash Converters' operations from January 1, 2011 to March 31, 2011.

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):

**Table of Contents**

|  | 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.

|                   | June 30,<br>2011                      | June 30,<br>2010 | September 30,<br>2010 |
|-------------------|---------------------------------------|------------------|-----------------------|
|                   | <i>(In thousands of U.S. dollars)</i> |                  |                       |
| Albemarle & Bond: |                                       |                  |                       |
| Recorded value    | \$ 46,457                             | \$ 41,613        | \$ 43,127             |
| Fair value        | 99,180                                | 57,108           | 75,520                |
| Cash Converters:  |                                       |                  |                       |
| Recorded value    | 68,320                                | 58,160           | 58,259                |
| Fair value        | 94,911                                | 58,624           | 70,005                |

Included in Other Assets, net on our balance sheets are available for sale securities with a fair value of \$5.4 million at June 30, 2011, \$3.9 million at June 30, 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 December 31, 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):

|               | June 30,<br>2011 | June 30,<br>2010 | September 30,<br>2010 |
|---------------|------------------|------------------|-----------------------|
| Pawn licenses | \$ 8,836         | \$ 8,229         | \$ 8,836              |
| Trade name    | 4,870            | 4,870            | 4,870                 |
| Goodwill      | 167,017          | 115,570          | 117,305               |
| Total         | \$ 180,723       | \$ 128,669       | \$ 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<br>Operations | Empeño<br>Fácil | EZMONEY<br>Operations | Consolidated |
|--|------------------------|-----------------|-----------------------|--------------|
| Balance at September 30, 2010                  | \$ 110,255             | \$ 7,050        | \$                    | \$ 117,305   |
| Acquisitions                                   | 49,317                 |                 |                       | 49,317       |
| Effect of foreign currency translation changes |                        | 395             |                       | 395          |
| Balance at June 30, 2011                       | \$ 159,572             | \$ 7,445        | \$                    | \$ 167,017   |

|  | U.S Pawn<br>Operations | Empeño<br>Fácil | EZMONEY<br>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          |
| Acquisitions   | 14,221                 |                 |                       | 14,221       |
| Effect of foreign currency translation changes                                 |                        | 437             |                       | 437          |
| Balance at June 30, 2010   | \$ 108,606             | \$ 6,964        | \$                    | \$ 115,570   |

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):

|                          | June 30, 2011   |                          | June 30, 2010   |                          | September 30, 2010 |                          |
|--------------------------|-----------------|--------------------------|-----------------|--------------------------|--------------------|--------------------------|
|                          | Carrying Amount | Accumulated Amortization | Carrying Amount | Accumulated Amortization | Carrying Amount    | Accumulated Amortization |
| License application fees | \$ 345          | \$ (345)                 | \$ 345          | \$ (345)                 | \$ 345             | \$ (345)                 |
| Real estate finders fees | 1,147           | (465)                    | 824             | (392)                    | 948                | (401)                    |
| Non-compete agreements   | 3,837           | (2,472)                  | 3,019           | (1,639)                  | 3,081              | (1,834)                  |
| Favorable lease          | 755             | (289)                    | 644             | (189)                    | 644                | (219)                    |
| Franchise Rights         | 1,636           | (17)                     |                 |                          |                    |                          |
| Other                    | 66              | (11)                     | 53              | (4)                      | 48                 | (6)                      |



Edgar Filing: EZCORP INC - Form 10-Q

|       |          |            |          |            |          |            |
|-------|----------|------------|----------|------------|----------|------------|
| Total | \$ 7,786 | \$ (3,599) | \$ 4,885 | \$ (2,569) | \$ 5,066 | \$ (2,805) |
|-------|----------|------------|----------|------------|----------|------------|

**Table of Contents**

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 |        | Nine Months Ended |        |
|----------------------|--------------------|--------|-------------------|--------|
|                      | June 30,           |        | June 30,          |        |
|                      | 2011               | 2010   | 2011              | 2010   |
| Amortization Expense | \$ 221             | \$ 151 | \$ 654            | \$ 433 |
| Operations Expense   | 28                 | 32     | 76                | 98     |

|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Total expense from the amortization of definite-lived intangible assets | \$ 249 | \$ 183 | \$ 730 | \$ 531 |
|---|--------|--------|--------|--------|

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        | \$ 870               | \$ 103             |
| 2012        | 802                  | 93                 |
| 2013        | 319                  | 77                 |
| 2014        | 248                  | 63                 |
| 2015        | 223                  | 52                 |

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

**Note G: Long-term Debt**

On May 10, 2011, we entered into a new senior secured credit agreement with a syndicate of five banks, replacing our previous credit agreement. Among other things, the new credit agreement provides for a four year \$175 million revolving credit facility that we may, under the terms of the agreement, request to be increased to a total of \$225 million. Upon entering the new credit agreement, we repaid and retired our \$17.5 million outstanding debt. The new credit facility increases our available credit and provides greater flexibility to make investments and acquisitions both domestically and internationally.

Pursuant to the credit agreement, we may choose to pay interest to the lenders for outstanding borrowings at LIBOR plus 200 to 275 basis points or the bank's base rate plus 100 to 175 basis points, depending on our leverage ratio computed at the end of each calendar quarter. On the unused amount of the credit facility, we pay a commitment fee of 37.5 to 50 basis points depending on our leverage ratio calculated at the end of each quarter. From the closing date to approximately October 31, 2011, we will pay a minimum interest rate of LIBOR plus 250 basis points or the bank's base rate plus 150 basis points, at our option, and a commitment fee of 50 basis points on the unused portion of the credit line. Terms of the credit agreement require, among other things, that we meet certain financial covenants. We expect the recorded value of our debt to approximate its fair value as it is all variable rate debt and carries no pre-payment penalty.

At June 30, 2011, \$26.5 million was outstanding under our revolving credit agreement. We also issued \$5.0 million of bank letters of credit, leaving \$143.5 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.

In connection with the credit agreement we expensed \$0.1 million of unamortized deferred financing costs related to our former credit agreement and recorded approximately \$2.3 million deferred financing costs related to our new facility. These costs are included in other assets, net in our June 30, 2011 balance sheet, and are being amortized to interest expense over their four-year estimated useful life.



**Table of Contents****Note H: Stock Compensation**

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

|   | Three Months Ended |          | Nine Months Ended |          |
|---|--------------------|----------|-------------------|----------|
|   | June 30,           |          | June 30,          |          |
|   | 2011               | 2010     | 2011              | 2010     |
| Gross compensation cost                     | \$ 1,508           | \$ 1,113 | \$ 11,536         | \$ 3,457 |
| Income tax benefits                         | (499)              | (385)    | (3,952)           | (1,216)  |
| Stock compensation cost, net of tax benefit | \$ 1,009           | \$ 728   | \$ 7,584          | \$ 2,241 |

Included in the compensation cost for the nine months ended June 30, 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 three months ended June 30, 2011, stock option exercises resulted in the issuance of 17,000 shares of our Class A Non-voting Common Stock for total proceeds of \$0.2 million. In the nine months ended June 30, 2011, stock option exercises resulted in the issuance of 40,800 shares of our Class A Non-voting Common Stock for total proceeds of \$0.4 million. All options and restricted stock relate to our Class A Non-voting Common Stock.

**Note I: Income Taxes**

The current quarter's effective tax rate is 34.7% of pretax income compared to 36.9% for the prior year quarter. For the current year-to-date period, the effective tax rate is 35.2% compared to 36.0% 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 June 30, 2011 was \$28.7 million and \$97.2 million. For the comparable 2010 periods, comprehensive income was \$19.4 million and \$68.9 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 June 30, 2011, the accumulated balance of net foreign currency and unrealized gain activity excluded from net income was \$7.9 million, net of applicable tax of \$2.9 million. The net \$5.0 million is presented as Accumulated other comprehensive income (loss) in the balance sheet at June 30, 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 426 U.S. pawn stores, offers signature loans in 43 pawn stores and six EZMONEY stores and offers auto title loans in 44 pawn stores.

The Empeño Fácil segment offers pawn related activities in 155 Mexico pawn stores.

The EZMONEY Operations segment offers signature loans in 436 U.S. and 60 Canadian financial services stores. The segment also offers auto title loans in 365 of its U.S. stores and buys and sells second-hand goods

in three of its Canadian 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 June 30,**

|                                      | US Pawn Operations |           | Empeño Fácil |          | EZMONEY Operations |           |
|--------------------------------------|--------------------|-----------|--------------|----------|--------------------|-----------|
|                                      | 2011               | 2010      | 2011         | 2010     | 2011               | 2010      |
| Revenues:                            |                    |           |              |          |                    |           |
| Merchandise sales                    | \$ 58,168          | \$ 49,749 | \$ 6,401     | \$ 3,529 | \$ 5               | \$        |
| Jewelry scrapping sales              | 46,157             | 41,423    | 4,257        | 2,181    | 357                | 169       |
| Pawn service charges                 | 43,846             | 37,014    | 4,519        | 2,410    |                    |           |
| Signature loan fees                  | 691                | 455       |              |          | 33,504             | 31,841    |
| Auto title loan fees                 | 352                | 359       |              |          | 4,323              | 4,299     |
| Other                                | 161                | 105       | 6            |          | 405                | 8         |
| Total revenues                       | 149,375            | 129,105   | 15,183       | 8,120    | 38,594             | 36,317    |
| Merchandise cost of goods sold       | 32,911             | 27,749    | 3,767        | 1,961    | 13                 |           |
| Jewelry scrapping cost of goods sold | 28,754             | 27,328    | 3,486        | 1,862    | 197                | 85        |
| Signature loan bad debt              | 325                | 159       |              |          | 10,166             | 8,758     |
| Auto title loan bad debt             | 69                 | 44        |              |          | 467                | 792       |
| Net revenues                         | 87,316             | 73,825    | 7,930        | 4,297    | 27,751             | 26,682    |
| Operations expense                   | 44,280             | 39,148    | 5,406        | 2,999    | 17,067             | 15,805    |
| Store operating income               | \$ 43,036          | \$ 34,677 | \$ 2,524     | \$ 1,298 | \$ 10,684          | \$ 10,877 |

**Nine Months Ended June 30,**

|                                      | US Pawn Operations |            | Empeño Fácil |           | EZMONEY Operations |         |
|--------------------------------------|--------------------|------------|--------------|-----------|--------------------|---------|
|                                      | 2011               | 2010       | 2011         | 2010      | 2011               | 2010    |
| Revenues:                            |                    |            |              |           |                    |         |
| Merchandise sales                    | \$ 196,893         | \$ 174,060 | \$ 17,329    | \$ 10,142 | \$ 5               | \$      |
| Jewelry scrapping sales              | 137,221            | 112,660    | 11,363       | 4,550     | 847                | 233     |
| Pawn service charges                 | 133,355            | 112,211    | 11,589       | 6,316     |                    |         |
| Signature loan fees                  | 1,607              | 1,442      |              |           | 107,757            | 101,174 |
| Auto title loan fees                 | 1,092              | 1,261      |              |           | 15,196             | 10,455  |
| Other                                | 420                | 365        | 34           |           | 524                | 8       |
| Total revenues                       | 470,588            | 401,999    | 40,315       | 21,008    | 124,329            | 111,870 |
| Merchandise cost of goods sold       | 112,592            | 101,713    | 10,036       | 6,342     | 13                 |         |
| Jewelry scrapping cost of goods sold | 86,979             | 71,635     | 9,201        | 3,911     | 437                | 116     |

Edgar Filing: EZCORP INC - Form 10-Q

|                          |            |            |          |          |           |           |
|--------------------------|------------|------------|----------|----------|-----------|-----------|
| Signature loan bad debt  | 583        | 446        |          |          | 25,392    | 21,658    |
| Auto title loan bad debt | 110        | 166        |          |          | 1,710     | 1,450     |
| Net revenues             | 270,324    | 228,039    | 21,078   | 10,755   | 96,777    | 88,646    |
| Operations expense       | 131,293    | 119,259    | 14,533   | 7,736    | 51,476    | 47,343    |
| Store operating income   | \$ 139,031 | \$ 108,780 | \$ 6,545 | \$ 3,019 | \$ 45,301 | \$ 41,303 |

**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 June |           | Nine Months Ended June |            |
|---|-------------------------|-----------|------------------------|------------|
|   | 2011                    | 2010      | 2011                   | 2010       |
| U.S. Pawn Operations store operating income       | \$ 43,036               | \$ 34,677 | \$ 139,031             | \$ 108,780 |
| Empeño Fácil store operating income               | 2,524                   | 1,298     | 6,545                  | 3,019      |
| EZMONEY Operations store operating income         | 10,684                  | 10,877    | 45,301                 | 41,303     |
| Consolidated store operating income               | 56,244                  | 46,852    | 190,877                | 153,102    |
| Administrative expenses                           | 14,379                  | 13,576    | 56,250                 | 39,356     |
| Depreciation and amortization                     | 4,679                   | 3,759     | 13,324                 | 10,688     |
| (Gain) / loss on sale or disposal of assets       | 169                     | 734       | (2)                    | 1,301      |
| Interest income                                   | (21)                    | (135)     | (35)                   | (151)      |
| Interest expense                                  | 586                     | 311       | 1,186                  | 1,071      |
| Equity in net income of unconsolidated affiliates | (4,099)                 | (2,930)   | (12,157)               | (7,519)    |
| Other   | (103)                   | (100)     | (160)                  | (103)      |
| Consolidated income before income taxes           | \$ 40,654               | \$ 31,637 | \$ 132,471             | \$ 108,459 |

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

|   | U.S Pawn<br>Operations | Empeño<br>Fácil | EZMONEY<br>Operations | Consolidated |
|---|------------------------|-----------------|-----------------------|--------------|
| <b>Assets at June 30, 2011:</b>                                 |                        |                 |                       |              |
| Pawn loans  | \$ 124,810             | \$ 9,823        | \$                    | \$ 134,633   |
| Signature loans, net  | 1,174                  |                 | 10,915                | 12,089       |
| Auto title loans, net   | 757                    |                 | 1,591                 | 2,348        |
| Service charges and fees receivable, net                        | 23,169                 | 1,524           | 6,563                 | 31,256       |
| Inventory, net  | 70,320                 | 8,400           | 311                   | 79,031       |
| Goodwill  | 159,572                | 7,445           |                       | 167,017      |
| Total separately identified recorded segment assets             | \$ 379,802             | \$ 27,192       | \$ 19,380             | \$ 426,374   |
| Brokered signature loans outstanding from unaffiliated lenders  | \$ 168                 | \$              | \$ 20,571             | \$ 20,739    |
| Brokered auto title loans outstanding from unaffiliated lenders | \$ 152                 | \$              | \$ 5,408              | \$ 5,560     |
| <b>Assets at June 30, 2010:</b>                                 |                        |                 |                       |              |
| Pawn loans  | \$ 107,419             | \$ 5,388        | \$                    | \$ 112,807   |
| Signature loans, net  | 425                    |                 | 8,490                 | 8,915        |
| Auto title loans, net   | 638                    |                 | 2,164                 | 2,802        |
| Service charges and fees receivable, net                        | 19,322                 | 813             | 6,571                 | 26,706       |
| Inventory, net  | 57,176                 | 3,819           | 32                    | 61,027       |
| Goodwill  | 108,606                | 6,964           |                       | 115,570      |



Edgar Filing: EZCORP INC - Form 10-Q

|   |            |           |           |            |
|---|------------|-----------|-----------|------------|
| Total separately identified recorded segment assets             | \$ 293,586 | \$ 16,984 | \$ 17,257 | \$ 327,827 |
| Brokered signature loans outstanding from unaffiliated lenders  | \$ 228     | \$        | \$ 21,442 | \$ 21,670  |
| Brokered auto title loans outstanding from unaffiliated lenders | \$ 210     | \$        | \$ 5,557  | \$ 5,767   |
| <b>Assets at September 30, 2010:</b>                            |            |           |           |            |
| 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   |

**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 brokered loan 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 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<br>Balance<br>at<br>Beginning<br>of Period | Charge-offs | Recoveries | Provision | Allowance<br>Balance<br>at<br>End of<br>Period | Financing<br>Receivable<br>at End of<br>Period |
|--|--|-------------|------------|-----------|--|--|
| <b>Allowance for losses on signature loans:</b>  |  |             |            |           |  |  |
| Three-months ended June 30, 2011                 | \$ 1,110   | \$ (4,747)  | \$ 1,505   | \$ 3,796  | \$ 1,664                                       | \$ 13,753                                      |
| Three-months ended June 30, 2010                 | 503  | (3,733)     | 1,240      | 2,719     | 729  | 9,644  |
| Nine-months ended June 30, 2011                  | \$ 750   | \$ (12,992) | \$ 4,575   | \$ 9,331  | \$ 1,664                                       | \$ 13,753                                      |
| Nine-months ended June 30, 2010                  | 532  | (10,543)    | 4,174      | 6,566     | 729  | 9,644  |
| <b>Allowance for losses on auto title loans:</b> |  |             |            |           |  |  |
|  | \$ 810   | \$ (2,800)  | \$ 2,074   | \$ 489    | \$ 573   | \$ 2,921                                       |

|                                     |          |            |          |          |        |          |
|-------------------------------------|----------|------------|----------|----------|--------|----------|
| Three-months ended June 30,<br>2011 |          |            |          |          |        |          |
| Three-months ended June 30,<br>2010 | 811      | (2,197)    | 1,720    | 902      | 1,236  | 4,038    |
| Nine-months ended June 30,<br>2011  | \$ 1,137 | \$ (9,682) | \$ 7,646 | \$ 1,472 | \$ 573 | \$ 2,921 |
| Nine-months ended June 30,<br>2010  | 291      | (5,493)    | 5,022    | 1,416    | 1,236  | 4,038    |

The provision presented in the table above includes only principal and excludes items such non-sufficient funds 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*):

|                           | 1-30  | Days Past Due |       |       | Total<br>Past Due | Current<br>Receivable | Total<br>Financing<br>Receivable | Recorded<br>Investment<br>><br>90 Days<br>&<br>Accruing |
|---------------------------|-------|---------------|-------|-------|-------------------|-----------------------|----------------------------------|---|
|                           |       | 31-60         | 61-90 | >90   |                   |                       |                                  |   |
| <b>June 30, 2011</b>      |       |               |       |       |                   |                       |                                  |   |
| Auto title loans          | \$575 | \$382         | \$245 | \$285 | \$1,487           | \$1,434               | \$2,921                          | \$  |
| Reserve                   | \$93  | \$94          | \$84  | \$252 | \$523             | \$50                  | \$573                            | \$  |
| Reserve %                 | 16%   | 25%           | 34%   | 88%   | 35%               | 3%                    | 20%                              |   |
| <b>June 30, 2010</b>      |       |               |       |       |                   |                       |                                  |   |
| Auto title loans          | \$543 | \$422         | \$262 | \$949 | \$2,176           | \$1,862               | \$4,038                          | \$  |
| Reserve                   | \$109 | \$104         | \$129 | \$778 | \$1,120           | \$116                 | \$1,236                          | \$  |
| Reserve %                 | 20%   | 25%           | 49%   | 82%   | 51%               | 6%                    | 31%                              |   |
| <b>September 30, 2010</b> |       |               |       |       |                   |                       |                                  |   |
| 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%                              |   |

**Note N. Subsequent Events**

In July 2011, we acquired two pawn stores located in the Chicago metropolitan area and six stores in central Mexico for total consideration of approximately \$10.5 million. The consideration was comprised of \$3.1 million cash and approximately \$7.4 million related to the issuance of 208,763 shares of EZCORP Class A Non-voting Common Stock. The stores were acquired from two separate sellers. We preliminarily expect to record approximately \$2.8 million of net tangible assets and \$0.2 million of intangible assets attributable to non-compete agreements and goodwill of \$7.5 million. We expect to record goodwill of \$4.3 million in the U.S. Pawn Operations segment and \$3.2 million in the Empeño Fácil segment, all of which is expected to be tax 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 our initial entry into the Mexican states of Hidalgo and Tlaxcala, a greater presence in the Chicago pawn market and the ability to further leverage our expense structure through increased scale.

**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 June 30, 2011 vs. Three Months Ended June 30, 2010**

The following table presents selected, unaudited, consolidated financial data for our three-month periods ended June 30, 2011 and 2010 (the current and prior year quarters):

|                          | Three Months Ended June<br>30, |            | Percentage<br>Change |
|--------------------------|--------------------------------|------------|----------------------|
|                          | 2011                           | 2010       |                      |
|                          | <i>(in thousands)</i>          |            |                      |
| Net Revenues:            |                                |            |                      |
| Sales                    | \$ 115,345                     | \$ 97,051  | 18.8%                |
| Pawn service charges     | 48,365                         | 39,424     | 22.7%                |
| Signature loan fees      | 34,195                         | 32,296     | 5.9%                 |
| Auto title loan fees     | 4,675                          | 4,658      | 0.4%                 |
| Other                    | 572                            | 113        | 406.2%               |
| Total revenues           | 203,152                        | 173,542    | 17.1%                |
| Cost of goods sold       | 69,128                         | 58,985     | 17.2%                |
| Signature loan bad debt  | 10,491                         | 8,917      | 17.7%                |
| Auto title loan bad debt | 536                            | 836        | -35.9%               |
| Net revenues             | \$ 122,997                     | \$ 104,804 | 17.4%                |
| Net Income               | \$ 26,527                      | \$ 19,962  | 32.9%                |

**Nine Months Ended June 30, 2011 vs. Nine Months Ended June 30, 2010**

The following table presents selected, unaudited, consolidated financial data for our nine-month periods ended June 30, 2011 and 2010 (the current and prior year-to-date periods):

|                          | Nine Months Ended June<br>30, |            | Percentage<br>Change |
|--------------------------|-------------------------------|------------|----------------------|
|                          | 2011                          | 2010       |                      |
|                          | <i>(in thousands)</i>         |            |                      |
| Net Revenues:            |                               |            |                      |
| Sales                    | \$ 363,658                    | \$ 301,645 | 20.6%                |
| Pawn service charges     | 144,944                       | 118,527    | 22.3%                |
| Signature loan fees      | 109,364                       | 102,616    | 6.6%                 |
| Auto title loan fees     | 16,288                        | 11,716     | 39.0%                |
| Other                    | 978                           | 373        | 162.2%               |
| Total revenues           | 635,232                       | 534,877    | 18.8%                |
| Cost of goods sold       | 219,258                       | 183,717    | 19.3%                |
| Signature loan bad debt  | 25,975                        | 22,104     | 17.5%                |
| Auto title loan bad debt | 1,820                         | 1,616      | 12.6%                |

|              |            |            |       |
|--------------|------------|------------|-------|
| Net revenues | \$ 388,179 | \$ 327,440 | 18.5% |
| Net Income   | \$ 85,794  | \$ 69,442  | 23.5% |

Beginning in the quarter ended March 31, 2011, 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

**Table of Contents**

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.

*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 financial services including payday loans, installment loans and auto title loans, or fee-based credit services to customers seeking loans.

At June 30, 2011, we operated a total of 1,083 locations, consisting of 426 U.S. pawn stores (operating as EZPAWN or Value Pawn), 155 pawn stores in Mexico (operating as Empeño Fácil or Empeñe su Oro), 442 U.S. financial services stores (operating primarily as EZMONEY), 57 financial services stores in Canada (operating as CASHMAX) and three financial and retail services stores (operating as Cash Converters). In addition, we acquired 13 franchised stores in Canada pursuant to our acquisition of the Cash Converters master franchise in that country. 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 approximately 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 436 stores in the United States and 60 stores in Canada. The following tables present store data and products offered in each segment:

|  | Three Months Ended June 30, 2011 |                 |                       |              | Franchises |
|--|----------------------------------|-----------------|-----------------------|--------------|------------|
|  | Company-owned Stores             |                 |                       |              |            |
|  | U.S.<br>Pawn<br>Operations       | Empeño<br>Fácil | EZMONEY<br>Operations | Consolidated |            |
| Stores in operation:                       |                                  |                 |                       |              |            |
| Beginning of period                        | 409                              | 147             | 501                   | 1,057        |            |
| New openings                               |                                  | 8               | 1                     | 9            |            |
| Acquired                                   | 23                               |                 |                       | 23           | 13         |
| Sold, combined, or closed                  |                                  |                 | (6)                   | (6)          | (1)        |
| End of Period                              | 432                              | 155             | 496                   | 1,083        | 12         |
| Average number of stores during the period | 421                              | 151             | 498                   | 1,069        | 9          |

|  | Nine Months Ended June 30, 2011 |                 |                       |              | Franchises |
|--|---------------------------------|-----------------|-----------------------|--------------|------------|
|  | Company-owned Stores            |                 |                       |              |            |
|  | U.S.<br>Pawn<br>Operations      | Empeño<br>Fácil | EZMONEY<br>Operations | Consolidated |            |
| Stores in operation:                       |                                 |                 |                       |              |            |
| Beginning of period                        | 396                             | 115             | 495                   | 1,006        |            |
| New openings                               | 5                               | 40              | 11                    | 56           |            |
| Acquired                                   | 32                              |                 |                       | 32           | 13         |
| Sold, combined, or closed                  | (1)                             |                 | (10)                  | (11)         | (1)        |
| End of Period                              | 432                             | 155             | 496                   | 1,083        | 12         |
| Average number of stores during the period | 409                             | 138             | 497                   | 1,044        | 4          |

Three Months Ended June 30, 2010  
Company-owned Stores

Franchises

|  | U.S.<br>Pawn<br>Operations | Empeño<br>Fácil | EZMONEY<br>Operations | Consolidated |
|--|----------------------------|-----------------|-----------------------|--------------|
| Stores in operation:                       |                            |                 |                       |              |
| Beginning of period                        | 377                        | 79              | 476                   | 932          |
| New openings                               |                            | 20              | 15                    | 35           |
| Acquired                                   | 13                         |                 |                       | 13           |
| Sold, combined, or closed                  | (1)                        |                 |                       | (1)          |
| End of Period                              | 389                        | 99              | 491                   | 979          |
| Average number of stores during the period | 380                        | 88              | 483                   | 951          |

---

19



**Table of Contents**

|  | Nine Months Ended June 30, 2010 |                 |                       |              | Franchises |
|--|---------------------------------|-----------------|-----------------------|--------------|------------|
|  | Company-owned Stores            |                 |                       | Consolidated |            |
|  | U.S.<br>Pawn<br>Operations      | Empeño<br>Fácil | EZMONEY<br>Operations |              |            |
| Stores in operation:                       |                                 |                 |                       |              |            |
| Beginning of period                        | 375                             | 62              | 473                   | 910          |            |
| New openings                               | 2                               | 37              | 33                    | 72           |            |
| Acquired                                   | 13                              |                 |                       | 13           |            |
| Sold, combined, or closed                  | (1)                             |                 | (15)                  | (16)         |            |
| End of Period                              | 389                             | 99              | 491                   | 979          |            |
| Average number of stores during the period | 377                             | 76              | 477                   | 931          |            |

**Pawn and Retail 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 \$120 and \$130 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 and certain financial services stores, we acquire inventory for retail sales through pawn loan forfeitures and 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 9.2% of gross inventory at June 30, 2011 compared to 8.3% at June 30, 2010 and 7.4% at September 30, 2010. Changes in the valuation allowance are charged to merchandise cost of goods sold.

**Signature Loan and Auto Title Loan Activities**

At June 30, 2011, 286 of our U.S. financial services 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 \$510. 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 amount for our credit services offered in connection with payday loans. In 286 of the U.S. financial services 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 \$2,045. With each semi-monthly or bi-weekly installment payment, we earn a fee of 10% of the initial

loan amount. At June 30, 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 15 U.S. pawn stores, 90 U.S. financial services stores and 60 Canadian financial services 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.

**Table of Contents**

In 123 of our U.S. financial services stores and three U.S. pawn stores at June 30, 2011, we make installment loans subject to state law. These installment loans typically carry a term of four to seven months, with a series of equal installment payments due monthly, semi-monthly or on customers' paydays. Total interest and fees on these loans vary in accordance with state law and loan terms, but over the entire loan term, total approximately 50% to 175% of the original principal amount of the loan. Following legislative changes, we began offering installment loans rather than payday loans in Colorado in August 2010 and Wisconsin in January 2011. Installment loan principal amounts range from \$100 to \$3,000, but average approximately \$510.

At June 30, 2011, 365 of our U.S. financial services 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 \$800. We earn a fee of 12.5% to 25% of auto title loan amounts. Beginning July 2011, we re-introduced auto title loans in our Wisconsin stores following a legislative change allowing such loans.

**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 quarter ended March 31, 2011, we acquired five pawn stores located in Central and South Florida for approximately \$17.8 million in cash. In the current quarter we acquired 23 stores located in Florida, Iowa, Wisconsin, Utah and the Chicago metropolitan area for approximately \$31.6 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 the current quarter we also acquired for approximately \$1.7 million the trademark and licensing rights of Cash Converters in Canada, including rights to receive fees from 13 stores operated by franchisees in Canada.

In the quarter ending December 31, 2011, we expect to increase our ownership of Cash Converters' outstanding shares from 33% to 53% for a total cost of approximately \$70 million, 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. 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 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.

**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 June 30, 2011 vs. Three Months Ended June 30, 2010**

The following discussion compares our results of operations for the quarter ended June 30, 2011 to the quarter ended June 30, 2010. It should be read with the accompanying unaudited financial statements and related notes.

In the current quarter, consolidated total revenues increased 17%, or \$29.6 million to \$203.2 million, compared to the prior year quarter. Same store total revenues increased 7%, with the remainder of the increase coming from new and acquired stores. The overall increase in total consolidated revenues was comprised primarily of an \$18.3 million increase in merchandise and jewelry scrapping sales, an \$8.9 million increase in pawn service charges, and a \$1.9 million increase in signature loan fees.

In the current quarter, the U.S. Pawn Operations segment contributed \$8.4 million greater store operating income compared to the prior year quarter, primarily as the result of a \$6.6 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



**Table of Contents**

Empeño Fácil segment contributed \$1.2 million greater store operating income compared to the prior year quarter, primarily as the result of a \$2.1 million increase in pawn service charges and a \$1.5 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 \$0.2 million less store operating income, primarily from higher operating expenses. After a \$0.8 million increase in administrative expenses, a \$0.9 million increase in depreciation and amortization and a \$0.5 million decrease in loss on disposal of assets, consolidated operating income improved \$8.2 million to \$37.0 million. After a \$0.4 million increase in net interest expense, a \$1.2 million increase in our equity in the net income of unconsolidated affiliates and a \$2.5 million increase in income taxes and other smaller items, our consolidated net income improved 33% to \$26.5 million from \$20.0 million in the prior year quarter.

**U.S. Pawn Operations Segment**

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

|   | Three Months Ended June 30,   |                  |
|---|-------------------------------|------------------|
|   | 2011                          | 2010             |
|   | <i>(Dollars in thousands)</i> |                  |
| Merchandise sales                                       | \$ 58,168                     | \$ 49,749        |
| Jewelry scrapping sales                                 | 46,157                        | 41,423           |
| Pawn service charges                                    | 43,846                        | 37,014           |
| Signature loan fees                                     | 691                           | 455              |
| Auto title loan fees                                    | 352                           | 359              |
| Other   | 161                           | 105              |
| <b>Total revenues</b>                                   | <b>149,375</b>                | <b>129,105</b>   |
| Merchandise cost of goods sold                          | 32,911                        | 27,749           |
| Jewelry scrapping cost of goods sold                    | 28,754                        | 27,328           |
| Signature loan bad debt                                 | 325                           | 159              |
| Auto title loan bad debt                                | 69                            | 44               |
| <b>Net revenues</b>                                     | <b>87,316</b>                 | <b>73,825</b>    |
| <b>Operations expense</b>                               | <b>44,280</b>                 | <b>39,148</b>    |
| <b>Store operating income</b>                           | <b>\$ 43,036</b>              | <b>\$ 34,677</b> |
| <b>Other Data:</b>                                      |                               |                  |
| Gross margin on merchandise sales                       | 43.4%                         | 44.2%            |
| Gross margin on jewelry scrapping sales                 | 37.7%                         | 34.0%            |
| Gross margin on total sales                             | 40.9%                         | 39.6%            |
| Average pawn loan balance per pawn store at quarter-end | \$ 293                        | \$ 280           |
| Average yield on pawn loan portfolio (a)                | 157%                          | 155%             |
| 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 \$20.3 million, or 16% from the prior year quarter to \$149.4 million. Same store total revenues increased \$7.2 million, or 6%, and new and acquired stores net of closed stores contributed \$13.1 million. The overall increase in total revenues was comprised primarily of a \$13.2 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 18% from the prior year quarter to \$43.8 million. Same store pawn service charges increased \$3.4 million, or 9% due primarily to a higher average pawn loan balance, while new and acquired stores net of closed stores contributed \$3.4 million. Inventory purchases from customers represent 35% of total inventory additions, excluding acquisitions, in the current and prior year quarters. The current quarter's merchandise sales gross profit increased \$3.3 million, or 15% from the prior year quarter to \$25.3 million. This was due to a \$3.9 million, or 8% increase in same store sales and a \$4.5 million increase in sales from new and acquired stores net of closed stores, partially offset by a 0.8 percentage point decrease in gross margins to 43.4%.

**Table of Contents**

The current quarter's gross profit on jewelry scrapping sales increased \$3.3 million, or 23% from the prior year quarter to \$17.4 million. Jewelry scrapping revenues increased \$4.7 million, or 11% due to a 28% increase in proceeds realized per gram of gold jewelry scrapped partially offset by a 16% decrease in gold volume. The current quarter's jewelry scrapping sales include the sale of approximately \$2.6 million of loose diamonds removed from scrapped jewelry compared to \$1.1 million of 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 \$1.4 million, or 5%. Gross margins on gold scrapping increased 3.7 percentage points to 37.7% as proceeds per gram increased at a greater rate than our gold lending guidelines.

Operations expense increased to \$44.3 million (51% of net revenues) in the current quarter from \$39.1 million (53% 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. 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 \$13.5 million greater net revenues from U.S. pawn activities, partially offset by the \$5.1 million higher operations expense resulted in an \$8.4 million overall increase in store operating income from the U.S. Pawn Operations segment. The segment comprised 77% of consolidated store operating income in the current quarter compared to 74% 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 June 30,    |                 |                              |                  |
|---|--------------------------------|-----------------|------------------------------|------------------|
|   | 2011<br>(Dollars in thousands) | 2010            | 2011<br>(Pesos in thousands) | 2010             |
| Merchandise sales                                       | \$ 6,401                       | \$ 3,529        | \$ 75,119                    | \$ 44,328        |
| Jewelry scrapping sales                                 | 4,257                          | 2,181           | 49,973                       | 27,300           |
| Pawn service charges                                    | 4,519                          | 2,410           | 53,046                       | 30,257           |
| Other   | 6                              |                 | 67                           |                  |
| <b>Total revenues</b>                                   | <b>15,183</b>                  | <b>8,120</b>    | <b>178,205</b>               | <b>101,885</b>   |
| Merchandise cost of goods sold                          | 3,767                          | 1,961           | 44,191                       | 24,649           |
| Jewelry scrapping cost of goods sold                    | 3,486                          | 1,862           | 40,921                       | 23,281           |
| <b>Net revenues</b>                                     | <b>7,930</b>                   | <b>4,297</b>    | <b>93,093</b>                | <b>53,955</b>    |
| Operations expense                                      | 5,406                          | 2,999           | 63,469                       | 37,707           |
| <b>Store operating income</b>                           | <b>\$ 2,524</b>                | <b>\$ 1,298</b> | <b>\$ 29,624</b>             | <b>\$ 16,248</b> |
| <b>Other Data:</b>                                      |                                |                 |                              |                  |
| Gross margin on merchandise sales                       | 41.1%                          | 44.4%           | 41.1%                        | 44.4%            |
| Gross margin on jewelry scrapping sales                 | 18.1%                          | 14.6%           | 18.1%                        | 14.6%            |
| Gross margin on total sales                             | 31.9%                          | 33.0%           | 31.9%                        | 33.0%            |
| Average pawn loan balance per pawn store at quarter-end | \$ 63                          | \$ 54           | \$ 747                       | \$ 689           |
| Average yield on pawn loan portfolio (a)                | 187%                           | 190%            | 187%                         | 190%             |
| Pawn loan redemption rate                               | 73%                            | 73%             | 73%                          | 73.0%            |

(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 average exchange rate used to translate Empeño Fácil's current quarter results from Mexican pesos to U.S. dollars was 7% stronger than in the prior year quarter, affecting all revenue and expense items. Store operating income improved 94% in the current quarter in dollars and 82% in peso terms. The 85% 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 36% of the stores open at June 30, 2011 had been open less than a year, and we opened 8 new stores in the current quarter.



**Table of Contents**

Empeño Fácil's total revenues increased \$7.1 million, or 87% in the current quarter to \$15.2 million. Same store total revenues increased \$2.6 million or 32%, and new stores contributed \$4.5 million. The overall increase in total revenues was comprised of a \$5.0 million increase in merchandise and jewelry scrapping sales and a \$2.1 million improvement in pawn service charges.

Empeño Fácil's pawn service charge revenues increased \$2.1 million, or 88% in the current quarter to \$4.5 million. Same store pawn service charges increased approximately \$1.0 million, or 43% and new stores contributed \$1.1 million. The same store increase was due primarily to an increase in average loan balance during the quarter. The current quarter's merchandise gross profit increased \$1.1 million from the prior year quarter to \$2.6 million. This was due to a \$1.0 million, or 29% same store sales increase and \$1.9 million in sales from new stores, partially offset by a 3.3 percentage point decrease in gross margins to 41.1%.

The current quarter's gross profit on jewelry scrapping sales increased \$0.5 million from the prior year quarter to \$0.8 million. Jewelry scrapping revenues increased \$2.1 million due to an increase in volume and the sales proceeds per gram. Margins improved 3.5 percentage points to 18.1%. 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 \$5.4 million (68% of net revenues) in the current quarter from \$3.0 million (70% of net revenues) in the prior year quarter. The dollar increase in expense was primarily due to new stores. We expect continued 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 \$3.6 million greater net revenues were partially offset by the \$2.4 million higher operations expense, resulting in a \$1.2 million increase in store operating income from the Empeño Fácil segment. Empeño Fácil comprised 4% of consolidated store operating income in the current quarter compared to 3% 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 June<br>30, |               |
|--|--------------------------------|---------------|
|  | 2011                           | 2010          |
|  | <i>(Dollars in thousands)</i>  |               |
| Signature loan fees  | \$ 33,504                      | \$ 31,841     |
| Auto title loan fees   | 4,323                          | 4,299         |
| Merchandise sales  | 5                              |               |
| Jewelry scrapping sales  | 357                            | 169           |
| Other  | 405                            | 8             |
| <br>Total revenues   | <br>38,594                     | <br>36,317    |
| <br>Signature loan bad debt  | <br>10,166                     | <br>8,758     |
| Auto title loan bad debt   | 467                            | 792           |
| Merchandise cost of goods sold   | 13                             |               |
| Jewelry scrapping cost of goods sold   | 197                            | 85            |
| <br>Net revenues   | <br>27,751                     | <br>26,682    |
| Operations expense   | 17,067                         | 15,805        |
| <br>Store operating income   | <br>\$ 10,684                  | <br>\$ 10,877 |
| <br>Other Data:  |                                |               |
| Signature loan bad debt as a percent of signature loan fees                        | 30.3%                          | 27.5%         |
| Auto title loan bad debt as a percent of auto title loan fees                      | 10.8%                          | 18.4%         |
| Average signature loan balance per store offering signature loans at quarter-end   |                                |               |
| (a)  | \$ 63                          | \$ 61         |
| Average auto title loan balance per store offering auto title loans at quarter-end |                                |               |
| (b)  | \$ 19                          | \$ 19         |

(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 \$2.3 million, or 6% to \$38.6 million, compared to the prior year quarter. This was due to a \$1.5 million, or 4% increase in same store total revenues and \$0.8 million of total revenues at new stores net of closed or consolidated stores. The overall increase in total revenues was comprised primarily of a \$1.7 million increase in signature loan fees, which include both installment loans and payday loans, a \$0.2 million increase in jewelry scrapping sales and a \$0.4 million increase in other revenues. 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 one Cash Converters store in Canada and converted two of our CASHMAX stores to the Cash Converters brand bringing our total there to 60. At June 30, 2010, we had 35 Canadian stores. In the quarter we closed six EZMONEY stores in the U.S., bringing our total to 436.

The segment's signature loan net revenues increased \$0.3 million, or 1% to \$23.3 million, compared to the prior year quarter due to a growth in revenues mostly offset by an increase in bad debt. Total signature loan revenues increased 5%, and same store signature loan revenues increased 4% due to the growth in installment loans as the product continues to mature and following its introduction in Colorado and Wisconsin as a replacement for payday loans. Revenue growth slowed as we experienced increased competitive pressures in Texas from other payday loan stores, online payday lenders and auto title lenders. Partially offsetting the revenue growth was a 2.8 percentage point increase in bad debt to 30.3% of

**Table of Contents**

fees, largely due to the migration of many customers to installment loans. We anticipate bad debt rates will improve over the next several quarters as we optimize our underwriting and operational execution specifically on installment loans.

The segment's net revenues from auto title loans increased to \$3.9 million in the current quarter, compared to \$3.5 million in the prior year quarter, as the product continues to mature. Same store auto title loan fees increased 2%, partially offset by the regulatory elimination of auto title loans in Wisconsin beginning January 1, 2011. Bad debt decreased to 10.8% of related fees from 18.4% in the prior year quarter, mainly due to some operational improvements at our collections center. Following a favorable legislative change, auto title loans were re-introduced in Wisconsin in July 2011, which we expect will increase auto title loan activity in future periods. Including the 35 Wisconsin stores, we now offer auto title loans in 400 EZMONEY stores.

The EZMONEY segment began buying and scrapping gold jewelry in the prior year. The segment generated \$0.2 million of jewelry scrapping gross profit in the current quarter, with a 45% gross margin compared to \$0.1 million with a 50% gross margin in the prior year quarter.

In April 2011, the EZMONEY segment acquired the Cash Converters franchise rights for Canada which allows us to open new stores and operate our Canadian stores as Cash Converters stores. By June 30, 2011, two of our Canadian stores had been rebranded and began buying and selling second-hand goods in addition to offering payday loans. We also began receiving franchise fees from franchisees, comprising the majority of the increase in the segment's other revenues. Merchandise sales in the quarter were nominal. We expect to rebrand our remaining Canadian stores as Cash Converters stores within the next year.

Operations expense increased to \$17.1 million (62% of net revenues) from \$15.8 million (59% of net revenues) in the prior year quarter. The increase was due to additional labor, rent, and other costs at new and existing stores.

In the current quarter, the \$0.3 million increase in net revenues from signature loans, the \$0.3 million increase in net revenues from auto title loans, and the \$0.5 million increase in scrap sales gross profit and other revenues were more than offset by a \$1.3 million greater operations expense, resulting in a \$0.2 million, or 2% decrease in the segment's store operating income. The EZMONEY Operations segment comprised 19% of consolidated store operating income in the current quarter compared to 23% 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 June<br>30, |           |
|---|--------------------------------|-----------|
|   | 2011                           | 2010      |
|   | <i>(in thousands)</i>          |           |
| Consolidated store operating income               | \$ 56,244                      | \$ 46,852 |
| Administrative expenses                           | 14,379                         | 13,576    |
| Depreciation and amortization                     | 4,679                          | 3,759     |
| (Gain) / loss on sale or disposal of assets       | 169                            | 734       |
| Interest income                                   | (21)                           | (135)     |
| Interest expense                                  | 586                            | 311       |
| Equity in net income of unconsolidated affiliates | (4,099)                        | (2,930)   |
| Other   | (103)                          | (100)     |
| Consolidated income before income taxes           | 40,654                         | 31,637    |
| Income tax expense                                | 14,127                         | 11,675    |
| Net income  | \$ 26,527                      | \$ 19,962 |

Administrative expenses were \$14.4 million in the current quarter (12% of net revenues) compared to \$13.6 million (13% of net revenues) in the prior year-to-date period. The dollar increase is due to a \$0.4 million increase in stock compensation, a \$0.2 million increase in charitable donations and a \$0.2 million net increase in other items.

Depreciation and amortization expense was \$4.7 million in the current quarter, compared to \$3.8 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.

**Table of Contents**

Our loss on disposal of assets, due to store closures or consolidations, decreased to \$0.2 million in the current quarter compared to \$0.7 million in the prior year quarter. The prior year amount included a \$0.5 million charge related to the closure of stores in Colorado and Wisconsin following the passage of legislative changes in those states negatively affecting payday loans.

Our \$0.6 million net interest expense in the current quarter and \$0.2 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. At June 30, 2011 we had \$26.5 million in outstanding debt under our revolving credit agreement compared to \$27.5 million of term debt outstanding at the end of the prior year quarter.

Our estimated equity in the net income of Albemarle & Bond increased \$0.1 million, or 8% in the current quarter to \$1.7 million. 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%. Our estimated equity in the net income of Cash Converters increased \$1.1 million or 79% in the current quarter to \$2.4 as a result of Cash Converters' higher earnings and our additional investment acquired in the prior year quarter accounted for on a three-month lag.

The current quarter income tax expense was \$14.1 million (34.7% of pretax income) compared to \$11.7 million (36.9% 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 \$8.2 million over the prior year quarter to \$37.0 million. Contributing to this were the \$8.4 million and \$1.2 million increases in store operating income in our U.S. Pawn and Empeño Fácil segments and the \$0.5 million improvement in loss of disposal of assets. Partially offsetting these was a \$0.2 million decrease in store operating income in our EZMONEY segment, a \$0.8 million increase in other administrative expenses and a \$0.9 million increase in depreciation and amortization. After a \$1.2 million increase in our equity in the net income of unconsolidated affiliates, a \$0.4 million increase in net interest expense and a \$2.5 million increase in income taxes and other smaller items, net income improved 33% to \$26.5 million from \$20.0 million in the prior year quarter.

**Table of Contents****Nine Months Ended June 30, 2011 vs. Nine Months Ended June 30, 2010**

The following discussion compares our results of operations for the nine months ended June 30, 2011 to the nine months ended June 30, 2010. It should be read with the accompanying unaudited financial statements and related notes.

**U.S. Pawn Operations Segment**

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

|  | Nine Months Ended June 30,    |                |
|--|-------------------------------|----------------|
|  | 2011                          | 2010           |
|  | <i>(Dollars in thousands)</i> |                |
| Merchandise sales                                      | \$ 196,893                    | \$ 174,060     |
| Jewelry scrapping sales                                | 137,221                       | 112,660        |
| Pawn service charges                                   | 133,355                       | 112,211        |
| Signature loan fees                                    | 1,607                         | 1,442          |
| Auto title loan fees                                   | 1,092                         | 1,261          |
| Other  | 420                           | 365            |
| <br>Total revenues                                     | <br>470,588                   | <br>401,999    |
| <br>Merchandise cost of goods sold                     | <br>112,592                   | <br>101,713    |
| Jewelry scrapping cost of goods sold                   | 86,979                        | 71,635         |
| Signature loan bad debt                                | 583                           | 446            |
| Auto title loan bad debt                               | 110                           | 166            |
| <br>Net revenues                                       | <br>270,324                   | <br>228,039    |
| Operations expense                                     | 131,293                       | 119,259        |
| <br>Store operating income                             | <br>\$ 139,031                | <br>\$ 108,780 |
| <br>Other Data:  |                               |                |
| Gross margin on merchandise sales                      | 42.8%                         | 41.6%          |
| Gross margin on jewelry scrapping sales                | 36.6%                         | 36.4%          |
| Gross margin on total sales                            | 40.3%                         | 39.5%          |
| Average pawn loan balance per pawn store at period-end | \$ 293                        | \$ 280         |
| Average yield on pawn loan portfolio (a)               | 159%                          | 158%           |
| 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 \$68.6 million, or 17% from the prior year-to-date period to \$470.6 million. Same store total revenues increased \$37.8 million, or 9%, and new and acquired stores net of closed stores contributed \$30.8 million. The overall increase in total revenues was comprised primarily of a \$47.4 million increase in merchandise and jewelry scrapping sales and a \$21.1 million increase in pawn service charges.

Our current year-to-date period U.S. pawn service charge revenues increased \$21.1 million, or 19% from the prior year-to-date period to \$133.4 million. Same store pawn service charges increased \$13.6 million, or 12%, while new and acquired stores net of closed stores contributed \$7.5 million. The same store improvement was due to a higher average pawn loan balance coupled with a slightly higher yield. Inventory purchases from customers increased 22%

from the prior year-to-date period and represent 32% of total inventory additions, excluding acquisitions, compared to 31% of total inventory additions in the prior year-to-date period.

The current year-to-date period's merchandise sales gross profit increased \$12.0 million, or 17% from the prior year-to-date period to \$84.3 million. This was due to an \$11.1 million, or 6% increase in same store sales, an \$11.7 million increase in sales from new and acquired stores net of closed stores and a 1.2 percentage point improvement in gross margins to 42.8%.



**Table of Contents**

The current year-to-date period's gross profit on jewelry scrapping sales increased \$9.2 million, or 22% from the prior year-to-date period to \$50.2 million. Jewelry scrapping revenues increased \$24.6 million, or 22% due to a 29% increase in proceeds realized per gram of gold jewelry scrapped, partially offset by an 8% decrease in gold volume. Jewelry scrapping sales include the sale of approximately \$4.0 million in the current year-to-date period and \$1.5 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 \$15.3 million, or 21%. Gross margins on gold scrapping increased 0.2 of a percentage point to 36.6% as proceeds per gram increased at a slightly faster rate than our gold lending guidelines.

Operations expense increased to \$131.3 million (49% of net revenues) in the current year-to-date period from \$119.3 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. 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 \$42.4 million greater net revenues from U.S. pawn activities, the \$12.0 million higher operations expense and other smaller items resulted in a \$30.3 million overall increase in store operating income from the U.S. Pawn Operations segment. The segment comprised 73% of consolidated store operating income compared to 71% 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:

|  | Nine Months Ended June 30,     |                 |                              |                  |
|--|--------------------------------|-----------------|------------------------------|------------------|
|  | 2011<br>(Dollars in thousands) | 2010            | 2011<br>(Pesos in thousands) | 2010             |
| Merchandise sales                                      | \$ 17,329                      | \$ 10,142       | \$ 208,889                   | \$ 129,713       |
| Jewelry scrapping sales                                | 11,363                         | 4,550           | 136,885                      | 57,742           |
| Pawn service charges                                   | 11,589                         | 6,316           | 139,495                      | 80,769           |
| Other  | 34                             |                 | 404                          |                  |
| <b>Total revenues</b>                                  | <b>40,315</b>                  | <b>21,008</b>   | <b>485,673</b>               | <b>268,224</b>   |
| Merchandise cost of goods sold                         | 10,036                         | 6,342           | 120,901                      | 81,192           |
| Jewelry scrapping cost of goods sold                   | 9,201                          | 3,911           | 110,771                      | 49,592           |
| <b>Net revenues</b>                                    | <b>21,078</b>                  | <b>10,755</b>   | <b>254,001</b>               | <b>137,440</b>   |
| Operations expense                                     | 14,533                         | 7,736           | 175,042                      | 98,884           |
| <b>Store operating income</b>                          | <b>\$ 6,545</b>                | <b>\$ 3,019</b> | <b>\$ 78,959</b>             | <b>\$ 38,556</b> |
| <b>Other Data:</b>                                     |                                |                 |                              |                  |
| Gross margin on merchandise sales                      | 42.1%                          | 37.5%           | 42.1%                        | 37.5%            |
| Gross margin on jewelry scrapping sales                | 19.0%                          | 14.0%           | 19.0%                        | 14.0%            |
| Gross margin on total sales                            | 33.0%                          | 30.2%           | 33.0%                        | 30.2%            |
| Average pawn loan balance per pawn store at period-end | \$ 63                          | \$ 54           | \$ 747                       | \$ 689           |
| Average yield on pawn loan portfolio (a)               | 184%                           | 183%            | 184%                         | 183%             |
| Pawn loan redemption rate                              | 73%                            | 76%             | 73%                          | 76%              |

- (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 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 117% in the current year-to-date period in dollars and 105% in peso terms. The 96% increase in net revenues was further improved by greater scale at same stores. Approximately 36% of the stores open at June 30, 2011 had been open less than a year. We opened 40 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 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.

**Table of Contents**

Empeño Fácil's total revenues increased \$19.3 million, or 92% in the current year-to-date period to \$40.3 million. Same store total revenues increased \$7.5 million, or 36% and new stores contributed \$11.8 million. The overall increase in total revenues was comprised of a \$14.0 million increase in merchandise and jewelry scrapping sales and a \$5.3 million improvement in pawn service charges.

Empeño Fácil's pawn service charge revenues increased \$5.3 million, or 83% in the current year-to-date period to \$11.6 million. Same store pawn service charges increased approximately \$2.7 million, or 42% and new stores contributed \$2.6 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 \$3.5 million from the prior year-to-date period to \$7.3 million. This was due to a \$2.8 million, or 28% same store sales increase and \$4.4 million in sales from new stores, combined with a 4.6 percentage point improvement in gross margins to 42.1%. 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 \$1.5 million from the prior year-to-date period to \$2.2 million. Jewelry scrapping revenues increased \$6.8 million due to an increase in volume and the sales proceeds per gram. Margins improved 5.0 percentage points to 19.0%. 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 \$14.5 million (69% of net revenues) from \$7.7 million (72% 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 \$10.3 million greater net revenues were partially offset by the \$6.8 million higher operations expense, resulting in a \$3.5 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:

|   | Nine Months Ended June 30,    |               |
|---|-------------------------------|---------------|
|   | 2011                          | 2010          |
|   | <i>(Dollars in thousands)</i> |               |
| Signature loan fees   | \$ 107,757                    | \$ 101,174    |
| Auto title loan fees  | 15,196                        | 10,455        |
| Merchandise sales   | 5                             |               |
| Jewelry scrapping sales   | 847                           | 233           |
| Other   | 524                           | 8             |
| <br>Total revenues  | <br>124,329                   | <br>111,870   |
| Signature loan bad debt   | 25,392                        | 21,658        |
| Auto title loan bad debt  | 1,710                         | 1,450         |
| Merchandise cost of goods sold  | 13                            |               |
| Jewelry scrapping cost of goods sold  | 437                           | 116           |
| <br>Net revenues  | <br>96,777                    | <br>88,646    |
| <br>Operations expense  | <br>51,476                    | <br>47,343    |
| <br>Store operating income  | <br>\$ 45,301                 | <br>\$ 41,303 |
| <br>Other Data:   |                               |               |
| Signature loan bad debt as a percent of signature loan fees                       | 23.6%                         | 21.4%         |
| Auto title loan bad debt as a percent of auto title loan fees                     | 11.3%                         | 13.9%         |
| Average signature loan balance per store offering signature loans at period-end   |                               |               |
| (a)   | \$ 63                         | \$ 61         |
| Average auto title loan balance per store offering auto title loans at period-end |                               |               |
| (b)   | \$ 19                         | \$ 19         |

(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 \$12.5 million, or 11% to \$124.3 million, compared to the prior year-to-date period. This was due to a \$10.1 million, or 9% increase in same store total revenues and \$2.4 million of total revenues at new stores net of closed or consolidated stores. The overall increase in total revenues was comprised primarily of a \$6.6 million increase in signature loan revenues, including both installment loans and payday loans, a \$4.7 million increase in auto title loan fees, a \$0.6 million increase in jewelry scrapping sales and a \$0.5 million increase in other revenues. 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 eleven stores in Canada and closed two stores, bringing our total there to 60. At June 30, 2010, we had 35 Canadian stores. In the current year-to-date period, we closed eight EZMONEY stores in the U.S., bringing our total to 436.

The segment's signature loan net revenues increased \$2.8 million, or 4%, to \$82.4 million, compared to the prior year-to-date period due to a growth in revenues partially offset by an increase in installment loan bad debt. Total signature loan revenues increased 7% and same store signature loan revenues increased 5% due to the growth in installment loans as the product continues to mature and following its introduction in Colorado and Wisconsin as a replacement for payday loans. Partially offsetting the revenue growth was a 2.2 percentage point increase in bad debt to 23.6% of fees, largely due to the

**Table of Contents**

migration of many customers to installment loans. We anticipate bad debt rates will improve over the next several quarters as we fine-tune our underwriting and operational execution specifically on installment loans.

The segment's net revenues from auto title loans increased to \$13.5 million in the current year-to-date period, compared to \$9.0 million in the prior year-to-date period, as the product continues to mature. Same store auto title loan fees increased 48%, partially offset by the regulatory elimination of auto title loans in Wisconsin beginning January 1, 2011. Bad debt improved to 11.3% of related fees from 13.9% in the prior year-to-date period mainly due to some operational improvements at our collections center. Following a favorable legislative change, auto title loans were re-introduced in Wisconsin in July 2011, which we expect will increase auto title loan activity in future periods. Including the 35 Wisconsin stores, we now offer auto title loans in 400 EZMONEY stores.

The EZMONEY segment began buying and scrapping gold jewelry in the prior year. The segment generated \$0.4 million of jewelry scrapping gross profit in the current year-to-date period, with a 48% gross margin compared to \$0.1 million with a 50% gross margin in the prior year-to-date period.

In April 2011, the EZMONEY segment acquired the Cash Converters franchise rights for Canada which allows us to open new stores and operate our Canadian stores as Cash Converters stores. By June 30, 2011, two of our Canadian stores had been rebranded and began buying and selling second-hand goods in addition to offering payday loans. We also began receiving franchise fees from franchisees, comprising the majority of the increase in the segment's other revenues. Merchandise sales in the year-to-date period were nominal. We expect to rebrand our remaining Canadian stores as Cash Converters stores within the next year.

Operations expense increased to \$51.5 million from \$47.3 million in the prior year-to-date period but remained flat at 53% of net revenues. The dollar increase was due to additional labor, rent and other costs at new and existing stores. In the current year-to-date period, the \$4.5 million increase in net revenues from auto title loans, the \$2.8 million increase in net revenues from signature loans and the \$0.8 million increase in jewelry scrapping gross profit and other revenues were partially offset by a \$4.1 million greater operations expense, resulting in a \$4.0 million, or 10% increase in the segment's store operating income. The EZMONEY Operations segment comprised 24% of consolidated store operating income compared to 27% 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:

|   | Nine Months Ended June 30, |            |
|---|----------------------------|------------|
|   | 2011                       | 2010       |
|   | <i>(in thousands)</i>      |            |
| Consolidated store operating income               | \$ 190,877                 | \$ 153,102 |
| Administrative expenses                           | 56,250                     | 39,356     |
| Depreciation and amortization                     | 13,324                     | 10,688     |
| (Gain) / loss on sale or disposal of assets       | (2)                        | 1,301      |
| Interest income                                   | (35)                       | (151)      |
| Interest expense                                  | 1,186                      | 1,071      |
| Equity in net income of unconsolidated affiliates | (12,157)                   | (7,519)    |
| Other   | (160)                      | (103)      |
| Consolidated income before income taxes           | 132,471                    | 108,459    |
| Income tax expense                                | 46,677                     | 39,017     |
| Net income  | \$ 85,794                  | \$ 69,442  |

Administrative expenses in the current year-to-date period were \$56.3 million (14% of net revenues) compared to \$39.4 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 \$6.0 million over the prior year-to-date period but remained unchanged at 12% of net revenues in the current year-to-date period.

**Table of Contents**

Depreciation and amortization expense was \$13.3 million in the current year-to-date period, compared to \$10.7 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, losses on disposal of assets related to store closures were offset by gains on disposal of other assets. In the prior year-to-date period we recognized a \$1.3 million loss on store closures or consolidations including a charge for 11 store closures following the passage of legislation negative to the payday lending industry in Colorado and Wisconsin.

Our \$1.2 million net interest expense in the current year-to-date period and \$0.9 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. At June 30, 2011 we had \$26.5 million in outstanding debt under our revolving credit agreement compared to \$27.5 million of term debt outstanding at the end of the prior year quarter. Our estimated equity in the net income of Albemarle & Bond remained relatively flat in the current year-to-date period. 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 estimated equity in the net income of Cash Converters was \$6.8 million compared to \$2.1 million in the prior year-to-date period. The increase was due to an improvement in Cash Converters underlying earnings, an increase in our ownership percentage and their earnings being included for only a portion of 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 146-day period from our November 6, 2009 initial investment date to the March 31, 2010 end of Cash Converters period.

Income tax expense was \$46.7 million (35.2% of pretax income) compared to \$39.0 million (36.0% 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 \$19.5 million over the prior year-to-date period to \$121.3 million. Contributing to this were the \$30.3 million, \$3.5 million and \$4.0 million increases in store operating income in our U.S. Pawn, Empeño Fácil and EZMONEY segments, respectively, and the \$1.3 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 \$6.0 million increase in other administrative expenses and the \$2.6 million increase in depreciation and amortization. After a \$4.6 million increase in our equity in the net income of unconsolidated affiliates, a \$7.7 million increase in income taxes and other smaller items, net income improved to \$85.8 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 \$92.9 million from \$69.4 million in the prior year-to-date period.

***Liquidity and Capital Resources***

In the current year-to-date period, our \$107.0 million cash flow from operations consisted of (a) net income plus several non-cash items, aggregating to \$118.2 million, net of (b) \$11.2 million of normal, recurring changes in operating assets and liabilities. In the prior year-to-date period, our \$80.5 million cash flow from operations consisted of (a) net income plus several non-cash items, aggregating to \$85.8 million, net of (b) \$5.3 million of normal, recurring changes in operating assets and liabilities.

In addition to the \$107.0 million cash flow from operations, we also increased available liquidity through receipt of \$7.3 million in dividends from our unconsolidated affiliates and a \$1.5 million increase in net borrowings on our credit facility. The \$100.6 million of net cash used in investing activities during the current year-to-date period was funded by cash flow from operations and these other cash sources. In the current year-to-date period, we acquired 32 pawn stores and the trademark and licensing rights of Cash Converters in Canada for \$64.8 million, invested \$24.4 million in additional property and equipment and invested \$18.6 million in additional customer loans net of repayments and the recovery of principal through the sale of forfeited loan collateral. In the current year-to-date period, we incurred \$2.4 million of debt issuance costs related to the closing of our new credit agreement. Net of



related tax benefits and proceeds from option exercises, we also paid \$3.8 million of withholding tax upon the net share settlement of restricted stock vesting.

The net effect of these cash flows was a \$1.6 million increase in cash on hand, providing a \$27.5 million ending cash balance.

**Table of Contents**

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

|  | Total           | Payments due by Period |                |                |                   |
|--|-----------------|------------------------|----------------|----------------|-------------------|
|  |                 | Less than 1 year       | 1-3 years      | 3-5 years      | More than 5 years |
| Contractual Obligations                |                 |                        |                |                |                   |
| Long-term debt obligations             | \$ 26.5         | \$                     | \$             | \$ 26.5        | \$                |
| Interest on long-term debt obligations | 7.1             | 1.8                    | 3.7            | 1.6            |                   |
| Operating lease obligations            | 159.3           | 42.5                   | 65.3           | 32.5           | 19.0              |
| <b>Total</b>                           | <b>\$ 192.9</b> | <b>\$ 44.3</b>         | <b>\$ 69.0</b> | <b>\$ 60.6</b> | <b>\$ 19.0</b>    |

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 June 30, 2011, our maximum exposure for losses on letters of credit, if all brokered loans defaulted and none was collected, was \$29.6 million. Of that total, \$5.9 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 442 U.S. EZMONEY financial services stores, 158 adjoin an EZPAWN store. The lease agreements at approximately 94% of the remaining 284 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 three months of the fiscal year ending September 30, 2011, we plan to open approximately 30 new stores for an aggregate investment of \$3.6 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.

On May 10, 2011, we entered into a new senior secured credit agreement with a syndication of five banks, replacing our previous credit agreement. Among other things, the new credit agreement provides for a four year \$175 million revolving credit facility that we may, under the terms of the agreement, request to be increased to a total of \$225 million. Upon entering the new credit agreement, we repaid and retired all other outstanding debt and issued \$5.0 million of bank letters of credit, leaving \$170 million available on the facility. The new credit facility increases our available credit and provides greater flexibility to make investments and acquisitions both domestically and internationally. Terms of the credit agreement require, among other things, that we meet certain financial covenants. We were in compliance with all covenants at June 30, 2011 and expect to remain in compliance based on our expected future performance.

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. As of June 30, 2011, we had not issued any of the shares covered by the registration statement.

**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.

**Table of Contents**

We include an allowance for Expected LOC Losses in Accounts payable and other accrued expenses on our balance sheet. At June 30, 2011, the allowance for Expected LOC Losses was \$1.7 million. At that date, our maximum exposure for losses on letters of credit, if all brokered loans defaulted and none was collected, was \$29.6 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 requires 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 three months of the fiscal year ending September 30, 2011, our interest expense during that period would increase by approximately \$33,000. This amount is determined by considering the impact of the hypothetical interest rate change on our variable-rate debt at June 30, 2011.

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 and our owned operations in Mexico and Canada. Albemarle & Bond's functional currency is the British pound, Cash Converter's functional currency is the Australian dollar, our Mexican operation's functional currency is the Mexican peso, and our Canadian operation'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 strengthening in the British pound during the quarter ended March 31, 2011 (included in our June 30, 2011 results on a three-month lag) was a \$0.7 million increase to stockholders' equity. On June 30, 2011, the British pound weakened to £1.00 to \$1.6018 U.S. compared to \$1.6032 at March 31, 2011.

The translation adjustment from Cash Converters representing the strengthening in the Australian dollar during the quarter ended March 31, 2011 (included in our June 30, 2011 results on a three-month lag) was a \$0.7 million increase to stockholders' equity. On June 30, 2011, the Australian dollar strengthened to \$1.00 Australian dollar to \$1.0595 U.S. from \$1.0309 at March 31, 2011.

The translation adjustment representing the strengthening of the Mexican peso during the quarter ended June 30, 2011 was a \$0.4 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 June 30, 2011, the peso strengthened to \$1.00 Mexican peso to \$0.0845 U.S. from \$0.0836 at March 31, 2011.

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. These 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 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



**Table of Contents**

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 June 30, 2011. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2011.

***Changes in Internal Control Over Financial Reporting***

There were no changes in our internal control over financial reporting during the quarter ended June 30, 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        | Credit Agreement, dated May 10, 2011, among EZCORP, Inc. (as Borrower), certain domestic subsidiaries of the Borrower from time to time party thereto (as Guarantors), the Lenders party thereto, and Wells Fargo Bank, National Association (as Syndication Agent) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 11, 2011 and filed May 12, 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 June 30, 2011, June 30, 2010 and September 30, 2010; (ii) Consolidated Statements of Income for the three month and nine month periods ended June 30, 2011 and June 30, 2010; (iii) Consolidated Statements of Cash Flows for the nine month periods ended June 30, 2011 and June 30, 2010; and (iv) Notes to Consolidated Financial Statements.

**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: August 5, 2011

/s/ Stephen A. Stamp  
Stephen A. Stamp  
Senior Vice President and  
Chief Financial Officer  
41

---

**Table of Contents**

EXHIBIT INDEX

| Exhibit No. | Description of Exhibit   |
|-------------|--|
| 10.1        | Credit Agreement, dated May 10, 2011, among EZCORP, Inc. (as Borrower), certain domestic subsidiaries of the Borrower from time to time party thereto (as Guarantors), the Lenders party thereto, and Wells Fargo Bank, National Association (as Syndication Agent) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 11, 2011 and filed May 12, 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 June 30, 2011, June 30, 2010 and September 30, 2010; (ii) Consolidated Statements of Income for the three month and nine month periods ended June 30, 2011 and June 30, 2010; (iii) Consolidated Statements of Cash Flows for the nine month periods ended June 30, 2011 and June 30, 2010; and (iv) Notes to Consolidated Financial Statements.