EZCORP INC
Form 10-K
December 14, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended September 30, 2007
Commission File No. 000-19424
EZCORP, INC.
(Exact name of registrant as specified in its charter)

Delaware	**74-2540145**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1901 Capital Parkway
Austin, Texas 78746
(Address of principal executive offices)
Registrant s telephone number: **(512) 314-3400**

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

Title of Each Class	Name of Each Exchange on Which Registered
Class A Non-voting Common Stock, $.01 par value per share	**The NASDAQ Stock Market**

Securities Registered Pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No þ

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

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 one record holder who is an affiliate of the registrant. There is no trading market for the Class B Voting Common Stock. The aggregate market value of the Class A Non-Voting Common Stock held by non-affiliates of the registrant was $545 million, based on the closing price on the NASDAQ Stock Market on March 31, 2007.

As of October 31, 2007, 38,372,077 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.

Documents incorporated by reference: None

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PART I

Item 1. Business

The discussion in this section of the report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this report.

General

EZCORP, Inc. is a Delaware corporation with principal executive offices at 1901 Capital Parkway, Austin, Texas 78746. Our telephone number is (512) 314-3400. You may access our filings with the Securities and Exchange Commission through a link in the Investor Relations section of our website at www.ezcorp.com. Our Code of Conduct and Ethics, Audit Committee Charter and Compensation Committee Charter are also available on our website.

We lend or provide credit services to individuals who do not have cash resources or access to credit to meet their short-term cash needs. We offer pawn loans in 294 domestic pawn stores, including fifteen acquired in the third quarter of the current fiscal year, and four Mexico pawn stores open at September 30, 2007. Pawn loans are non-recourse loans collateralized by tangible personal property. At these stores, we also sell merchandise, primarily collateral forfeited from our pawn lending operations, to customers looking for good value. In 433 EZMONEY stores and 75 of our domestic pawn stores open September 30, 2007, we offer short-term non-collateralized loans, often called payday loans, or fee-based credit services to customers seeking loans (collectively, signature loans).

We earn pawn service charge revenue on our pawn lending. While allowable service charges vary by state and loan size, a majority of our pawn loans are in amounts that allow 20% per month, or 240% annually. Our average pawn loan amount typically ranges between $80 and $100 but varies depending on the value of each item pawned. The total loan term, consisting of the primary term and grace period, ranges between 45 and 120 days. In the years ended September 30, 2005, 2006 and 2007 (fiscal 2005, 2006, and 2007), approximately 77%, 76% and 77% of our pawn loans were redeemed in full or were renewed or extended through the payment of accrued pawn service charges.

In our pawnshops, we acquire inventory for retail sales through pawn loan forfeitures and, to a lesser extent, through purchases of customers merchandise. The gross profit on sales of inventory depends primarily on our assessment of the resale value at the time the property is either accepted as loan collateral or purchased. Improper assessment of the resale value in the lending or purchasing process can result in lower margins or reduced marketability of the merchandise. We realized gross margins on sales of 39%, 40% and 39% in fiscal 2005, 2006 and 2007.

On June 18, 2007, we completed the acquisition of fifteen pawnshops and one payday loan store from Jumping Jack Cash in Colorado for $23.2 million of cash and direct transaction costs. Results of the acquired stores are included in our consolidated results from the date of acquisition. On October 22, 2007, we completed the acquisition of twenty Mexico pawnshops from MMFS Intl., S.A. de C.V, a subsidiary of Mister Money Holdings, Inc. for $15.3 million cash and direct transaction costs. The results of operations from these stores are excluded from our fiscal 2007 results as the acquisition occurred after the end of the fiscal year.

At September 30, 2007, 264 of our 433 EZMONEY stores and 50 of our 298 pawn stores offered credit services to customers seeking 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. We also offer a free service to all credit service customers to improve or establish their credit histories by reporting their payments to an external credit-reporting agency.

In connection with our credit services, the unaffiliated lenders offer customers two types of loans. In all 264 EZMONEY stores offering credit services, customers can obtain short-term loans, with principal amounts up to $1,500, averaging $540. Terms of these short-term loans are generally less than 30 days,

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averaging about 18 days, with due dates corresponding with the customers next payday. We typically earn a fee of 20% of the loan amount for our short-term loan credit services. In 35 EZMONEY stores offering credit services, customers can also obtain longer-term installment loans from the unaffiliated lenders. The installment loans 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, averaging about $2,300. With each installment payment, we earn a fee of 10% of the initial loan amount. At September 30, 2007, short-term loans comprised 98% of the balance of loans brokered through our credit services, and installment loans comprised the remaining 2%.

If a credit service customer defaults on his loan, we pay the lender the principal and accrued interest due under the loan plus an insufficient funds fee. We then attempt to collect the unpaid principal, interest and insufficient funds fee from the borrower. We consider as bad debt the amount we pay the lender under letters of credit, less any amounts we collect from the borrowers. The profitability of our credit services is highly dependent on the level of bad debt. When measured as a percentage of credit service fee revenue, we experienced bad debt on credit services of 25% in fiscal 2007.

We earn payday loan fee revenue on our payday loans. In 194 stores, we make payday loans under state law. The average payday loan amount is approximately $435 and the term is generally less than 30 days, averaging about 19 days. We typically charge a fee of 15% to 22% of the loan amount for a 7 to 23-day period. The profitability of payday loans is highly dependent on the level of bad debt. When measured as a percentage of payday loan revenues, we experienced bad debt on payday loans of 40% in fiscal 2007. We also offer a free service to payday loan customers in most locations to improve or establish their credit histories by reporting their payments to an external credit-reporting agency.

Through December 2005, we also marketed and serviced payday loans made by County Bank of Rehoboth Beach in some of our stores. We could purchase a 90% participation in the County Bank loans we marketed. As of December 31, 2005, County Bank discontinued its payday loan program. Most of our stores previously marketing County Bank loans now provide credit services to customers seeking loans from unaffiliated lenders.

During fiscal 2007, we opened 100 EZMONEY stores, acquired one and closed or consolidated two. Of the 433 total EZMONEY stores, 170 adjoin existing EZPAWN locations but have a different entrance, signage, décor and staffing. Even though they adjoin an EZPAWN, the EZMONEY stores are a separate business from the customers point of view. We refer to these as adjoined stores.

We have experienced rapid signature loan growth in the past several years, and expect this growth to continue in the near term. Customers find signature loans a more attractive alternative than borrowing from friends and family or incurring insufficient fund fees, overdraft protection fees, utility reconnect fees and other charges imposed when they have insufficient cash. Signature loan customers exercise greater control of their personal finances without damaging the relationship they have with their merchants and service providers. Customers also value the excellent service we provide them.

The following components comprised our net revenues (total revenues less cost of goods sold):

	Fiscal Year Ended September 30,		
	2005	2006	2007
Pawn service charges	38%	31%	29%
Gross profit from merchandise sales	31%	27%	23%
Gross profit from jewelry scrapping	4%	7%	7%
Signature loan (payday loan and credit service) fees	26%	34%	41%
Other	1%	1%	
Net revenues	100%	100%	100%

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Pawn Lending Activities

Our pawnshops make pawn loans, which typically are small, non-recourse loans collateralized by tangible personal property. At September 30, 2007, we had approximately 635,000 loans outstanding, representing an aggregate principal balance of $60.7 million. A majority of our pawn loans are in amounts that permit pawn service charges of 20% per month, or 240% annually. For fiscal 2007, pawn service charges accounted for approximately 20% of our total revenues and 29% of our net revenues.

Collateral for our pawn loans consists of tangible personal property, generally jewelry, consumer electronics, tools, sporting goods and musical instruments. Approximately 65% of our pawn loan collateral is jewelry and approximately 90% of this amount is gold jewelry. We do not evaluate the creditworthiness of a pawn customer, but rely on the estimated resale value of the collateral and the perceived probability of the loan s redemption. We generally lend from 25% to 65% of the pledged property s estimated resale value depending on an evaluation of these factors. The sources for our determination of the resale value of collateral include our computerized valuation software, gold values, internet auction sites, catalogues, newspaper advertisements and previous sales of similar merchandise.

The collateral is held through the duration of the loan, which in most locations is 60 days. The customer generally has the option of renewing or extending the loan. Through our lending guidelines, we maintain a redemption rate (the percent of loans made that are redeemed, renewed or extended) between 70% and 80%. In each of our last three fiscal years, the redemption rate was within this range. If a borrower does not repay, extend or renew a loan, the collateral is forfeited to us and becomes inventory available for sale. We do not record loan losses or charge-offs of pawn loans because the principal amount of an unpaid loan becomes the inventory carrying cost of the forfeited collateral. We provide an inventory valuation allowance to ensure that this forfeited collateral is valued at the lower of cost or market.

The table below shows our dollar amount of pawn loan activity for fiscal 2005, 2006 and 2007:

	Fiscal Year Ended September 30,		
	2005	2006 (a)	2007
		(in millions)	
Loans made	$ 173.0	$ 191.8	$ 211.9
Loans repaid	(93.3)	(101.6)	(109.2)
Loans forfeited	(75.9)	(93.2)	(96.4)
Loans acquired in business acquisitions		0.4	4.1
Net increase (decrease) in pawn loans outstanding at the end of the year	$ 3.8	$ (2.6)	$ 10.4
Loans renewed	$ 23.2	$ 30.2	$ 40.3
Loans extended	$ 144.2	$ 183.3	$ 267.8

(a) The total loan term was reduced by thirty days in most states in 2006, resulting in a portfolio reduction at the time of transition.

The redemption rate of pawn loans and the gross profit realized on the sale of forfeited collateral are dependent on the appraisal of customer merchandise. Jewelry, which makes up approximately 65% of the value of collateral, can be appraised based on weight, gold content, style and value of gemstones, if any. Other items pawned typically consist of consumer electronics, tools, sporting goods, and musical instruments. These are evaluated based on recent sales experience and the selling price of similar new merchandise, adjusted for age, wear, and obsolescence.

At the time a pawn transaction is made, a pawn loan agreement is given to the borrower. It presents, among other things, the name and address of the pawnshop and the borrower, the borrower s identification information, the date of the loan and a detailed description of the pledged goods (including applicable serial numbers), the amount financed, the pawn service charge, the maturity date of the loan, the total amount that must be paid to redeem the loan and the annual percentage rate.

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Since a majority of our pawn stores are located in Texas, Texas pawnshop laws and regulations govern most of our pawn operations. The maximum allowable pawn service charges in Texas are set in accordance with the Texas Pawnshop Act and are based on the dollar amount of the loan. Historically, the maximum allowable pawn service charges under Texas law have not changed, but loan amounts have been increased annually in relation to the Consumer Price Index.

Applicable Pawn Loan Service Charges for Texas

Amount Financed per Pawn Loan		Maximum
July 1, 2006 to June 30, 2007	July 1, 2007 to June 30, 2008	Allowable Annual Pawn Service Charge
$1 to $168	$1 to $171	240%
$169 to $1,120	$172 to $1,140	180%
$1,121 to $1,680	$1,141 to $1,710	30%
$1,681 to $14,000	$1,711 to $14,250	12%

Under Texas law, there is a ceiling on the maximum allowable pawn loan. For the year ended June 30, 2007, the loan ceiling was $14,000. For the year ending June 30, 2008, the loan ceiling is $14,250.

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Signature Loans

In 433 EZMONEY and 75 EZPAWN locations, we offer signature loans, consisting of payday loans or fee-based credit services to customers seeking loans from unaffiliated lenders. The table below shows our dollar amount of signature loan activity for fiscal 2005, 2006 and 2007. For purposes of this table, signature loan balances include the principal portion of payday loans (net of valuation allowance) recorded on our balance sheet and the principal portion of active brokered loans outstanding from unaffiliated lenders, which is not included on our balance sheet.

	Fiscal Year Ended September 30,		
	2005	2006	2007
		(in millions)	
Combined Signature Loans:			
Loans made	$ 87.9	$ 115.5	$ 164.3
Loans repaid	(67.3)	(93.7)	(130.3)
Loans forfeited, net of collections on bad debt	(12.0)	(17.0)	(26.5)
Net increase in signature loans outstanding at the end of the year	$ 8.6	$ 4.8	$ 7.5
Loans renewed	$ 144.0	$ 247.3	$ 368.4
Credit Services Only (Loans made by unaffiliated lenders):			
Loans made	$ 28.4	$ 91.1	$ 115.8
Loans repaid	(8.8)	(72.4)	(89.5)
Loans forfeited, net of collections on bad debt	(5.4)	(14.8)	(21.2)
Net increase in loans outstanding at the end of the year	$ 14.2	$ 3.9	$ 5.1
Loans renewed	$ 41.6	$ 236.1	$ 334.4
Payday Loans Only (Loans made by us):			
Loans made	$ 59.5	$ 24.4	$ 48.5
Loans repaid	(58.5)	(21.3)	(40.8)
Loans forfeited, net of collections on bad debt	(6.6)	(2.2)	(5.3)
Net increase in payday loans outstanding at the end of the year	$ (5.6)	$ 0.9	$ 2.4
Loans renewed	$ 102.4	$ 11.2	$ 34.0

Signature loans are unsecured, and their profitability is highly dependent upon our ability to manage the default rate and collect defaulted loan principal, interest and insufficient fund fees. In determining whether to lend or provide credit services, we perform a limited review of customer information, such as making a credit reporting agency inquiry, reviewing previous check writing experience, evaluating income levels and verifying a telephone number where the customers may be contacted.

At the time a signature loan is made, a loan agreement, and credit services agreement when applicable, is given to the borrower. It presents, among other things, the name and address of the lender, the borrower and the credit services company when applicable, the borrower s identification information, the date of the loan, the amount financed, the interest or service charges due on maturity, the maturity date of the loan, the total amount that must be paid and the annual percentage rate.

Credit Services

We offer credit services in our EZMONEY stores in Texas and Florida. These services consist of advice and assistance to customers in obtaining loans from unaffiliated lenders. We do not make, fund or participate in the loans made by the lenders, but earn a fee for assisting customers in obtaining credit and by enhancing their creditworthiness by issuing a letter of credit. In connection with our credit services, the unaffiliated lenders offer customers two types of loans. In all 264 EZMONEY stores and 50 EZPAWN stores offering credit services, customers can obtain short-term loans, with principal amounts up to $1,500, averaging $540. Terms of these short-term loans are generally less than 30 days, averaging about 18 days, with due dates corresponding with the customers next payday. We typically earn a fee of 20% of the loan amount for our short-term loan credit services. In 35 EZMONEY stores offering credit services, customers can also obtain longer-term installment loans from the unaffiliated lenders. The installment loans 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, averaging about $2,300. With each installment payment, we earn a fee of 10% of the initial loan amount. At September 30, 2007, short-term loans comprised 98% of the balance of loans brokered through our credit services, and installment loans comprised the remaining 2%.

If a credit service customer defaults on the loan, we pay the lender the principal and accrued interest due under the loan and an insufficient funds fee. We then attempt to collect the unpaid principal, interest and insufficient funds fee from the borrower. We consider as our bad debt the amount we pay the lenders under letters of credit, less any amounts we collect from borrowers.

Although amounts paid under letters of credit may be collected later, we charge those amounts to bad debt expense upon default. Subsequent recoveries under the letters of credit are recorded as a reduction of bad debt at the time of collection. We also record as bad debt expense an accrual of expected losses for principal, interest and insufficient fund fees we expect to pay the lenders on default of the lenders current loans under the terms of the letters of credit. This estimate is based on recent default and collection experience and the amount of loans the lenders have outstanding.

Payday Lending Activities

State law governs our payday loans. The average payday loan amount is approximately $435 and the term is generally less than 30 days, averaging about 19 days. We typically charge a fee of $15 to $22 per $100 loaned for a 7 to 23-day period.

We consider a loan defaulted if the loan has not been repaid or renewed by the maturity date. Although defaulted loans may be collected later, we charge the loan principal to bad debt upon default, leaving only active loans in the reported balance. Subsequent collections of principal are recorded as a reduction of bad debt at the time of collection. Accrued service charges related to defaulted loans are deducted from service charge revenue upon loan default, and increase service charge revenue upon subsequent collection. We provide for a valuation allowance on both the principal and service charges receivable based on recent default and collection experience. Our payday loan balance represents the principal amount of all active (non-defaulted) loans, net of this valuation allowance.

Retail Activities

In our pawnshops, we acquire inventory for retail sales through pawn loan forfeitures and, to a lesser extent, through purchases of customers merchandise. The gross profit on sales of inventory depends primarily on our assessment of the resale value at the time the property is either accepted as loan collateral or purchased. Improper assessment of the resale value in the lending or purchasing process can result in lower margins or reduced marketability of the property. During fiscal 2005, 2006 and 2007, we realized gross margins on sales of 39%, 40% and 39%. Jewelry sales represent approximately half of our total sales with the remaining sales consisting primarily of consumer electronics, tools, sporting goods and musical instruments. We believe our ability to offer quality used merchandise at prices significantly lower than original retail prices attracts value-conscious customers.

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During the three most recent fiscal years, sources of inventory additions were:

	Fiscal Year Ended September 30,		
	2005	2006	2007
Forfeited pawn loan collateral	84%	83%	81%
Purchases from customers	16%	16%	18%
Acquired in business acquisitions		1%	1%

For fiscal 2005, 2006 and 2007, retail activities and jewelry scrapping (sales of precious metals and gemstones to refiners and gemstone wholesalers) accounted for approximately 58%, 56% and 52% of our total revenues, or 35%, 34% and 30% of our net revenues, after deducting the cost of goods sold. As a significant portion of our inventory and sales involve gold jewelry, our results can be heavily influenced by the market price of gold. This is particularly true for gold scrapping, which comprised 20% of total sales in fiscal 2005, 24% in fiscal 2006 and 27% in fiscal 2007.

Analysis of the sales and inventory data provided by our management information systems, along with market intelligence and financial modeling, highlight opportunities for refinement of our marketing and merchandising programs and lending and pricing decisions. The Senior Vice President of EZPAWN Operations provides the strategic direction. Our Director of Operations, in conjunction with our Regional Directors and Area Managers oversee the tactical execution of these marketing and merchandising programs and are responsible for balancing inventory levels within their markets.

We allow customers to return or exchange merchandise sold through our retail operations within seven days of purchase, but have experienced a very low rate of returns and exchanges as a percentage of sales. Customers may purchase an item on layaway, whereby a customer typically pays a minimum layaway deposit of 20% of an item s sale price. We hold the item for a 60 to 90-day period, during which the customer is required to pay for the item. The initial deposit and subsequent payments are recorded as customer layaway deposits. Layaways are recorded as sales when paid in full. As of September 30, 2007, we held $2.0 million in customer layaway deposits.

Our overall inventory is stated at the lower of cost or market. We provide an inventory valuation allowance for shrinkage and cost in excess of market value. We estimate this valuation allowance through study and analysis of sales trends, inventory turnover, inventory aging, margins achieved on recent sales and shrinkage. At September 30, 2007, total inventory on hand was $37.9 million after deducting the inventory valuation allowance of $3.8 million.

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. 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) due to low jewelry merchandise sales in that quarter.

Signature loan fees are highest in our fourth fiscal quarter (July 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.

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 income tax refund season.

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Operations

A typical company pawn store employs approximately six full-time equivalent employees (FTEs) consisting of a store manager, an operations manager and four pawnbrokers. Each store manager is responsible for ensuring that the store is run in accordance with our policies, procedures and operating guidelines, and reports to an area manager. Area managers are responsible for the performance of all stores within their area and report to one of our EZPAWN regional directors, who in turn report to the Senior Vice President of EZPAWN Operations. Area managers, store managers and operations managers receive incentive compensation based on their area or store s performance in comparison to an operating budget. Beginning in fiscal 2008, our pawnbrokers are also eligible for this incentive compensation. The incentive compensation for EZPAWN staff typically ranges between 5% and 30% of their total compensation. Regional directors compensation is also dependent upon the performance of their region.

Signature loan stores typically employ two to three FTEs per location, consisting of a store manager and one to two customer service representatives. Each store manager is responsible for ensuring that the store is run in accordance with our policies, procedures and operating guidelines, and reports to an area manager, who is responsible for the stores within a specific operating area. Area managers report to one of the EZMONEY regional directors, who report to the Vice President EZMONEY Division. The Vice President EZMONEY Division reports to the President - EZMONEY Division. Managers and regional directors receive incentive compensation based on their performance in comparison to an operating budget.

In the majority of our stand-alone EZMONEY stores, store employees attempt to collect defaulted signature loans in the first 30 days after default. After the initial 30 days, our centralized collection center assumes collection responsibility. The collection center also collects defaulted signature loans for all other locations from the date of default. After attempting to collect for approximately 60 days, we then sell remaining defaulted signature loans to an outside collection agency.

We have an internally developed store level point of sale (POS) system that automates the recording of store-level pawn transactions. We use a separate POS specifically designed to handle signature loans. Financial data from all stores is processed at the corporate office each day and the preceding day s data are available for management review via our internal network. Our communications network provides information access between the stores and the corporate office.

Our internal audit staff monitors the perpetual inventory system, lending practices and regulatory compliance. In addition, they ensure consistent compliance with our policies and procedures.

As of September 30, 2007, we employed approximately 3,200 people. We believe that our success is dependent upon our employees ability to provide prompt and courteous customer service and to execute our operating procedures and standards. We seek to hire people who will become long-term, career employees. To achieve our long-range personnel goals, we offer a structured career development program for all of our field associates. This program encompasses computer-based training, formal structured classroom training and supervised on-the-job training. All store associates, including managers, must meet certain competency criteria prior to hire or promotion and participate in on-going training classes and intensive formal instructional programs. We anticipate store manager candidates will be promoted from the ranks of existing store employees, from our store manager in training program and hired from outside the company. Our career development plan develops and advances our employees and provides training for the efficient integration of experienced managers and associates from outside the company.

At October 31, 2007, we operated our U.S. and four Mexico pawnshops under the names EZPAWN and twenty Mexico pawn stores acquired in October 2007 under the name Mister Money. Our payday loan stores operated under the names EZMONEY Payday Loans, EZ Loan Services, EZ Payday Advance and EZPAWN Payday Loans, and o credit service stores operated under the name EZMONEY Loan Services. We have registered with the United States Patent and Trademark Office the names EZPAWN,

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EZMONEY and EZCORP, among others. We hold a trademark in Mexico for the name Mister Money. Additionally, we operate under the trade name EZMONEY Payroll Advance.

Future Expansion

We plan to expand the number of locations we operate through the development of new locations and through acquisitions. We believe that in the near term the largest growth opportunities are with domestic EZMONEY stores and pawn stores in Mexico. On October 22, 2007 we acquired the operating assets of a 20-store pawn chain in Mexico. We plan to open approximately 100 new EZMONEY stores in the United States and an additional seven to ten pawn stores in Mexico in fiscal 2008.

The 100 new EZMONEY stores opened in fiscal 2007 required an average property and equipment investment of approximately $56,000. During fiscal 2007, we opened four Mexico pawnshops at an average property & equipment investment of approximately $118,000. Although we acquired pawnshops in fiscal 2006 and 2007, we have not opened a new pawnshop location in the United States since fiscal 2000.

Our ability to add new stores is dependent on several variables, such as the availability of acceptable sites or acquisition candidates, the regulatory environment, local zoning ordinances and the availability of qualified personnel.

Competition

We encounter significant competition in connection with our lending operations. These competitive conditions may adversely affect our revenues, profitability and ability to expand. In our lending business, we compete with other pawnshops, payday lenders, credit service organizations and financial institutions, such as consumer finance companies. Other lenders may lend money on an unsecured basis, at interest rates that may be lower than our service charges and on other terms that may be more favorable than ours. We believe that the primary elements of competition are the quality of customer service and relationship management, store location and the ability to loan competitive amounts at competitive rates. In addition, we believe the ability to compete effectively will be based increasingly on strong general management, regional market focus, automated management information systems and access to capital.

Our competitors for merchandise sales include numerous retail and wholesale stores, including jewelry stores, discount retail stores, consumer electronics stores, other pawnshops, other resale stores, electronic commerce retailers and auction sites. Competitive factors in our retail operations include the ability to provide the customer with a variety of merchandise at an exceptional value.

The pawnshop industry in the United States is large and highly fragmented. The industry consists of approximately 12,000 pawnshops owned primarily by independent operators who own one to three locations, and we consider the industry mature. With 294 domestic pawn locations, we are the second largest operator of pawnshops in the United States. The three largest pawnshop operators, including us, account for less than ten percent of the total estimated pawnshops in the United States.

The pawnshop industry in Mexico is also fragmented, but less than in the United States. The industry consists of approximately 3,000 to 5,000 pawnshops owned by independent operators and chains, including two owned by not-for-profit organizations. The pawn industry remains in more of a growth stage in Mexico than in the United States.

The signature loan industry in the United States is larger and more concentrated than the pawn industry. The industry consists of approximately 24,000 locations that are generally mono-line stores that offer only signature loans, and other businesses offering signature loans in addition to other products and services, such as check cashing stores and pawnshops. The ten largest signature loan companies, including us, comprise approximately 40% of the total number of locations. The signature loan industry remains in a growth stage.

Strategic Investment

At September 30, 2007, we held just under 30% of the outstanding shares of Albemarle & Bond Holdings plc (A&B). At September 30, 2007, A&B operated 112 locations in the United Kingdom that offer pawn loans, payday loans, installment loans, check cashing and retail jewelry. Prior to its July 2007 acquisition of 26 locations, A&B operated 86 locations. For A&B s fiscal year ended June 30, 2007, its turnover (gross revenues) increased 12% to £33.2 million ($64.1 million), and the company s profit after tax (net income) increased 13% over the prior year to approximately £5.4 million ($10.4 million). A&B is based in Bristol, England and publicly trades on the Alternative Investment Market of the London Stock Exchange. As its largest single shareholder, we and our affiliates hold three seats on A&B s board of directors.

In 1998, we acquired 13,276,666 shares of A&B s common stock for approximately $12.8 million. At June 30, 2007, this represented approximately 28.2% of A&B s total outstanding shares. On July 12, 2007, we acquired 3,022,209 additional shares of A&B s common stock for approximately $13.4 million as part of a private placement of stock by A&B to fund an acquisition. Including these additional shares, we now own approximately 29.95% of A&B s total outstanding shares. Because we include A&B s earnings in our financial statements on a three-month lag, our incremental share of A&B s results of operations will first be reflected in our results in the quarter ending December 31, 2007.

We account for our investment in A&B under the equity method. In fiscal 2007, our interest in A&B s income was $2,945,000 and we received A&B dividends of $1,274,000. Based on the closing price and exchange rates on October 31, 2007, the market value of our investment in A&B was approximately $86.3 million compared to its book value of $35.7 million.

Regulation

Pawn Operations

Our pawn operations are subject to extensive regulation, examination and licensing under various federal, state, and local statutes, ordinances, and regulations. The laws of Texas, Colorado, Oklahoma, Florida, Indiana, Alabama and Mexico govern the majority of our pawn operations. A summary of these states pawn statutes and regulations are discussed below.

Texas Regulations

In Texas, pawnshops are regulated by the Office of the Consumer Credit Commissioner (OCCC) in accordance with Chapter 371 of the Texas Finance Code, commonly known as the Texas Pawnshop Act and Rules of Operation for Pawnshops. Pawnshops and pawnshop employees are licensed by the OCCC.

To be eligible for a license to operate a pawnshop in Texas, an applicant must:

(i) be of good moral character, which in the case of a business entity applies to each officer, director, and holder of five percent or more of the entity s outstanding shares;

(ii) have net unencumbered assets of at least $150,000 readily available for use in conducting the business of each pawnshop;

(iii) demonstrate that the applicant has the financial responsibility, experience, character, and general fitness to command the confidence of the public in its operation; and

(iv) demonstrate that the pawnshop will be operated lawfully and fairly.

Additionally, each pawnshop employee must qualify for and maintain a separate pawnshop employee license.

For a new license application in any Texas county, the OCCC provides notice of the application and the opportunity for a public hearing to the other licensed pawnshops in the county in which the applicant proposes to operate. In counties with 250,000 or more people, applications for new licenses are approved only at locations that are at least two miles from another licensed pawnshop and applications to relocate a license are approved only for locations that are at least one mile from another licensed pawnshop. Any existing store may relocate within one mile of its present location, regardless of the

existence of other pawnshops. Our ability to open new stores or relocate existing stores may be adversely affected by these licensing provisions.

The Texas Pawnshop Act also contains provisions related to the operation of pawnshops and authorizes the Rules of Operation for Pawnshops. The Rules of Operation for Pawnshops regulate the day-to-day operation of our pawnshops including the maximum pawn service charge and principal loan amount.

Pawn service charges vary based on loan amounts. Historically, the maximum allowable pawn service charge rates have not changed; however, loan amounts are adjusted annually based on fluctuations in the Consumer Price Index. A table of the maximum allowable pawn service charges under the Texas Pawnshop Act for the various loan amounts is presented in Lending Activities. Under Texas law, there is a ceiling on the maximum allowable pawn loan. For July 1, 2006 through June 30, 2007, the loan ceiling was $14,000. For July 1, 2007 through June 30, 2008, the loan ceiling is $14,250. Texas requires pawn transactions to be reported to local law enforcement.

Under the Texas Pawnshop Act and the Rules of Operation for Pawnshops, a pawnbroker may not do any of the following:

(i) accept a pledge from a person under the age of 18 years;
(ii) make any agreement requiring the personal liability of the borrower;
(iii) accept any waiver of any right or protection accorded to a pawn customer;
(iv) fail to exercise reasonable care to protect pledged goods from loss or damage;
(v) fail to return pledged goods to a pawn customer upon payment of the full amount due;
(vi) make any charge for insurance in connection with a pawn transaction;
(vii) enter into any pawn transaction that has a maturity date of more than one month;
(viii) display pistols, swords, canes, blackjacks or similar weapons for sale in storefront windows or sidewalk display cases;
(ix) purchase used or second hand personal property unless a record is established containing the name, address, and identification of the seller, a complete description of the property, including serial number and a signed statement that the seller has the right to sell the property; or
(x) accept into pawn or purchase stolen goods.

The OCCC may, after notice and hearing, suspend or revoke any license for a Texas pawnshop or employee upon finding that:

(i) any fees or charges have not been paid;
(ii) the licensee has knowingly or unknowingly without due care violated any provisions of the Texas Pawnshop Act or any regulation or order; or
(iii) any fact or condition exists that, if it had existed at the time the original license application was filed would have justified the OCCC in refusing the license.

The OCCC may also take other administrative action against a licensee including the assessment of fines and penalties.

Colorado Regulations

The Colorado Pawnbroker Act is limited in scope and primarily establishes the terms and prohibitions of a pawn loan. In Colorado, local municipalities subject pawnshops to extensive and varied regulation, including licensing and bonding. Pawn transactions must be reported to local authorities and pawnbrokers must maintain certain bookkeeping records. Colorado law allows a maximum pawn service charge of 240% annually for all pawn loans regardless of the amount financed.

Oklahoma Regulations

The Oklahoma Pawnshop Act follows a statutory scheme similar to the Texas Pawnshop Act, requires pawnshops to be licensed and bonded, and regulates their day-to-day operations. The Oklahoma Administrator of Consumer Credit administers the Oklahoma Pawnshop Act, has broad rule-making authority, and is responsible for investigating the general fitness of pawnshop applicants. Unlike Texas, Oklahoma pawnshop employees are not individually licensed.

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In general, the Oklahoma Pawnshop Act prescribes loan amounts and maximum rates of service charges that pawnbrokers may charge. The regulations provide for a graduated rate structure, similar to the structure used for federal income tax purposes. Under this rate structure, a $500 loan, for example, earns interest as follows:

(i) the first $150 at 240% annually,

(ii) the next $100 at 180% annually, and

(iii) the remaining $250 at 120% annually.

The maximum allowable pawn service charges for the various loan amounts in Oklahoma are as follows:

Maximum Allowable Amount Financed Per Pawn Loan	Annual Percentage Rate
$1 to $150	240%
$151 to $250	180%
$251 to $500	120%
$501 to $1,000	60%
$1,001 to $25,000	36%

The principal amount of an Oklahoma pawn loan may not exceed $25,000 per transaction.

Florida Regulations

Florida pawnshops are governed by the Florida Pawnbroking Act and accompanying regulations. The Division of Consumer Services of the Department of Agriculture and Consumer Services licenses and regulates pawnshops. Pawn loans in Florida have a 30-day minimum term. The pawnbroker is entitled to charge two percent of the amount financed for each 30-day period as interest, and an additional amount as pawn service charges, provided the total amount of such charges, inclusive of interest, does not exceed 25% of the amount financed for each 30-day period. The pawnbroker may charge a minimum pawn service charge of $5.00 for each 30-day period. Pawn loans may be extended by agreement, with the charge being one-thirtieth of the original total pawn service charge for each day by which the loan is extended. For loans redeemed greater than 60 days after the date made, pawn service charges continue to accrue at the daily rate of one-thirtieth of the original total pawn service charge.

Indiana Regulations

In Indiana, the Pawnbroking Law governs pawnshops. The Department of Financial Institutions regulates our Indiana operations. The Department of Financial Institutions requires the licensing of all pawnshops and investigates the general fitness of pawn license applicants to determine whether the convenience and needs of the public will be served by granting a pawn license. The Department of Financial Institutions has broad investigatory and enforcement authority. It may grant, revoke, and suspend licenses. Pawnshops are required to keep books, accounts, and records to enable The Department of Financial Institutions to determine if the pawnshop is complying with the statute. Each pawnshop is required to give authorized agents of The Department of Financial Institutions free access to its books and accounts for these purposes.

The Indiana Pawnbroking Law prescribes loan amounts and maximum interest rates that pawnbrokers in Indiana may charge. The regulations provide for a graduated rate structure similar to the structure used for federal income tax purposes. Under this rate structure, for July 1, 2006 through June 30, 2008, a $3,500 loan, for example, may earn interest as follows:

(i) the first $1,020 at 36% annually,

(ii) the next $2,380 at 21% annually, and

(iii) the remaining $100 at 15% annually.

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In addition to interest, we may also charge a service charge of 240% annually. The maximum combined allowable interest and service charges for the various loan amounts under the Indiana statute are as follows:

Maximum Allowable Amount Financed Per Pawn Loan	Annual Percentage Rate
$1 to $1,020	276%
$1,021 to $3,400	261%
$3,401 and up	255%

The Indiana Pawnbroking Law provides for a grace period of 60 days after the initial 30-day term of the loan. During the grace period, interest and service charges continue to accrue and are prorated to the date of loan redemption.

Alabama Regulations

The Alabama Pawnshop Act regulates the licensing and operation of Alabama pawnshops. The Supervisor of the Bureau of Loans of the State Department of Banking is responsible for licensing and investigating the general fitness of pawnshop applicants. The Alabama Pawnshop Act requires that certain bookkeeping records be maintained and made available to the Supervisor and to local law enforcement authorities. The Alabama Pawnshop Act establishes a maximum allowable pawn service charge of 300% annually.

Local Pawn Regulations

At the local level, most of our pawnshops voluntarily or pursuant to state law or municipal ordinance, provide reports of pawn transactions and purchases from customers to local law enforcement on a regular basis. These reports are designed to provide local law enforcement with a detailed description of the goods involved, including any serial numbers and the names and addresses of the customers.

A record of each transaction is provided to local law enforcement agencies to aid in the investigation of property crimes. Pawn loan collateral or goods purchased which are determined to belong to an individual other than the pawnshop customer are subject to recovery by the rightful owner. While a risk exists that pledged or purchased merchandise may be subject to claims of rightful owners, our claims experience is historically less than 0.25% of pawn loans made. Additionally, some counties and municipalities regulate pawn operations through local business licenses and zoning restrictions.

Mexico Regulations

Mexico has enacted federal legislation that provides for administrative regulation of the pawn industry by PROFECO, the federal consumer protection agency. Under these regulations, PROFECO regulates the form of pawn loan contracts and certain operating procedures of pawnshops. PROFECO does not currently have regulatory authority over the interest rates and fees charged to pawn customers. The pawn industry in Mexico is subject to various regulations in the areas of tax compliance, customs, consumer protections and employment matters, among others, by various federal, state and local governmental agencies. Additionally, the state of Tamaulipas has a pawn statute that purportedly requires pawnshops to be licensed and regulates the pawn operations including rate, pawn ticket and other terms of the pawn transaction; however, federal regulations are intended to supercede the Tamaulipas statute.

Firearms Regulations

With respect to firearm sales, each U.S. pawnshop must comply with the regulations issued by the Bureau of Alcohol, Tobacco, and Firearms (the ATF). ATF regulations require each pawnshop dealing in firearms to maintain a federal firearms license and a permanent written record of all transactions involving the receipt or disposition of firearms.

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The Brady Handgun Violence Prevention Act and the related ATF rules require us, in either selling firearms or releasing pawned firearms, to have the customer complete appropriate forms and pass a background check through the National Instant Criminal Background Check System before we may transfer a firearm to any customer.

We comply with the Brady Act and the ATF regulations. We do not believe that compliance with the Brady Act and the ATF regulations materially affects our operations.

Credit Service Organization Regulations

In July 2005, we registered as a Credit Service Organization (CSO) in Texas and began doing business as EZMONEY Loan Services, providing customers fee-based advice, assistance, and services in obtaining loans from unaffiliated lenders. CSOs in Texas are required to register with the Texas Office of the Secretary of State pursuant to Chapter 393 of the Texas Finance Code. In order to provide credit services in Texas, we registered each location where we offer credit services and posted a surety bond in the amount of $10,000 per location. We must renew our CSO registration annually.

Texas law requires us to provide each CSO customer a disclosure statement describing the services to be provided, the fees, explanation of the customer s rights, identification of the surety bond company, and other specified information. This disclosure must be delivered to the customer prior to us entering into any contract with the customer for credit services. We must enter into a written contract with each customer fully describing the services, the payment terms, our principal place of business, and agent authorized to receive service. Customers have three days to cancel a CSO contract. The CSO statute also prohibits us from making false or misleading representations or statements, receiving compensation solely for referring a customer to a lender who will or may make the loan on substantially the same terms, and engaging in fraudulent or deceptive conduct. Violations of the CSO statute could subject us to criminal and civil liability.

In Texas, we do business with two unaffiliated lenders. The maximum loan currently offered by the unaffiliated lenders is $3,000. The lenders are not required to be licensed and are not regulated by a state agency, provided the interest rate charged on their loans does not exceed 10% annually. The lenders are authorized to charge a late fee for loans past due more than 10 days and an insufficient funds fee, but the lenders that we do business with do not assess late fees. The insufficient funds fee is $30. If a customer defaults on a loan, the letter of credit issued by us authorizes the unaffiliated lender to make demand on us for payment of the principal, interest, and insufficient funds fee. We are obligated to pay the lender on any demand made on the letter of credit pursuant to the terms and conditions set forth in the letter of credit. We then may recover those amounts from the borrower.

We also offer credit services in eleven EZMONEY stores in Florida under a CSO statute similar to Texas. The Florida CSO statute, however, does not require registration or bonds. We do business with one unaffiliated lender in Florida. Like Texas, the Florida lender is not required to be licensed or regulated provided the interest rate charged on its loans does not exceed eighteen percent (18%) annually.

Payday Loan Regulations

State statutes regulate our payday lending. These statutes vary in scope, but generally require licensing, establish loan terms, provide for consumer protections and disclosures, and allow regulatory examinations. The statutes regulating payday loans generally limit the loan amount, duration, rates and fees, ability to renew or extend, and the number of loans, and allow payment plans and cooling-off periods, among other things.

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The table below provides the key terms of the payday loan statutes that we operate under in the states in which we do business.

Summary Table of Payday Loan Statutes

State	Fees	Rollovers Allowed (Yes/No)	Cooling-Off Period Required (Yes/No)	Maximum Loan Amount	Maximum Term	Payment Plan (Yes/No)	State Database (Yes/No)
Alabama	17.5% of amount advanced	Yes	Yes	$500	31 days	Yes	Yes
Colorado	20% on first $300; 7.5% above $300	Yes	No	$500	40 days	Yes	No
Idaho	No cap	Yes	No	$1,000	37 months	No	No
Kansas	15% of amount advanced.	No	No	$500	30 days	No	No
Louisiana	16.75% of face amount of check ($45 maximum)	Yes	No	$350	30 days	No	No
Nebraska	15% of face amount of check	No	Yes	$500 (maximum check)	34 days	No	No
Nevada	No cap	Yes	No	25% of gross monthly income	None	No	No
Oklahoma	15% of amount advanced up to first $300; 10% for amounts in excess of $300	No	Yes	$500	45 days	Yes	Yes
South Dakota	No cap	Yes	No	$500	None	No	No
Utah	No cap	Yes	No	None	None	No	No
Wisconsin	No cap	Yes	No	None	None	No	No

Local Payday Loan Regulation

We are also subject to various local rules and regulations primarily related to zoning and licensing that affect our business. These local rules and regulations vary from city to city and state to state. The existence of these local rules has been increasing and may affect our ability to expand our operations or do business. We comply with these local rules and regulations and regularly monitor their impact on our business.

Miscellaneous

Privacy: We are subject to a variety of federal and state laws and regulations intended to protect customer non-public personal information. We disclose our privacy policies to our customers and have policies, procedures, and systems in place intended to safeguard this information to the extent required by law.

Federal: Our pawn, CSO, and payday loan operations are subject to extensive state and federal statutes and regulations such as the federal Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act and the regulations promulgated for each. We comply with the requirements of these federal and state statutes and their regulations.

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Item 1A. Risk Factors

Important risk factors that could cause results or events to differ from current expectations are described below. These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect the operations, performance, development and results of our business. You are cautioned not to place undue reliance on this discussion, which speaks only as of the date hereof. We undertake no obligation to release publicly the results of any revisions to these risk factors which may be made to reflect events or circumstances after the date hereon, including without limitation, changes in our business strategy or planned capital expenditures, store growth plans, or to reflect the occurrence of unanticipated events.

Our earnings and financial position are affected by changes in gold values and the resulting impact on pawn lending and jewelry sales; a significant or sudden decrease in gold values may have a material impact on our earnings. Pawn service charge, sales proceeds and our ability to liquidate excess jewelry inventory at an acceptable margin are dependent upon gold values. We periodically change our lending guidelines on jewelry in response to gold values and other market factors, such as competitor loan values. Gold scrapping revenues were $51.9 million and gross profit from gold scrapping was $17.4 million in fiscal 2007. The impact on our financial position and results of operations of a hypothetical decrease in gold values cannot be reasonably estimated because the market and competitive response to changes in gold values is not known; however, changes in gold values would lead to changes in sales, sales margins, and pawn service charge revenues.

Changes in laws, governmental rules or regulations applicable to the specialty financial services industry could have a negative impact on our lending activities. The passage of new laws and regulations or changes in existing laws and regulations could have a negative impact on our lending activities, including our ability to provide credit services in Texas, where a majority of our signature loans are made. Our lending is subject to extensive regulation and licensing requirements under various federal, state and local laws, ordinances and regulations. Recent legislative action has concentrated on attempts to regulate, prohibit, or severely restrict payday lending, including applicable rates, the ability for customers to renew their loans, and the ability to lend to military personnel. Although we have not operated in any states where legislative activity has prohibited or severely restricted our business, we can give no assurance that additional local, state, or federal legislation will not be enacted or that existing laws and regulations will not be changed or amended or that events of noncompliance may occur which would materially, adversely impact our operations, financial condition, and the ability to expand our operations.

Our CSO revenues are dependent upon unaffiliated lenders ability and willingness to make loans to our customers. The loss of the relationships with our unaffiliated lenders or a decrease in those lenders ability to lend money could significantly decrease our revenues and earnings.

Achievement of our growth objectives is dependent upon our ability to open and acquire new stores. Our expansion program is subject to numerous factors that cannot be predicted or controlled, such as identifying acceptable locations or attractive acquisition targets and our ability to attract, train and retain qualified associates.

Fluctuations in our sales, pawn loan balances, sales margins, pawn redemption rates, and signature loan default and collection rates could have a material adverse impact on our operating results. We regularly experience fluctuations in these operating metrics. Changes in any of these factors, as might be caused by changes in the economic environment, competitive pressures, changes in customers tastes and preferences or a significant decrease in gold prices, could materially and adversely affect our profitability and ability to achieve our planned results.

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Changes in the business, regulatory, or political climate in Mexico could affect our Mexico operations and growth plans. We have begun expanding our Mexico pawn operations, and our plans include further growth in Mexico. Significant changes in the business, regulatory or political climate in Mexico, or significant fluctuations in currency exchange rates could limit or cease our ability to continue operating and growing our operations in Mexico, which could have a material impact on our financial position, results of operations, and cash flows.

Changes in our liquidity and capital requirements could limit our ability to achieve our plans. We require continued access to capital; a significant reduction in cash flows from operations or the availability of credit could materially and adversely affect our ability to achieve our planned growth and operating results.

Changes in competition from various sources could have a material adverse impact on our ability to achieve our plans. We encounter significant competition in connection with our lending and retail operations from other pawnshops, cash advance companies and other forms of financial institutions and other retailers, many of which have significantly greater financial resources than us. Significant increases in these competitive influences could adversely affect our operations through a decrease in the number or quality of signature loan and pawn loans or our ability to liquidate forfeited collateral at acceptable margins.

One person holds voting control of our stock and controls the outcome of all matters requiring a vote of stockholders, which may influence the value of our publicly traded stock. Mr. Phillip E. Cohen controls all of our Class B Voting Common Stock. He controls the outcome of all issues requiring a vote of stockholders, including the election of our directors.

We face other risks discussed under Qualitative and Quantitative Disclosures about Market Risk in Item 7A of this Form 10-K.

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Item 2. Properties

Our typical pawnshop is a freestanding building or part of a retail strip center with contiguous parking. Store interiors are designed to resemble small retail operations and attractively display merchandise by category. Distinctive exterior design and attractive in-store signage provide an appealing atmosphere to customers. The typical pawn store has approximately 1,800 square feet of retail space and approximately 3,200 square feet dedicated to collateral storage. An EZMONEY signature loan store is designed to resemble a bank interior and offers payday loans or credit services to help customers obtain short-term signature loans. The typical EZMONEY store is approximately 1,000 to 1,500 square feet and is located in a retail strip center. Some of our EZMONEY stores adjoin an EZPAWN location and occupy approximately 300 to 500 square feet, with a different entrance, signage, décor, and staffing. From the customers perspective, these are viewed as a separate business. We maintain property and general liability insurance for each of our stores. Our stores are open six or seven days a week.

As of October 31, 2007, we owned the real estate and building for one location containing an EZPAWN and an adjoining EZMONEY, leased 293 U.S. and 24 Mexico locations containing EZPAWNs and 169 adjoining EZMONEYs, and leased 261 EZMONEY locations. In three additional EZMONEY locations, we lease the land, but own the portable modular EZMONEY store. We also own the real estate and building for one non-operating location. We generally lease facilities for a term of three to ten years with one or more renewal options. Our existing leases expire on dates ranging between December 20, 2007 and July 31, 2026, with a small number of leases on month-to-month terms. All leases provide for specified periodic rental payments at market rates. Most leases require us to maintain the property and pay the cost of insurance and taxes. We believe the termination of any one of our leases would not have a material adverse effect on our operations. Our strategy generally is to lease rather than own space for our stores unless we find what we believe is a superior location at an attractive price.

Below is a summary of changes in the number of store locations during fiscal 2005, 2006 and 2007.

	Fiscal Year Ended September 30,		
	2005	2006	2007
Store count at beginning of fiscal year	405	514	614
New stores opened	110	101	104
Acquired stores		3	16
Stores closed or consolidated	(1)	(4)	(3)
Store count at end of fiscal year	514	614	731

Included in the new stores opened in 2005, 2006 and 2007 are 63, 7 and 6 EZMONEY stores adjoining existing pawnshop locations. In 2007, we opened four EZPAWN stores in Mexico. All other new stores are separate EZMONEY locations. We also acquired fifteen pawn stores and one signature loan store during fiscal 2007.

On an ongoing basis, we may close or consolidate under-performing store locations. In fiscal 2006, we closed one EZMONEY store and one EZPAWN store, and consolidated two existing EZPAWN stores into two newly acquired stores. In fiscal 2007, we closed one EZMONEY store, consolidated one EZMONEY store into another existing EZMONEY store, and consolidated one existing EZPAWN store into a newly acquired store.

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The following table presents the number of locations serving each metropolitan area or region as of October 31, 2007:

Region/Area	EZPAWN Stores in Each Area	EZMONEY Stores in Each Area
Texas:		
Houston	60	86
Dallas / Ft. Worth	17	66
San Antonio	21	29
West and Southwest	19	16
Valley	20	10
Austin Area	7	20
Panhandle	9	9
Central	10	7
Corpus Christi	8	8
Laredo Area	11	2
Total Texas	182	253
Colorado:		
Denver Area	29	38
Colorado Springs Area	9	10
Other Areas		3
Total Colorado	38	51
Wisconsin:		
Milwaukee		10
Green Bay		9
Madison		7
Central		7
Other Areas		8
Total Wisconsin		41
Florida:		
Tampa	9	7
Orlando	8	4
Other Areas	1	
Total Florida	18	11
Oklahoma:		
Tulsa Area	10	3
Oklahoma City Area	9	3
Other Areas	1	
Total Oklahoma	20	6

Utah:	
Salt Lake City	13
Provo	6
Other Areas	1
Total Utah	20

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Region/Area	EZPAWN Stores in Each Area	EZMONEY Stores in Each Area
Nebraska:		
Omaha		8
Lincoln		4
Other Areas		3
Total Nebraska		15
Indiana:		
Indianapolis	8	
Other Areas	7	
Total Indiana	15	
Kansas:		
Topeka		4
Kansas City		4
Wichita		4
Other Areas		1
Total Kansas		13
Idaho:		
Boise		9
Idaho Falls		3
Other Areas		1
Total Idaho		13
Alabama:		
Birmingham Area	5	4
Other Areas	2	1
Total Alabama	7	5
South Dakota:		
Sioux Falls		3
Other Areas		3
Total South Dakota		6
Nevada:		
Las Vegas	4	
Total Nevada	4	

Tennessee:	
Memphis	3
Total Tennessee	3
Louisiana:	
New Orleans Area	2
Other Areas	1
Total Louisiana	3

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Region/Area	EZPAWN Stores in Each Area	EZMONEY Stores in Each Area
Mississippi:		
Jackson	2	
Other Areas	1	
Total Mississippi	3	
Arkansas:		
West Helena	1	
Total Arkansas	1	
Mexico:		
Mexico City	8	
Vera Cruz	7	
Bajio / Leon Area	5	
Matamoros	2	
Reynosa	2	
Total Mexico	24	
Total Company	318	434

In addition to our store locations, we lease our 27,400 square foot Austin, Texas corporate office, 8,100 square foot facility for our jewelry processing center and payday loan collections center located in Austin, and our 1,700 square foot corporate office in Queretaro, Mexico.

Item 3. Legal Proceedings

Currently and from time to time, we are defendants in legal and regulatory actions. While we cannot determine the ultimate outcome of these actions, after consultation with counsel, 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.

In May 2007, the State of Texas filed suit against EZCORP, Inc. and our Texas affiliates in state district court in Bexar County alleging violations of the Texas Identity Theft statute, Deceptive Trade Practices Act, and a provision of the Business and Commerce Code by allegedly failing to safeguard and properly dispose of customers sensitive personal information. In late May 2007, we voluntarily entered into an Agreed Temporary Injunction regarding the safeguarding and disposal of the information. We have reviewed and enhanced our information security polices to address the State s concerns. We are currently in discussions with the State to reach an amicable resolution of this matter, but can give no assurance that an amicable resolution will be reached prior to the March 2008 scheduled trial date.

The Florida Office of Financial Regulation has filed an administrative action against us alleging that our Florida CSO business model violates state law. A trial before an administrative law judge is scheduled for January 2008.

Item 4. Submission of Matters to a Vote of Security Holders

None.

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PART II

Item 5. Market for Registrant s Common Equity and Related Stockholder Matters

Since August 27, 1991, our Class A Non-voting Common Stock (Class A Common Stock) has traded on The NASDAQ Stock Market under the symbol EZPW. As of October 31, 2007, there were 121 stockholders of record of our Class A Common Stock. There is no trading market for our Class B Voting Common Stock (Class B Common Stock), which was held by one stockholder as of October 31, 2007.

The high and low per share closing price for our Class A Common Stock for the past two fiscal years, as reported by The NASDAQ Stock Market (adjusted to reflect a three-for-one stock split issued to shareholders as of November 27, 2006), were as follows:

		High	Low
Fiscal 2006:			
	First quarter ended December 31, 2005	$ 5.63	$ 4.62
	Second quarter ended March 31, 2006	9.84	5.24
	Third quarter ended June 30, 2006	13.11	9.29
	Fourth quarter ended September 30, 2006	14.52	11.66
Fiscal 2007:			
	First quarter ended December 31, 2006	$16.95	$11.64
	Second quarter ended March 31, 2007	17.05	13.54
	Third quarter ended June 30, 2007	16.68	12.82
	Fourth quarter ended September 30, 2007	13.57	10.46

On October 31, 2007, our Class A Common Stock closed at $13.16 per share.

During the past three fiscal years, we have not declared or paid any dividends. Under the terms of our credit agreement, which matures October 1, 2009, payment of dividends is allowed but restricted. Should we pay dividends in the future, our certificate of incorporation provides that cash dividends on common stock, when declared, must be declared and paid at the same per share amounts on both classes of stock.

Any interested party may request a copy of this Annual Report on Form 10-K free of charge by submitting a written request to EZCORP, Inc., Investor Relations, 1901 Capital Parkway, Austin, Texas 78746, by e-mail to investorrelations@ezcorp.com, or by printing a copy from the Investor Relations section of our website at www.ezcorp.com. The Code of Conduct and Ethics, Audit Committee Charter and Compensation Committee Charter also may be obtained from the Investor Relations section of our website at www.ezcorp.com.

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Stock Performance Graph

The following table compares cumulative total shareholder returns for our Class A Non-voting Common Stock for the period September 30, 2002 through September 30, 2007 with the cumulative total return on the NASDAQ Composite Index (ticker symbol IXIC) and the NASDAQ Other Financial Index (ticker symbol IXFN) over the same period. The graph assumes $100 was invested in each on September 30, 2002.

The Stock Performance Graph above and related information does not constitute soliciting material and will not be deemed filed or incorporate by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate it by reference into such filing.

Securities authorized under equity compensation plans as of September 30, 2007, were as follows:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options (a)	Weighted Average Exercise Price of Outstanding Option (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	2,551,666	$3.18	426,584
Equity compensation plans not approved by security holders			
Total	2,551,666	$3.18	426,584

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Item 6. Selected Financial Data

The following selected financial information should be read in conjunction with, and is qualified in its entirety by the accompanying consolidated financial statements and related notes:

Selected Financial Data

	Fiscal Years Ended September 30,				
	2003	2004	2005	2006	2007
	(Amounts in thousands, except per share and store figures)				
Operating Data:					
Sales	$ 134,591	$ 143,472	$ 148,410	$ 177,424	$ 192,987
Pawn service charges	58,175	59,090	62,274	65,325	73,551
Signature loan fees	12,538	23,874	42,200	71,840	104,347
Other	1,045	1,361	1,275	1,263	1,330
Total revenues	206,349	227,797	254,159	315,852	372,215
Cost of goods sold	86,100	88,202	90,678	106,873	118,007
Net revenues	120,249	139,595	163,481	208,979	254,208
Store operating expenses	81,822	87,898	97,079	111,738	128,602
Signature loan bad debt	3,551	8,067	13,000	17,897	28,508
Corporate administrative expenses	17,008	21,845	23,067	27,749	31,749
Depreciation and amortization	8,775	7,512	8,104	8,610	9,812
Interest expense (income), net	2,006	1,528	1,275	(79)	(1,373)
Equity in net income of unconsolidated affiliate	(1,412)	(1,739)	(2,173)	(2,433)	(2,945)
(Gain) loss on sale of assets	170	3	79	(7)	(72)
Impairment of investment	1,100				
Income before income taxes and cumulative effect of adopting a new accounting principle	7,229	14,481	23,050	45,504	59,927
Income tax expense (benefit)	(1,170)	5,358	8,298	16,245	22,053
Income before cumulative effect of adopting a new accounting principle	8,399	9,123	14,752	29,259	37,874
Cumulative effect of adopting a new accounting principle, net of tax	(8,037)				
Net income	$ 362	$ 9,123	$ 14,752	$ 29,259	$ 37,874
Earnings per common share, diluted	$ 0.01	$ 0.23	$ 0.36	$ 0.69	$ 0.88
Cash dividends per common share	$	$	$	$	$
Weighted average common shares and share equivalents, diluted	37,656	39,366	40,722	42,264	43,230
Stores operated at end of period	284	405	514	614	731

	2003	2004	September 30, 2005 (in thousands)	2006	2007
Balance Sheet Data:					
Pawn loans	$ 47,955	$ 49,078	$ 52,864	$ 50,304	$ 60,742
Payday loans	3,630	7,292	1,634	2,443	4,814
Inventory	29,755	30,636	30,293	35,616	37,942
Working capital	90,885	93,062	92,954	117,539	124,871
Total assets	153,690	164,322	165,448	197,858	251,186
Long-term debt	31,000	25,000	7,000		
Stockholders equity	105,478	116,729	133,543	170,140	215,925

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The discussion in this section contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed in this section and throughout this report.

The following table presents summary consolidated financial data for our fiscal years ended September 30, 2007 (current year or fiscal 2007), September 30, 2006 (prior year or fiscal 2006) and September 30, 2005 (fiscal 2005

Summary Financial Data

	Fiscal Years Ended September 30,		
	2005	2006	2007
		(in thousands)	
Net revenues:			
Sales	$ 148,410	$ 177,424	$ 192,987
Pawn service charges	62,274	65,325	73,551
Signature loan fees	42,200	71,840	104,347
Other	1,275	1,263	1,330
Total revenues	254,159	315,852	372,215
Cost of goods sold	90,678	106,873	118,007
Net revenues	$ 163,481	$ 208,979	$ 254,208
Net Income	$ 14,752	$ 29,259	$ 37,874

Consolidated signature loan data (combined payday loan and credit service activities) are as follows:

	Fiscal Years Ended September 30,		
	2005	2006	2007
		(Dollars in thousands)	
Fee revenue	$ 42,200	$ 71,840	$ 104,347
Bad debt:			
Net defaults, including interest on brokered loans	11,682	17,088	26,631
Insufficient funds fees, net of collections	81	1,119	1,154
Change in valuation allowance	1,043	(468)	402
Other related costs	194	158	321
Net bad debt	13,000	17,897	28,508
Fee revenue less bad debt	$ 29,200	$ 53,943	$ 75,839
Average signature loan balance outstanding during period (a)	$ 10,118	$ 16,369	$ 23,479
Signature loan balance at end of period (a)	$ 15,904	$ 20,653	$ 28,125
Participating stores at end of period	333	416	508
Signature loan bad debt, as a percent of fee revenue	30.8%	24.9%	27.3%
Net default rate (a) (b)	5.0%	4.7%	5.0%

(a)

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

(b) Principal defaults net of collections, as a percentage of signature loans made and renewed.

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Overview

We lend or provide credit services to individuals who do not have cash resources or access to credit to meet their short-term cash needs. We offer pawn loans in 294 domestic pawn stores, including fifteen acquired in the third quarter of fiscal 2007, and four Mexico pawn stores open at September 30, 2007. Pawn loans are non-recourse loans collateralized by tangible personal property. At these stores, we also sell merchandise, primarily collateral forfeited from our pawn lending operations, to customers looking for good value. In 433 EZMONEY stores and 75 of our domestic pawn stores open September 30, 2007, we offer short-term non-collateralized loans, often called payday loans, or fee-based credit services to customers seeking loans (collectively, signature loans).

We manage our business as two segments. The EZPAWN Operations segment offers pawn related activities in all 298 pawn stores, and offers signature loans in 75 pawn stores and six EZMONEY stores. The EZMONEY Operations segment offers signature loans in 427 EZMONEY stores, and accounts for approximately 97% of our consolidated signature loan revenues.

The following tables present store data by operating segment:

	Year Ended September 30, 2007		
	EZPAWN Operations	EZMONEY Operations	Consolidated
Stores in operation:			
Beginning of period	286	328	614
New openings	4	100	104
Acquired	15	1	16
Sold, combined, or closed	(1)	(2)	(3)
End of period	304	427	731
Average number of stores during the period	292	362	654
Composition of ending stores:			
EZPAWN United States	294		294
EZPAWN Mexico	4		4
EZMONEY signature loan stores adjoining EZPAWNs	6	164	170
EZMONEY signature loan stores free standing		263	263
Total stores in operation	304	427	731
Total stores offering signature loans	81	427	508

	Year Ended September 30, 2006		
	EZPAWN Operations	EZMONEY Operations	Consolidated
Stores in operation:			
Beginning of period	286	228	514
New openings		101	101
Acquired	3		3
Sold, combined, or closed	(3)	(1)	(4)
End of period	286	328	614

Average number of stores during the period	286	259	545
Composition of ending stores:			
EZPAWN United States	280		280
EZMONEY signature loan stores adjoining EZPAWNs	6	159	165
EZMONEY signature loan stores free standing		169	169
Total stores in operation	286	328	614
Total stores offering signature loans	88	328	416

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	Year Ended September 30, 2005		
	EZPAWN Operations	EZMONEY Operations	Consolidated
Stores in operation:			
Beginning of period	286	119	405
New openings		110	110
Acquired			
Sold, combined, or closed		(1)	(1)
End of period	286	228	514
Average number of stores during the period	286	176	462
Composition of ending stores:			
EZPAWN United States	280		280
EZMONEY signature loan stores adjoining EZPAWNs	6	152	158
EZMONEY signature loan stores free standing		76	76
Total stores in operation	286	228	514
Total stores offering signature loans	104	228	332

We earn pawn service charge revenue on our pawn lending. While allowable service charges vary by state and loan size, a majority of our pawn loans are in amounts that allow 20% per month, or 240% annually. Our average pawn loan amount typically ranges between $80 and $100 but varies depending on the valuation of each item pawned. The total loan term, consisting of the primary term and grace period, ranges between 45 and 120 days.

Between August and November 2005, we reduced the total loan term on new pawn loans from 90 days to 60 days in 215 of our pawn stores. Forty-three stores had previously made the change. We estimate this change reduced our pawn portfolio approximately 15% for the loans in these stores that were between 60 and 90 days old, with very little or no impact on pawn service charge revenues. This change also created a one-time doubling of forfeitures in fiscal 2006 as loans made 90 and 60 days earlier simultaneously forfeited for a 30-day period, resulting in a higher level of inventory available for sale (beginning inventory plus forfeitures and purchases). We experienced this doubling of forfeitures as loans in these 215 stores matured in the first two quarters of fiscal 2006.

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

At September 30, 2007, 264 of our 433 EZMONEY stores and 50 of our 298 pawn stores offered credit services to customers seeking 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. We also offer a free service to all credit service customers to improve or establish their credit histories by reporting their payments to an external credit-reporting agency.

In connection with our credit services, the unaffiliated lenders offer customers two types of loans. In all 264 EZMONEY stores offering credit services, customers can obtain short-term loans, with principal amounts up to $1,500, averaging $540. Terms of these short-term loans are generally less than 30 days, averaging about 18 days, with due dates corresponding with the customers next payday. We typically earn a fee of 20% of the loan amount for our short-term loan credit services. In 35 EZMONEY stores offering credit services, customers can obtain longer-term installment loans from the unaffiliated lenders. The installment loans 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, averaging about $2,300. With each installment payment, we earn a fee of 10% of the initial loan amount. At September 30, 2007, short-term loans comprised 98% of the balance of loans brokered through our credit services, and installment loans comprised the remaining 2%.

We earn payday loan fee revenue on our payday loans. In 194 stores, we make payday loans subject to state law. The average payday loan amount is approximately $435 and the term is generally less than 30 days, averaging about 19 days. We typically charge a fee of 15% to 22% of the loan amount for a 7 to 23-day period. Through December 2005, we also marketed and serviced payday loans made by County Bank of Rehoboth Beach in some of our stores. We could purchase a 90% participation in the County Bank loans we marketed. As of December 31, 2005, County Bank discontinued its payday loan program. Most of our stores previously marketing County Bank loans now provide credit services to customers in obtaining loans from unaffiliated lenders.

On June 18, 2007, we completed the acquisition of fifteen pawnshops and one payday loan store from Jumping Jack Cash in Colorado for $23.2 million of cash and direct transaction costs. Results of the acquired stores are included in our consolidated results from the date of acquisition. The purchase price was allocated as presented in Note C, *Acquisitions,* in the consolidated financial statements filed with this annual report.

In fiscal 2007, the EZPAWN Operations segment contributed $10.1 million greater store operating income compared to the prior year, primarily from an $8.2 million increase in pawn service charges and a $4.4 million increase in gross profit on sales, partially offset by higher operating costs. Our EZMONEY Operations segment contributed $7.7 million greater store operating income, comprised of higher fees net of bad debt, somewhat offset by higher operating costs primarily at new stores. After a $4.0 million increase in administrative expenses and a $1.2 million increase in depreciation and amortization, operating income increased $12.6 million to $55.5 million. After increases in net interest income and our equity interest in the income of Albemarle & Bond, a $5.8 million increase in income taxes, and less material changes in other items, our consolidated net income improved to $37.9 million in the current year from $29.3 million in the prior year.

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. 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, allowance for losses on signature loans, 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 to be 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 from the estimates under different assumptions or conditions.

We believe the following critical accounting policies and estimates could have a significant impact on our results of operations. You should refer to Note A of our consolidated financial statements for a more complete review of other accounting policies and estimates used in the preparation of our consolidated financial statements.

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 to three 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 (net realizable value) of the property. We record sales revenue and the related cost when this inventory is sold.
CREDIT SERVICE REVENUE RECOGNITION: We earn credit service fees when we assist customers in obtaining loans from unaffiliated lenders. We accrue the percentage of credit service fees we expect to collect. Accrued fees related to defaulted loans reduce credit service fee revenue upon loan default, and increase credit service fee revenue upon collection. Credit service revenue is included in Signature loan fees on our statements of operations.
CREDIT SERVICE BAD DEBT: We issue letters of credit to enhance the creditworthiness of our credit service customers seeking 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 it by the borrowers plus any insufficient funds fee. 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 for 60 days, we generally sell them to an unaffiliated company on a weekly basis as another method of recovery. We account for the sale of defaulted accounts in the same manner as internal collections of defaulted accounts.
The majority of our credit service customers obtain short-term loans with a single maturity date. These short-term loans, with maturity dates averaging about 18 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.
CREDIT SERVICE ALLOWANCE FOR LOSSES: We also provide an allowance for losses we expect to incur under letters of credit for 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 and insufficient funds fees, net of the amounts we expect to collect from borrowers (Expected LOC Losses). Changes in the allowance are charged to signature loan bad debt expense. We include the balance of Expected LOC Losses in Accounts payable and other accrued expenses on our balance sheet. At September 30, 2007, the allowance for Expected LOC Losses was $1.2 million. At that date, our maximum exposure for losses on letters of credit, if all brokered loans defaulted and none was collected, was $24.7 million. This amount includes principal, interest and insufficient funds fees. Based on the expected loss and collection percentages, we also provide an allowance for the credit service fees we expect not to collect, and charge changes in this allowance to signature loan fee revenue.
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. Actual loan losses could vary from those estimated due to variance in any of these factors. Increased defaults and credit losses may occur during a national or regional economic downturn, in response to regulatory changes or for other reasons, resulting in the need to increase the allowance. We believe we effectively manage these risks through our underwriting criteria and closely monitoring the performance of the portfolio.
PAYDAY LOAN REVENUE RECOGNITION: We accrue fees on the percentage of payday loans we believe to be collectible using the interest method. Accrued fees related to defaulted loans reduce fee revenue upon loan default, and increase fee revenue upon collection. Payday loan fee revenue is included in Signature loan fees on our statements of operations.
PAYDAY LOAN BAD DEBT: We consider a loan defaulted if it has not been repaid or renewed by the maturity date. 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 for 60 days, we generally sell them to an unaffiliated company on a weekly basis as

another method of recovery. We account for the sale of defaulted loans in the same manner as internal collections of defaulted loans.

PAYDAY LOAN ALLOWANCE FOR LOSSES: We provide an allowance for losses on payday 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. At September 30, 2007, the combined allowances for uncollectible principal and interest on payday loans were $0.3 million.

INVENTORY: If a pawn loan is not redeemed, we record the forfeited collateral at cost. 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 (net realizable value), we record an allowance for shrinkage and excess, obsolete or slow moving inventory. The allowance is based on the type and age of merchandise and recent sales trends and margins. At September 30, 2007, the inventory valuation allowance was $3.8 million, or 9.0% of gross inventory. We record changes in the inventory valuation allowance as cost of goods sold. The accuracy of our inventory allowance is dependent on our ability to predict future events based on historical trends. Unexpected variations in sales margins, inventory turnover, or other factors, including fluctuations in gold values could increase or decrease our inventory allowance.

INCOME TAXES: As part of the process of preparing the consolidated financial statements, we estimate income taxes in each jurisdiction in which we operate. This involves estimating the actual current tax liability and assessing temporary differences in recognition of income for tax and accounting purposes. These differences result in deferred tax assets and liabilities that we include in our balance sheet. We then assess the likelihood that the deferred tax assets will be recovered from future taxable income. If we determined we would not be able to realize all or part of our net deferred tax assets in the future, an increase to the valuation allowance would be charged to the income tax provision in that period. Likewise, if we determined we would be able to realize our deferred tax assets in the future in excess of the net recorded amount, a decrease to the valuation allowance would decrease the tax provision in that period. We assess the need for a deferred tax asset valuation allowance quarterly. Our valuation allowance was $0.4 million at September 30, 2007.

SHARE-BASED COMPENSATION: We account for share-based compensation in accordance with the fair value recognition provisions of SFAS No. 123(R), Share-based Payment. We 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 straight-line basis over the options vesting periods.

Certain prior year balances have been reclassified to conform to the current year presentation.

Off-Balance Sheet Arrangements

We issue letters of credit to enhance the creditworthiness of our credit service customers seeking 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 it by the borrowers plus any insufficient funds 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 lender s 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 Financial Interpretation No. 46 regarding variable interest entities.

We include an allowance for Expected LOC Losses in Accounts payable and other accrued expenses on our balance sheet. At September 30, 2007, the allowance for Expected LOC Losses was $1.2 million. At that date, our maximum exposure for losses on letters of credit, if all brokered loans defaulted and none was collected, was $24.7 million. This amount includes principal, interest and insufficient funds fees.

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We have no other off-balance sheet arrangements.

Effect of Adopting a New Accounting Principle for Share-based Compensation

Prior to October 1, 2005, we accounted for our share-based compensation under the recognition and measurement provisions of APB 25, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation. For periods prior to October 1, 2005, share-based employee compensation cost was recognized in the Statement of Operations for only restricted stock grants and options granted at prices below market price on the date of grant. Effective October 1, 2005, we adopted the fair value recognition provisions of SFAS No. 123(R), Share-based Payment, using the modified prospective transition method, as more fully described in Note I of the financial statements included in this report. In accordance with the modified prospective transition provisions, we have not restated results for prior periods.

Our net income includes the following compensation costs related to our share-based compensation arrangements:

	Years Ended September 30,		
	2005	2006	2007
		(In thousands)	
Gross compensation costs			
Stock options	$	$ 1,321	$ 1,164
Restricted stock	588	76	2,463
Total gross compensation costs	588	1,397	3,627
Income tax benefits			
Stock options		(154)	(277)
Restricted stock	(206)	(26)	(836)
Total income tax benefits	(206)	(180)	(1,113)
Net compensation expense	$ 382	$ 1,217	$ 2,514

At September 30, 2007, the unamortized fair value of share-based awards to be amortized over their remaining vesting periods was approximately $21.6 million. These costs will be amortized over a weighted average period of 8 years.

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Results of Operations

Fiscal 2007 Compared to Fiscal 2006

The following discussion compares our results of operations for the current year ended September 30, 2007 to the prior year ended September 30, 2006. It should be read with the accompanying consolidated financial statements and related notes.

EZPAWN Operations Segment

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

	Year Ended September 30,	
	2006	2007
	(Dollars in thousands)	
Sales	$ 177,424	$ 192,987
Pawn service charges	65,325	73,551
Signature loan fees	3,155	3,314
Other	1,263	1,330
Total revenues	247,167	271,182
Cost of goods sold	106,873	118,007
Net revenues	140,294	153,175
Store operating expenses:		
Operations expense	84,830	87,555
Signature loan bad debt	1,286	1,390
Total store operating expenses	86,116	88,945
Store operating income	$ 54,178	$ 64,230
Other data:		
Gross margin on sales	40%	39%
Annual inventory turnover	3.2x	3.4x
Average pawn loan balance per pawn store at year end	$ 180	$ 204
Average inventory per pawn store at year end	$ 127	$ 127
Average yield on pawn loan portfolio (a)	139%	143%
Pawn loan redemption rate	76%	77%
Average signature loan balance per store offering signature loans at year end (b)	$ 12	$ 12

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

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

Our current year pawn service charge revenue increased 13%, or $8.2 million from the prior year to $73.6 million. This was due to a four percentage point increase in loan yields to 143%, coupled with a 9% higher average pawn loan balance. Same store pawn service charges increased 10% from the prior year, with the remaining increase coming from new stores. In the last two years, we have periodically raised our loan values on gold jewelry in response to increases in gold market values and similar changes by our competitors. This contributed about $4.3 million to the increase in pawn service charges in the current year. The higher yield resulted largely from the fiscal 2006 mid-year conversion of most of our pawn stores from offering 90-day loan terms to offering 60-day terms.

In the current year, $71.7 million of recorded pawn service charge revenue was collected in cash, and $1.9 million was due to an increase in pawn service charges receivable related to the larger ending portfolio in the current year. In the prior year, $66.6 million of recorded pawn service charge revenue was collected in cash, offset by a $1.3 million decrease in pawn service charges receivable. The decrease in the prior year accrual was primarily due to shortening the loan term in most of our pawn stores in that period. The accrual of pawn service charges is dependent on the size of the loan portfolio, the loan term and our estimate of collectible loans in the portfolio at the end of each period.

The table below summarizes our sales volume, gross profit and gross margins:

	Fiscal Year Ended September 30,	
	2006	2007
	(Dollars in millions)	
Merchandise sales	$ 134.3	$ 141.1
Jewelry scrapping sales	43.1	51.9
Total sales	177.4	193.0
Gross profit on merchandise sales	$ 55.9	$ 57.6
Gross profit on jewelry scrapping sales	14.7	17.4
Gross margin on merchandise sales	41.6%	40.8%
Gross margin on jewelry scrapping sales	34.1%	33.5%
Overall gross margin	39.8%	38.9%

The current year merchandise gross profit increased $1.7 million from the prior year to $57.6 million. This was due to a $4.0 million, or 3% increase in same store merchandise sales and a $2.8 million increase in new store sales, reduced by a 0.8 percentage point decrease in gross margins. In the prior year, we benefited from the doubling of loan forfeitures due to the reduction of loan terms in the majority of our stores. This provided a greater amount of fresh inventory in the second and third quarters of fiscal 2006 to fuel sales at a better margin. More aggressive discounting of electronics and jewelry and increased jewelry loan values in response to market increases in gold values also led to lower margins in the current year.

The gross profit on jewelry scrapping sales increased $2.7 million from the prior year to $17.4 million. This was due to an $8.8 million, or 20% increase in jewelry scrapping sales on 7% more volume, and a 0.6 percentage point decrease in margins. The jewelry scrapping sales include the current year sale of approximately $1.6 million of loose diamonds removed from scrapped jewelry, compared to approximately $0.5 million in fiscal 2006. The proceeds refiners pay us for jewelry has increased in the last year in response to higher gold values. We also increased the amount we loan on jewelry and pay to purchase jewelry from customers, increasing the cost of these items. These factors had a $0.9 million positive net effect on the gross profit from jewelry scrapping sales.

Selected signature loan data for the EZPAWN Operations segment are as follows:

	Year Ended September 30,	
	2006	2007
	(Dollars in thousands)	
Fee revenue	$ 3,155	$ 3,314
Net bad debt	1,286	1,390
Fee revenue less bad debt	$ 1,869	$ 1,924
Signature loan bad debt, as a percent of fee revenue	40.8%	41.9%

The segment s signature loan contribution, or fee revenue less bad debt, increased $0.1 million in the current year, primarily due to an increase in same store signature loan revenues.

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Operations expense improved to 57% of net revenues ($87.6 million) in the current year from 60% of net revenues ($84.8 million) in the prior year, as operating expenses grew at a slower pace than the segment s net revenues.
In the current year, the $12.7 million greater net revenue from pawn activities and $0.1 million greater contribution from signature loans, partially offset by the $2.7 million higher operations expenses resulted in a $10.1 million overall increase in store operating income from the EZPAWN Operations segment compared to fiscal 2006. For the year, EZPAWN Operations made up 66% of consolidated store operating income compared to 68% in the prior year.

EZMONEY Operations Segment

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

	Year Ended September 30,	
	2006	2007
	(Dollars in thousands)	
Signature loan fees	$ 68,685	$ 101,033
Signature loan bad debt	16,611	27,118
Signature loan contribution (fees less bad debt)	52,074	73,915
Operations expense	26,908	41,047
Store operating income	$ 25,166	$ 32,868
Other data:		
Signature loan bad debt as a percent of signature loan fees	24.2%	26.8%
Average signature loan balance per store offering signature loans at year end (a)	$ 60	$ 64

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

The segment s signature loan contribution, or fees less bad debt, increased $21.8 million, or 42% compared to fiscal 2006. The primary cause of the increased contribution was the higher average loan balances at existing stores and the addition of new stores, resulting in a 47% increase in the current year signature loan fee revenue. Signature loan bad debt increased $10.5 million to 26.8% of related fees in the current year compared to 24.2% in the prior year. Early in the third quarter of fiscal 2007, we revised some of our underwriting criteria to optimize our loan growth. The result was stronger than normal loan growth as well as a higher level of bad debt. Later in the third quarter, we refined our underwriting criteria specifically for new customers. As a result, our bad debt improved in the fourth quarter compared to the third quarter, but was approximately 4.5 percentage points higher as a percentage of related fees than the fourth quarter of fiscal 2006.

Operations expense increased $14.1 million in the current year to $41.0 million, or 41% of segment revenues from 39% in the prior year. The increase was mostly from additional labor, rent and other costs at new stores that have not yet matured. In the current year, operations expense was $113,390 per average store, compared to $103,890 per average store in fiscal 2006. Stores adjoining an EZPAWN location, which generally have lower operating costs, now comprise a smaller percentage of the total EZMONEY stores.

In the current year, the $21.8 million increase in signature loan fees net of bad debt and $14.1 million greater operations expense resulted in a $7.7 million net increase in store operating income from the

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EZMONEY Operations segment. For the current year, EZMONEY Operations made up 34% of consolidated store operating income compared to 32% in fiscal 2006.

Other Items

The items discussed below affect our consolidated financial results, but are not allocated between segments.

Administrative expenses in the current year were $31.7 million compared to $27.7 million in the prior year. This is an improvement of 0.8 of a percentage point to 12.5% when measured as a percent of net revenue. The dollar increase was due primarily to a $2.2 million increase in stock compensation, a $1.1 million increase in administrative labor and benefits, and a $0.5 million increase in information technology consulting fees.

Depreciation and amortization expense was $9.8 million in the current year, compared to $8.6 million in the prior year. Depreciation on assets placed in service, primarily related to new EZMONEY stores and acquisitions, exceeded the reduction from assets that became fully depreciated or were retired.

We earned $1.7 million of interest income on our invested cash in the current year for a rate of return of 5.0%. In fiscal 2006, we earned $0.5 million of interest income on our invested cash, yielding a 4.1% rate of return.

With no debt in the current year, our $0.3 million interest expense was comprised mostly of the amortization of deferred financing costs and the commitment fee on our line of credit. Interest expense in the prior year was $0.4 million. In that period, we had an average debt balance of $1.6 million.

The fiscal 2007 income tax expense was $22.1 million (36.8% of pretax income) compared to $16.2 million (35.7% of pretax income) for the prior year. The increase in effective tax rate is due primarily to a legislative change increasing our expected taxes in Texas.

Consolidated operating income for the current year improved $12.6 million over the prior year to $55.5 million. Contributing to this were the $10.1 million and $7.7 million increases in store operating income in our EZPAWN and EZMONEY Operations segments, partially offset by the $4.0 million increase in administrative expenses. After a $1.3 million improvement in net interest and a $5.8 million increase in income taxes and other smaller items, net income improved to $37.9 million in fiscal 2007 from $29.3 million in fiscal 2006.

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Fiscal 2006 Compared to Fiscal 2005

The following discussion compares our results of operations for the year ended September 30, 2006 to the year ended September 30, 2005. It should be read with the accompanying consolidated financial statements and related notes.

EZPAWN Operations Segment

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

	Year Ended September 30, 2005	2006
	(Dollars in thousands)	
Sales	$ 148,410	$ 177,424
Pawn service charges	62,274	65,325
Signature loan fees	5,664	3,155
Other	1,275	1,263
Total revenues	217,623	247,167
Cost of goods sold	90,678	106,873
Net revenues	126,945	140,294
Store operating expenses:		
Operations expense	81,406	84,830
Signature loan bad debt	1,346	1,286
Total store operating expenses	82,752	86,116
Store operating income	$ 44,193	$ 54,178
Other data:		
Gross margin on sales	39%	40%
Annual inventory turnover	3.0x	3.2x
Average pawn loan balance per pawn store at year end	$ 189	$ 180
Average inventory per pawn store at year end	$ 108	$ 127
Average yield on pawn loan portfolio (a)	133%	139%
Pawn loan redemption rate	77%	76%
Average signature loan balance per store offering signature loans at year end (b)	$ 7	$ 12

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

(b) Signature loan balances include

payday loans
(net of valuation
allowance)