

EZCORP INC  
Form 10-Q  
August 11, 2008

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended June 30, 2008**

**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**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

|  |  |  |  |
|--|--|--|--|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input type="checkbox"/> |
| (Do not check if a smaller reporting company)    |  |  |  |

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

As of June 30, 2008, 38,470,731 shares of the registrant's Class A Non-voting Common Stock, par value \$.01 per share and 2,970,171 shares of the registrant's Class B Voting Common Stock, par value \$.01 per share were outstanding.

**EZCORP, INC.**  
**INDEX TO FORM 10-Q**

|  | Page |
|--|------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>  |      |
| <i><u>Item 1. Financial Statements (Unaudited)</u></i>   |      |
| <u>Condensed Consolidated Balance Sheets as of June 30, 2008, June 30, 2007 and September 30, 2007</u>                   | 1    |
| <u>Condensed Consolidated Statements of Operations for the Three Months and Nine Months Ended June 30, 2008 and 2007</u> | 2    |
| <u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2008 and 2007</u>                  | 3    |
| <u>Notes to Interim Condensed Consolidated Financial Statements</u>  | 4    |
| <i><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></i>              | 15   |
| <i><u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u></i>   | 32   |
| <i><u>Item 4. Controls and Procedures</u></i>  | 33   |
| <b><u>PART II. OTHER INFORMATION</u></b>   |      |
| <i><u>Item 1. Legal Proceedings</u></i>  | 34   |
| <i><u>Item 1A. Risk Factors</u></i>  | 34   |
| <i><u>Item 5. Other Information</u></i>  | 34   |
| <i><u>Item 6. Exhibits</u></i>   | 35   |
| <b><u>SIGNATURE</u></b>  | 36   |
| <b><u>EXHIBIT INDEX</u></b>  | 37   |
| <b>CERTIFICATIONS</b>  |      |
| <u>Certification of CEO Pursuant to Section 302</u>  |      |
| <u>Certification of CFO Pursuant to Section 302</u>  |      |
| <u>Certification of CEO Pursuant to Section 906</u>  |      |
| <u>Certification of CFO Pursuant to Section 906</u>  |      |

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

## Condensed Consolidated Balance Sheets

|  | June 30,<br>2008<br><i>(Unaudited)</i> | June 30,<br>2007<br><i>(Unaudited)</i><br><i>(In thousands)</i> | September<br>30,<br>2007 |
|--|--|---|--------------------------|
| Assets:  |  |   |                          |
| Current assets:  |  |   |                          |
| Cash and cash equivalents  | \$ 29,812                              | \$ 31,686   | \$ 22,533                |
| Pawn loans   | 68,022                                 | 58,053  | 60,742                   |
| Payday loans, net  | 6,598                                  | 4,514   | 4,814                    |
| Pawn service charges receivable, net   | 10,061                                 | 8,150   | 10,113                   |
| Signature loan fees receivable, net  | 5,086                                  | 5,439   | 5,992                    |
| Inventory, net   | 39,444                                 | 33,641  | 37,942                   |
| Deferred tax asset, net  | 9,007                                  | 7,344   | 8,964                    |
| Federal income taxes receivable  | 454                                    |   |                          |
| Prepaid expenses and other assets  | 5,622                                  | 5,197   | 6,146                    |
| <b>Total current assets</b>  | <b>174,106</b>                         | <b>154,024</b>  | <b>157,246</b>           |
| Investment in unconsolidated affiliate   | 37,248                                 | 21,250  | 35,746                   |
| Property and equipment, net  | 38,661                                 | 31,895  | 33,806                   |
| Deferred tax asset, non-current  | 5,620                                  | 4,536   | 4,765                    |
| Goodwill   | 24,779                                 | 16,211  | 16,211                   |
| Other assets, net  | 5,585                                  | 3,448   | 3,412                    |
| <b>Total assets</b>  | <b>\$ 285,999</b>                      | <b>\$ 231,364</b>   | <b>\$ 251,186</b>        |
| Liabilities and stockholders' equity:  |  |   |                          |
| Current liabilities:   |  |   |                          |
| Accounts payable and other accrued expenses  | \$ 24,120                              | \$ 21,658   | \$ 25,592                |
| Customer layaway deposits  | 2,254                                  | 1,888   | 1,988                    |
| Federal income taxes payable   |  | 1,255   | 4,795                    |
| <b>Total current liabilities</b>   | <b>26,374</b>                          | <b>24,801</b>   | <b>32,375</b>            |
| Deferred gains and other long-term liabilities   | 2,909                                  | 2,977   | 2,886                    |
| Commitments and contingencies  |  |   |                          |
| Stockholders' equity:  |  |   |                          |
| Preferred Stock, par value \$.01 per share; 5 million shares authorized; none issued and outstanding   |  |   |                          |
| Class A Non-voting Common Stock, par value \$.01 per share; 50 million shares authorized; 38,497,830 issued and 38,470,731 outstanding at June 30, 2008; 38,356,436 issued and 38,329,337 outstanding at June 30, 2007; 38,363,176 issued and 38,336,077 | 385                                    | 383   | 383                      |

outstanding at September 30, 2007

Class B Voting Common Stock, convertible, par value \$.01 per share; 3 million shares authorized; 2,970,171 issued and

|  |            |            |            |
|--|------------|------------|------------|
| outstanding  | 30         | 30         | 30         |
| Additional paid-in capital                               | 134,598    | 130,236    | 131,098    |
| Cumulative effect of adopting a new accounting principle | (106)      |            |            |
| Retained earnings  | 118,245    | 70,692     | 81,847     |
|  | 253,152    | 201,341    | 213,358    |
| Treasury stock, at cost (27,099 shares)                  | (35)       | (35)       | (35)       |
| Accumulated other comprehensive income                   | 3,599      | 2,280      | 2,602      |
| Total stockholders' equity                               | 256,716    | 203,586    | 215,925    |
| Total liabilities and stockholders' equity               | \$ 285,999 | \$ 231,364 | \$ 251,186 |

See Notes to Condensed Consolidated Financial Statements (unaudited).

**Table of Contents**

## Condensed Consolidated Statements of Operations (Unaudited)

|  | Three Months Ended                              |           | Nine Months Ended |            |
|--|---|-----------|-------------------|------------|
|  | June 30,  |           | June 30,          |            |
|  | 2008  | 2007      | 2008              | 2007       |
|  | <i>(In thousands, except per share amounts)</i> |           |                   |            |
| Revenues:  |   |           |                   |            |
| Sales  | \$ 53,635                                       | \$ 42,676 | \$ 170,472        | \$ 141,688 |
| Pawn service charges                             | 22,691  | 16,978    | 67,384            | 51,496     |
| Signature loan fees                              | 31,223  | 27,024    | 94,917            | 74,132     |
| Other  | 521   | 315       | 1,228             | 1,007      |
| Total revenues                                   | 108,070   | 86,993    | 334,001           | 268,323    |
| Cost of goods sold                               | 31,460  | 25,421    | 101,732           | 85,618     |
| Net revenues                                     | 76,610  | 61,572    | 232,269           | 182,705    |
| Operating expenses:                              |   |           |                   |            |
| Operations                                       | 38,593  | 31,595    | 113,185           | 94,087     |
| Signature loan bad debt                          | 8,545   | 10,142    | 24,847            | 19,086     |
| Administrative                                   | 9,807   | 8,033     | 29,541            | 23,528     |
| Depreciation and amortization                    | 3,081   | 2,495     | 9,027             | 7,194      |
| Total operating expenses                         | 60,026  | 52,265    | 176,600           | 143,895    |
| Operating income                                 | 16,584  | 9,307     | 55,669            | 38,810     |
| Interest income                                  | (165)   | (618)     | (359)             | (1,499)    |
| Interest expense                                 | 72  | 67        | 228               | 214        |
| Equity in net income of unconsolidated affiliate | (997)   | (720)     | (3,162)           | (2,185)    |
| (Gain) / loss on sale / disposal of assets       | 284   | (155)     | 527               | (131)      |
| Other  | 11  |           | 11                |            |
| Income before income taxes                       | 17,379  | 10,733    | 58,424            | 42,411     |
| Income tax expense                               | 6,552   | 3,971     | 22,026            | 15,692     |
| Net income                                       | \$ 10,827                                       | \$ 6,762  | \$ 36,398         | \$ 26,719  |
| Net income per common share:                     |   |           |                   |            |
| Basic  | \$ 0.26   | \$ 0.16   | \$ 0.88           | \$ 0.65    |
| Diluted  | \$ 0.25   | \$ 0.16   | \$ 0.84           | \$ 0.62    |
| Weighted average shares outstanding:             |   |           |                   |            |
| Basic  | 41,419  | 41,282    | 41,380            | 40,943     |

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|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Diluted | 43,325 | 43,482 | 43,269 | 43,393 |
|---------|--------|--------|--------|--------|

See Notes to Interim Condensed Consolidated Financial Statements (unaudited).

2

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**Table of Contents**

## Condensed Consolidated Statements of Cash Flows (Unaudited)

|   | Nine Months Ended<br>June 30, |                 |
|---|-------------------------------|-----------------|
|   | 2008                          | 2007            |
|   | <i>(In thousands)</i>         |                 |
| <b>Operating Activities:</b>  |                               |                 |
| Net income  | \$ 36,398                     | \$ 26,719       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                               |                 |
| Depreciation and amortization   | 9,027                         | 7,194           |
| Payday loan loss provision  | 5,666                         | 3,316           |
| Deferred taxes  | (856)                         | (787)           |
| Net (gain)/loss on sale or disposal of assets                                     | 527                           | (131)           |
| Share-based compensation  | 2,826                         | 2,726           |
| Income from investment in unconsolidated affiliate                                | (3,162)                       | (2,185)         |
| Changes in operating assets and liabilities, net of business acquisitions:        |                               |                 |
| Service charges and fees receivable, net  | 1,196                         | (432)           |
| Inventory, net  | (120)                         | 407             |
| Prepaid expenses, other current assets, and other assets, net                     | 271                           | (1,160)         |
| Accounts payable and accrued expenses   | (1,327)                       | (951)           |
| Customer layaway deposits   | 198                           | (79)            |
| Deferred gains and other long-term liabilities                                    | (46)                          | (272)           |
| Excess tax benefit from stock-based compensation                                  | (352)                         | (895)           |
| Federal income taxes  | (5,003)                       | 2,756           |
| <b>Net cash provided by operating activities</b>                                  | <b>45,243</b>                 | <b>36,226</b>   |
| <b>Investing Activities:</b>  |                               |                 |
| Pawn loans made   | (187,831)                     | (150,656)       |
| Pawn loans repaid   | 102,841                       | 80,530          |
| Recovery of pawn loan principal through sale of forfeited collateral              | 80,751                        | 69,824          |
| Payday loans made   | (57,449)                      | (32,708)        |
| Payday loans repaid   | 49,999                        | 27,427          |
| Additions to property and equipment   | (13,094)                      | (9,234)         |
| Acquisitions, net of cash acquired  | (15,467)                      | (23,201)        |
| Dividends from unconsolidated affiliate   | 1,745                         | 1,274           |
| Proceeds from sale of assets  |                               | 200             |
| <b>Net cash used in investing activities</b>                                      | <b>(38,505)</b>               | <b>(36,544)</b> |
| <b>Financing Activities:</b>  |                               |                 |
| Proceeds from exercise of stock options and warrants                              | 189                           | 1,453           |
| Excess tax benefit from stock-based compensation                                  | 352                           | 895             |
| Debt issuance costs   |                               | (283)           |
| <b>Net cash provided by financing activities</b>                                  | <b>541</b>                    | <b>2,065</b>    |
| <b>Change in cash and equivalents</b>   | <b>7,279</b>                  | <b>1,747</b>    |



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|   |           |            |
|---|-----------|------------|
| Cash and equivalents at beginning of period                                   | 22,533    | 29,939     |
| Cash and equivalents at end of period   | \$ 29,812 | \$ 31,686  |
| Non-cash Investing and Financing Activities:                                  |           |            |
| Pawn loans forfeited and transferred to inventory                             | \$ 81,115 | \$ 66,521  |
| Foreign currency translation adjustment                                       | \$ (997)  | \$ (1,055) |
| Issuance of common stock to 401(k) plan                                       | \$ 135    | \$ 27      |
| Cumulative effect of adopting a new accounting principle                      | \$ 106    | \$         |
| See Notes to Interim Condensed Consolidated Financial Statements (unaudited). |           |            |

3

**Table of Contents**

**EZCORP, Inc. and Subsidiaries**  
**Notes to Interim Condensed Consolidated Financial Statements (Unaudited)**  
**June 30, 2008**

**Note A: Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Management has included all adjustments it considers necessary for a fair presentation. These adjustments are of a normal, recurring nature except for those related to an acquired business (described in Note C) and the adoption of a new accounting principle for uncertain tax positions (described in Note K). The accompanying financial statements should be read with the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended September 30, 2007. The balance sheet at September 30, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Certain prior period balances have been reclassified to conform to the current presentation.

Our business is subject to seasonal variations, and operating results for the three and nine-month periods ended June 30, 2008 (the current quarter and current year-to-date period ) are not necessarily indicative of the results of operations for the full fiscal year.

**Note B: Significant Accounting Policies**

**CONSOLIDATION:** The consolidated financial statements include the accounts of EZCORP, Inc. and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. We account for our interest in Albemarle & Bond Holdings, plc using the equity method.

**PAWN LOAN AND SALES REVENUE RECOGNITION:** We record pawn service charges using the interest method for all pawn loans we believe to be collectible. We base our estimate of collectible loans on several factors, including recent redemption rates, historical trends in redemption rates and the amount of loans due in the following two 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 a loan from unaffiliated lenders. We initially defer recognition of the fees we expect to collect, net of direct expenses, and recognize that deferred net amount over the life of the related loans. We reserve the percentage of credit service fees we expect not to collect. Accrued fees related to defaulted loans reduce credit service fee revenue upon loan default, and increase credit service fee revenue upon collection. 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, we occasionally sell them to an unaffiliated company 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

**Table of Contents**

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 June 30, 2008, the allowance for Expected LOC Losses was \$1.3 million. At that date, our maximum exposure for losses on letters of credit, if all brokered loans defaulted and none was collected, was \$23.7 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.

PAYDAY LOAN REVENUE RECOGNITION: We accrue fees in accordance with state laws on the percentage of payday loans we believe to be collectible. 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. Loan terms are generally less than 30 days, averaging about 18 days.

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, we occasionally sell them to an unaffiliated company as another method of recovery. We account for the sale of defaulted accounts in the same manner as internal collections of defaulted accounts.

PAYDAY LOAN ALLOWANCE FOR LOSSES: We also 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.

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 June 30, 2008, the inventory valuation allowance was \$4.3 million, or 9.8% of gross inventory. We record changes in the inventory valuation allowance as cost of goods sold.

INTANGIBLE ASSETS: Goodwill and other intangible assets having indefinite lives are not subject to amortization. They are tested for impairment each July 1<sup>st</sup>, or more frequently if events or changes in circumstances indicate that they might be impaired. We recognized no impairment of our intangible assets in the current or prior year-to-date periods. We amortize intangible assets with definite lives over their estimated useful lives, using the straight-line method.

PROPERTY AND EQUIPMENT: Property and equipment is shown net of accumulated depreciation of \$92.5 million at June 30, 2008.

VALUATION OF TANGIBLE LONG-LIVED ASSETS: We assess the impairment of tangible long-lived assets whenever events or changes in circumstances indicate that the net recorded amount may not be recoverable. The following factors could trigger an impairment review: significant underperformance relative to historical or projected future cash flows; significant changes in the manner of use of the assets or the strategy for the overall business; or significant negative industry trends. When we determine that the net recorded amount of tangible long-lived assets may not be recoverable, we measure impairment based on the excess of the assets' net recorded amount over the estimated fair value. No impairment of tangible long-lived assets was recognized in the current or prior year-to-date periods.



**Table of Contents**

**INCOME TAXES:** We calculate the provision for federal income taxes based on our estimate of the effective tax rate for the full fiscal year. As part of the process of preparing the 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 must 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 unchanged from the prior year-to-date period at \$0.4 million at June 30, 2008.

Effective October 1, 2007, we adopted Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ). See Note K for further discussion and related disclosures.

**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.

**SEGMENTS:** We account for our operations in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Effective October 1, 2007, we reorganized to manage our business operations and internal reporting as three reportable segments. Prior to October 1, 2007, we had two reportable segments. See Note L for further discussion and separate data for each segment.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:** In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, Fair Value Measurements. Among other requirements, SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about the use of fair value to measure assets and liabilities. We must adopt SFAS No. 157 in our fiscal year ending September 30, 2009. We are currently evaluating the impact, if any, of SFAS No. 157 on our financial position and results of operations. It will not impact our cash flows.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the fair value option ) and requires an entity to report in earnings at each subsequent reporting date those unrealized gains and losses on items for which the fair value option has been elected. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. SFAS No. 159 will be effective beginning in our fiscal year ending September 30, 2009. We expect adoption of SFAS No. 159 to have no impact on our financial position, results of operations or cash flows.

In December 2007, FASB issued SFAS No. 141, Business Combinations Revised ( SFAS No. 141(R) ). SFAS No. 141(R) establishes principles and requirements for how an acquirer in a business combination: (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in an acquiree, (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase price, and (3) determines what information to disclose to enable users of the consolidated financial statements to evaluate the nature and financial effects of the business combination. Among other changes, SFAS No. 141(R) will require us to immediately expense transaction costs that have historically been included in the purchase price allocation under existing guidance. SFAS No. 141(R) will apply prospectively to any acquisitions we complete on or after October 1, 2009.

In March 2008, FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced disclosures concerning (1) the manner in which an entity uses derivatives (and the reasons it uses them), (2) the manner in which derivatives and related hedged items are accounted for under SFAS No. 133 and interpretations thereof, and (3) the effects that derivatives and related hedged items have on an entity's financial position, financial performance, and cash flows. We must adopt SFAS No. 161 by January 1, 2009. We do not expect SFAS No. 161 to have a material effect on our financial

position, results of operations, or cash flows. We do not currently use any derivative financial instruments.

**Table of Contents****Note C: Acquisitions**

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 \$15.5 million cash and direct transaction costs. The estimated fair values of the assets acquired and liabilities assumed are preliminary, and may be refined within a year of the acquisition. The initial valuation of \$15.3 million increased to \$15.5 million in the current year-to-date period due to additional professional fees related to the acquisition. The increase was recorded as an increase to goodwill. In the quarter ended March 31, 2008, we also refined our estimated fair value of the non-compete agreement, which increased the non-compete agreement by \$0.4 million, and decreased goodwill by an offsetting amount.

The purchase price is preliminarily allocated as follows, including the adjustments discussed above (*in thousands*):

|                                      |               |
|--------------------------------------|---------------|
| Current assets:                      |               |
| Pawn loans                           | \$ 3,230      |
| Pawn service charges receivable, net | 224           |
| Inventory, net                       | 940           |
| Deferred tax asset                   | 41            |
| Prepaid expenses and other assets    | 40            |
| <br>Total current assets             | <br>4,475     |
| <br>Property and equipment           | <br>800       |
| Non-compete agreement                | 2,000         |
| Goodwill                             | 8,156         |
| Other assets, net                    | 131           |
| <br>Total assets                     | <br>\$ 15,562 |
| <br>Liabilities:                     |               |
| Accrued liabilities                  | \$ (30)       |
| Customer deposits                    | (65)          |
| <br>Total liabilities                | <br>(95)      |
| <br>Net assets acquired              | <br>\$ 15,467 |

The results of the acquired stores have been consolidated with our results since their acquisition. Pro forma results of operations have not been presented because the acquisition was not material in relation to our consolidated financial position or results of operations.

**Note D: Earnings Per Share**

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

Components of basic and diluted earnings per share are as follows (*in thousands, except per share amounts*):

|                | Three Months Ended |          | Nine Months Ended |           |
|----------------|--------------------|----------|-------------------|-----------|
|                | June 30,           |          | June 30,          |           |
|                | 2008               | 2007     | 2008              | 2007      |
| Net income (A) | \$ 10,827          | \$ 6,762 | \$ 36,398         | \$ 26,719 |

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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Weighted average outstanding shares of common stock (B)          | 41,419  | 41,282  | 41,380  | 40,943  |
| Dilutive effect of stock options, warrants, and restricted stock | 1,906   | 2,200   | 1,889   | 2,450   |
| Weighted average common stock and common stock equivalents (C)   | 43,325  | 43,482  | 43,269  | 43,393  |
| Basic earnings per share (A/B)                                   | \$ 0.26 | \$ 0.16 | \$ 0.88 | \$ 0.65 |
| Diluted earnings per share (A/C)                                 | \$ 0.25 | \$ 0.16 | \$ 0.84 | \$ 0.62 |

7

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**Table of Contents**

We excluded anti-dilutive options, warrants and restricted stock grants from the computation of diluted earnings per share because the assumed proceeds upon exercise, as defined by SFAS No. 123(R), were greater than the cost to re-acquire the same number of shares at the average market price, and therefore the effect would be anti-dilutive.

**Note E: Investment in Unconsolidated Affiliate**

At June 30, 2008, we owned 16,298,875 common shares of Albemarle & Bond Holdings, plc ( A&B ), or approximately 29.95% of A&B s total outstanding shares. The investment is accounted for using the equity method. Since A&B s fiscal year ends three months prior to ours, we report the income from this investment on a three-month lag. A&B files interim and annual financial reports for its fiscal periods ending December 31 and June 30. The income reported for our current year-to-date period ended June 30, 2008 represents our percentage interest in the results of A&B s operations from July 1, 2007 to March 31, 2008, including the results of 26 stores A&B acquired from a competitor on July 12, 2007.

On July 1, 2007, A&B discontinued use of U.K. GAAP and adopted International Financial Reporting Standards, or IFRS. The prior year figures shown below are restated on IFRS for comparability to the current year presentation. Below is summarized financial information for A&B s most recently reported results (*using average exchange rates for the periods indicated*):

|                               | Six Months Ended December 31, |                    |
|-------------------------------|-------------------------------|--------------------|
|                               | 2007                          | 2006<br>(Restated) |
|                               | <i>(in thousands)</i>         |                    |
| Turnover (gross revenues)     | \$50,660                      | \$ 32,669          |
| Gross profit                  | 36,574                        | 23,447             |
| Profit after tax (net income) | 7,230                         | 5,239              |

**Note F: Contingencies**

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 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. We are not aware of any customer that was harmed by our alleged actions, and have reviewed and enhanced our information security policies to address the State s concerns. In cooperation with the Attorney General s office, we reached a \$0.6 million settlement of the lawsuit, and agreed to a permanent injunction regarding the safeguarding and disposal of the customer information. The settlement was recorded as a charge to Administrative Expense in the current quarter.

The Florida Office of Financial Regulation previously filed an administrative action against us alleging that our Florida credit service organization business model used in eleven stores adjoining EZPAWN locations violated state usury law. After a contested administrative hearing, the Office of Financial Regulation issued a cease and desist order against our credit services operations in Florida on June 12, 2008. On June 13, 2008 we filed a Notice of Appeal with the First District Court of Appeal of Florida. To comply with the Office of Financial Regulation s order pending the final outcome on appeal, we closed our eleven EZMONEY credit service organization stores in Florida. As a result of the closure of these stores, we recorded in the current quarter a loss on disposal of property and equipment of \$0.2 million and a \$0.5 million charge to EZMONEY Operating Income. The Operating income charge was comprised of a \$0.2 million reduction of fees, a \$0.3 million bad debt charge for expected increases in loan defaults resulting from the closure, and a \$38,000 charge for employee severance payments. We expect no further charges as a result of these store closures.

**Table of Contents****Note G: Comprehensive Income**

Comprehensive income includes net income and other revenues, expenses, gains and losses that are excluded from net income but are included as a component of total stockholders' equity. Comprehensive income for the current quarter and current fiscal year-to-date periods ended June 30, 2008 was \$11.5 million and \$37.4 million. For the comparable 2007 periods, comprehensive income was \$6.8 million and \$27.8 million, respectively. The difference between comprehensive income and net income results primarily from the effect of foreign currency translation adjustments determined in accordance with SFAS No. 52, Foreign Currency Translation. At June 30, 2008, the accumulated balance of foreign currency activity excluded from net income was \$5.5 million, net of tax of \$1.9 million. The net \$3.6 million is presented as Accumulated other comprehensive income in the current quarter balance sheet.

**Note H: Long-term Debt**

While we had no debt at June 30, 2008 and 2007, we have a \$40.0 million Fourth Amended and Restated Credit Agreement containing a revolving credit facility secured by our assets, which matures October 1, 2009. For any borrowed funds, we may choose a Eurodollar rate plus 100 to 200 basis points (depending on the leverage ratio) or the agent bank's base rate. On the unused amount of the revolving facility, we pay a commitment fee of 25 to 30 basis points depending on the leverage ratio calculated at the end of each quarter. Terms of the agreement require, among other things, that we meet certain financial covenants. We were in compliance with all covenants at June 30, 2008. Payment of dividends and additional debt are allowed but restricted.

**Note I: Goodwill and Other Intangible Assets**

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

|               | June 30,<br>2008 | June 30,<br>2007      | September 30,<br>2007 |
|---------------|------------------|-----------------------|-----------------------|
|               |                  | <i>(In thousands)</i> |                       |
| Pawn licenses | \$ 1,549         | \$ 1,549              | \$ 1,549              |
| Goodwill      | 24,779           | 16,211                | 16,211                |
| Total         | \$ 26,328        | \$ 17,760             | \$ 17,760             |

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

|                           | June 30, 2008      |                             | June 30, 2007         |                             | September 30, 2007 |                             |
|---------------------------|--------------------|-----------------------------|-----------------------|-----------------------------|--------------------|-----------------------------|
|                           | Carrying<br>Amount | Accumulated<br>Amortization | Carrying<br>Amount    | Accumulated<br>Amortization | Carrying<br>Amount | Accumulated<br>Amortization |
|                           |                    |                             | <i>(In thousands)</i> |                             |                    |                             |
| License application fees  | \$ 345             | \$ (311)                    | \$ 345                | \$ (281)                    | \$ 345             | \$ (288)                    |
| Real estate finders' fees | 556                | (340)                       | 556                   | (323)                       | 556                | (327)                       |
| Non-compete agreements    | 2,998              | (712)                       | 898                   | (293)                       | 898                | (324)                       |
| Customer list             |                    |                             | 20                    |                             |                    |                             |
| Total                     | \$ 3,919           | \$ (1,383)                  | \$ 1,819              | \$ (897)                    | \$ 1,819           | \$ (959)                    |

**Table of Contents**

Total amortization expense from definite-lived intangible assets for the current quarter and year-to-date periods ended June 30, 2008 was approximately \$146,000 and \$414,000. For the comparable 2007 periods, amortization expense was approximately \$17,000 and \$52,000. The following table presents our estimate of amortization expense for definite-lived intangible assets for each of the five succeeding fiscal years as of October 1, 2007 (*in thousands*):

| Fiscal Year | Amortization Expense |
|-------------|----------------------|
| 2008        | \$ 571               |
| 2009        | \$ 579               |
| 2010        | \$ 565               |
| 2011        | \$ 558               |
| 2012        | \$ 525               |
| Thereafter  | \$ 163               |

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

**Note J: Common Stock, Warrants, Options, and Share-based Compensation**

Our income includes the following share-based compensation expense, determined in accordance with the fair value provisions of SFAS No. 123(R):

|   | Three Months Ended<br>June 30, |          | Nine Months Ended<br>June 30, |          |
|---|--------------------------------|----------|-------------------------------|----------|
|   | 2008                           | 2007     | 2008                          | 2007     |
|   | <i>(in thousands)</i>          |          |                               |          |
| Gross compensation cost                           | \$ 902                         | \$ 1,061 | \$ 2,826                      | \$ 2,726 |
| Income tax benefit                                | (275)                          | (322)    | (874)                         | (858)    |
| Share-based compensation cost, net of tax benefit | \$ 627                         | \$ 739   | \$ 1,952                      | \$ 1,868 |

Stock option and warrant exercises resulted in the issuance of 31,114 shares of Class A Non-voting Common Stock in the current quarter for total proceeds of \$42,000. For the current year-to-date period, 122,813 shares of Common Stock were issued for total proceeds of \$189,000.

**Note K: Adoption of a New Accounting Principle for Income Taxes**

Effective October 1, 2007, we adopted Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ). To be recognized in the financial statements, FIN 48 requires that a tax position is more-likely-than-not to be sustained upon examination, based on the technical merits of the position. In making the determination of sustainability, we must presume the appropriate taxing authority with full knowledge of all relevant information will examine tax positions. FIN 48 also prescribes how the benefit should be measured, including the consideration of any penalties and interest. It requires that the new standard be applied to the balances of tax assets and liabilities as of the beginning of the period of adoption and that a corresponding adjustment be made to the opening balance of equity. As a result of the adoption of FIN 48, we recognized a \$106,000 liability, including \$8,600 of penalties and interest, for unrecognized state income tax benefits net of federal taxes, and recorded this as a cumulative adjustment to our beginning equity at October 1, 2007. This balance has not been adjusted since adoption. We will record future changes in FIN 48 tax liabilities and related interest and penalties as federal income tax expense on our statement of operations and in federal income taxes payable on our balance sheet.

**Table of Contents**

Below is a reconciliation of the beginning and ending unrecognized tax benefits for the current year-to-date period (*in thousands*):

|  |    |     |
|--|----|-----|
| Unrecognized tax benefits at September 30, 2007          | \$ |     |
| Addition upon initial adoption of FIN 48 October 1, 2007 |    | 106 |
| Additions based on current year tax positions            |    |     |
| Reductions based on settlements with taxing authorities  |    |     |
| Reductions due to lapse in statute of limitations        |    |     |
| Unrecognized tax benefits at June 30, 2008               | \$ | 106 |

We are subject to U.S. and Mexican income taxes as well as to income taxes levied by various other state and local jurisdictions. With few exceptions, we are no longer subject to examinations by tax authorities for years before the tax year ended September 30, 2003. The statutes of limitations related to our recorded liability expire between June 15, 2009 and June 15, 2011.

**Table of Contents****Note L: Operating Segment Information**

We manage our business and internal reporting as three reportable segments with operating results reported separately for each segment. Prior to October 1, 2007, we had two reportable segments. Effective October 1, 2007, we broke our previously immaterial Mexico pawn operations, called Empeño Fácil, into a reportable segment separate from other pawn operations, and have restated prior year amounts on a comparable basis. The three reportable segments are:

**EZPAWN U.S. Operations:** This segment offers pawn loans and related sales in our 294 U.S. EZPAWN stores and offers signature loans in six U.S. EZMONEY stores and 71 of our U.S. EZPAWN stores.

**Empeño Fácil:** This segment offers pawn loans and related sales in 30 Empeño Fácil pawn stores in Mexico.

**EZMONEY Operations:** This segment operates only in the United States and offers signature loans in 455 of our EZMONEY stores.

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

|  | EZPAWN<br>U.S.<br>Operations | Empeño<br>Fácil | EZMONEY<br>Operations | Consolidated     |
|--|------------------------------|-----------------|-----------------------|------------------|
|  | <i>(in thousands)</i>        |                 |                       |                  |
| <b>Three Months Ended June 30, 2008:</b> |                              |                 |                       |                  |
| Revenues:                                |                              |                 |                       |                  |
| Sales                                    | \$ 51,799                    | \$ 1,836        | \$                    | \$ 53,635        |
| Pawn service charges                     | 21,378                       | 1,313           |                       | 22,691           |
| Signature loan fees                      | 650                          |                 | 30,573                | 31,223           |
| Other                                    | 521                          |                 |                       | 521              |
| <b>Total revenues</b>                    | <b>74,348</b>                | <b>3,149</b>    | <b>30,573</b>         | <b>108,070</b>   |
| Cost of goods sold                       | 30,301                       | 1,159           |                       | 31,460           |
| <b>Net revenues</b>                      | <b>44,047</b>                | <b>1,990</b>    | <b>30,573</b>         | <b>76,610</b>    |
| Operating expenses:                      |                              |                 |                       |                  |
| Operations expense                       | 24,371                       | 1,059           | 13,163                | 38,593           |
| Signature loan bad debt                  | 202                          |                 | 8,343                 | 8,545            |
| <b>Total direct expenses</b>             | <b>24,573</b>                | <b>1,059</b>    | <b>21,506</b>         | <b>47,138</b>    |
| <b>Store operating income</b>            | <b>\$ 19,474</b>             | <b>\$ 931</b>   | <b>\$ 9,067</b>       | <b>\$ 29,472</b> |
| <b>Three Months Ended June 30, 2007:</b> |                              |                 |                       |                  |
| Revenues:                                |                              |                 |                       |                  |
| Sales                                    | \$ 42,623                    | \$ 53           | \$                    | \$ 42,676        |
| Pawn service charges                     | 16,955                       | 23              |                       | 16,978           |
| Signature loan fees                      | 782                          |                 | 26,242                | 27,024           |
| Other                                    | 315                          |                 |                       | 315              |
| <b>Total revenues</b>                    | <b>60,675</b>                | <b>76</b>       | <b>26,242</b>         | <b>86,993</b>    |

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|                         |           |         |          |           |
|-------------------------|-----------|---------|----------|-----------|
| Cost of goods sold      | 25,395    | 26      |          | 25,421    |
| Net revenues            | 35,280    | 50      | 26,242   | 61,572    |
| Operating expenses:     |           |         |          |           |
| Operations expense      | 21,481    | 117     | 9,997    | 31,595    |
| Signature loan bad debt | 559       |         | 9,583    | 10,142    |
| Total direct expenses   | 22,040    | 117     | 19,580   | 41,737    |
| Store operating income  | \$ 13,240 | \$ (67) | \$ 6,662 | \$ 19,835 |

12

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**Table of Contents**

|   | EZPAWN<br>U.S.<br>Operations | Empeño<br>Fácil<br><i>(in thousands)</i> | EZMONEY<br>Operations | Consolidated |
|---|------------------------------|--|-----------------------|--------------|
| <b>Nine Months Ended June 30, 2008:</b> |                              |  |                       |              |
| Revenues:                               |                              |  |                       |              |
| Sales                                   | \$ 165,749                   | \$ 4,723                                 | \$                    | \$ 170,472   |
| Pawn service charges                    | 64,089                       | 3,295                                    |                       | 67,384       |
| Signature loan fees                     | 2,131                        |  | 92,786                | 94,917       |
| Other                                   | 1,224                        | 4  |                       | 1,228        |
| Total revenues                          | 233,193                      | 8,022                                    | 92,786                | 334,001      |
| Cost of goods sold                      | 98,853                       | 2,879                                    |                       | 101,732      |
| Net revenues                            | 134,340                      | 5,143                                    | 92,786                | 232,269      |
| Operating expenses:                     |                              |  |                       |              |
| Operations expense                      | 71,399                       | 2,781                                    | 39,005                | 113,185      |
| Signature loan bad debt                 | 741                          |  | 24,106                | 24,847       |
| Total direct expenses                   | 72,140                       | 2,781                                    | 63,111                | 138,032      |
| Store operating income                  | \$ 62,200                    | \$ 2,362                                 | \$ 29,675             | \$ 94,237    |
| <b>Nine Months Ended June 30, 2007:</b> |                              |  |                       |              |
| Revenues:                               |                              |  |                       |              |
| Sales                                   | \$ 141,621                   | \$ 67                                    | \$                    | \$ 141,688   |
| Pawn service charges                    | 51,464                       | 32                                       |                       | 51,496       |
| Signature loan fees                     | 2,486                        |  | 71,646                | 74,132       |
| Other                                   | 1,006                        | 1  |                       | 1,007        |
| Total revenues                          | 196,577                      | 100                                      | 71,646                | 268,323      |
| Cost of goods sold                      | 85,583                       | 35                                       |                       | 85,618       |
| Net revenues                            | 110,994                      | 65                                       | 71,646                | 182,705      |
| Operating expenses:                     |                              |  |                       |              |
| Operations expense                      | 64,641                       | 243                                      | 29,203                | 94,087       |
| Signature loan bad debt                 | 1,043                        |  | 18,043                | 19,086       |
| Total direct expenses                   | 65,684                       | 243                                      | 47,246                | 113,173      |
| Store operating income                  | \$ 45,310                    | \$ (178)                                 | \$ 24,400             | \$ 69,532    |

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

|  | Three Months Ended    |           | Nine Months Ended |           |
|--|-----------------------|-----------|-------------------|-----------|
|  | June 30,              |           | June 30,          |           |
|  | 2008                  | 2007      | 2008              | 2007      |
|  | <i>(in thousands)</i> |           |                   |           |
| Consolidated store operating income              | \$ 29,472             | \$ 19,835 | \$ 94,237         | \$ 69,532 |
| Administrative expenses                          | 9,807                 | 8,033     | 29,541            | 23,528    |
| Depreciation and amortization                    | 3,081                 | 2,495     | 9,027             | 7,194     |
| Interest income                                  | (165)                 | (618)     | (359)             | (1,499)   |
| Interest expense                                 | 72                    | 67        | 228               | 214       |
| Equity in net income of unconsolidated affiliate | (997)                 | (720)     | (3,162)           | (2,185)   |
| Loss on sale / disposal of assets                | 284                   | (155)     | 527               | (131)     |
| Other  | 11                    |           | 11                |           |
| Consolidated income before income taxes          | \$ 17,379             | \$ 10,733 | \$ 58,424         | \$ 42,411 |



**Table of Contents**

The following table presents separately identified segment assets:

|  | EZPAWN<br>U.S.<br>Operations | Empeño<br>Fácil | EZMONEY<br>Operations | Consolidated |
|--|------------------------------|-----------------|-----------------------|--------------|
|  | <i>(in thousands)</i>        |                 |                       |              |
| <b>Assets at June 30, 2008:</b>                      |                              |                 |                       |              |
| Pawn loans   | \$ 63,741                    | \$ 4,281        | \$ 6,177              | \$ 68,022    |
| Payday loans, net                                    | 421                          |                 | 6,177                 | 6,598        |
| Inventory, net                                       | 37,303                       | 2,141           |                       | 39,444       |
| Total separately identified recorded segment assets  | \$ 101,465                   | \$ 6,422        | \$ 6,177              | \$ 114,064   |
| Brokered loans outstanding from unaffiliated lenders | \$ 390                       | \$              | \$ 22,009             | \$ 22,399    |
| <b>Assets at June 30, 2007:</b>                      |                              |                 |                       |              |
| Pawn loans   | \$ 57,973                    | \$ 80           | \$ 4,062              | \$ 58,053    |
| Payday loans, net                                    | 452                          |                 | 4,062                 | 4,514        |
| Inventory, net                                       | 33,519                       | 122             |                       | 33,641       |
| Total separately identified recorded segment assets  | \$ 91,944                    | \$ 202          | \$ 4,062              | \$ 96,208    |
| Brokered loans outstanding from unaffiliated lenders | \$ 486                       | \$              | \$ 21,023             | \$ 21,509    |
| <b>Assets at September 30, 2007:</b>                 |                              |                 |                       |              |
| Pawn loans   | \$ 60,602                    | \$ 140          | \$ 4,357              | \$ 60,742    |
| Payday loans, net                                    | 457                          |                 | 4,357                 | 4,814        |
| Inventory, net                                       | 37,749                       | 193             |                       | 37,942       |
| Total separately identified recorded segment assets  | \$ 98,808                    | \$ 333          | \$ 4,357              | \$ 103,498   |
| Brokered loans outstanding from unaffiliated lenders | \$ 477                       | \$              | \$ 22,834             | \$ 23,311    |

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

**Note M: Subsequent Event**

Through a merger agreement, we agreed to acquire 100% of the equity ownership of Value Financial Services, Inc. ( VFS ), a pawn store chain based in Florida, for approximately \$110 million. We had filed a registration statement on Form S-3 related to 1,625,015 of our shares to be issued and used as part of the purchase price. VFS terminated the merger agreement on August 9, 2008. As a result, we anticipate recording a \$0.9 million charge in the quarter ending September 30, 2008 to expense previously capitalized costs related to the acquisition and the renegotiation of our

credit agreement, the completion of which is contingent upon the closing of the VFS acquisition. Also as a result of VFS termination of the acquisition, we expect to request that the registration statement be withdrawn and that no additional shares will be issued.

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

The discussion in this section contains forward-looking statements that 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.

**Third Quarter Ended June 30, 2008 vs. Third Quarter Ended June 30, 2007**

The following table presents selected, unaudited, consolidated financial data for our three-month periods ended June 30, 2008 and 2007 (the current quarter and prior year quarter):

|                      | Three Months Ended June<br>30, |           | Percentage<br>Change |
|----------------------|--------------------------------|-----------|----------------------|
|                      | 2008                           | 2007      |                      |
|                      | <i>(in thousands)</i>          |           |                      |
| Net revenues:        |                                |           |                      |
| Sales                | \$ 53,635                      | \$ 42,676 | 25.7%                |
| Pawn service charges | 22,691                         | 16,978    | 33.6%                |
| Signature loan fees  | 31,223                         | 27,024    | 15.5%                |
| Other                | 521                            | 315       | 65.4%                |
| Total revenues       | 108,070                        | 86,993    | 24.2%                |
| Cost of goods sold   | 31,460                         | 25,421    | 23.8%                |
| Net revenues         | \$ 76,610                      | \$ 61,572 | 24.4%                |
| Net income           | \$ 10,827                      | \$ 6,762  | 60.1%                |

**Nine Months Ended June 30, 2008 vs. Nine Months Ended June 30, 2007**

The following table presents selected, unaudited, consolidated financial data for our nine-month periods ended June 30, 2008 and 2007 (the current and prior year-to-date periods):

|                      | Nine Months Ended June<br>30, |            | Percentage<br>Change |
|----------------------|-------------------------------|------------|----------------------|
|                      | 2008                          | 2007       |                      |
|                      | <i>(in thousands)</i>         |            |                      |
| Net revenues:        |                               |            |                      |
| Sales                | \$ 170,472                    | \$ 141,688 | 20.3%                |
| Pawn service charges | 67,384                        | 51,496     | 30.9%                |
| Signature loan fees  | 94,917                        | 74,132     | 28.0%                |
| Other                | 1,228                         | 1,007      | 21.9%                |
| Total revenues       | 334,001                       | 268,323    | 24.5%                |
| Cost of goods sold   | 101,732                       | 85,618     | 18.8%                |
| Net revenues         | \$ 232,269                    | \$ 182,705 | 27.1%                |
| Net income           | \$ 36,398                     | \$ 26,719  | 36.2%                |

**Table of Contents**

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

|  | Three Months Ended<br>June 30, |           | Nine Months Ended<br>June 30, |           |
|--|--------------------------------|-----------|-------------------------------|-----------|
|  | 2008                           | 2007      | 2008                          | 2007      |
|  | <i>(Dollars in thousands)</i>  |           |                               |           |
| Fee revenue  | \$ 31,223                      | \$ 27,024 | \$ 94,917                     | \$ 74,132 |
| Bad debt:  |                                |           |                               |           |
| Net defaults, including interest on brokered loans           | 8,054                          | 8,692     | 23,578                        | 17,353    |
| Insufficient funds fees, net of collections                  | 267                            | 318       | 862                           | 775       |
| Change in valuation allowance                                | 177                            | 1,059     | 191                           | 758       |
| Other related costs  | 47                             | 73        | 216                           | 200       |
| Net bad debt   | 8,545                          | 10,142    | 24,847                        | 19,086    |
| Fee revenue less bad debt                                    | \$ 22,678                      | \$ 16,882 | \$ 70,070                     | \$ 55,046 |
| Average signature loan balance outstanding during period (a) | \$ 27,514                      | \$ 23,779 | \$ 28,311                     | \$ 22,222 |
| Signature loan balance at end of period (a)                  | \$ 28,997                      | \$ 26,023 | \$ 28,997                     | \$ 26,023 |
| Participating stores at end of period                        | 532                            | 470       | 532                           | 470       |
| Signature loan bad debt, as a percent of fee revenue         | 27.4%                          | 37.5%     | 26.2%                         | 25.7%     |
| Net default rate (a)(b)                                      | 5.0%                           | 6.1%      | 4.8%                          | 4.6%      |

(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.

16

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**Table of Contents****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. As of June 30, 2008, we offer pawn loans in our 294 domestic EZPAWN stores and 30 Mexico Empeño Fácil stores. 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 461 EZMONEY stores and 71 of our domestic EZPAWN stores open June 30, 2008, 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 three segments. The EZPAWN U.S. Operations segment offers pawn related activities in all 294 domestic EZPAWN stores, and offers signature loans in 71 of our domestic EZPAWN stores and six EZMONEY stores. The Empeño Fácil segment offers pawn related activities in 30 Mexico pawn stores. The EZMONEY Operations segment offers signature loans in 455 EZMONEY stores, and accounts for approximately 98% of our signature loan revenues. The following tables present store data by operating segment:

|   | Three Months Ended June 30, 2008 |                 |                       |              |
|---|----------------------------------|-----------------|-----------------------|--------------|
|   | EZPAWN<br>U.S.<br>Operations     | Empeño<br>Fácil | EZMONEY<br>Operations | Consolidated |
| Stores in operation:                            |                                  |                 |                       |              |
| Beginning of period                             | 300                              | 26              | 456                   | 782          |
| New openings                                    |                                  | 4               | 13                    | 17           |
| Acquired  |                                  |                 |                       |              |
| Sold, combined, or closed                       |                                  |                 | (14)                  | (14)         |
| End of period                                   | 300                              | 30              | 455                   | 785          |
| Average number of stores during the period      | 300                              | 28              | 459                   | 787          |
|   |                                  |                 |                       |              |
|   | Nine Months Ended June 30, 2008  |                 |                       |              |
|   | EZPAWN<br>U.S.<br>Operations     | Empeño<br>Fácil | EZMONEY<br>Operations | Consolidated |
| Stores in operation:                            |                                  |                 |                       |              |
| Beginning of period                             | 300                              | 4               | 427                   | 731          |
| New openings                                    |                                  | 6               | 47                    | 53           |
| Acquired  |                                  | 20              |                       | 20           |
| Sold, combined, or closed                       |                                  |                 | (19)                  | (19)         |
| End of period                                   | 300                              | 30              | 455                   | 785          |
| Average number of stores during the period      | 300                              | 24              | 446                   | 770          |
| Composition of ending stores:                   |                                  |                 |                       |              |
| EZPAWN United States                            | 294                              |                 |                       | 294          |
| Empeño Fácil Mexico                             |                                  | 30              |                       | 30           |
| EZMONEY signature loan stores adjoining EZPAWNs | 6                                |                 | 150                   | 156          |

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|                                       |               |     |    |     |     |
|---------------------------------------|---------------|-----|----|-----|-----|
| EZMONEY signature loan stores         | free standing |     |    | 305 | 305 |
| Total stores in operation             |               | 300 | 30 | 455 | 785 |
| Total stores offering signature loans |               | 77  |    | 455 | 532 |
|                                       |               | 17  |    |     |     |

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**Table of Contents**

|  | Three Months Ended June 30, 2007 |                 |                       |              |
|--|----------------------------------|-----------------|-----------------------|--------------|
|  | EZPAWN<br>U.S.<br>Operations     | Empeño<br>Fácil | EZMONEY<br>Operations | Consolidated |
| Stores in operation:                               |                                  |                 |                       |              |
| Beginning of period                                | 286                              | 2               | 363                   | 651          |
| New openings                                       |                                  | 1               | 20                    | 21           |
| Acquired   | 15                               |                 | 1                     | 16           |
| Sold, combined, or closed                          |                                  |                 |                       |              |
| End of period                                      | 301                              | 3               | 384                   | 688          |
| Average number of stores during the period         | 290                              | 3               | 370                   | 662          |
|  | Nine Months Ended June 30, 2007  |                 |                       |              |
|  | EZPAWN<br>U.S.<br>Operations     | Empeño<br>Fácil | EZMONEY<br>Operations | Consolidated |
| Stores in operation:                               |                                  |                 |                       |              |
| Beginning of period                                | 286                              |                 | 328                   | 614          |
| New openings                                       |                                  | 3               | 57                    | 60           |
| Acquired   | 15                               |                 | 1                     | 16           |
| Sold, combined, or closed                          |                                  |                 | (2)                   | (2)          |
| End of period                                      | 301                              | 3               | 384                   | 688          |
| Average number of stores during the period         | 288                              | 2               | 349                   | 638          |
| Composition of ending stores:                      |                                  |                 |                       |              |
| EZPAWN United States                               | 295                              |                 |                       | 295          |
| Empeño Fácil Mexico                                |                                  | 3               |                       | 3            |
| EZMONEY signature loan stores adjoining<br>EZPAWNs | 6                                |                 | 160                   | 166          |
| EZMONEY signature loan stores free standing        |                                  |                 | 224                   | 224          |
| Total stores in operation                          | 301                              | 3               | 384                   | 688          |

Total stores offering signature loans 86 384 470

We earn pawn service charge revenue on our pawn lending. While allowable service charges vary by state and loan size, a majority of our U.S. pawn loans earn 20% per month, or 240% annually. Our average U.S. pawn loan amount typically ranges between \$80 and \$100 but varies depending on the valuation of each item pawned. The total U.S. loan term, consisting of the primary term and grace period, ranges between 60 and 120 days. In Mexico, a majority of our pawn loans earn pawn service charges of 13% to 14% net of applicable taxes, and the total loan term is 40 days. 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 loan or purchase value at the time the property is either accepted as loan collateral or purchased. Improper value assessment in the lending or purchasing process can result in lower margins or reduced marketability of the merchandise.

At June 30, 2008, 275 of our 455 EZMONEY stores and 47 of our 294 domestic EZPAWN 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 275 EZMONEY stores and 47 domestic EZPAWN stores offering credit services, customers can obtain short-term loans with principal amounts up to \$1,500 but averaging approximately \$560. 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.

**Table of Contents**

We typically earn a fee of 20% of the loan amount for our short-term loan credit services. In 86 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, but average about \$2,100. With each installment payment, we earn a fee of 10% of the initial loan amount. At June 30, 2008, 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 24 EZPAWN stores and 186 EZMONEY stores, we make payday loans subject to state law. The average payday loan amount is approximately \$440 and the term is generally less than 30 days, averaging about 18 days. We typically charge a fee of 15% to 22% of the loan amount for a 7 to 23-day period.

On June 18, 2007, we completed the acquisition of fifteen pawnshops and one payday loan store from Jumping Jack Cash, a competitor 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 \$15.5 million cash and direct transaction costs. Results of the acquired stores are included in our consolidated results from the date of acquisition.

On June 5, 2008, we agreed to acquire all of the capital stock of Value Financial Services, Inc. ( VFS ) in a merger for total consideration of approximately \$110 million, consisting of cash, shares of EZCORP Class A Non-voting Common Stock and assumption of debt. The merger agreement with VFS required that we file a registration statement with the SEC to register the EZCORP stock to be issued in the merger, and we renegotiated the terms of our credit agreement in preparation for the merger closing. VFS terminated the merger agreement on August 9, 2008. As a result, we expect to request withdrawal of the SEC registration statement and will not finalize the renegotiated credit agreement, resulting in a \$0.9 million charge in the quarter ending September 30, 2008 to expense previously capitalized costs.

In the current quarter, the EZPAWN U.S. Operations segment contributed \$6.2 million greater store operating income compared to the prior year quarter, primarily from an increase in same store pawn service charges, the same store gross profit from gold scrapping and the full quarter's contribution from 15 Colorado pawn stores acquired in June 2007. The Empeño Fácil segment improved its store operating income by \$1.0 million, primarily due to the acquisition of twenty stores in October 2007. Our EZMONEY Operations segment contributed \$2.4 million greater store operating income, comprised of higher fees net of bad debt, partially offset by higher operating costs. After an increase in administrative expenses, depreciation and income taxes and a decrease in net interest income, partially offset by a higher contribution from the equity in the net income of an unconsolidated affiliate and less material changes in other items, our consolidated net income improved to \$10.8 million in the current quarter from \$6.8 million in the prior year quarter.

**Table of Contents*****Results of Operations*****Third Quarter Ended June 30, 2008 vs. Third Quarter Ended June 30, 2007**

The following discussion compares our results of operations for the quarter ended June 30, 2008 (the current quarter) to the quarter ended June 30, 2007 (the prior year quarter). The discussion should be read with the accompanying financial statements and related notes.

**EZPAWN U.S. Operations Segment**

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

|  | Three Months Ended June<br>30, |               |
|--|--------------------------------|---------------|
|  | 2008                           | 2007          |
|  | <i>(Dollars in thousands)</i>  |               |
| Sales  | \$ 51,799                      | \$ 42,623     |
| Pawn service charges   | 21,378                         | 16,955        |
| Signature loan fees  | 650                            | 782           |
| Other  | 521                            | 315           |
| <br>Total revenues   | <br>74,348                     | <br>60,675    |
| Cost of goods sold   | 30,301                         | 25,395        |
| <br>Net revenues   | <br>44,047                     | <br>35,280    |
| Operating expenses:  |                                |               |
| Operations expense   | 24,371                         | 21,481        |
| Signature loan bad debt  | 202                            | 559           |
| <br>Total store operating expenses   | <br>24,573                     | <br>22,040    |
| <br>Store operating income   | <br>\$ 19,474                  | <br>\$ 13,240 |
| <br>Other data:  |                                |               |
| Gross margin on sales  | 41.5%                          | 40.4%         |
| Annualized inventory turnover  | 3.5x                           | 3.4x          |
| Average pawn loan balance per pawn store at quarter end  | \$ 217                         | \$ 197        |
| Average inventory per pawn store at quarter end  | \$ 127                         | \$ 114        |
| Average yield on pawn loan portfolio (a)   | 145%                           | 136%          |
| Pawn loan redemption rate  | 80%                            | 78%           |
| Average signature loan balance per store offering signature loans at quarter end   |                                |               |
| (b)  | \$ 11                          | \$ 11         |
| <br>(a) Average yield<br>on pawn loan<br>portfolio is<br>calculated as<br>annualized<br>pawn service<br>charge revenue<br>for the period |                                |               |

divided by the average pawn loan balance during the period.

- (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 quarter U.S. pawn service charge revenue increased 26%, or \$4.4 million from the prior year quarter to \$21.4 million. This increase was due to a 20%, or \$3.3 million increase in same store pawn service charges and a \$1.1 million increase in pawn service charges at acquired stores, net of one closed store. The same store improvement was due to a higher average pawn loan balance with a higher yield. We have periodically raised our loan values on gold jewelry in response to increases in gold market values and similar changes by our competitors, including two increases during the last year. This contributed about \$1.5 million to the increase in U.S. pawn service charges in the current quarter.

**Table of Contents**

The table below presents our sales volume, gross profit, and gross margins in the EZPAWN U.S. Operations segment:

|   | Three Months Ended June<br>30, |         |
|---|--------------------------------|---------|
|   | 2008                           | 2007    |
|   | <i>(Dollars in millions)</i>   |         |
| Merchandise sales                       | \$ 34.1                        | \$ 30.6 |
| Jewelry scrapping sales                 | 17.7                           | 12.1    |
| Total sales                             | \$ 51.8                        | \$ 42.7 |
| Gross profit on merchandise sales       | \$ 14.4                        | \$ 12.8 |
| Gross profit on jewelry scrapping sales | \$ 7.1                         | \$ 4.4  |
| Gross margin on merchandise sales       | 42.3%                          | 42.0%   |
| Gross margin on jewelry scrapping sales | 39.9%                          | 36.4%   |
| Overall gross margin                    | 41.5%                          | 40.4%   |

The current quarter's merchandise gross profit increased \$1.6 million from the prior year quarter to \$14.4 million. This was due to a six percent same store sales increase, the full-quarter's sales from the fifteen pawn stores acquired in June 2007, and a 0.3 percentage point increase in gross margins to 42.3%.

The current quarter's gross profit on jewelry scrapping sales increased \$2.7 million from the prior year quarter to \$7.1 million. This was due to a \$5.6 million increase in jewelry scrapping sales on 13% more volume and a 3.5 percentage point improvement in margins. The proceeds refiners pay us for jewelry has increased in the last year in response to higher gold values. Over the same time frame, we also increased the amount we loan on jewelry and pay to purchase jewelry from customers, increasing the cost of these items. The net effect of all these factors comprises most of the improvement in gross profit from jewelry scrapping sales in the current quarter.

Merchandise and jewelry scrapping sales volume is heavily dependent on inventory available for sale, or beginning inventory on hand plus pawn loan forfeitures and inventory purchases. Inventory available for sale in the current quarter was 11% higher than in the prior year quarter, largely due to same store pawn loan growth and the related increase in loan forfeitures and the June 2007 acquisition of fifteen pawn stores.

The segment's signature loan contribution, or fee revenue less bad debt, increased \$0.2 million in the current quarter compared to the prior year quarter due to a decrease in signature loan bad debt from 71% of fees in the prior year quarter to 31% in the current quarter.

Operations expense improved to 55% of net revenues (\$24.4 million) in the current quarter from 61% of net revenues (\$21.5 million) in the prior year quarter as operating expenses grew at a slower pace than the segment's net revenues. Many of our store level operating expenses are fixed. We generally gain efficiencies by growing same store revenues and leveraging their fixed costs.

In the current quarter, the \$8.9 million greater net revenue from U.S. pawn activities coupled with the \$0.2 million higher contribution from signature loans, partially offset by the \$2.9 million higher operations expense, resulted in a \$6.2 million overall increase in store operating income from the EZPAWN U.S. Operations segment compared to the prior year quarter. For the current quarter, the EZPAWN U.S. Operations segment made up 66% of consolidated store operating income compared to 67% in the prior year quarter.

**Table of Contents****Empeño Fácil Segment**

The following table presents selected financial data for the Empeño Fácil segment:

|   | Three Months Ended June<br>30, |         |
|---|--------------------------------|---------|
|   | 2008                           | 2007    |
|   | <i>(Dollars in thousands)</i>  |         |
| Sales   | \$ 1,836                       | \$ 53   |
| Pawn service charges                                    | 1,313                          | 23      |
| Signature loan fees                                     |                                |         |
| Other   |                                |         |
| <br>  |                                |         |
| Total revenues  | 3,149                          | 76      |
| Cost of goods sold                                      | 1,159                          | 26      |
| <br>  |                                |         |
| Net revenues  | 1,990                          | 50      |
| Operating expenses:                                     |                                |         |
| Operations expense                                      | 1,059                          | 117     |
| Signature loan bad debt                                 |                                |         |
| <br>  |                                |         |
| Total store operating expenses                          | 1,059                          | 117     |
| <br>  |                                |         |
| Store operating income                                  | \$ 931                         | \$ (67) |
| <br>  |                                |         |
| Other data:   |                                |         |
| Gross margin on sales                                   | 36.9%                          | 50.9%   |
| Annualized inventory turnover                           | 2.5x                           | 1.0x    |
| Average pawn loan balance per pawn store at quarter end | \$ 143                         | \$ 27   |
| Average inventory per pawn store at quarter end         | \$ 71                          | \$ 41   |
| Average yield on pawn loan portfolio (a)                | 136%                           | 163%    |

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

In the prior year quarter, our Empeño Fácil segment included the results from our first three stores opened in fiscal 2007. The current quarter includes results from those stores, the twenty stores acquired October 22, 2007, and the seven additional stores opened since the end of the prior year quarter.

The table below presents our sales volume, gross profit, and gross margins in the Empeño Fácil segment:

|   | Three Months Ended June       |       |
|---|-------------------------------|-------|
|   | 2008                          | 2007  |
|   | 30,                           |       |
|   | <i>(Dollars in thousands)</i> |       |
| Merchandise sales                       | \$ 1,614                      | \$ 53 |
| Jewelry scrapping sales                 | 222                           |       |
| Total sales                             | \$ 1,836                      | \$ 53 |
| Gross profit on merchandise sales       | \$ 585                        | \$ 27 |
| Gross profit on jewelry scrapping sales | \$ 92                         | \$    |
| Gross margin on merchandise sales       | 36.2%                         | 50.9% |
| Gross margin on jewelry scrapping sales | 41.4%                         | N/A   |
| Overall gross margin                    | 36.9%                         | 50.9% |

The current quarter's merchandise gross profit increased to \$0.6 million on \$1.6 million of sales due to new and acquired stores. Gross margins on merchandise sales were 36.2%.

The current quarter's gross profit on jewelry scrapping sales was \$0.1 million on \$0.2 million of proceeds. Gross margins on jewelry scrapping sales were 41.4%.

**Table of Contents**

Operations expense was 53% of segment net revenues (\$1.1 million) in the current quarter. Operating expenses exceeded net revenues in the prior year quarter during the start-up period of our Mexico operations.

In the current quarter, the \$1.9 million greater net revenue from Mexico pawn activities, partially offset by the \$0.9 million higher operations expense, resulted in a \$1.0 million overall increase in store operating income from the Empeño Fácil segment compared to the prior year quarter. For the current quarter, Empeño Fácil made up 3% of consolidated store operating income, compared to a small loss in the start-up period in the prior year quarter.

**EZMONEY Operations Segment**

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

|  | Three Months Ended June<br>30, |           |
|--|--------------------------------|-----------|
|  | 2008                           | 2007      |
|  | <i>(Dollars in thousands)</i>  |           |
| Signature loan fees  | \$ 30,573                      | \$ 26,242 |
| Signature loan bad debt  | 8,343                          | 9,583     |
| Fee revenue less bad debt  | 22,230                         | 16,659    |
| Operations expense   | 13,163                         | 9,997     |
| Store operating income   | \$ 9,067                       | \$ 6,662  |
| Other data:  |                                |           |
| Signature loan bad debt as a percent of signature loan fees  | 27.3%                          | 36.5%     |
| Average signature loan balance per store offering signature loans at quarter end   |                                |           |
| (a)  | \$ 62                          | \$ 65     |
| (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 \$5.6 million, or 33% compared to the prior year quarter. The primary driver of the increased contribution was the decrease in bad debt from 36.5% of fees in the prior year quarter to 27.3% in the current quarter. We also saw a 17% increase in the current quarter's signature loan fee revenue, primarily from loan growth at new stores. We believe the effects of the economic stimulus checks distributed in May and June dampened demand for new loans. The stimulus checks, improvements in collection practices and procedures and tighter underwriting criteria in the current year combined to decrease bad debt by \$1.2 million, even on 17% greater fees. For the past several years, we also have sold our bad debt, on a weekly basis, to third parties after 60 days of internal collection efforts, but market rates for debt sales have declined over the last two years. Beginning in the March 2008 quarter, we now continue to attempt collection of our bad debt past 60 days and are employing a combination of in-house collections and third party debt sales and are testing several new ancillary collection techniques.

Operations expense increased \$3.2 million in the current quarter to \$13.2 million, or 43% of segment revenues from 38% in the prior year period. The increase was mostly from additional labor, rent and other costs at new and existing stores. In the current quarter, operations expense was \$28,700 per average store compared to \$27,000 in the prior year quarter.

Included in the current quarter's results is a \$0.5 million charge to the EZMONEY segment's operating income related to the closure of eleven Florida stores following a regulatory action, as more fully described in Note F to the condensed consolidated financial statements included in this quarterly report on Form 10-Q. Approximately \$0.2 million was recorded as a reduction of fee revenue, and \$0.3 million was recorded as bad debt in the current quarter based on our estimate of the increase in loans that may not be collected as a result of these store closures. In the current quarter, the \$5.6 million increase in signature loan fees net of bad debt and \$3.2 million greater operations expense resulted in a \$2.4 million net increase in store operating income from the EZMONEY Operations

**Table of Contents**

segment. For the current quarter, EZMONEY Operations made up 31% of consolidated store operating income compared to 34% in the prior year quarter.

**Other Items**

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

Administrative expenses in the current quarter were \$9.8 million compared to \$8.0 million in the prior year quarter, or 12.8% of net revenues compared to 13.0% in the prior year quarter. The increase was due primarily to a \$0.8 million increase in administrative labor and benefits as we build the infrastructure to support our continued growth and a \$0.6 million settlement of a lawsuit from the Texas Attorney General as more fully described in Note F to the attached condensed consolidated financial statements.

Depreciation and amortization expense was \$3.1 million in the current quarter, compared to \$2.5 million in the prior year quarter. Depreciation on assets placed in service, primarily related to new EZMONEY stores and acquired pawn stores, exceeded the reduction from assets that became fully depreciated or were retired in the period. We experienced increased amortization of intangible assets acquired with the October 2007 acquisition of twenty Mexico pawn shops and the full quarter's amortization in the current quarter related to the June 2007 acquisition of fifteen pawn shops and one payday loan store in Colorado.

We earned \$0.2 million of interest income on our invested cash in the current quarter, for an annualized rate of return of 2.5%. In the comparable prior year quarter, we earned \$0.6 million of interest income on our invested cash, yielding 5.1%.

Our \$0.1 million interest expense in the current and prior year quarter was comprised mostly of the amortization of deferred financing costs and the commitment fee on our line of credit, as we had no debt in either period.

Our equity interest in the estimated earnings of Albemarle & Bond increased \$0.3 million in the current quarter to \$1.0 million. The increase was a result of A&B's continued same store improvement in earnings, the additional income A&B earned from the 26 stores it acquired in July 2007, and our incremental investment in A&B in July 2007. In accordance with United Kingdom securities regulations, A&B files only semi-annual financial reports. We estimate A&B's results of operations in the intervening quarters, including the current quarter, based on historical earning patterns and other assumptions, such as the contribution from new stores.

We experienced a \$0.3 million loss on the disposal of assets in the current quarter compared to a \$0.2 million gain in the prior year quarter. Included in the current quarter loss on disposal of assets is approximately \$0.2 million related to the closure of eleven Florida EZMONEY stores, as more fully described in Note F to the attached condensed consolidated financial statements.

The current quarter income tax expense was \$6.6 million (37.7% of pretax income) compared to \$4.0 million (37.0% of pretax income) for the prior year quarter. The increase in effective tax rate between these periods is due to anticipated higher state taxes.

Consolidated operating income for the current quarter improved \$7.3 million over the prior year quarter to \$16.6 million. Contributing to this were the \$6.2 million, \$1.0 million and \$2.4 million increases in store operating income in our EZPAWN U.S., Empeño Fácil and EZMONEY Operations segments, partially offset by the \$1.8 million increase in administrative expenses. After a \$0.6 million increase in depreciation and amortization and a \$2.6 million increase in income taxes and other smaller items, net income improved to \$10.8 million in the current quarter from \$6.8 million in the prior year quarter.

**Table of Contents**Nine Months Ended June 30, 2008 vs. Nine Months Ended June 30, 2007

The following discussion compares our results of operations for the nine months ended June 30, 2008 to the nine months ended June 30, 2007. The discussion should be read with the accompanying financial statements and related notes.

**EZPAWN U.S. Operations Segment**

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

|  | Nine Months Ended June 30,    |               |
|--|-------------------------------|---------------|
|  | 2008                          | 2007          |
|  | <i>(Dollars in thousands)</i> |               |
| Sales  | \$ 165,749                    | \$ 141,621    |
| Pawn service charges   | 64,089                        | 51,464        |
| Signature loan fees  | 2,131                         | 2,486         |
| Other  | 1,224                         | 1,006         |
| <br>Total revenues   | <br>233,193                   | <br>196,577   |
| Cost of goods sold   | 98,853                        | 85,583        |
| <br>Net revenues   | <br>134,340                   | <br>110,994   |
| Operating expenses:  |                               |               |
| Operations expense   | 71,399                        | 64,641        |
| Signature loan bad debt  | 741                           | 1,043         |
| <br>Total store operating expenses   | <br>72,140                    | <br>65,684    |
| <br>Store operating income   | <br>\$ 62,200                 | <br>\$ 45,310 |
| <br>Other data:  |                               |               |
| Gross margin on sales  | 40.4%                         | 39.6%         |
| Annualized inventory turnover  | 3.5x                          | 3.4x          |
| Average pawn loan balance per pawn store at quarter end  | \$ 217                        | \$ 197        |
| Average inventory per pawn store at quarter end  | \$ 127                        | \$ 114        |
| Average yield on pawn loan portfolio (a)   | 146%                          | 142%          |
| Pawn loan redemption rate  | 79%                           | 78%           |
| Average signature loan balance per store offering signature loans at quarter end (b)   | \$ 11                         | \$ 11         |
| <br>(a) Average yield on pawn loan portfolio is calculated as annualized pawn service charge revenue for the period divided by the average pawn loan balance |                               |               |

during the  
period.

- (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-to-date U.S. pawn service charge revenue increased 25%, or \$12.6 million from the prior year to \$64.1 million. This increase was due to a 17%, or \$8.7 million increase in same store pawn service charges and \$3.9 million additional pawn service charges at acquired stores net of one store closure. The same store improvement was due primarily to a higher average pawn loan balance and a four percentage point improvement in yield. We have periodically raised our loan values on gold jewelry in response to increases in gold market values and similar changes by our competitors, including two increases during the last year. This contributed about \$5.3 million to the increase in U.S. pawn service charges in the current year-to-date period.

**Table of Contents**

The table below presents our sales volume, gross profit, and gross margins in the EZPAWN U.S. Operations segment:

|   | Nine Months Ended June<br>30, |              |
|---|-------------------------------|--------------|
|   | 2008                          | 2007         |
|   | <i>(Dollars in millions)</i>  |              |
| Merchandise sales                       | \$ 116.8                      | \$ 107.9     |
| Jewelry scrapping sales                 | 48.9                          | 33.7         |
| <br>Total sales                         | <br>\$ 165.7                  | <br>\$ 141.6 |
| <br>Gross profit on merchandise sales   | <br>\$ 47.2                   | <br>\$ 44.1  |
| Gross profit on jewelry scrapping sales | \$ 19.7                       | \$ 12.0      |
| <br>Gross margin on merchandise sales   | <br>40.4%                     | <br>40.8%    |
| Gross margin on jewelry scrapping sales | 40.3%                         | 35.6%        |
| Overall gross margin                    | 40.4%                         | 39.6%        |

The current year-to-date period's merchandise gross profit increased \$3.1 million from the prior year-to-date period to \$47.2 million. This was due to \$6.1 million of additional sales from the fifteen pawn stores acquired in June 2007, net of one closed store, and a three percentage point increase in same store sales, partially offset by a decrease of 0.4 of a percentage point in gross margins to 40.4%.

The current year-to-date period's gross profit on jewelry scrapping sales increased \$7.7 million from the prior year-to-date period to \$19.7 million. This was due to a \$15.3 million increase in jewelry scrapping sales on 12% more volume and a 4.7 percentage point improvement in margins. The jewelry scrapping sales include the current year-to-date period sale of approximately \$0.8 million of loose diamonds removed from scrapped jewelry, compared to approximately \$1.2 million in the prior year-to-date period. 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. The net effect of all these factors comprises the improvement in gross profit from jewelry scrapping sales in the current year-to-date period.

The segment's signature loan contribution, or fee revenue less bad debt, decreased \$0.1 million in the current year-to-date period due to lower fee revenues on a lower average loan balance. Signature loan bad debt decreased from 42.0% of fees in the prior year-to-date period to 34.8% in the current year-to-date period.

Operations expense improved to 53% of net revenues (\$71.4 million) in the current year-to-date period from 58% of net revenues (\$64.6 million) in the prior year-to-date period as operating expenses grew at a slower pace than the segment's net revenues. Many of our store level operating expenses are fixed. We generally gain efficiencies by growing same store revenues and leveraging their fixed costs.

In the current year-to-date period, the \$23.7 million greater net revenue from U.S. pawn activities, partially offset by the \$6.8 million higher operations expense and \$0.1 million lower contribution from signature loans resulted in a \$16.9 million overall increase in store operating income from the EZPAWN U.S. Operations segment compared to the prior year-to-date period. For the current year-to-date period, the EZPAWN U.S. Operations segment made up 66% of consolidated store operating income compared to 65% in the prior year-to-date period.

**Table of Contents****Empeño Fácil Segment**

The following table presents selected financial data for the Empeño Fácil segment:

|   | Nine Months Ended June<br>30, |          |
|---|-------------------------------|----------|
|   | 2008                          | 2007     |
|   | <i>(Dollars in thousands)</i> |          |
| Sales   | \$ 4,723                      | \$ 67    |
| Pawn service charges                                    | 3,295                         | 32       |
| Signature loan fees                                     |                               |          |
| Other   | 4                             | 1        |
| Total revenues  | 8,022                         | 100      |
| Cost of goods sold                                      | 2,879                         | 35       |
| Net revenues  | 5,143                         | 65       |
| Operating expenses:                                     |                               |          |
| Operations expense                                      | 2,781                         | 243      |
| Signature loan bad debt                                 |                               |          |
| Total store operating expenses                          | 2,781                         | 243      |
| Store operating income                                  | \$ 2,362                      | \$ (178) |
| Other data:   |                               |          |
| Gross margin on sales                                   | 39.0%                         | 47.8%    |
| Annualized inventory turnover                           | 2.6x                          | 0.9x     |
| Average pawn loan balance per pawn store at quarter end | \$ 143                        | \$ 27    |
| Average inventory per pawn store at quarter end         | \$ 71                         | \$ 41    |
| Average yield on pawn loan portfolio (a)                | 127%                          | 163%     |

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

In the prior year-to-date period, our Empeño Fácil segment included the results from our first three stores opened in that period. The current year-to-date results include results from those stores, the twenty stores acquired October 22, 2007, and the seven additional stores opened since the end of the prior year-to-date period.

The table below presents our sales volume, gross profit, and gross margins in the Empeño Fácil segment:

|   | Nine Months Ended June<br>30, |       |
|---|-------------------------------|-------|
|   | 2008                          | 2007  |
|   | <i>(Dollars in thousands)</i> |       |
| Merchandise sales                       | \$ 4,101                      | \$ 67 |
| Jewelry scrapping sales                 | 622                           |       |
| Total sales                             | \$ 4,723                      | \$ 67 |
| Gross profit on merchandise sales       | \$ 1,587                      | \$ 32 |
| Gross profit on jewelry scrapping sales | \$ 257                        | \$    |
| Gross margin on merchandise sales       | 38.7%                         | 47.8% |
| Gross margin on jewelry scrapping sales | 41.3%                         | N/A   |
| Overall gross margin                    | 39.0%                         | 47.8% |

The current year-to-date period's merchandise gross profit increased to \$1.6 million on \$4.1 million of sales due primarily to new and acquired stores. Gross margins on merchandise sales were 38.7%.

The current year-to-date period's gross profit on jewelry scrapping sales was \$0.3 million on \$0.6 million of proceeds. Gross margins on jewelry scrapping sales were 41.3%.

**Table of Contents**

Operations expense was 54% of segment net revenues (\$2.8 million) in the current year-to-date period. Operating expenses exceeded net revenues in the prior year-to-date period during the start-up period of our Mexico operations. In the current year-to-date period, the \$5.1 million greater net revenue from Mexico pawn activities, partially offset by the \$2.5 million higher operations expense resulted in a \$2.5 million overall increase in store operating income from the Empeño Fácil segment compared to the prior year-to-date period. For the current year-to-date period, Empeño Fácil made up three percent of consolidated store operating income, compared to a small loss in the start-up period in the prior year-to-date period.

**EZMONEY Operations Segment**

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

|  | Nine Months Ended June 30,    |           |
|--|-------------------------------|-----------|
|  | 2008                          | 2007      |
|  | <i>(Dollars in thousands)</i> |           |
| Signature loan fees  | \$ 92,786                     | \$ 71,646 |
| Signature loan bad debt  | 24,106                        | 18,043    |
| Fee revenue less bad debt  | 68,680                        | 53,603    |
| Operations expense   | 39,005                        | 29,203    |
| Store operating income   | \$ 29,675                     | \$ 24,400 |
| Other data:  |                               |           |
| Signature loan bad debt as a percent of signature loan fees  | 26.0%                         | 25.2%     |
| Average signature loan balance per store offering signature loans at quarter end   |                               |           |
| (a)  | \$ 62                         | \$ 65     |
| (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 \$15.1 million, or 28% compared to the prior year-to-date period. The primary drivers of the increased contribution were the higher average loan balances at existing stores and the addition of new stores, resulting in a 30% increase in the current year-to-date period signature loan fee revenue. Signature loan bad debt increased \$6.1 million to 26.0% of related fees in the current year-to-date period compared to 25.2% in the prior year-to-date period. We believe the effects of the economic stimulus checks distributed in May and June 2008 dampened demand for new loans in those months, but assisted with controlling bad debt when combined with improvements in collection practices and procedures. For the past several years, we also have sold our bad debt, on a weekly basis, to third parties after 60 days of internal collection efforts, but market rates for debt sales have declined over the last two years. Beginning in the March 2008 quarter, we now continue to attempt collection of our bad debt past 60 days and are employing a combination of in-house collections and third party debt sales, and are testing several new ancillary collection techniques.

Operations expense increased \$9.8 million in the current year-to-date period to \$39.0 million, or 42% of segment revenues from 41% in the prior year-to-date period. The increase was mostly from additional labor, rent, and other costs at new and existing stores. In the current year-to-date period, operations expense was \$87,500 per average store, compared to \$83,700 in the prior year-to-date period.

In the current year-to-date period, the \$15.1 million increase in signature loan fees net of bad debt and \$9.8 million greater operations expense resulted in a \$5.3 million net increase in store operating income from the EZMONEY Operations segment. For the current year-to-date period, EZMONEY Operations made up 31% of consolidated store operating income compared to 35% in the prior year-to-date period.

**Table of Contents****Other Items**

The items discussed below affect our consolidated financial results, but are not allocated between segments. Administrative expenses in the current year-to-date period were \$29.5 million compared to \$23.5 million in the prior year-to-date period, or 12.7% of net revenues compared to 12.9% in the prior year-to-date period. The increase was due primarily to a \$2.9 million increase in administrative labor and benefits as we build the infrastructure to support our continued growth and a \$1.3 million increase in professional fees. Administrative expenses in the current year-to-date period include a \$0.6 million settlement of a lawsuit from the Texas Attorney General as more fully described in Note F to the attached condensed consolidated financial statements.

Depreciation and amortization expense was \$9.0 million in the current year, compared to \$7.2 million in the prior year. Depreciation on assets placed in service, primarily related to new EZMONEY stores and acquired pawn stores, exceeded the reduction from assets that became fully depreciated or were retired. We experienced increased amortization of intangible assets due to those intangible assets acquired with the October 2007 acquisition and to the full period's amortization in the current year-to-date period of assets related to the June 2007 acquisition.

We earned \$0.4 million of interest income on our invested cash in the current year-to-date period for an annualized rate of return of 2.9%. In the comparable prior year period, we earned \$1.5 million of interest income on our invested cash, yielding 5.0%.

Our \$0.2 million interest expense in the current and prior year-to-date periods was comprised mostly of the amortization of deferred financing costs and the commitment fee on our line of credit, as we had no debt in either period.

Our equity interest in the estimated earnings of Albemarle & Bond increased \$1.0 million in the current year-to-date period to \$3.2 million. The increase was a result of A&B's continued same store improvement in earnings, the additional income A&B earned from the 26 stores it acquired in July 2007, and our incremental investment in A&B in July 2007. In accordance with United Kingdom securities regulations, A&B files only semi-annual financial reports. We estimate A&B's results of operations in the intervening quarters, including the current quarter, based on historical earning patterns and other assumptions, such as the contribution from new stores. A&B's estimated earnings for the current year-to-date period includes A&B's reported results for the first six months of the period and our estimate of their earnings for the latest quarter.

The current year-to-date income tax expense was \$22.0 million (37.7% of pretax income) compared to \$15.7 million (37.0% of pretax income) in the prior year period. The increase in effective tax rate between these periods is due to anticipated higher state taxes.

Consolidated operating income for the current year-to-date period improved \$16.9 million over the prior year-to-date period to \$55.7 million. Contributing to this were the \$16.9 million, \$2.5 million and \$5.3 million increases in store operating income in our EZPAWN U.S., Empeño Fácil and EZMONEY Operations segments, partially offset by the \$6.0 million increase in administrative expenses. After a \$1.8 million increase in depreciation and amortization and a \$6.3 million increase in income taxes and other smaller items, net income improved to \$36.4 million in the current year-to-date period from \$26.7 million in the prior year-to-date period.

***Liquidity and Capital Resources***

In the current year-to-date period, our \$45.2 million cash flow from operations consisted of (a) net income plus several non-cash items, aggregating to \$50.4 million, net of (b) \$5.2 million of normal, recurring changes in operating assets and liabilities. In the prior year-to-date period, our \$36.2 million cash flow from operations consisted of (a) net income plus several non-cash items, aggregating to \$36.9 million, net of (b) \$0.6 million of normal, recurring changes in operating assets and liabilities. The primary differences in cash flow from operations between the two periods were an increase in collected pawn service charges and signature loan fees and an increase in the gross profit on sales of inventory, net of higher operating expenses and taxes paid.

**Table of Contents**

The \$38.5 million of cash used in investing activities during the current year-to-date period were funded by cash flow from operations. Our most significant investments were the \$15.5 million acquisition of 20 Mexico pawn stores and \$13.1 million of additions to property and equipment primarily for new store construction. Another significant investment was the funding of \$7.5 million of payday loans net of repayments and \$4.2 million of pawn loans net of recoveries through the sale of forfeited collateral. Offsetting this was the \$1.7 million of dividends received from an unconsolidated affiliate. We also received \$0.5 million of cash and tax benefits from the exercise of stock options and warrants. The net effect of these items was a \$7.3 million increase in cash on hand, providing a \$29.8 million ending cash balance.

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

|  | Total    | Payments due by Period |              |              | More than<br>5 years |
|--|----------|------------------------|--------------|--------------|----------------------|
|  |          | Less than<br>1 year    | 1-3<br>years | 3-5<br>years |                      |
| Contractual Obligations                |          |                        |              |              |                      |
| Long-term debt obligations             | \$       | \$                     | \$           | \$           | \$                   |
| Interest on long-term debt obligations | 0.1      | 0.1                    |              |              |                      |
| Capital lease obligations              |          |                        |              |              |                      |
| Operating lease obligations            | 158.6    | 24.0                   | 43.3         | 36.0         | 55.3                 |
| Purchase obligations                   |          |                        |              |              |                      |
| Other long-term liabilities            |          |                        |              |              |                      |
| Total                                  | \$ 158.7 | \$ 24.1                | \$ 43.3      | \$ 36.0      | \$ 55.3              |

In addition to the contractual obligations in the table above, we are obligated under letters of credit issued to unaffiliated lenders as part of our credit service operations. At June 30, 2008, our maximum exposure for losses on letters of credit, if all brokered loans defaulted and none was collected, was \$23.7 million. This amount includes principal, interest, and insufficient funds fees.

In addition to the operating lease obligations in the table above, we are responsible for the maintenance, property taxes and insurance at most of our locations. In the most recent fiscal year ended September 30, 2007, these collectively amounted to \$8.2 million.

In the remaining three months of fiscal 2008, we plan to open approximately 23 new EZMONEY stores in the U.S. and six new pawn stores in Mexico for an expected capital expenditure of approximately \$2.0 million plus the funding of working capital and start-up losses at these stores. We believe these new stores will create a drag on earnings and cash flow in their first six to nine months of operations before turning profitable.

While we had no debt outstanding at June 30, 2008, we have a \$40 million revolving credit facility secured by our assets, which matures October 1, 2009. Under the terms of the agreement, we could borrow the full \$40 million at June 30, 2008. Terms of the agreement require, among other things, that we meet certain financial covenants. We were in compliance with all covenants at June 30, 2008. Payment of dividends and additional debt are allowed but restricted. The interest amount shown in the table above reflects the commitment fee we anticipate paying through the maturity of the credit agreement, assuming we remain debt-free.

On June 27, 2008, we executed the proposed Fifth Amended and Restated Credit Agreement with the two banks in our Fourth Amended and Restated Credit Agreement and three additional banks. The new agreement was placed in escrow and was to become effective if and when we completed the acquisition of Value Financial Services, Inc. On August 9, 2008, Value Financial Services, Inc. terminated the merger agreement.

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



**Table of Contents*****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 them 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 lenders' results with our results as we do not have any ownership interest in the lenders, do not exercise control over them and do not otherwise meet the criteria for consolidation as prescribed by FASB Financial Interpretation No. 46 regarding variable interest entities.

We include an allowance for Expected Letter of Credit Losses in Accounts payable and other accrued expenses on our balance sheet. At June 30, 2008, the allowance for Expected Letter of Credit Losses was \$1.3 million. At that date, our maximum exposure for losses on letters of credit, if all brokered loans defaulted and none was collected, was \$23.7 million. This amount includes principal, interest and insufficient funds fees.

We have no other off-balance sheet arrangements.

***Seasonality***

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

Signature loan fees are generally highest in our fourth and first fiscal quarter (July through December) due to a higher average loan balance during the summer and fall 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.

***Use of Estimates and Assumptions***

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our condensed consolidated financial statements. We prepared those statements according to accounting principles generally accepted in the United States for interim financial information. We must 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 other assumptions that we believe are reasonable under the circumstances. We use this information to make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from the estimates under different assumptions or conditions.

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

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We are exposed to market risk related to changes in foreign currency exchange rates and gold values. We also are exposed to regulatory risk in relation to our credit services, payday loans, and pawn operations. We do not use derivative financial instruments.

Our earnings and financial position may be affected by changes in gold values and the resulting impact on pawn lending and jewelry sales. The proceeds of scrap sales and our ability to sell excess jewelry inventory at an acceptable margin depend on gold values. The impact on our financial position and results of operations of a hypothetical change in gold values cannot be reasonably estimated. For further discussion, you should read *Risk Factors* in Part I, Item 1A of our Annual Report on Form 10-K for the year ended September 30, 2007.

Our earnings and financial position are affected by foreign exchange rate fluctuations related to our equity investment in A&B. A&B's functional currency is the U.K. pound. The impact on our results of operations and financial position of a hypothetical change in the exchange rate between the U.S. dollar and the U.K. pound cannot be reasonably estimated due to the interrelationship of operating results and exchange rates. The translation adjustment representing the weakening in the U.K. pound during the quarter ended March 31, 2008 (included in our June 30, 2008 results on a three-month lag as described above) was an \$11,000 decrease, net of tax effect, to stockholders' equity. On June 30, 2008, the U.K. pound strengthened to £1.00 to \$1.9954 U.S. from \$1.9951 U.S. at March 31, 2008.

Similar to the discussion above regarding the U.K. pound, fluctuations in the exchange rate for the Mexican peso also affect our earnings and financial position due to our pawn operations in Mexico. The translation adjustment representing the strengthening of the Mexican peso during the current quarter was a \$728,000 increase to stockholders' equity.

We cannot assure the future valuation of the U.K. pound or Mexican peso or how further movements in them could affect our future earnings or financial position.

***Forward-Looking Information***

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend that all forward-looking statements be subject to the safe harbors created by these laws. All statements other than statements of historical information are forward-looking and may contain information about financial results, economic conditions, trends, planned store openings, acquisitions and known uncertainties. These statements are often, but not always, made with words or phrases like *may*, *should*, *could*, *predict*, *potential*, *believe*, *expect*, *anticipate*, *estimate*, *intend*, *plan*, *projection*, *outlook*, *expect*, *will*, and similar expressions. All forward-looking statements are based on current expectations regarding important risk factors. Many of these risks and uncertainties are beyond our control, and in many cases, we cannot predict all of the risks and uncertainties that could cause our actual results to differ materially from those expressed in the forward-looking statements. Actual results could differ materially from those expressed in the forward-looking statements, and you should not regard them as a representation that the expected results will be achieved. Important risk factors that could cause results or events to differ from current expectations are described in Part II, Item 1A, *Risk Factors*, of this Quarterly Report and in the section entitled *Risk Factors* in our Annual Report on Form 10-K for the year ended September 30, 2007. These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect our operations, performance, development and results. You are cautioned not to overly rely on these forward-looking statements, which are current only as of the date of this report. We undertake no obligation to release publicly the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this report, including without limitation, changes in our business strategy or planned capital expenditures, acquisitions, store growth plans or to reflect unanticipated events.

**Table of Contents**

***Item 4. Controls and Procedures***

**(a) Evaluation of Disclosure Controls and Procedures.**

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of June 30, 2008. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2008, our disclosure controls and procedures are effective to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Disclosure controls and procedures include those controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that all control issues or instances of fraud, if any, have been detected.

**(b) Changes in Internal Controls**

There were no changes in our internal controls that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except as described below. We have made and anticipate making certain internal control changes in our pawn operations in Mexico as a result of acquiring 20 pawn stores in Mexico on October 22, 2007. We are making these control changes to subject our Mexican operations to the same or similar controls as currently utilized in the remainder of our operations and accounting, including ensuring their compliance with U.S. GAAP. This transition will be completed within one year of the October 22, 2007 acquisition date. In the current quarter, the acquired Mexico operations began utilizing our existing general ledger ERP system, the related interfaces to our point-of-sale computer system, and the ERP system's foreign currency translation capabilities. Our Mexican operations comprised approximately three percent of our total revenues in the quarter ended June 30, 2008, and approximately seven percent of our total assets at June 30, 2008.

**Table of Contents**

**PART II**

***Item 1. Legal Proceedings***

See Note F, Contingencies, in the Notes to the Interim Condensed Consolidated Financial Statements included in this filing.

***Item 1A. Risk Factors***

Important risk factors that could cause results or events to differ from current expectations are described in Part I, Item 1A, Risk Factors of our Annual Report on Form 10-K for the year ended September 30, 2007 and in Item 7, Risk Factors of our pre-effective registration statement, File No. 333-15181 on Form S-3/A, Amendment No. 1 filed July 23, 2008. These factors are supplemented by those discussed under Quantitative and Qualitative Disclosures about Market Risk in Part I, Item 3 of this report and in Part II, Item 7A of our Annual Report on Form 10-K for the year ended September 30, 2007.

***Item 5. Other Information***

On March 14, 2008, EZCORP and a wholly owned subsidiary entered into an agreement to purchase up to 100% of the outstanding stock of Value Financial Services, Inc. ( VFS ). On April 28, 2008, the parties amended the stock purchase agreement to extend the due diligence period for completing its review of the records of VFS by fifteen days, from April 28, 2008, to May 23, 2008. The period during which VFS agreed not to enter into negotiations with third parties was also extended fifteen days, to May 23, 2008. In addition, the date on which either party had the right to terminate the transaction if closing of the sale had not occurred was extended from May 31, 2008, to June 26, 2008. The parties amended the agreement two times in May 2008, to again extend due diligence and termination time periods. On June 5, 2008, the entire agreement, as amended, was terminated and replaced by a new agreement in which the parties agreed to merge VFS into a new subsidiary of EZCORP formed for the purpose of executing the merger. On August 9, 2008, VFS terminated the merger agreement.



**Table of Contents*****Item 6. Exhibits***

| Exhibit<br>Number | Description   |
|-------------------|---|
| 10.1              | Amendment No. 1 to Stock Purchase Agreement with Value Financial Services, Inc. (April 28, 2008), incorporated by reference to Exhibit 10.2 to EZCORP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 000-19424).  |
| 10.2              | Amendment No. 2 to the Stock Purchase Agreement with Value Financial Services, Inc. (May 12, 2008), incorporated by reference to Exhibit 10.1 to EZCORP's Form 8-K dated May 12, 2008, filed May 13, 2008 (File No. 000-19424).   |
| 10.3              | Amendment No. 3 to the Stock Purchase Agreement with Value Financial Services, Inc. (May 28, 2008), incorporated by reference to Exhibit 10.1 to EZCORP's Form 8-K dated May 28, 2008, filed June 2, 2008 (File No. 000-19424).   |
| 10.4              | Merger Agreement between EZCORP, Inc., Value Merger Sub, Inc., and Value Financial Services, Inc. (June 5, 2008), incorporated by reference to Exhibit 10.1 to EZCORP's Form 8-K dated and filed June 5, 2008 (File No. 000-19424).   |
| 10.5              | Form of Fifth Amended and Restated Credit Agreement among EZCORP, Inc., Wells Fargo Bank, N.A., and other financial institutions, dated June __, 2008 (to become effective and be dated upon completion of the merger with Value Financial Service, Inc.), incorporated by reference to Exhibit 10.1 to EZCORP's Registration Statement on Form S-3/A Pre-Effective Amendment No. 1 filed on July 24, 2008 (File No. 333-151871). |
| 31.1              | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2              | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1              | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 32.2              | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |

**Table of Contents**

**SIGNATURE**

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

EZCORP, INC.

(Registrant)

Date: August 11, 2008

By: /s/ DAN N. TONISSEN

(Signature)

Dan N. Tonissen  
Senior Vice President,  
Chief Financial Officer &  
Director

36

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**Table of Contents**

EXHIBIT INDEX

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| 10.2              | Amendment No. 2 to the Stock Purchase Agreement with Value Financial Services, Inc. (May 12, 2008), incorporated by reference to Exhibit 10.1 to EZCORP's Form 8-K dated May 12, 2008, filed May 13, 2008 (File No. 000-19424).   |
| 10.3              | Amendment No. 3 to the Stock Purchase Agreement with Value Financial Services, Inc. (May 28, 2008), incorporated by reference to Exhibit 10.1 to EZCORP's Form 8-K dated May 28, 2008, filed June 2, 2008 (File No. 000-19424).   |
| 10.4              | Merger Agreement between EZCORP, Inc., Value Merger Sub, Inc., and Value Financial Services, Inc. (June 5, 2008), incorporated by reference to Exhibit 10.1 to EZCORP's Form 8-K dated and filed June 5, 2008 (File No. 000-19424).   |
| 10.5              | Form of Fifth Amended and Restated Credit Agreement among EZCORP, Inc., Wells Fargo Bank, N.A., and other financial institutions, dated June __, 2008 (to become effective and be dated upon completion of the merger with Value Financial Service, Inc.), incorporated by reference to Exhibit 10.1 to EZCORP's Registration Statement on Form S-3/A Pre-Effective Amendment No. 1 filed on July 24, 2008 (File No. 333-151871). |
| 31.1              | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2              | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1              | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 32.2              | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |