

EZCORP INC
Form 10-Q
January 31, 2018
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 December 31, 2017

or

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

For the transition period from _____ to _____

Commission File No. 0-19424

EZCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware

74-2540145

(State or other jurisdiction of incorporation or organization)

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

2500 Bee Cave Road, Bldg One, Suite 200, Rollingwood, Texas 78746

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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:

Edgar Filing: EZCORP INC - Form 10-Q

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

As of January 25, 2018, 51,494,246 shares of the registrant's Class A Non-voting Common Stock ("Class A 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.

Table of Contents

EZCORP, Inc.

INDEX TO FORM 10-Q

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets as of December 31, 2017 and 2016 (Unaudited) and September 30, 2017 1

Condensed Consolidated Statements of Operations for the Three Months Ended December 31, 2017 and 2016 (Unaudited) 2

Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended December 31, 2017 and 2016 (Unaudited) 3

Condensed Consolidated Statements of Stockholders' Equity for the Three Months Ended December 31, 2017 and 2016 (Unaudited) 3

Condensed Consolidated Statements of Cash Flows for the Three Months Ended December 31, 2017 and 2016 (Unaudited) 4

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) 5

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 18

Item 3. Quantitative and Qualitative Disclosures about Market Risk 28

Item 4. Controls and Procedures 28

PART II — OTHER INFORMATION

Item 1. Legal Proceedings 29

Item 1A. Risk Factors 29

Item 6. Exhibits 30

SIGNATURES 31

Table of Contents

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EZCORP, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	December 31, 2017	December 31, 2016	September 30, 2017
	(Unaudited)		
Assets:			
Current assets:			
Cash and cash equivalents	\$ 113,584	\$ 63,707	\$ 164,393
Pawn loans	177,001	162,696	169,242
Pawn service charges receivable, net	34,054	30,967	31,548
Inventory, net	163,310	143,440	154,411
Notes receivable, net	36,682	36,180	32,598
Prepaid expenses and other current assets	26,516	36,242	28,765
Total current assets	551,147	473,232	580,957
Investment in unconsolidated affiliate	45,605	39,875	43,319
Property and equipment, net	62,098	54,881	57,959
Goodwill	288,773	253,585	254,760
Intangible assets, net	43,974	31,708	32,420
Non-current notes receivable, net	23,343	39,365	28,377
Deferred tax asset, net	10,997	34,667	16,856
Other assets, net	16,625	37,187	9,715
Total assets	\$ 1,042,562	\$ 964,500	\$ 1,024,363
Liabilities and equity:			
Current liabilities:			
Accounts payable, accrued expenses and other current liabilities	\$ 60,207	\$ 68,694	\$ 61,543
Customer layaway deposits	10,686	9,729	11,032
Total current liabilities	70,893	78,423	72,575
Long-term debt, net	294,761	278,936	284,807
Other long-term liabilities	8,845	8,259	7,055
Total liabilities	374,499	365,618	364,437
Commitments and contingencies (Note 8)			
Stockholders' equity:			
Class A Non-voting Common Stock, par value \$.01 per share; shares authorized: 100 million; issued and outstanding: 51,494,246 as of December 31, 2017; 51,306,608 as of December 31, 2016; and 51,427,832 as of September 30, 2017	515	513	514
Class B Voting Common Stock, convertible, par value \$.01 per share; shares authorized: 3 million; issued and outstanding: 2,970,171	30	30	30
Additional paid-in capital	351,110	319,825	348,532
Retained earnings	364,414	326,973	351,666
Accumulated other comprehensive loss	(44,902)	(47,577)	(38,367)
EZCORP, Inc. stockholders' equity	671,167	599,764	662,375
Noncontrolling interest	(3,104)	(882)	(2,449)
Total equity	668,063	598,882	659,926

Total liabilities and equity	\$1,042,562	\$ 964,500	\$ 1,024,363
------------------------------	-------------	------------	--------------

See accompanying notes to unaudited interim condensed consolidated financial statements.

1

Table of Contents

EZCORP, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,	
	2017	2016
	(Unaudited)	
	(in thousands, except per share amounts)	
Revenues:		
Merchandise sales	\$113,588	\$111,513
Jewelry scrapping sales	12,213	9,798
Pawn service charges	76,360	69,013
Other revenues	2,347	2,300
Total revenues	204,508	192,624
Merchandise cost of goods sold	71,167	71,732
Jewelry scrapping cost of goods sold	10,337	8,344
Other cost of revenues	577	583
Net revenues	122,427	111,965
Operating expenses:		
Operations	83,610	77,646
Administrative	13,318	13,927
Depreciation and amortization	5,723	6,373
Loss (gain) on sale or disposal of assets	39	(77)
Total operating expenses	102,690	97,869
Operating income	19,737	14,096
Interest expense	5,847	5,565
Interest income	(4,270)	(2,616)
Equity in net income of unconsolidated affiliate	(1,450)	(1,478)
Other income	(182)	(423)
Income from continuing operations before income taxes	19,792	13,048
Income tax expense	7,437	4,782
Income from continuing operations, net of tax	12,355	8,266
Loss from discontinued operations, net of tax	(222)	(1,228)
Net income	12,133	7,038
Net loss attributable to noncontrolling interest	(615)	(127)
Net income attributable to EZCORP, Inc.	\$12,748	\$7,165
Basic earnings per share attributable to EZCORP, Inc. — continuing operations	\$0.24	\$0.15
Diluted earnings per share attributable to EZCORP, Inc. — continuing operations	\$0.23	\$0.15
Weighted-average basic shares outstanding	54,464	54,158
Weighted-average diluted shares outstanding	55,682	54,214
See accompanying notes to unaudited interim condensed consolidated financial statements.		

Table of Contents

EZCORP, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended December 31,	
	2017	2016
	(Unaudited)	
	(in thousands)	
Net income	\$12,133	\$7,038
Other comprehensive loss:		
Foreign currency translation loss, net of income tax expense for our investment in unconsolidated affiliate of \$205 and \$444 for the three months ended December 31, 2017 and 2016, respectively	(6,575)	(3,465)
Other comprehensive loss, net of tax	(6,575)	(3,465)
Comprehensive income	5,558	3,573
Comprehensive loss attributable to noncontrolling interest	(655)	(104)
Comprehensive income attributable to EZCORP, Inc.	\$6,213	\$3,677

See accompanying notes to unaudited interim condensed consolidated financial statements.

EZCORP, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional	Retained	Accumulated	Noncontrolling	Total
	Shares	Par Value	Paid-in Capital	Earnings	Other Comprehensive Loss	Interest	Equity
	(Unaudited, except balances as of September 30, 2016)						
	(in thousands)						
Balances as of September 30, 2016	54,099	\$ 541	\$318,723	\$319,808	\$ (44,089)	\$ (778)	\$594,205
Stock compensation	—	—	1,808	—	—	—	1,808
Release of restricted stock	178	2	—	—	—	—	2
Taxes paid related to net share settlement of equity awards	—	—	(706)	—	—	—	(706)
Foreign currency translation adjustment	—	—	—	—	(3,488)	23	(3,465)
Net income (loss)	—	—	—	7,165	—	(127)	7,038
Balances as of December 31, 2016	54,277	\$ 543	\$319,825	\$326,973	\$ (47,577)	\$ (882)	\$598,882
	Common Stock		Additional	Retained	Accumulated	Noncontrolling	Total
	Shares	Par Value	Paid-in Capital	Earnings	Other Comprehensive Loss	Interest	Equity
	(Unaudited, except balances as of September 30, 2017)						
	(in thousands)						
Balances as of September 30, 2017	54,398	\$ 544	\$348,532	\$351,666	\$ (38,367)	\$ (2,449)	\$659,926
Stock compensation	—	—	2,889	—	—	—	2,889
Release of restricted stock	66	1	—	—	—	—	1
Taxes paid related to net share settlement of equity awards	—	—	(311)	—	—	—	(311)
	—	—	—	—	(6,535)	(40)	(6,575)

Foreign currency translation
adjustment

Net income (loss)	—	—	—	12,748	—	(615)	12,133
Balances as of December 31, 2017	54,464	\$ 545	\$351,110	\$364,414	\$ (44,902)	\$ (3,104) \$668,063

See accompanying notes to unaudited interim condensed consolidated financial statements.

3

Table of Contents

EZCORP, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended December 31,	
	2017	2016
	(Unaudited) (in thousands)	
Operating activities:		
Net income	\$12,133	\$7,038
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	5,723	6,373
Amortization of debt discount and deferred financing costs	3,682	2,826
Accretion of notes receivable discount and deferred compensation fee	(2,577)	(1,029)
Deferred income taxes	3,129	750
Other adjustments	601	801
Stock compensation expense	2,919	1,808
Income from investment in unconsolidated affiliate	(1,450)	(1,478)
Changes in operating assets and liabilities, net of business acquisitions:		
Service charges and fees receivable	(50)	(83)
Inventory	(1,087)	(615)
Prepaid expenses, other current assets and other assets	(2,384)	(3,856)
Accounts payable, accrued expenses and other liabilities	(5,283)	(21,948)
Customer layaway deposits	(283)	(881)
Income taxes, net of excess tax benefit from stock compensation	2,295	5,004
Net cash provided by (used in) operating activities	17,368	(5,290)
Investing activities:		
Loans made	(169,666)	(156,457)
Loans repaid	103,041	91,283
Recovery of pawn loan principal through sale of forfeited collateral	67,144	64,430
Additions to property and equipment	(7,917)	(2,326)
Acquisitions, net of cash acquired	(62,163)	—
Principal collections on notes receivable	2,849	7,831
Net cash (used in) provided by investing activities	(66,712)	4,761
Financing activities:		
Taxes paid related to net share settlement of equity awards	(311)	(706)
Net cash used in financing activities	(311)	(706)
Effect of exchange rate changes on cash and cash equivalents	(1,154)	(795)
Net decrease in cash and cash equivalents	(50,809)	(2,030)
Cash and cash equivalents at beginning of period	164,393	65,737
Cash and cash equivalents at end of period	\$113,584	\$63,707
Non-cash investing and financing activities:		
Pawn loans forfeited and transferred to inventory	\$72,649	\$68,071
Dividend reinvestment acquisition of additional ownership in unconsolidated affiliate	—	1,153
Deferred and contingent consideration	1,920	—
See accompanying notes to unaudited interim condensed consolidated financial statements.		

Table of Contents

EZCORP, Inc.

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

December 31, 2017

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

When used in this report, the terms “we,” “us,” “our,” “EZCORP” and the “Company” mean EZCORP, Inc. and its consolidated subsidiaries, collectively.

We are a leading provider of pawn loans in the United States and Latin America. Pawn loans are non-recourse loans collateralized by tangible property. We also sell merchandise, primarily collateral forfeited from pawn lending operations and used merchandise purchased from customers, and operate a small number of financial services stores in Canada.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) 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 the information and footnotes required by generally accepted accounting principles for complete financial statements. Our management has included all adjustments it considers necessary for a fair presentation which are of a normal, recurring nature. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended September 30, 2017. The balance sheet as of September 30, 2017 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

Our business is subject to seasonal variations, and operating results for the three months ended December 31, 2017 and 2016 (the “current quarter” or “current three months” and “prior-year quarter,” respectively) are not necessarily indicative of the results of operations for the full fiscal year.

There have been no changes in significant accounting policies as described in our Annual Report on Form 10-K for the year ended September 30, 2017.

Reclassifications to Prior Period Financial Statements

Certain reclassifications of prior period amounts have been made. These reclassifications were made to conform to the current period presentation.

Use of Estimates and Assumptions

The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, inventories, loan loss allowances, long-lived and intangible assets, share-based compensation, income taxes, contingencies and litigation. We base our estimates on historical experience, observable trends and various other assumptions that we believe are reasonable under the circumstances. We use this information to make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “Act”) was signed into law. Among other things, the Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. The corporate tax rate reduction is effective as of January 1, 2018 and, accordingly, will reduce our current fiscal year federal statutory rate to a blended rate of 24.5%, and then to 21% beginning in fiscal 2019. As of December 31, 2017, we have not completed our accounting for the tax effects of enactment of the Act; however, as described below, we have made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax. We recognized a provisional amount of \$2.8 million, as discussed below, for the revaluation of our deferred tax assets and liabilities upon enactment of the Act, which is included as a component of “Income tax

expense" in our condensed consolidated statements of operations.

5

Table of Contents

Provisional amounts

Deferred tax assets and liabilities: We remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally either 24.5% or 21%, depending on whether they are expected to reverse in fiscal 2018 or in future fiscal years. We also recorded a valuation allowance against certain foreign tax credit carryforwards which management does not believe will be realized based on changes in the taxation of dividends of foreign subsidiaries in the Act. However, we are still analyzing certain aspects of the Act and refining our calculations, which could affect the measurement of these balances or give rise to new deferred tax amounts. The provisional amount recorded related to the remeasurement of our deferred tax balances was \$2.8 million.

Foreign tax effects: The one-time transition tax is based on our total post-1986 earnings and profits ("E&P") for which we have previously deferred U.S. income taxes. We have estimated that we will not owe any transition tax as we have foreign tax credits sufficient to cover the tax that we estimate will be due on the deferred earnings of our foreign subsidiaries. We have not yet completed our calculation of the total post-1986 foreign E&P for these foreign subsidiaries. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when we finalize the calculation of post-1986 foreign E&P previously deferred from U.S. federal taxation and finalize the amounts held in cash or other specified assets. No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax and any additional outside basis difference inherent in these entities as these amounts continue to be indefinitely reinvested in foreign operations.

Recently Issued Accounting Pronouncements and Significant Accounting Policies

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU requires financial assets (or groups of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected, among other provisions. The provisions of this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A reporting entity should generally apply the amendment on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting periods in which the amendment is effective. We have not identified any impacts to our financial statements that we believe will be material as a result of the adoption of the ASU, although we continue to evaluate the impact of adoption. We believe we are following an appropriate timeline to allow for proper recognition, presentation and disclosure upon adoption of the ASU which is effective for our fiscal 2021.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU requires companies to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. The provisions of this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted based upon guidance issued within the ASU. We are in the process of evaluating the impact of adopting ASU 2016-02 on our consolidated financial position, results of operations and cash flows, and anticipate a material impact on our consolidated financial position. Additionally, we are evaluating the disclosure requirements under this ASU and are identifying and preparing to implement changes to our accounting policies, practices and controls to support adoption of the ASU and are evaluating upgrades to our third party software solution concurrently with our adoption. We will complete our implementation to allow for proper recognition, presentation and disclosure upon adoption of the ASU which is effective for our fiscal 2020.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606) to defer the effective date to December 15, 2017 for annual reporting periods beginning after that date, with early adoption permitted, but not before the original effective date of December 15, 2016. The core principle of ASU 2014-09, and the subsequently issued ASUs modifying or clarifying ASU 2014-09, is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the guidance provides that an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the

contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. The new standard allows for two methods of adoption: (a) full retrospective adoption, meaning the standard is applied to all periods presented, or (b) modified retrospective adoption, meaning the cumulative effect of applying the new standard is recognized as an adjustment to the opening retained earnings balance.

Table of Contents

We are evaluating the impact that will result from adopting ASU 2014-09 on our consolidated financial position, results of operations, cash flows and disclosure requirements. We currently anticipate adopting the ASU using the modified retrospective method. We do not believe the adoption will have an impact on our pawn service charges recognition as we do not believe such charges are within the scope of the ASU. Further, we have not identified any impacts to our financial statements that we believe will be material as a result of the adoption of the ASU for other revenue streams, although we continue to evaluate the impact of adoption. We believe we are following an appropriate timeline to allow for proper recognition, presentation and disclosure upon adoption of the ASU which is effective for our fiscal 2019.

Please refer to Note 1, Summary of Significant Accounting Policies, of Notes to Consolidated Financial Statements included in "Part II, Item 8 — Financial Statements and Supplementary Data" of our Annual Report on Form 10-K for the year ended September 30, 2017 for discussion of our significant accounting policies and other accounting pronouncements issued but not yet adopted.

NOTE 2: ACQUISITIONS

On October 6, 2017, we completed the acquisition of 100% of the outstanding stock of Camira Administration Corp. and subsidiaries ("GPMX"), a business that owns and operates 112 stores located in Guatemala, El Salvador, Honduras and Peru. The GPMX acquisition significantly expands our store base into Latin American countries outside of Mexico and provides us with a platform for further growth in the region. Under the terms of the stock purchase agreement ("SPA"), we paid \$53.4 million in cash upon closing and, subsequent to the closing, paid \$6.7 million to satisfy the acquired company's indebtedness to members of the seller's affiliated group. The SPA specified a further \$2.25 million to be paid contingent upon performance of GPMX's business during a period up to 24 months following the closing date, and the business achieved the specified performance goal during the first quarter of fiscal 2018. Consequently, we made a final payment of \$1.6 million in January 2018 in satisfaction of the contingent purchase price obligation, after reduction for certain adjustments under the SPA, yielding a total purchase price of \$61.7 million.

On December 4, 2017, we acquired 21 pawn stores located in the Mexican state of Sinaloa and operating under the name "Bazareño," further expanding our geographic footprint within Mexico. The Bazareño stores make up the largest chain of pawn stores in Culiacan, the capital city of Sinaloa, giving EZCORP the number one position in that market with more than double the store count of the nearest competitor and an important strategic presence in the northwest region of Mexico. The majority of the purchase price was paid in cash, subject to finalization of deferred amounts. With the completion of the GPMX acquisition, we have combined the results of that business with the results of our Mexico pawn business, and that reporting segment is now referred to as "Latin America Pawn." See Note 9, Segment Information, below. The acquisitions described above were both attributable to our Latin America Pawn segment and have been aggregated below. The allocation of the consideration for the net acquired assets from these business combinations was as follows, in thousands:

Cash and cash equivalents	\$2,560
Earning assets	19,594
Other assets	4,005
Property and equipment, intangible assets and other assets, net*	13,153
Goodwill	34,678
Accounts payable, deferred taxes and other liabilities	(7,349)
Total consideration	\$66,641

*Intangible assets consist primarily of \$11.1 million in trade names acquired with indefinite useful lives.

The factors contributing to the recognition of goodwill, which is recorded in our Latin America Pawn segment, were based on several strategic and synergistic benefits we expect to realize from the acquisition, including expansion of our store base as well as the ability to further leverage our pawn expertise, investments in information technology and other back office and support functions of our existing Mexico pawn business. We expect none of the goodwill resulting from these business combinations will be deductible for tax purposes.

The results of GPMX have been included in our condensed consolidated financial statements from October 7, 2017 through December 31, 2017, and the results of the Bazareño stores have been included in our condensed consolidated

financial statements from December 5, 2017 through December 31, 2017, both in our Latin America Pawn segment. Pro forma results of operations have not been presented because it is impracticable to do so due to a variety of limitations, including a lack of readily available historical GAAP basis financial statements.

7

Table of Contents

We incurred \$0.4 million in acquisition-related costs during the current quarter, which were expensed as incurred and included under “Administrative” expense in our condensed consolidated statements of operations.

NOTE 3: EARNINGS PER SHARE

Components of basic and diluted earnings per share and excluded antidilutive potential common shares are as follows:

	Three Months Ended December 31,	
	2017	2016
	(in thousands, except per share amounts)	
Net income from continuing operations attributable to EZCORP (A)	\$12,970	\$8,393
Loss from discontinued operations, net of tax (B)	(222)	(1,228)
Net income attributable to EZCORP (C)	\$12,748	\$7,165
Weighted-average outstanding shares of common stock (D)	54,464	54,158
Dilutive effect of restricted stock*	1,218	56
Weighted-average common stock and common stock equivalents (E)	55,682	54,214
Basic earnings per share attributable to EZCORP:		
Continuing operations (A / D)	\$0.24	\$0.15
Discontinued operations (B / D)	—	(0.02)
Basic earnings per share (C / D)	\$0.24	\$0.13
Diluted earnings per share attributable to EZCORP:		
Continuing operations (A / E)	\$0.23	\$0.15
Discontinued operations (B / E)	—	(0.02)
Diluted earnings per share (C / E)	\$0.23	\$0.13
Potential common shares excluded from the calculation of diluted earnings per share above, exclusive of the additional potential impact of the 2024 Convertible Notes:		
Restricted stock**	2,991	2,288
2019 Convertible Notes Warrants***	12,138	14,317
Total potential common shares excluded	15,129	16,605

* Includes the dilutive impact of share-based awards as well as the 2024 Convertible Notes, the terms and conditions of which are discussed in Note 6.

Includes antidilutive share-based awards as well as performance-based and market conditioned share-based awards
** that are contingently issuable, but for which the condition for issuance has not been met as of the end of the reporting period.

*** See Note 6 for discussion of the terms and conditions of these potential common shares.

Table of Contents

NOTE 4: STRATEGIC INVESTMENTS

As of December 31, 2017, we owned 156,552,484 shares, or approximately 32%, of our unconsolidated affiliate Cash Converters International Limited ("Cash Converters International"). The following tables present summary financial information for Cash Converters International's most recently reported results as of December 31, 2017 after translation to U.S. dollars:

	June 30,	
	2017	2016
	(in thousands)	
Current assets	\$155,749	\$173,830
Non-current assets	150,843	141,028
Total assets	\$306,592	\$314,858
Current liabilities	\$57,387	\$83,275
Non-current liabilities	48,698	51,873
Shareholders' equity	200,507	179,710
Total liabilities and shareholders' equity	\$306,592	\$314,858

Fiscal Year Ended
June 30,
2017 2016

	(in thousands)	
Gross revenues	\$204,684	\$225,712
Gross profit	130,943	146,286
Net profit (loss)	15,546	(3,839)

During the current quarter, the fair value of our investment in Cash Converters International declined below its carrying value. We considered the guidance in FASB ASC 320-10-S99-1 in evaluating whether the impairment was other-than-temporary and whether to measure and recognize any other-than-temporary impairment. We noted the primary factors in determining that the decline in fair value was not other-than-temporary were the length of time and the extent to which the market value has been less than carrying value as well as our intent and ability to hold our investment in Cash Converters International for a period of time sufficient to allow for any anticipated recovery in market value. We do not believe the decline in fair value is other-than-temporary. We continue to monitor the fair value of our investment in Cash Converters International for other-than-temporary impairments in future reporting periods and may record an impairment charge should the fair value of our investment in Cash Converters International remain below its carrying value for an extended period of time. See Note 5 for the fair value and carrying value of our investment in Cash Converters International.

Table of Contents

NOTE 5: FAIR VALUE MEASUREMENTS

Our assets and liabilities discussed below are classified in one of the following three categories based on the inputs used to develop their fair values: Level 1 — Quoted market prices in active markets for identical assets or liabilities; Level 2 — Other observable market-based inputs or unobservable inputs that are corroborated by market data; and Level 3 — Unobservable inputs that are not corroborated by market data.

Recurring Fair Value Measurements

The tables below present our financial assets (liabilities) that were carried and measured at fair value on a recurring basis:

Financial Assets (Liabilities)	Balance Sheet Location	December 2017	December 31, 2016	September 30, 2017
		(in thousands)		
2019 Convertible Notes Hedges — Level 2	Other assets, net	\$ 12,863	\$ 29,800	\$ 6,591
2019 Convertible Notes Embedded Derivative — Level 2	Long-term debt, net	(12,863)	(29,800)	(6,591)
Deferred and contingent consideration	Accounts payable, accrued expenses and other current liabilities	(1,920)	—	—

We measured the fair value of the 2019 Convertible Notes Hedges and the 2019 Cash Convertible Notes Embedded Derivative using the Black-Scholes-Merton model based on observable Level 1 and Level 2 inputs such as conversion price of underlying shares, current share price, implied volatility, risk free interest rate and other factors. The volatility input used as of December 31, 2017 was 36% based on observed market inputs. See Note 2 for discussion of the contingent consideration.

There were no transfers in or out of Level 1, Level 2 or Level 3 for financial assets or liabilities measured at fair value on a recurring basis during the periods presented.

Financial Assets and Liabilities Not Measured at Fair Value

The tables below present our financial assets and liabilities that were not measured at fair value on a recurring basis:

	Carrying Value	Estimated Fair Value		
		December 2017	December 2017	Fair Value Measurement Using Level 1, Level 2, Level 3
(in thousands)				
Financial assets:				
Notes receivable, net	\$60,025	\$68,720	\$—	\$68,720
Investment in unconsolidated affiliate	45,605	42,777	42,777	—
Financial liabilities:				
2019 Convertible Notes	\$179,835	\$201,084	\$—	\$—
2024 Convertible Notes	102,063	201,250	—	201,250
	Carrying Value	Estimated Fair Value		
	December 2016	December 2016	Fair Value Measurement Using Level 1, Level 2, Level 3	

Edgar Filing: EZCORP INC - Form 10-Q

(in thousands)

Financial assets:

Notes receivable, net	\$75,545	\$76,012	\$—	\$76,012
Investment in unconsolidated affiliate	39,875	38,360	38,360	—

Financial liabilities:

2019 Convertible Notes	\$200,728	\$221,950	\$—	\$—
Term Loan Facility	48,408	49,160	—	49,160

10

Table of Contents

	Carrying Value	Estimated Fair Value		
		September 30, 2017	September 30, 2017	Fair Value Measurement Using Level 1 Level 2 Level 3
(in thousands)				
Financial assets:				
Notes receivable, net	\$60,975	\$74,262	\$—	\$74,262
Investment in unconsolidated affiliate	43,319	49,057	49,057	—

Financial liabilities:

2019 Convertible Notes	\$177,346	\$193,811	\$—	\$193,811	\$—
2024 Convertible Notes	100,870	175,016	—	175,016	—

Based on the short-term nature of cash and cash equivalents, pawn loans, pawn service charges receivable and current consumer loans, fees and interest receivable, we estimate that their carrying value approximates fair value. We consider our cash and cash equivalents to be measured using Level 1 inputs and our pawn loans, pawn service charges receivable and consumer loans, fees and interest receivable to be measured using Level 3 inputs. Significant increases or decreases in the underlying assumptions used to value pawn loans, pawn service charges receivable and consumer loans, fees and interest receivable could significantly increase or decrease these fair value estimates.

Subsequent to the sale of Prestaciones Finmart, S.A.P.I. de C.V., SOFOM, E.N.R. ("Grupo Finmart") to Alpha Holding, S.A. de C.V. ("AlphaCredit") in September 2016, we determined that we retained a variable interest in Grupo Finmart including notes receivable. We determined that we are not the primary beneficiary of Grupo Finmart subsequent to its disposition as we lack a controlling financial interest in Grupo Finmart. We measured the fair value of the notes receivable as of December 31, 2017 under a discounted cash flow approach considering the estimated credit ratings for Grupo Finmart and AlphaCredit and as determined with external consultation, with discount rates ranging from 10% to 16%. Certain of the significant inputs used for the valuation were not observable in the market. Included in the fair value of the notes receivable is the estimated fair value of the deferred compensation fee negotiated in September 2017, of which the ultimate amount to be received is dependent upon the timing of payment of the notes receivable. Significant increases or decreases in the underlying assumptions used to value the notes receivable could significantly increase or decrease these fair value estimates.

The inputs used to generate the fair value of the investment in unconsolidated affiliate Cash Converters International were considered Level 1 inputs. These inputs are comprised of (a) the quoted stock price on the Australian Stock Exchange multiplied by (b) the number of shares we owned multiplied by (c) the applicable foreign currency exchange rate as of the end of our reporting period. We included no control premium for owning a large percentage of outstanding shares.

We measured the fair value of the 2019 Convertible Notes and the 2024 Convertible Notes using quoted price inputs from Bloomberg. Neither the 2019 Convertible Notes nor the 2014 Convertible Notes are actively traded, and thus the price inputs represent a Level 2 measurement. The quoted price inputs obtained from Bloomberg are highly variable from day to day, and thus the fair value estimates disclosed above could significantly increase or decrease.

Table of Contents

NOTE 6: LONG-TERM DEBT

The following tables present our long-term debt instruments outstanding as well as future principal payments due:

	December 31, 2017			December 31, 2016			September 30, 2017		
	Gross Amount	Debt Discount and Issuance Costs	Carrying Amount	Gross Amount	Debt Discount and Issuance Costs	Carrying Amount	Gross Amount	Debt Discount and Issuance Costs	Carrying Amount
(in thousands)									
2.125% Cash Convertible Senior Notes Due 2019	\$195,000	\$(15,165)	\$179,835	\$230,000	\$(29,272)	\$200,728	\$195,000	\$(17,654)	\$177,346
Cash Convertible Senior Notes Due 2019 Embedded Derivative	12,863	—	12,863	29,800	—	29,800	6,591	—	6,591
2.875% Convertible Senior Notes Due 2024	143,750	(41,687)	102,063	—	—	—	143,750	(42,880)	100,870
Term Loan Facility	—	—	—	50,000	(1,592)	48,408	—	—	—
	\$351,613	\$(56,852)	\$294,761	\$309,800	\$(30,864)	\$278,936	\$345,341	\$(60,534)	\$284,807

Principal Payment Schedule

Total	Less Than			
	1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years

(in thousands)				
2.125% Cash Convertible Senior Notes Due 2019*	\$195,000	\$—	\$—	\$—
2.875% Convertible Senior Notes Due 2024*	143,750	—	—	143,750
	\$338,750	\$—	\$—	\$—

*Excludes the potential impact of the embedded derivative.

2.875% Convertible Senior Notes Due 2024

In July 2017, we issued \$143.75 million aggregate principal amount of 2.875% Convertible Senior Notes Due 2024 (the "2024 Convertible Notes"). All of the 2024 Convertible Notes were issued pursuant to an indenture dated July 5, 2017 (the "2017 Indenture") by and between us and Wells Fargo Bank, National Association, as the trustee. The 2024 Convertible Notes were issued in a private offering under Rule 144A under the Securities Act of 1933. The 2024 Convertible Notes pay interest semi-annually in arrears at a rate of 2.875% per annum on January 1 and July 1 of each year, commencing January 1, 2018, and mature on July 1, 2024 (the "2024 Maturity Date"), unless converted, redeemed or repurchased in accordance with their terms prior to such date.

The 2024 Convertible Notes are convertible into cash or shares of Class A Non-Voting Common Stock ("Class A Common Stock"), or any combination thereof, at our option subject to satisfaction of certain conditions and during the periods described in the 2017 Indenture, based on an initial conversion rate of 100 shares of Class A Common Stock per \$1,000 principal amount of 2024 Convertible Notes (equivalent to an initial conversion price of \$10.00 per share of our Class A Common Stock). We account for the Class A Common Stock issuable upon conversion under the treasury stock method. To the extent our average share price is over \$10.00 per share for any fiscal quarter, we are required to recognize incremental dilution of our earnings per share.

2.125% Cash Convertible Senior Notes Due 2019

In June 2014, we issued \$200 million aggregate principal amount of 2.125% Cash Convertible Senior Notes Due 2019 (the "2019 Convertible Notes"), with an additional \$30 million principal amount of 2019 Convertible Notes issued in July 2014. In July 2017, we used \$34.4 million of net proceeds from the 2024 Convertible Notes offering to repurchase and retire \$35.0 million aggregate principal amount of 2019 Convertible Notes. All of the 2019 Convertible Notes were issued pursuant to an indenture dated June 23, 2014 (the "2014 Indenture") by and between us and Wells Fargo Bank, National Association, as the trustee. The 2019 Convertible Notes were issued in a private offering and resold under Rule 144A under the Securities Act of 1933. The 2019 Convertible Notes pay interest semi-annually in arrears at a rate of 2.125% per annum on June 15 and

Table of Contents

December 15 of each year and mature on June 15, 2019 (the "2019 Maturity Date"), unless converted, redeemed or repurchased in accordance with their terms prior to such date.

The 2019 Convertible Notes are convertible into cash, subject to satisfaction of certain conditions and during the periods described in the 2014 Indenture, based on an initial conversion rate of 62.2471 shares of Class A Common Stock per \$1,000 principal amount of 2019 Convertible Notes (equivalent to an initial conversion price of approximately \$16.065 per share of our Class A Common Stock).

2019 Convertible Notes Hedges

In connection with the issuance of the 2019 Convertible Notes, we purchased cash-settled call options (the "2019 Convertible Notes Hedges") in privately negotiated transactions with certain of the initial purchasers or their affiliates (in this capacity, the "Option Counterparties"). The 2019 Convertible Notes Hedges provide us with the option to acquire, on a net settlement basis, approximately 12.1 million shares of our Class A Common Stock at a strike price of \$16.065, which is equal to the number of shares of our Class A Common Stock that notionally underlie the 2019 Convertible Notes and corresponds to the conversion price of the 2019 Convertible Notes. If we exercise the 2019 Convertible Notes Hedges, the aggregate amount of cash we will receive from the Option Counterparties will cover the aggregate amount of cash that we would be required to pay to the holders of the converted 2019 Convertible Notes, less the principal amount thereof.

2019 Convertible Notes Warrants

In connection with the issuance of the 2019 Convertible Notes, we also sold net-share-settled warrants (the "2019 Convertible Notes Warrants") in privately negotiated transactions with the Option Counterparties. The 2019 Convertible Notes Warrants allow for the purchase of up to approximately 12.1 million shares of our Class A Common Stock at a strike price of \$20.83 per share. We account for the Class A Common Stock issuable upon exercise under the treasury stock method. As a result of the 2019 Convertible Notes Warrants and related transactions, we are required to recognize incremental dilution of our earnings per share to the extent our average share price is over \$20.83 for any fiscal quarter. The 2019 Convertible Notes Warrants expire on various dates from September 2019 through February 2020 and must be settled in net shares of our Class A Common Stock.

NOTE 7: STOCK COMPENSATION

On May 1, 2010 our Board of Directors approved the adoption of the EZCORP, Inc. 2010 Long-Term Incentive Plan (the "2010 Plan"). As of September 30, 2017, the 2010 Plan permitted grants of options, restricted stock awards and stock appreciation rights covering up to 3,985,649 shares of our Class A Common Stock. In December 2017, the Board of Directors and the voting stockholder approved the addition of 1,100,000 shares to the 2010 Plan. In December 2017, we granted 1,308,533 restricted stock unit awards to employees and 84,250 restricted stock awards to non-employee directors with a grant date fair value of primarily \$9.75 per share. Our long-term incentive awards are generally granted based on our share price as of October 1 each year, which was \$9.50 for these fiscal 2018 awards. For the awards granted to employees, 190,725 vest on September 30, 2018 and 1,117,808 vest on September 30, 2020, subject to the achievement of certain earnings before interest, taxes, depreciation and amortization ("EBITDA") performance targets. As of December 31, 2017, we considered the achievement of these performance targets probable. The awards granted to non-employee directors vest on September 30, 2018 and are subject only to service conditions.

NOTE 8: CONTINGENCIES

We are involved in various claims, suits, investigations and legal proceedings, including those described below. We are unable to determine the ultimate outcome of any current litigation or regulatory actions. An unfavorable outcome could have a material adverse effect on our financial condition, results of operations or liquidity. Except as noted below, we have not recorded a liability for any of these matters as of December 31, 2017 because we do not believe at this time that any loss is probable or that the amount of any probable loss can be reasonably estimated. The following is a description of significant proceedings.

Shareholder derivative litigation — On July 28, 2014, Lawrence Treppel, a purported holder of Class A Common Stock, filed a derivative action in the Court of Chancery of the State of Delaware styled Treppel v. Cohen, et al. (C.A. No. 9962-VCP). The complaint, as originally filed and as amended on September 23, 2014, names as defendants Phillip E. Cohen, the beneficial owner of all of our outstanding Class B Voting Common Stock; several current and former

members of our Board of Directors (Joseph J. Beal, Sterling B. Brinkley, John Farrell, Pablo Lagos Espinosa, William C. Love, Thomas C. Roberts and Paul E. Rothamel); three entities controlled by Mr. Cohen (MS Pawn Limited Partnership, the record holder of our Class B Voting Common Stock; MS Pawn Corporation, the general partner of MS Pawn Limited Partnership; and Madison Park LLC); and EZCORP, Inc., as nominal defendant. The amended complaint asserts the following claims:

13

Table of Contents

Claims against the current and former Board members for breach of fiduciary duties and waste of corporate assets in connection with the Board's decision to enter into advisory services agreements with Madison Park from October 2004 to June 2014 (Counts I and II, respectively);

Claims against Mr. Cohen and MS Pawn Limited Partnership for aiding and abetting the breaches of fiduciary duties relating to the advisory services agreements with Madison Park (Count III); and

Claims against Mr. Cohen and Madison Park for unjust enrichment for payments under the advisory services agreements (Count IV).

The plaintiff seeks (a) recovery for the Company in the amount of the damages the Company has sustained as a result of the alleged breach of fiduciary duties, waste of corporate assets and aiding and abetting, (b) disgorgement by Mr. Cohen and Madison Park of the benefits they received as a result of the related party transactions and (c) reimbursement of costs and expenses, including reasonable attorney's fees.

On November 13, 2014, pursuant to the parties' stipulation, the Court dismissed the action as to Mr. Brinkley, Mr. Rothamel and Mr. Lagos.

The remaining defendants filed motions to dismiss, and a hearing on those motions was held before the Court on September 8, 2015. Prior to that hearing, the plaintiff proposed a dismissal without prejudice for the claims against Mr. Beal, Mr. Love and Mr. Farrell. Those defendants continued to seek a dismissal with prejudice that would bind all potential plaintiffs. On January 15, 2016, the Court issued an opinion dismissing the action as to Mr. Beal, Mr. Love and Mr. Farrell with prejudice only as to the plaintiff.

On January 25, 2016, the Court issued a separate opinion granting in part and denying in part the motions to dismiss filed by the remaining defendants. Specifically, the Court granted the motion to dismiss Count IV (unjust enrichment) for failure to state a claim. The Court also dismissed Count III (aiding and abetting) as to Mr. Cohen, but interpreted Count I (breach of fiduciary duty) to state a claim against Mr. Cohen and MS Pawn, as well as Mr. Roberts. The Court otherwise denied the motions to dismiss, including the motion to dismiss Count III (aiding and abetting) against MS Pawn.

On February 4, 2016, the remaining defendants filed an Application for Certification of Interlocutory Appeal, which the plaintiff opposed on February 15, 2016, and the Court set a hearing on the application. On February 22, 2016, the Court denied the Application for Certification of Interlocutory Appeal and provided the plaintiff the opportunity to amend its complaint to add a fiduciary-duty claim as to Mr. Cohen and Madison Park, staying proceedings pending a ruling from the Delaware Supreme Court. After the Application for Certification of Interlocutory Appeal was denied, Mr. Roberts, MS Pawn Corporation and MS Pawn Limited Partnership filed notices of appeal from the interlocutory opinion and order denying the motions to dismiss. On March 10, 2016, the Delaware Supreme Court denied those petitions for an interlocutory appeal. On March 4, 2016, the plaintiff filed a Second Amended Derivative Complaint against Mr. Roberts, Mr. Cohen, Madison Park, MS Pawn Corporation and MS Pawn Limited Partnership with EZCORP, Inc., as nominal defendant.

On August 23, 2017, the parties agreed to a mediated settlement of all remaining claims and entered into a Memorandum of Understanding regarding that settlement. Under the terms of the proposed settlement, a settlement payment of \$6.5 million, less attorney fees awarded to the plaintiff's counsel and administrative costs of settlement, will be paid to the Company. Of such amount, \$5.5 million will be funded by the Company's insurance carriers and \$1.0 million will be funded by Madison Park LLC. After the completion of confirmatory discovery, the parties prepared and agreed to a Stipulation and Agreement of Settlement, Compromise and Release and other settlement papers, which were filed with the Court on January 11, 2018. A settlement fairness hearing, at which the Court will consider the fairness and adequacy of the parties' proposed settlement, has been scheduled for April 3, 2018. The proposed settlement will not be final until approved by the Court.

Federal Securities Litigation (WDT) — On July 20, 2015, Wu Winfred Huang, a purported holder of Class A Common Stock, for himself and on behalf of other similarly situated holders of Class A Common Stock, filed a lawsuit in the United States District Court for the Western District of Texas styled Huang v. EZCORP, Inc., et al. (Case No. 1:15-cv-00608-SS). The complaint names as defendants EZCORP, Inc., Stuart I. Grimshaw (our chief executive officer) and Mark E. Kuchenrither (our former chief financial officer) and asserts violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The original complaint related

to the Company's announcement on July 17, 2015 that it will restate the financial statements for fiscal 2014 and the first quarter of fiscal 2015, and alleged generally that the Company issued materially false or misleading statements concerning the Company, its finances, business operations and prospects and that the Company misrepresented the financial performance of the Grupo Finmart business.

On August 14, 2015, a substantially identical lawsuit, styled Rooney v. EZCORP, Inc., et al. (Case No. 1:15-cv-00700-SS) was also filed in the United States District Court for the Western District of Texas. On September 28, 2015, the plaintiffs in these two

Table of Contents

lawsuits filed an agreed stipulation to be appointed co-lead plaintiffs and agreed that their two actions should be consolidated. On November 3, 2015, the Court entered an order consolidating the two actions under the caption In re EZCORP, Inc. Securities Litigation (Master File No. 1:15-cv-00608-SS), and appointed the two plaintiffs as co-lead plaintiffs, with their respective counsel appointed as co-lead counsel.

On January 11, 2016, the plaintiffs filed an Amended Class Action Complaint (the "Amended Complaint"). In the Amended Complaint, the plaintiffs seek to represent a class of purchasers of our Class A Common Stock between November 6, 2012 and October 20, 2015. The Amended Complaint asserts that the Company and Mr. Kuchenrither violated Section 10(b) of the Securities Exchange Act and Rule 10b-5, issued materially false or misleading statements throughout the proposed class period concerning the Company and its internal controls, specifically regarding the financial performance of Grupo Finmart. The plaintiffs also allege that Mr. Kuchenrither, as a controlling person of the Company, violated Section 20(a) of the Securities Exchange Act. The Amended Complaint does not assert any claims against Mr. Grimshaw. On February 25, 2016, defendants filed a motion to dismiss the lawsuit. The plaintiff filed an opposition to the motion to dismiss on April 11, 2016, and the defendants filed their reply on May 11, 2016. The Court held a hearing on the motion to dismiss on June 22, 2016.

On October 18, 2016, the Court granted the defendants' motion to dismiss and dismissed the Amended Complaint without prejudice. The Court gave the plaintiffs 20 days (until November 7, 2016) to file a further amended complaint.

On November 4, 2016, the plaintiffs filed a Second Amended Consolidated Class Action Complaint ("Second Amended Complaint"). The Second Amended Complaint raises the same claims dismissed by the Court on October 18, 2016, except plaintiffs now seek to represent a class of purchasers of EZCORP's Class A Common Stock between November 7, 2013 and October 20, 2015 (instead of between November 6, 2012 and October 20, 2015). On December 5, 2016, defendants filed a motion to dismiss the Second Amended Complaint. The plaintiffs filed their opposition to the motion to dismiss on January 6, 2017, and the defendants filed their reply brief on January 20, 2017.

On May 8, 2017, the Court granted the defendants' motion to dismiss with regard to claims related to accounting errors relating to Grupo Finmart's bad debt reserve calculations for "nonperforming" loans, but denied the motion to dismiss with regard to claims relating to accounting errors related to certain sales of loan portfolios to third parties. The case is now in the discovery stage. We cannot predict the outcome of the litigation, but we intend to defend vigorously against all allegations and claims.

SEC Investigation — On October 23, 2014, we received a notice from the Fort Worth Regional Office of the SEC that it was conducting an investigation into certain matters involving EZCORP, Inc. The notice was accompanied by a subpoena, directing us to produce a variety of documents, including all minutes and materials related to Board of Directors and Board committee meetings since January 1, 2009 and all documents and communications relating to our historical advisory services relationship with Madison Park (the business advisory firm owned by Mr. Cohen) and LPG Limited (a business advisory firm owned by Lachlan P. Given, our current Executive Chairman of the Board). The SEC has also issued subpoenas to current and former members of our Board of Directors requesting production of similar documents, as well as to certain third parties, and has conducted interviews with certain individuals. We continue to cooperate fully with the SEC in its investigation.

Table of Contents

NOTE 9: SEGMENT INFORMATION

Following the acquisition of GPMX during the first quarter of fiscal 2018 (see Note 2), we have retitled our Mexico Pawn segment to "Latin America Pawn" and have combined the results of GPMX with the results of our Mexico pawn business, as we expect the financial performance and economic characteristics of those businesses to be similar over the long-term. Segment information is prepared on the same basis that our chief operating decision maker reviews financial information for operational decision-making purposes. As a result, we currently report our segments as follows: U.S. Pawn — all pawn activities in the United States; Latin America Pawn — all pawn activities in Mexico and other parts of Latin America; and Other International — primarily our equity interest in the net income of Cash Converters International and consumer finance activities in Canada. 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.

	Three Months Ended December 31, 2017					
	U.S. Pawn	Latin America Pawn	Other International	Total Segments	Corporate Items	Consolidated
	(in thousands)					
Revenues:						
Merchandise sales	\$91,494	\$22,094	\$ —	\$113,588	\$—	\$ 113,588
Jewelry scrapping sales	8,525	3,688	—	12,213	—	12,213
Pawn service charges	59,705	16,655	—	76,360	—	76,360
Other revenues	74	169	2,104	2,347	—	2,347
Total revenues	159,798	42,606	2,104	204,508	—	204,508
Merchandise cost of goods sold	56,088	15,079	—	71,167	—	71,167
Jewelry scrapping cost of goods sold	6,842	3,495	—	10,337	—	10,337
Other cost of revenues	—	—	577	577	—	577
Net revenues	96,868	24,032	1,527	122,427	—	122,427
Segment and corporate expenses (income):						
Operations	66,300	14,687	2,623	83,610	—	83,610
Administrative	—	—	—	—	13,318	13,318
Depreciation and amortization	2,799	845	47	3,691	2,032	5,723
Loss on sale or disposal of assets	16	10	—	26	13	39
Interest expense	—	1	—	1	5,846	5,847
Interest income	—	(637)	—	(637)	(3,633)	(4,270)
Equity in net income of unconsolidated affiliate	—	—	(1,450)	(1,450)	—	(1,450)
Other (income) expense	(4)	115	(83)	28	(210)	(182)
Segment contribution	\$27,757	\$9,011	\$ 390	\$37,158		
Income from continuing operations before income taxes				\$37,158	\$(17,366)	\$ 19,792

Table of Contents

	Three Months Ended December 31, 2016					
	U.S. Pawn	Latin America Pawn	Other International	Total Segments	Corporate Items	Consolidated
	(in thousands)					
Revenues:						
Merchandise sales	\$94,861	\$16,652	\$ —	\$111,513	\$—	\$ 111,513
Jewelry scrapping sales	8,845	953	—	9,798	—	9,798
Pawn service charges	61,045	7,968	—	69,013	—	69,013
Other revenues	51	131	2,118	2,300	—	2,300
Total revenues	164,802	25,704	2,118	192,624	—	192,624
Merchandise cost of goods sold	60,248	11,484	—	71,732	—	71,732
Jewelry scrapping cost of goods sold	7,550	794	—	8,344	—	8,344
Other cost of revenues	—	—	583	583	—	583
Net revenues	97,004	13,426	1,535	111,965	—	111,965
Segment and corporate expenses (income):						
Operations	67,350	8,640	1,656	77,646	—	77,646
Administrative	—	—	—	—	13,927	13,927
Depreciation and amortization	2,617	631	50	3,298	3,075	6,373
Gain on sale or disposal of assets	(71)	(6)	—	(77)	—	(77)
Interest expense	—	2	—	2	5,563	5,565
Interest income	—	(67)	—	(67)	(2,549)	(2,616)
Equity in net income of unconsolidated affiliate	—	—	(1,478)	(1,478)	—	(1,478)
Other (income) expense	(5)	11	(1)	5	(428)	(423)
Segment contribution	\$27,113	\$4,215	\$ 1,308	\$32,636		
Income from continuing operations before income taxes				\$32,636	\$(19,588)	\$ 13,048

NOTE 10: SUPPLEMENTAL CONSOLIDATED FINANCIAL INFORMATION

The following table provides supplemental information on net amounts included in our condensed consolidated balance sheets:

	December 31, 2017	December 31, 2016	September 30, 2017
	(in thousands)		
Gross pawn service charges receivable	\$43,316	\$ 40,229	\$ 42,117
Allowance for uncollectible pawn service charges receivable	(9,262)	(9,262)	(10,569)
Pawn service charges receivable, net	\$34,054	\$ 30,967	\$ 31,548
Gross inventory	\$171,029	\$ 149,587	\$ 161,212
Inventory reserves	(7,719)	(6,147)	(6,801)
Inventory, net	\$163,310	\$ 143,440	\$ 154,411
Property and equipment, gross	\$231,549	\$ 210,913	\$ 224,240
Accumulated depreciation	(169,451)	(156,032)	(166,281)
Property and equipment, net	\$62,098	\$ 54,881	\$ 57,959

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion in this section contains forward-looking statements that are based on our current expectations. Actual results could differ materially from those expressed or implied by the forward-looking statements due to a number of risks, uncertainties and other factors, including those identified in "Part I, Item 1A — Risk Factors" of our Annual Report on Form 10-K for the year ended September 30, 2017, as supplemented by the information set forth in "Part I, Item 3 — Quantitative and Qualitative Disclosures about Market Risk" and "Part II, Item 1 — Legal Proceedings" of this Quarterly Report.

Overview and Financial Highlights

EZCORP is a Delaware corporation headquartered in Austin, Texas. We are a leading provider of pawn loans in the United States and Latin America.

Our vision is to be the market leader in North America in responsibly and respectfully meeting our customers' desire for access to cash when they want it. That vision is supported by four key imperatives:

- ♣Market Leading Customer Satisfaction;
- ♣Exceptional Staff Engagement;
- ♣Attractive Shareholder Returns; and
- ♣Most Efficient Provider of Cash.

At our pawn stores, we offer pawn loans, which are non-recourse loans collateralized by tangible personal property, and sell merchandise to customers looking for good value. The merchandise we sell consists of second-hand collateral forfeited from our pawn lending activities or purchased from customers.

We remain focused on growing our balance of pawn loans outstanding ("PLO") and generating higher pawn service charges ("PSC"). The following charts present sources of net revenues, including PSC, merchandise sales gross profit ("Merchandise sales GP") and jewelry scrapping gross profit ("Jewelry scrapping GP"):

Table of Contents

The following charts present sources of net revenues by geographic disbursement:

The following charts present store counts by geographic disbursement:

Pawn Activities

At our pawn stores, we offer pawn loans, which are typically small, non-recourse loans collateralized by tangible personal property. We earn pawn service charges on our pawn loans, which varies by state and loan size. Collateral for our pawn loans consists of tangible personal property, generally jewelry, consumer electronics, tools, sporting goods and musical instruments. Security for our pawn loans is provided via the estimated resale value of the collateral and the perceived probability of the loan's redemption.

Our ability to offer quality second-hand goods at prices significantly lower than original retail prices attracts value-conscious customers. 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. As a significant portion of our inventory and sales involve gold and jewelry, our results can be heavily influenced by the market price of gold.

Table of Contents

Growth and Expansion

We plan to expand the number of locations we operate through opening new (“de novo”) locations and through acquisitions. We believe there are growth opportunities with de novo stores in Latin America and pawn store acquisitions in both Latin America and in the U.S. Our ability to add new stores is dependent on several variables, such as the availability of acceptable sites or acquisition candidates, the regulatory environment, local zoning ordinances, access to capital, availability of qualified personnel and projected financial results meeting our investment hurdles.

Seasonality and Quarterly Results

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. Loan balances are generally lower in our second fiscal quarter (January through March). Merchandise sales are highest in our first and second fiscal quarters (October through March) due to the holiday season, jewelry sales surrounding Valentine’s Day and the availability of tax refunds in the United States. As a net effect of these factors, our earnings generally are lowest during our third fiscal quarter (April through June).

Store Data by Segment

	Three Months Ended December 31, 2017			
	Company-owned Stores			
	U.S. Pawn	Latin America Pawn	Other International	Consolidated
As of September 30, 2017	513	246	27	786
New locations opened	—	4	—	4
Locations acquired	—	133	—	133
As of December 31, 2017	513	383	27	923
	Three Months Ended December 31, 2016			
	Company-owned Stores			
	U.S. Pawn	Latin America Pawn	Other International	Consolidated
As of September 30, 2016	520	239	27	786
Locations sold, combined or closed (3)	—	—	—	(3)
As of December 31, 2016	517	239	27	783

Table of Contents

Results of Operations

Three Months Ended December 31, 2017 vs. Three Months Ended December 31, 2016

These tables, as well as the discussion that follows, should be read with the accompanying condensed consolidated financial statements and related notes. All comparisons, unless otherwise noted, are to the prior-year quarter.

U.S. Pawn

The following table presents selected summary financial data from continuing operations for the U.S. Pawn segment:

	Three Months Ended		Change
	December 31, 2017	2016	
	(in thousands)		
Net revenues:			
Pawn service charges	\$59,705	\$61,045	(2)%
Merchandise sales	91,494	94,861	(4)%
Merchandise sales gross profit	35,406	34,613	2%
Gross margin on merchandise sales	39	% 36	% 300bps
Jewelry scrapping sales	8,525	8,845	(4)%
Jewelry scrapping sales gross profit	1,683	1,295	30%
Gross margin on jewelry scrapping sales	20	% 15	% 500bps
Other revenues	74	51	45%
Net revenues	96,868	97,004	—%
Segment operating expenses:			
Operations	66,300	67,350	(2)%
Depreciation and amortization	2,799	2,617	7%
Segment operating contribution	27,769	27,037	3%
Other segment expenses (income)	12	(76)	*)
Segment contribution	\$27,757	\$27,113	2%
Other data:			
Net earning assets — continuing operations (a)	\$284,933	\$274,616	4%
Inventory turnover	1.8	2.1	(14)%
Average monthly ending pawn loan balance per store (b)	\$283	\$285	(1)%
Monthly average yield on pawn loans outstanding	14	% 14	% —
Pawn loan redemption rate (c)	84	% 83	% 100bps

* Represents an increase or decrease that is not meaningful.

(a) Balance includes pawn loans and inventory.

(b) Balance is calculated based upon the average of the monthly ending balances during the applicable period.

(c) Our pawn loan redemption rate represents the percentage of loans made that are repaid, renewed or extended at a point in time as opposed to the life of the loan.

Table of Contents

Net revenue was flat, primarily due to the impacts of the hurricanes affecting the Texas Gulf Coast and Florida in the fourth quarter of fiscal 2017, as previously disclosed, offset by higher gross profit margins. The change in net revenue attributable to same stores and new stores added since the prior-year quarter is summarized as follows:

	Change in Net Revenue		
	Pawn	Merchandise	Total
	Service	Sales	Gross
	Charge	Profit	
	(in millions)		
Same stores	\$(1.2)	\$ 0.9	\$(0.3)
New stores and other	(0.1)	(0.1)	(0.2)
Total	\$(1.3)	\$ 0.8	\$(0.5)
Change in jewelry scrapping sales gross profit and other revenues			0.4
Total change in net revenue			\$(0.1)

Pawn service charges decreased 2% primarily due to a 1% decrease in average ending monthly pawn loan balances outstanding during the current quarter. The lower average loan balance was primarily a result of the negative impacts from the hurricanes, partially offset by other continued positive operating trends.

Merchandise sales decreased 4% with gross margin on merchandise sales of 39%, a 300 basis point improvement over the prior year quarter. As a result, merchandise sales gross profit increased 2% to \$35.4 million. The increase in merchandise sales gross profit is inclusive of the negative impacts from the hurricanes. We expect sales gross margin for the full fiscal year to be within our target range of 35-38%.

Jewelry scrapping sales gross profit remained relatively flat at 2% of current quarter net revenues, in-line with our strategy to sell rather than scrap merchandise, with a 500 basis point increase in gross margin to 20% due primarily to improvements in gold prices.

We increased segment contribution 2% through focused expense management, including a 2% decrease in operations expenses across numerous operating items.

Non-GAAP Financial Information

In addition to the financial information prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP"), we provide certain other non-GAAP financial information on a constant currency basis ("constant currency"). We use constant currency results to evaluate our Latin America Pawn operations, which are denominated primarily in Mexican pesos and other Latin American currencies. As GPMX was not acquired until fiscal 2018, such results included on a constant currency basis reflect the actual exchange rates in effect during the current quarter without adjustment. We believe that presentation of constant currency results is meaningful and useful in understanding the activities and business metrics of our Latin America Pawn operations and reflect an additional way of viewing aspects of our business that, when viewed with GAAP results, provide a more complete understanding of factors and trends affecting our business. We provide non-GAAP financial information for informational purposes and to enhance understanding of our GAAP consolidated financial statements. We use this non-GAAP financial information to evaluate and compare operating results across accounting periods. Readers should consider the information in addition to, but not instead of or superior to, our financial statements prepared in accordance with GAAP. This non-GAAP financial information may be determined or calculated differently by other companies, limiting the usefulness of those measures for comparative purposes.

Constant currency results reported herein are calculated by translating consolidated balance sheet and consolidated statement of operations items denominated in Mexican pesos to U.S. dollars using the exchange rate from the prior-year comparable period, as opposed to the current period, in order to exclude the effects of foreign currency rate fluctuations. We used the end-of-period rate for balance sheet items and the average closing daily exchange rate on a monthly basis during the appropriate period for statement of operations items. The end-of-period Mexican peso to U.S. dollar exchange rate as of December 31, 2017 and 2016 was 19.7 to 1 and 20.7 to 1, respectively. The approximate average Mexican peso to U.S. dollar exchange rate for the three months ended December 31, 2017 and 2016 was 19.0 to 1 and 19.8 to 1, respectively.

Our statement of operations constant currency results reflect the monthly exchange rate fluctuations and so are not directly calculable from the above rates. Constant currency results, where presented, also exclude the foreign currency gain or loss. We have experienced a prolonged weakening of the Mexican peso to the U.S. dollar and may continue to experience further weakening in future reporting periods, which may adversely impact our future operating results when stated on a GAAP basis.

Table of Contents

Latin America Pawn

The following table presents selected summary financial data from continuing operations for the Latin America Pawn segment, including constant currency results, after translation to U.S. dollars from its functional currencies of the Mexican peso, Guatemalan quetzal, Honduran lempira and Peruvian sol. See “Results of Operations — Non-GAAP Financial Information” above.

	Three Months Ended December 31,			2017 (Constant Currency)	Change (Constant Currency)
	2017 (GAAP)	2016 (GAAP)	Change (GAAP)		
	(in USD thousands)			(in USD thousands)	
Net revenues:					
Pawn service charges	\$16,655	\$7,968	109%	\$16,208	103%
Merchandise sales	22,094	16,652	33%	21,210	27%
Merchandise sales gross profit	7,015	5,168	36%	6,727	30%
Gross margin on merchandise sales	32	% 31	% 100bps	32	% 100bps
Jewelry scrapping sales	3,688	953	287%	3,629	281%
Jewelry scrapping sales gross profit	193	159	21%	187	18%
Gross margin on jewelry scrapping sales	5	% 17	% (1,200)bps	5	% (1,200)bps
Other revenues	169	131	29%	162	24%
Net revenues	24,032	13,426	79%	23,284	73%
Segment operating expenses:					
Operations	14,687	8,640	70%	14,232	65%
Depreciation and amortization	845	631	34%	813	29%
Segment operating contribution	8,500	4,155	105%	8,239	98%
Other segment income (a)	(511)	(60)	752%	(440)	633%
Segment contribution	\$9,011	\$4,215	114%	\$8,679	106%
Other data:					
Net earning assets — continuing operations (b)	\$55,352	\$31,496	76%	\$53,638	70%
Inventory turnover	3.0	2.6	15%	3.0	15%
Average monthly ending pawn loan balance per store (c)	\$90	\$67	34%	\$87	30%
Monthly average yield on pawn loans outstanding	17	% 16	% 100bps	17	% 100bps
Pawn loan redemption rate (d)	79	% 78	% 100bps	79	% 100bps

The three months ended December 31, 2017 constant currency balance excludes nominal net GAAP basis foreign (a) currency transaction gains resulting from movement in exchange rates. The net foreign currency transaction losses for the three months ended December 31, 2016 were nominal and are not excluded from the above results.

(b) Balance includes pawn loans and inventory.

(c) Balance is calculated based upon the average of the monthly ending balances during the applicable period.

(d)

Our pawn loan redemption rate represents the percentage of loans made that are repaid, renewed or extended at a point in time as opposed to the life of the loan.

Table of Contents

Our Latin America business continues to grow rapidly. In the current quarter, we acquired 112 pawn stores located in Guatemala, El Salvador, Honduras and Peru and 21 pawn stores located in Mexico, and we opened four de novo stores. We see opportunity for further expansion in Latin America through de novo openings and acquisitions, and plan to open eight additional stores in Latin America during the second quarter of fiscal 2018.

Net revenue increased \$10.6 million, or 79% (up \$9.9 million, or 73%, on a constant currency basis). The increase in net revenue attributable to same stores and new stores added since the prior-year quarter is summarized as follows:

	Change in Net Revenue		
	Pawn Merchandise	Service Charges	Total
	Sales	Gross Profit	
	(in millions)		
Same stores	\$1.7	\$ 0.8	\$2.5
New stores and other	7.0	1.0	8.0
Total	\$8.7	\$ 1.8	\$10.5
Change in jewelry scrapping sales gross profit and other revenues			0.1
Total change in net revenue			\$10.6

	Change in Net Revenue (Constant Currency)		
	Pawn Merchandise	Service Charges	Total
	Sales	Gross Profit	
	(in millions)		
Same stores	\$1.4	\$ 0.5	\$1.9
New stores and other	6.8	1.1	7.9
Total	\$8.2	\$ 1.6	\$9.8
Change in jewelry scrapping sales gross profit and other revenues			0.1
Total change in net revenue			\$9.9

Pawn service charges increased 109% (103% on a constant currency basis) primarily due to the acquisition of stores discussed above and same store growth. The average ending monthly pawn loan balance outstanding during the current year increased 34% (30% on a constant currency basis), primarily due to the acquisition of stores discussed above in addition to foreign currency impacts.

Merchandise sales increased 33% (27% on a constant currency basis), with gross margin on merchandise sales of 32%, 100 basis points above the prior-year quarter. As a result of the combination of these effects and foreign currency impacts, merchandise sales gross profit was up 36% to \$7.0 million (30% to \$6.7 million on a constant currency basis).

Jewelry scrapping sales increased 287% (281% on a constant currency basis) with a 1,200 basis point decline in margin, primarily due to the acquisition of stores discussed above.

We leveraged a 79% increase in net revenue (73% on a constant currency basis) into a 105% increase in segment operating contribution (98% on a constant currency basis) due to focused expense management in addition to greater operational leverage from the acquisition of stores discussed above, resulting in only a 70% increase (65% increase on a constant currency basis) in operations expenses. After a \$0.4 million improvement in other segment income, primarily interest income from our notes receivable, segment contribution increased 114% (106% on a constant currency basis).

Table of Contents

Other International

The following table presents selected financial data from continuing operations for the Other International segment after translation to U.S. dollars from its functional currency of primarily Australian and Canadian dollars:

	Three Months Ended December 31,		Percentage Change
	2017	2016	
	(in thousands)		
Net revenues:			
Consumer loan fees, interest and other	\$2,104	\$2,118	(1)%
Consumer loan bad debt	(577)	(583)	(1)%
Net revenues	1,527	1,535	(1)%
Segment operating expenses (income):			
Operating expenses	2,670	1,706	57%
Equity in net income of unconsolidated affiliate	(1,450)	(1,478)	(2)%
Segment operating contribution	307	1,307	(77)%
Other segment income	(83)	(1)	8,200%
Segment contribution	\$390	\$1,308	(70)%

Segment contribution was \$0.4 million, a decrease of 70% from the prior-year quarter, primarily due to a \$0.7 million increase in operating expenses from further investment in the development of a digital IT platform that enables greater intimacy with our customers to drive future revenue enhancement.

The fair value of our investment in Cash Converters International was \$2.8 million below its carrying value as of December 31, 2017. We have taken impairment charges on this investment in prior periods and continue to monitor the fair value of our investment for other-than-temporary impairments. We may record a further impairment charge should the fair value of our investment remain below its carrying value for an extended period of time, or if we no longer had the intent or ability to hold our investment for a period of time sufficient to allow for any anticipated recovery in market value.

Table of Contents

Other Items

The following table reconciles our consolidated segment contribution discussed above to net income attributable to EZCORP, Inc., including items that affect our consolidated financial results but are not allocated among segments:

	Three Months Ended		Percentage Change
	December 31, 2017	2016	
	(in thousands)		
Segment contribution	\$ 37,158	\$ 32,636	14%
Corporate expenses (income):			
Administrative	13,318	13,927	(4)%
Depreciation and amortization	2,032	3,075	(34)%
Loss on sale or disposal of assets	13	—	*
Interest expense	5,846	5,563	5%
Interest income	(3,633)	(2,549)	43%
Other income	(210)	(428)	(51)%
Income from continuing operations before income taxes	19,792	13,048	52%
Income tax expense	7,437	4,782	56%
Income from continuing operations, net of tax	12,355	8,266	49%
Loss from discontinued operations, net of tax	(222)	(1,228)	(82)%
Net income	12,133	7,038	72%
Net loss attributable to noncontrolling interest	(615)	(127)	384%
Net income attributable to EZCORP, Inc.	\$ 12,748	\$ 7,165	78%

*Represents an increase or decrease that is not meaningful.

Administrative expenses decreased \$0.6 million, or 4%, in the current quarter including the impact of \$0.4 million of current quarter acquisition-related expenses, as we continue to focus on controlling administrative expenditures.

Depreciation and amortization expense decreased \$1.0 million, or 34%, primarily due to acceleration of depreciation in the prior-year quarter for certain assets resulting from a decrease in useful life estimates.

Interest expense increased \$0.3 million, or 5%, primarily due to an increase in long-term debt outstanding during the current quarter, offset by a decrease in the weighted interest rates accrued thereon.

Interest income increased \$1.1 million, or 43%, as a result of our note receivable from the sale of Grupo Finmart which was restructured in September 2017, including ordinary accruals of interest in addition to accretion of associated deferred compensation amounts.

Income tax expense increased \$2.7 million, or 56%, due primarily to the impacts of a \$6.7 million, or 52%, increase in income from continuing operations before income taxes and the impact of certain discrete items discussed below.

Income tax expense includes other items that do not necessarily correspond to pre-tax earnings and create volatility in our effective tax rate. These items include the net effect of state taxes, non-deductible items and changes in valuation allowances for certain foreign operations.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law. Among other things, the Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. The corporate tax rate reduction is effective as of January 1, 2018 and, accordingly, will reduce our current fiscal year federal statutory rate to a blended rate of 24.5%, and then to 21% beginning in fiscal 2019. As of December 31, 2017, we have not completed our accounting for the tax effects of enactment of the Act; however, as described below, we have made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax. We recognized a provisional amount of \$2.8 million for the revaluation of our deferred tax assets and liabilities upon enactment of the Act, which is included as a component of "Income tax expense" in our condensed consolidated statements of operations. We anticipate recording another charge in the fiscal quarter ending September 30, 2018 as we have balances related to our short-term deferred tax assets and liabilities that are recorded

at 24.5% but reverse at 21% in fiscal 2019. We have not yet completed our calculation of the to

26

Table of Contents

tal post-1986 foreign earnings and profit of our foreign subsidiaries as required under the Act, but preliminarily believe we have adequate foreign tax credit carryforwards to fully offset any transition tax on foreign earnings.

Liquidity and Capital Resources

Cash Flows

The table and discussion below presents a summary of the selected sources and uses of our cash:

	Three Months		
	Ended December	Percentage	
	31,	Change	
	2017	2016	
	(in thousands)		
Cash flows from operating activities	\$17,368	\$(5,290)	*
Cash flows from investing activities	(66,712)	4,761	*
Cash flows from financing activities	(311)	(706)	56%
Effect of exchange rate changes on cash and cash equivalents	(1,154)	(795)	(45)%
Net decrease in cash and cash equivalents	\$(50,809)	\$(2,030)	(2,403)%

*Represents an increase or decrease that is not meaningful.

Change in Cash and Cash Equivalents for the Three Months Ended December 31, 2017 vs. Three Months Ended December 31, 2016

The increase in cash flows from operating activities year-over-year was due to a \$15.6 million increase from changes in operating assets and liabilities and a \$7.1 million increase in net income exclusive of non-cash items due to improved operational results and stores acquired in the current quarter. The increase from changes in operating assets and liabilities was primarily driven by \$10.1 million in additional accrued incentive compensation paid out during the three months ended December 31, 2016 as compared to the three months ended December 31, 2017.

The decrease in cash flows from investing activities year-over-year was due to a \$62.2 million in cash paid for acquisitions, a \$5.6 million increase in additions to property and equipment, a \$5.0 million decrease in principal collections on notes receivable and a \$1.3 million net increase in proceeds related to loan activities (net loans repaid and recovery of pawn loan principal through sale of forfeited collateral).

The net effect of these and other smaller items was a \$50.8 million decrease in cash on hand during the three months ended December 31, 2017, resulting in a \$113.6 million ending cash balance compared to \$63.7 million as of December 31, 2016. Of the ending cash balance as of December 31, 2017, \$11.9 million was not available to fund domestic operations as we intend to permanently reinvest those earnings in our foreign operations.

Sources and Uses of Cash

We anticipate that cash flow from operations and cash on hand will be adequate to fund our contractual obligations, planned de novo store growth, capital expenditures and working capital requirements during fiscal 2018. Our ability to repay our longer-term debt obligations (including the 2019 Convertible Notes and the 2024 Convertible Notes) may require us to refinance those obligations through the issuance of new debt securities, equity securities or through new credit facilities.

Acquisitions

On October 6, 2017, we completed the acquisition of 100% of the outstanding stock of Camira Administration Corp. and subsidiaries ("GPMX"), a business that owns and operates 112 stores located in Guatemala, El Salvador, Honduras and Peru. The GPMX acquisition significantly expands our store base into Latin American countries outside of Mexico and provides us with a platform for further growth in the region. Under the terms of the stock purchase agreement ("SPA"), we paid \$53.4 million in cash upon closing and, subsequent to the closing, paid \$6.7 million to satisfy indebtedness to members of the seller's affiliated group. The SPA specified a further \$2.25 million to be paid contingent upon performance of GPMX's business during a period up to 24 months following the closing date, and the business achieved the specified performance goal during the first quarter of fiscal 2018. Consequently, we made a final payment of \$1.6 million in January 2018 in satisfaction of the contingent purchase price obligation, after reduction for certain adjustments under the SPA, yielding a total purchase price of \$61.7 million.

On December 4, 2017, we acquired 21 pawn stores located in the Mexican state of Sinaloa and operating under the name "Bazareño," further expanding our geographic footprint within Mexico. The Bazareño stores make up the largest chain of pawn

27

Table of Contents

stores in Culiacan, the capital city of Sinaloa, giving EZCORP the number one position in that market with more than double the store count of the nearest competitor and an important strategic presence in the northwest region of Mexico. The majority of the purchase price was paid in cash, subject to finalization of deferred amounts.

2.875% Convertible Senior Notes Due 2024 and 2.125% Cash Convertible Senior Notes Due 2019

For a description of the terms of the 2.875% Convertible Senior Notes Due 2024 and 2.125% Cash Convertible Senior Notes Due 2019, see Note 6 of Notes to Interim Condensed Consolidated Financial Statements included in "Part I, Item 1 — Financial Statements" and Note 8 to Consolidated Financial Statements included in "Part II, Item 8 — Financial Statements and Supplementary Data" of our Annual Report on Form 10-K for the year ended September 30, 2017.

Contractual Obligations

In "Part II, Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended September 30, 2017, we reported that we had \$631.0 million in total contractual obligations as of September 30, 2017. There have been no material changes to this total obligation since September 30, 2017.

We are responsible for the maintenance, property taxes and insurance at most of our locations. In the fiscal year ended September 30, 2017, these collectively amounted to \$21.4 million.

Recently Adopted Accounting Policies and Recently Issued Accounting Pronouncements

See Note 1 of Notes to Interim Condensed Consolidated Financial Statements included in "Part I, Item 1 — Financial Statements."

Cautionary Statement Regarding Risks and Uncertainties that May Affect Future Results

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend that all forward-looking statements be subject to the safe harbors created by these laws. All statements, other than statements of historical facts, regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives are forward-looking statements. These statements are often, but not always, made with words or phrases like "may," "should," "could," "will," "predict," "anticipate," "believe," "estimate," "expect," "intend," "plan," "projection" and similar expressions. Such statements are only predictions of the outcome and timing of future events based on our current expectations and currently available information and, accordingly, are subject to substantial risks, uncertainties and assumptions. Actual results could differ materially from those expressed in the forward-looking statements due to a number of risks and uncertainties, many of which are beyond our control. In addition, we cannot predict all of the risks and uncertainties that could cause our actual results to differ from those expressed in the forward-looking statements. Accordingly, you should not regard any forward-looking statements as a representation that the expected results will be achieved. Important risk factors that could cause results or events to differ from current expectations are identified and described in "Part I, Item 1A — Risk Factors" of our Annual Report on Form 10-K for the year ended September 30, 2017, supplemented by those described in "Part II, Item 1A — Risk Factors" of this Quarterly Report. We specifically disclaim any responsibility to publicly update any information contained in a forward-looking statement except as required by law. All forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary statement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to our operations result primarily from changes in interest rates, gold values and foreign currency exchange rates, and are described in detail in "Part II, Item 7A — Quantitative and Qualitative Disclosures about Market Risk" of our Annual Report on Form 10-K for the year ended September 30, 2017. There have been no material changes to our exposure to market risks since September 30, 2017.

ITEM 4. CONTROLS AND PROCEDURES

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

Table of Contents

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2017.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2017 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Inherent Limitations on Internal Controls

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

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

• Controls can be circumvented by individuals, acting alone or in collusion with others, or by management override. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

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

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

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

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 8 of Notes to Interim Condensed Consolidated Financial Statements included in "Part I, Item 1 — Financial Statements."

ITEM 1A. RISK FACTORS

Important risk factors that could affect our operations and financial performance, or that could cause results or events to differ from current expectations, are described in "Part I, Item 1A — Risk Factors" of our Annual Report on Form 10-K for the year ended September 30, 2017.

Table of Contents

ITEM 6. EXHIBITS

The following exhibits are filed with, or incorporated by reference into, this report.

Exhibit No. Description of Exhibit

- 2.1 Share Purchase Agreement, dated October 4, 2017, by and between EZCORP International Inc. and Black Icebreaker Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated October 10, 2017, Commission File No. 0-19424)
- 31.1† Certification of Stuart I. Grimshaw, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2† Certification of Daniel M. Chism, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1†† Certifications of Stuart I. Grimshaw, Chief Executive Officer, and Daniel M. Chism, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS††† XBRL Instance Document
- 101.SCH††† XBRL Taxonomy Extension Schema Document
- 101.CAL††† XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB††† XBRL Taxonomy Label Linkbase Document
- 101.DEF††† XBRL Taxonomy Extension Definition Linkbase Document
- 101.PRE††† XBRL Taxonomy Extension Presentation Linkbase Document

Filed herewith.

Furnished herewith.

Filed herewith as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of December 31, 2017, December 31, 2016 and September 30, 2017; (ii) Condensed Consolidated Statements of Operations for the three months ended December 31, 2017 and December 31, 2016; (iii) Condensed Consolidated Statements of Comprehensive Income for the three months ended December 31, 2017 and December 31, 2016; (iv) Condensed Consolidated Statements of Stockholders' Equity for the three months ended December 31, 2017 and December 31, 2016; (v) Condensed Consolidated Statements of Cash Flows for the three months ended December 31, 2017 and December 31, 2016; and (vi) Notes to Interim Condensed Consolidated Financial Statements.

Table of Contents

SIGNATURES

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

EZCORP, INC.

Date: January 31, 2018 /s/ David McGuire

David McGuire,

Deputy Chief Financial Officer and Chief Accounting Officer

(principal accounting officer)