

EZCORP INC  
Form 10-Q  
May 02, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-19424

EZCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

74-2540145

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

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:

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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 April 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.

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## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

EZCORP, Inc.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

|   | March 31,<br>2018 | March 31,<br>2017 | September 30,<br>2017 |
|---|-------------------|-------------------|-----------------------|
|   | (Unaudited)       |                   |                       |
| Assets:   |                   |                   |                       |
| Current assets:   |                   |                   |                       |
| Cash and cash equivalents   | \$ 159,912        | \$ 120,099        | \$ 164,393            |
| Pawn loans  | 159,410           | 143,267           | 169,242               |
| Pawn service charges receivable, net  | 30,493            | 27,028            | 31,548                |
| Inventory, net  | 158,642           | 137,008           | 154,411               |
| Notes receivable, net   | 38,091            | 29,978            | 32,598                |
| Prepaid expenses and other current assets   | 29,222            | 31,011            | 28,765                |
| Total current assets  | 575,770           | 488,391           | 580,957               |
| Investment in unconsolidated affiliate  | 46,509            | 38,334            | 43,319                |
| Property and equipment, net   | 64,833            | 53,630            | 57,959                |
| Goodwill  | 289,438           | 254,217           | 254,760               |
| Intangible assets, net  | 45,728            | 31,768            | 32,420                |
| Non-current notes receivable, net   | 18,660            | 40,319            | 28,377                |
| Deferred tax asset, net   | 13,842            | 37,134            | 16,856                |
| Other assets, net   | 19,773            | 18,174            | 9,715                 |
| Total assets  | \$ 1,074,553      | \$ 961,967        | \$ 1,024,363          |
| Liabilities and equity:   |                   |                   |                       |
| Current liabilities:  |                   |                   |                       |
| Current maturities of long-term debt, net (Note 6)  | \$ 103,287        | \$ —              | \$ —                  |
| Accounts payable, accrued expenses and other current liabilities  | 60,689            | 62,339            | 61,543                |
| Customer layaway deposits   | 12,225            | 10,992            | 11,032                |
| Total current liabilities   | 176,201           | 73,331            | 72,575                |
| Long-term debt, net   | 198,338           | 266,724           | 284,807               |
| Other long-term liabilities   | 11,884            | 8,448             | 7,055                 |
| Total liabilities   | 386,423           | 348,503           | 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 March 31, 2018; 51,321,915 as of March 31, 2017; 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  | 353,698           | 321,531           | 348,532               |
| Retained earnings   | 377,682           | 334,996           | 351,666               |
| Accumulated other comprehensive loss  | (40,463)          | (42,544)          | (38,367)              |
| EZCORP, Inc. stockholders' equity   | 691,462           | 614,526           | 662,375               |
| Noncontrolling interest   | (3,332)           | (1,062)           | (2,449)               |

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|                              |             |           |             |
|------------------------------|-------------|-----------|-------------|
| Total equity                 | 688,130     | 613,464   | 659,926     |
| Total liabilities and equity | \$1,074,553 | \$961,967 | \$1,024,363 |

See accompanying notes to unaudited interim condensed consolidated financial statements.

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EZCORP, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Three Months Ended<br>March 31,          |           | Six Months Ended<br>March 31, |           |
|--|--|-----------|-------------------------------|-----------|
|  | 2018                                     | 2017      | 2018                          | 2017      |
|  | (Unaudited)                              |           |                               |           |
|  | (in thousands, except per share amounts) |           |                               |           |
| Revenues:  |  |           |                               |           |
| Merchandise sales  | \$114,945                                | \$110,238 | \$228,533                     | \$221,751 |
| Jewelry scrapping sales  | 11,525                                   | 10,219    | 23,738                        | 20,017    |
| Pawn service charges   | 74,367                                   | 67,092    | 150,727                       | 136,105   |
| Other revenues   | 1,897                                    | 2,079     | 4,244                         | 4,379     |
| Total revenues   | 202,734                                  | 189,628   | 407,242                       | 382,252   |
| Merchandise cost of goods sold   | 72,220                                   | 70,493    | 143,387                       | 142,225   |
| Jewelry scrapping cost of goods sold   | 9,574                                    | 8,841     | 19,911                        | 17,185    |
| Other cost of revenues   | 347                                      | 397       | 924                           | 980       |
| Net revenues   | 120,593                                  | 109,897   | 243,020                       | 221,862   |
| Operating expenses:  |  |           |                               |           |
| Operations   | 82,160                                   | 74,460    | 165,770                       | 152,106   |
| Administrative   | 13,341                                   | 13,283    | 26,659                        | 27,210    |
| Depreciation and amortization  | 6,451                                    | 6,030     | 12,174                        | 12,403    |
| Loss (gain) on sale or disposal of assets  | 100                                      | 71        | 139                           | (6)       |
| Total operating expenses   | 102,052                                  | 93,844    | 204,742                       | 191,713   |
| Operating income   | 18,541                                   | 16,053    | 38,278                        | 30,149    |
| Interest expense   | 5,829                                    | 5,628     | 11,676                        | 11,193    |
| Interest income  | (4,268)                                  | (2,240)   | (8,538)                       | (4,856)   |
| Equity in net income of unconsolidated affiliate   | (876)                                    | (1,243)   | (2,326)                       | (2,721)   |
| Other (income) expense   | (4)                                      | 228       | (186)                         | (195)     |
| Income from continuing operations before income taxes                                    | 17,860                                   | 13,680    | 37,652                        | 26,728    |
| Income tax expense   | 5,921                                    | 5,449     | 13,358                        | 10,231    |
| Income from continuing operations, net of tax  | 11,939                                   | 8,231     | 24,294                        | 16,497    |
| Loss from discontinued operations, net of tax  | (500)                                    | (375)     | (722)                         | (1,603)   |
| Net income   | 11,439                                   | 7,856     | 23,572                        | 14,894    |
| Net loss attributable to noncontrolling interest   | (374)                                    | (167)     | (989)                         | (294)     |
| Net income attributable to EZCORP, Inc.  | \$11,813                                 | \$8,023   | \$24,561                      | \$15,188  |
| Basic earnings per share attributable to EZCORP, Inc. — continuing operations            | \$0.23                                   | \$0.15    | \$0.46                        | \$0.31    |
| Diluted earnings per share attributable to EZCORP, Inc. — continuing operations          | \$0.21                                   | \$0.15    | \$0.45                        | \$0.31    |
| Weighted-average basic shares outstanding  | 54,464                                   | 54,291    | 54,447                        | 54,224    |
| Weighted-average diluted shares outstanding  | 57,624                                   | 54,346    | 56,642                        | 54,278    |
| See accompanying notes to unaudited interim condensed consolidated financial statements. |  |           |                               |           |

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EZCORP, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|  | Three Months<br>Ended March 31,<br>2018 |          | Six Months Ended<br>March 31,<br>2017 |          |
|--|---|----------|---------------------------------------|----------|
|  | (Unaudited)<br>(in thousands)           |          |                                       |          |
| Net income   | \$11,439                                | \$7,856  | \$23,572                              | \$14,894 |
| Other comprehensive gain (loss):   |   |          |                                       |          |
| Foreign currency translation gain (loss), net of income tax (expense) benefit for our investment in unconsolidated affiliate of (\$6) and (\$211) for the three and six months ended March 31, 2018 respectively, and \$974 and \$530 for the three and six months ended March 31, 2017, respectively. | 6,040                                   | 5,020    | (535)                                 | 1,555    |
| Other comprehensive gain (loss), net of tax  | 6,040                                   | 5,020    | (535)                                 | 1,555    |
| Comprehensive income   | 17,479                                  | 12,876   | 23,037                                | 16,449   |
| Comprehensive loss attributable to noncontrolling interest   | (228)                                   | (180)    | (883)                                 | (284)    |
| Comprehensive income attributable to EZCORP, Inc.  | \$17,707                                | \$13,056 | \$23,920                              | \$16,733 |

See accompanying notes to unaudited interim condensed consolidated financial statements.

EZCORP, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

|   | Common Stock  |           | Additional         | Retained  | Accumulated                       | Other                             | Noncontrolling | Total  |
|---|---|-----------|--------------------|-----------|-----------------------------------|-----------------------------------|----------------|--------|
|   | Shares  | Par Value | Paid-in<br>Capital | Earnings  | Comprehensive<br>(Loss)<br>Income | Comprehensive<br>(Loss)<br>Income | Interest       | Equity |
|   | (Unaudited, except balances as of September 30, 2016)<br>(in thousands) |           |                    |           |                                   |                                   |                |        |
| Balances as of September 30, 2016                           | 54,099  | \$ 541    | \$318,723          | \$319,808 | \$ (44,089)                       | \$ (778)                          | \$594,205      |        |
| Stock compensation  | —   | —         | 3,575              | —         | —                                 | —                                 | 3,575          |        |
| Release of restricted stock                                 | 193   | 2         | —                  | —         | —                                 | —                                 | 2              |        |
| Taxes paid related to net share settlement of equity awards | —   | —         | (767)              | —         | —                                 | —                                 | (767)          |        |
| Foreign currency translation adjustment                     | —   | —         | —                  | —         | 1,545                             | 10                                | 1,555          |        |
| Net income (loss)   | —   | —         | —                  | 15,188    | —                                 | (294)                             | 14,894         |        |
| Balances as of March 31, 2017                               | 54,292  | \$ 543    | \$321,531          | \$334,996 | \$ (42,544)                       | \$ (1,062)                        | \$613,464      |        |
|   | Common Stock  |           | Additional         | Retained  | Accumulated                       | Other                             | Noncontrolling | Total  |
|   | Shares  | Par Value | Paid-in<br>Capital | Earnings  | Comprehensive<br>Loss             | Comprehensive<br>Loss             | Interest       | Equity |
|   | (Unaudited, except balances as of September 30, 2017)<br>(in thousands) |           |                    |           |                                   |                                   |                |        |
| Balances as of September 30, 2017                           | 54,398  | \$ 544    | \$348,532          | \$351,666 | \$ (38,367)                       | \$ (2,449)                        | \$659,926      |        |
| Stock compensation  | —   | —         | 5,477              | —         | —                                 | —                                 | 5,477          |        |
| Release of restricted stock                                 | 66  | 1         | —                  | —         | —                                 | —                                 | 1              |        |
|   | —   | —         | (311)              | —         | —                                 | —                                 | (311)          |        |

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|   |        |        |           |           |            |      |           |             |
|---|--------|--------|-----------|-----------|------------|------|-----------|-------------|
| Taxes paid related to net share settlement of equity awards                       |        |        |           |           |            |      |           |             |
| Reclassification of stranded tax effects resulting from the Tax Cuts and Jobs Act | —      | —      | —         | 1,455     | (1,455     | )    | —         |             |
| Foreign currency translation adjustment   | —      | —      | —         | —         | (641       | )    | 106       |             |
| Net income (loss)   | —      | —      | —         | 24,561    | —          | (989 | ) 23,572  |             |
| Balances as of March 31, 2018   | 54,464 | \$ 545 | \$353,698 | \$377,682 | \$ (40,463 | )    | \$ (3,332 | ) \$688,130 |

See accompanying notes to unaudited interim condensed consolidated financial statements.

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EZCORP, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Six Months Ended<br>March 31, |           |
|--|-------------------------------|-----------|
|  | 2018                          | 2017      |
|  | (Unaudited)<br>(in thousands) |           |
| Operating activities:  |                               |           |
| Net income   | \$23,572                      | \$14,894  |
| Adjustments to reconcile net income to net cash flows from operating activities:         |                               |           |
| Depreciation and amortization  | 12,174                        | 12,403    |
| Amortization of debt discount and deferred financing costs                               | 7,439                         | 5,755     |
| Accretion of notes receivable discount and deferred compensation fee                     | (5,032)                       | (1,928)   |
| Deferred income taxes  | 2,801                         | (664)     |
| Other adjustments  | 1,081                         | 911       |
| Stock compensation expense   | 5,534                         | 3,575     |
| Income from investment in unconsolidated affiliate                                       | (2,326)                       | (2,721)   |
| Changes in operating assets and liabilities, net of business acquisitions:               |                               |           |
| Service charges and fees receivable  | 3,964                         | 4,151     |
| Inventory  | (628)                         | 708       |
| Prepaid expenses, other current assets and other assets                                  | (3,245)                       | 5,898     |
| Accounts payable, accrued expenses and other liabilities                                 | (5,006)                       | (30,120)  |
| Customer layaway deposits  | 1,128                         | 240       |
| Income taxes, net of excess tax benefit from stock compensation                          | 4,085                         | 7,590     |
| Net cash provided by operating activities  | 45,541                        | 20,692    |
| Investing activities:  |                               |           |
| Loans made   | (330,732)                     | (300,604) |
| Loans repaid   | 220,267                       | 199,080   |
| Recovery of pawn loan principal through sale of forfeited collateral                     | 134,870                       | 128,238   |
| Additions to property and equipment and capitalized labor, net                           | (19,251)                      | (8,020)   |
| Acquisitions, net of cash acquired   | (63,780)                      | —         |
| Principal collections on notes receivable  | 9,152                         | 15,051    |
| Net cash (used in) provided by investing activities                                      | (49,474)                      | 33,745    |
| Financing activities:  |                               |           |
| Taxes paid related to net share settlement of equity awards                              | (311)                         | (767)     |
| Net cash used in financing activities  | (311)                         | (767)     |
| Effect of exchange rate changes on cash and cash equivalents                             | (237)                         | 692       |
| Net (decrease) increase in cash and cash equivalents                                     | (4,481)                       | 54,362    |
| Cash and cash equivalents at beginning of period   | 164,393                       | 65,737    |
| Cash and cash equivalents at end of period   | \$159,912                     | \$120,099 |
| Non-cash investing and financing activities:   |                               |           |
| Pawn loans forfeited and transferred to inventory  | \$134,952                     | \$125,165 |
| Dividend reinvestment acquisition of additional ownership in unconsolidated affiliate    | —                             | 1,153     |
| See accompanying notes to unaudited interim condensed consolidated financial statements. |                               |           |

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EZCORP, Inc.

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

March 31, 2018

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 and six months ended March 31, 2018 and 2017 (the “current quarter” and “current six-months” and “prior-year quarter” and “prior-year six-months,” 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 was effective as of January 1, 2018 and, accordingly, reduced our current fiscal year federal statutory rate to a blended rate of 24.5%, and will further reduce it to 21% beginning in fiscal 2019. As of March 31, 2018, while we are able to make reasonable estimates of the impact of the reduction in the corporate rate and the deemed repatriation transition tax, the final impact of the Act may differ from these estimates, due to, among other things, changes in our interpretations and assumptions, additional guidance that may be issued by the Internal Revenue Service, and actions we may take. We are continuing to gather additional information

to determine the final impact of the Act. We recognized \$2.8 million

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during the quarter ended December 31, 2017, 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.

## 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. The amount recorded related to the remeasurement of our deferred tax balances was \$2.8 million. This amount was recorded in the quarter ended December 31, 2017 with no further adjustment in the current quarter.

**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 do not believe that we will 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. 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 Adopted Accounting Policies

In March 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-05, Income Taxes — (Topic 740): Amendments to SEC (U.S. Securities and Exchange Commission) Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. This ASU adds various paragraphs to the accounting standards codification from SEC Staff Accounting Bulletin No. 118. The provisions of this ASU are effective immediately. The discussion above of the impacts of the Act have incorporated the provisions of this ASU and SEC Staff Accounting Bulletin No. 118.

In February 2018, the FASB issued ASU 2018-02, Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASU allows entities to reclassify from accumulated other comprehensive income to retained earnings the stranded tax effects resulting from the Act. The provisions of this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. As allowed, we early adopted ASU 2018-02 on a prospective basis as of January 1, 2018 and reclassified \$1.5 million of accumulated foreign currency translation associated with our unconsolidated affiliate Cash Converters International Limited ("Cash Converters International"), resulting from the stranded tax effects from the reduction of our effective tax rate, from accumulated other comprehensive loss to retained earnings.

## Recently Issued Accounting Pronouncements and Significant Accounting Policies

In June 2016, the FASB issued 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

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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 have completed upgrades to our third party software solution to support 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.

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

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thousands:

|  |          |
|--|----------|
| Cash and cash equivalents  | \$2,560  |
| Earning assets   | 19,594   |
| Other assets   | 3,899    |
| Property and equipment, intangible assets and other assets, net* | 13,153   |
| Goodwill   | 34,784   |
| 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, and the results of the Bazareño stores have been included in our condensed consolidated financial statements from December 5, 2017, both in our Latin America Pawn segment. During the three and six months ended March 31, 2018, revenue from GPMX since completion of the acquisition was \$11.0 million and \$23.3 million, respectively, and net income from GPMX was \$1.8 million and \$3.8 million, respectively. Such net income does not include acquisition-related costs, which were included under “Administrative” expense.

We incurred nil and \$0.4 million in acquisition-related costs during the three and six months ended March 31, 2018, respectively, which were expensed as incurred and included under “Administrative” expense in our condensed consolidated statements of operations.



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## NOTE 3: EARNINGS PER SHARE

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

|  | Three Months<br>Ended March 31,          |         | Six Months Ended<br>March 31, |          |
|--|--|---------|-------------------------------|----------|
|  | 2018                                     | 2017    | 2018                          | 2017     |
|  | (in thousands, except per share amounts) |         |                               |          |
| Net income from continuing operations attributable to EZCORP (A)   | \$12,313                                 | \$8,398 | \$25,283                      | \$16,791 |
| Loss from discontinued operations, net of tax (B)  | (500 )                                   | (375 )  | (722 )                        | (1,603 ) |
| Net income attributable to EZCORP (C)  | \$11,813                                 | \$8,023 | \$24,561                      | \$15,188 |
| Weighted-average outstanding shares of common stock (D)  | 54,464                                   | 54,291  | 54,447                        | 54,224   |
| Dilutive effect of restricted stock and 2024 Convertible Notes*  | 3,160                                    | 55      | 2,195                         | 54       |
| Weighted-average common stock and common stock equivalents (E)   | 57,624                                   | 54,346  | 56,642                        | 54,278   |
| Basic earnings per share attributable to EZCORP:   |  |         |                               |          |
| Continuing operations (A / D)  | \$0.23                                   | \$0.15  | \$0.46                        | \$0.31   |
| Discontinued operations (B / D)  | (0.01 )                                  | (0.01 ) | (0.01 )                       | (0.03 )  |
| Basic earnings per share (C / D)   | \$0.22                                   | \$0.14  | \$0.45                        | \$0.28   |
| Diluted earnings per share attributable to EZCORP:   |  |         |                               |          |
| Continuing operations (A / E)  | \$0.21                                   | \$0.15  | \$0.45                        | \$0.31   |
| Discontinued operations (B / E)  | (0.01 )                                  | (0.01 ) | (0.01 )                       | (0.03 )  |
| Diluted earnings per share (C / E)   | \$0.20                                   | \$0.14  | \$0.44                        | \$0.28   |
| 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**   | 3,596                                    | 2,602   | 3,278                         | 2,443    |
| 2019 Convertible Notes Warrants***   | 12,138                                   | 14,317  | 12,138                        | 14,317   |
| Total potential common shares excluded   | 15,734                                   | 16,919  | 15,416                        | 16,760   |

\* Includes the dilutive impact of share-based awards as well as the 2.875% Convertible Senior Notes Due 2024 (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.

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## NOTE 4: STRATEGIC INVESTMENTS

As of March 31, 2018, we owned 156,552,484 shares, or approximately 32%, of our unconsolidated affiliate Cash Converters International. The following tables present summary financial information for Cash Converters International's most recently reported results as of March 31, 2018 after translation to U.S. dollars:

|  | December 31,   |           |
|--|----------------|-----------|
|  | 2017           | 2016      |
|  | (in thousands) |           |
| Current assets                             | \$203,664      | \$158,235 |
| Non-current assets                         | 151,189        | 141,218   |
| Total assets                               | \$354,853      | \$299,453 |
| Current liabilities                        | \$128,731      | \$70,468  |
| Non-current liabilities                    | 14,559         | 48,181    |
| Shareholders' equity                       | 211,563        | 180,804   |
| Total liabilities and shareholders' equity | \$354,853      | \$299,453 |

Half-Year Ended  
December 31,  
2017 2016

|                 | (in thousands) |           |
|-----------------|----------------|-----------|
| Gross revenues* | \$95,784       | \$105,816 |
| Gross profit*   | 32,572         | 38,533    |
| Net profit      | 7,292          | 8,633     |

Certain reclassifications of prior period amounts have been made. These reclassifications were made to conform to \*the current period presentation included in the report of Cash Converters International for the the half year ended December 31, 2016.

## 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 | March 31, 2018 | March 31, 2017 | September 30, 2017 |
|--|------------------------|----------------|----------------|--------------------|
|  |                        | (in thousands) |                |                    |
| 2019 Convertible Notes Hedges — Level 2              | Other assets, net      | \$ 16,042      | \$ 15,138      | \$ 6,591           |
| 2019 Convertible Notes Embedded Derivative — Level 2 | Long-term debt, net    | (16,042 )      | (15,138 )      | (6,591 )           |

We measured the fair value of the cash-settled call options pertaining to the 2.125% Cash Convertible Senior Notes Due 2019 (the “2019 Convertible Notes Hedges”) and the 2019 Convertible Notes derivative instrument (the “2019 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 March 31, 2018 was 37% based on observed market inputs. As an estimate of the sensitivity of the fair values of the 2019 Convertible Notes Hedges and 2019 Convertible Notes Embedded Derivative, were volatility inputs of 30% and 45% used, the fair values would have ranged from \$11.0 million to \$21.3 million.

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.

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## 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<br>Value | Estimated Fair Value<br>March 31,<br>2018 | Fair Value<br>Measurement Using |         |         |
|--|-------------------|---|---------------------------------|---------|---------|
|  |                   |   | Level<br>1                      | Level 2 | Level 3 |

(in thousands)

## Financial assets:

|  |          |          |        |          |  |
|--|----------|----------|--------|----------|--|
| Notes receivable, net                  | \$56,751 | \$65,091 | \$—    | \$65,091 |  |
| Investment in unconsolidated affiliate | 46,509   | 46,926   | 46,926 | —        |  |

## Financial liabilities:

|                        |           |           |     |           |     |
|------------------------|-----------|-----------|-----|-----------|-----|
| 2019 Convertible Notes | \$182,296 | \$206,856 | \$— | \$206,856 | \$— |
| 2024 Convertible Notes | 103,287   | 212,060   | —   | 212,060   | —   |

|  | Carrying<br>Value | Estimated Fair Value<br>March 31,<br>2017 | Fair Value<br>Measurement Using |         |         |
|--|-------------------|---|---------------------------------|---------|---------|
|  |                   |   | Level<br>1                      | Level 2 | Level 3 |

(in thousands)

## Financial assets:

|  |          |          |        |          |  |
|--|----------|----------|--------|----------|--|
| Notes receivable, net                  | \$70,297 | \$71,921 | \$—    | \$71,921 |  |
| Investment in unconsolidated affiliate | 38,334   | 37,101   | 37,101 | —        |  |

## Financial liabilities:

|                        |           |           |     |           |     |
|------------------------|-----------|-----------|-----|-----------|-----|
| 2019 Convertible Notes | \$203,464 | \$213,417 | \$— | \$213,417 | \$— |
| Term Loan Facility     | 48,122    | 50,403    | —   | 50,403    |     |

|  | Carrying<br>Value | Estimated Fair Value<br>September 30,<br>2017 | Fair Value<br>Measurement Using |         |         |
|--|-------------------|---|---------------------------------|---------|---------|
|  |                   |   | Level<br>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 March 31, 2018 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 6% to 13%. 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

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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. 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 are highly variable from day to day, and thus the fair value estimates disclosed above could significantly increase or decrease.

**NOTE 6: LONG-TERM DEBT**

The following tables present our long-term debt instruments outstanding, contractual maturities and interest expense:

|  | March 31, 2018 |                                  |                 | March 31, 2017 |                                  |                 | 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) |                                  |                 |                |                                  |                 |                    |                                  |                 |
| 2019 Convertible Notes                     | \$ 195,000     | \$(12,704)                       | \$ 182,296      | \$ 230,000     | \$(26,536)                       | \$ 203,464      | \$ 195,000         | \$(17,654)                       | \$ 177,346      |
| 2019 Convertible Notes Embedded Derivative | 16,042         | —                                | 16,042          | 15,138         | —                                | 15,138          | 6,591              | —                                | 6,591           |
| 2024 Convertible Notes                     | 143,750        | (40,463 )                        | 103,287         | —              | —                                | —               | 143,750            | (42,880 )                        | 100,870         |
| Term Loan Facility                         | —              | —                                | —               | 50,000         | (1,878 )                         | 48,122          | —                  | —                                | —               |
| Total                                      | \$ 354,792     | \$(53,167)                       | \$ 301,625      | \$ 295,138     | \$(28,414)                       | \$ 266,724      | \$ 345,341         | \$(60,534)                       | \$ 284,807      |
| Less current portion                       | (143,750 )     | 40,463                           | (103,287 )      | —              | —                                | —               | —                  | —                                | —               |
| Total long-term debt                       | \$ 211,042     | \$(12,704)                       | \$ 198,338      | \$ 295,138     | \$(28,414)                       | \$ 266,724      | \$ 345,341         | \$(60,534)                       | \$ 284,807      |

**Schedule of Contractual Maturities**

|                         | Total          | Less Than 1 Year | 1 - 3 Years | 3 - 5 Years | More Than 5 Years |
|-------------------------|----------------|------------------|-------------|-------------|-------------------|
|                         | (in thousands) |                  |             |             |                   |
| 2019 Convertible Notes* | \$ 195,000     | \$ —             | \$ 195,000  | \$ —        | \$ —              |
| 2024 Convertible Notes* | 143,750        | 143,750          | —           | —           | —                 |
|                         | \$ 338,750     | \$ 143,750       | \$ 195,000  | \$ —        | \$ —              |

Excludes the potential impact of the embedded derivative. During the second quarter of fiscal 2018, the market price of our Class A Non-Voting Common Stock met the threshold to trigger note holders' right to convert their 2024 Convertible Notes during the third quarter of fiscal 2018. Therefore, we have classified the 2024 Convertible Notes as current on our condensed consolidated balance sheet as of March 31, 2018.



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|  | Three<br>Months<br>Ended<br>March 31,<br>2018 | Six<br>Months<br>Ended<br>March 31,<br>2017 | Three<br>Months<br>Ended<br>March 31,<br>2018 | Six<br>Months<br>Ended<br>March 31,<br>2017 |
|--|---|---|---|---|
|  | (in millions)                                 |   |   |   |
| 2019 Convertible Notes:                                    |   |   |   |   |
| Contractual interest expense                               | \$1.1   | \$1.3                                       | \$2.1   | \$2.5                                       |
| Amortization of debt discount and deferred financing costs | 2.4   | 2.7   | 5.0   | 5.5   |
| Total interest expense                                     | \$3.5   | \$4.0                                       | \$7.1   | \$8.0                                       |

|  |       |     |       |     |
|--|-------|-----|-------|-----|
| 2024 Convertible Notes:                                    |       |     |       |     |
| Contractual interest expense                               | \$1.0 | \$— | \$2.0 | \$— |
| Amortization of debt discount and deferred financing costs | 1.3   | —   | 2.5   | —   |
| Total interest expense                                     | \$2.3 | \$— | \$4.5 | \$— |

**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 carrying amount of the 2024 Convertible Notes as a separate equity-classified instrument (the "2024 Convertible Notes Embedded Derivative") included under "Additional paid-in capital" in our condensed consolidated balance sheets of March 31, 2018 was \$25.3 million. The effective interest rate for the three and six months ended March 31, 2018 was approximately 7%. As of March 31, 2018, the remaining unamortized debt discount and issuance costs will be amortized through the 2024 Maturity Date assuming no early conversion.

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.

During the second quarter of fiscal 2018, the market price of our Class A Common Stock met the threshold based on at least 20 of the final 30 trading days of the quarter for the 2024 Convertible Notes to become convertible at the option of the holders during the third quarter of fiscal 2018 (April 1, 2018 to June 30, 2018). If presented for conversion, we may choose to settle the obligation through the payment of cash, the delivery of Class A Common Stock or a combination of cash and shares, although it continues to be our intention to settle the principal portion of the notes in cash and the remainder in Class A Common Stock. Accordingly, we have classified the 2024 Convertible Notes as current on our condensed consolidated balance sheet as of March 31, 2018. The stock trading price condition is measured on a quarter-by-quarter basis. If the notes are not convertible in any subsequent quarter, they will be classified as a non-current liability. The if-converted value of the 2024 Convertible Notes exceeded the principal amount by \$46.7 million as of March 31, 2018.

**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 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 effective interest rate for the three and six months ended March 31, 2018 and 2017 was approximately 7%. As of March 31, 2018, the remaining unamortized debt discount and issuance costs will be amortized through the 2019 Maturity Date assuming no early conversion.

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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). As of March 31, 2018, the if-converted value of the 2019 Convertible Notes did not exceed the principal amount.

**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 March 31, 2018, 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 March 31, 2018 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:

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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 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.

On April 3, 2018, the Court approved the proposed settlement as presented, as well as a fee award of \$1.3 million to the plaintiff's attorneys, and entered a final and binding judgment to that effect, dismissing the action with prejudice. That judgment will be effective 30 days after its entry, and the settlement fund will be funded 30 business days after that. After payment of the approved fee to the plaintiff's attorneys, the balance of the settlement fund (estimated to be \$5.1 million) will be paid to the Company. That gain contingency has not yet been recorded in the Company's financial statements, pending final resolution.

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

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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 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.

The plaintiff has filed a Motion for Class Certification and Appointment of Class Representative and Class Counsel. We have opposed that motion and on March 16, 2018 submitted a brief supporting our opposition. The plaintiff's class certification motion is currently pending before the Court. We cannot predict the outcome of the litigation, but we intend to continue 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.

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## 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 March 31, 2018 |                          |                        |                   |                    |              |   |
|---|-----------------------------------|--------------------------|------------------------|-------------------|--------------------|--------------|---|
|   | U.S.<br>Pawn                      | Latin<br>America<br>Pawn | Other<br>International | Total<br>Segments | Corporate<br>Items | Consolidated |   |
|   | (in thousands)                    |                          |                        |                   |                    |              |   |
| Revenues:   |                                   |                          |                        |                   |                    |              |   |
| Merchandise sales                                     | \$94,753                          | \$20,192                 | \$ —                   | \$114,945         | \$—                | \$ 114,945   |   |
| Jewelry scrapping sales                               | 8,177                             | 3,348                    | —                      | 11,525            | —                  | 11,525       |   |
| Pawn service charges                                  | 59,114                            | 15,253                   | —                      | 74,367            | —                  | 74,367       |   |
| Other revenues  | 76                                | 174                      | 1,647                  | 1,897             | —                  | 1,897        |   |
| Total revenues  | 162,120                           | 38,967                   | 1,647                  | 202,734           | —                  | 202,734      |   |
| Merchandise cost of goods sold                        | 58,537                            | 13,683                   | —                      | 72,220            | —                  | 72,220       |   |
| Jewelry scrapping cost of goods sold                  | 6,512                             | 3,062                    | —                      | 9,574             | —                  | 9,574        |   |
| Other cost of revenues                                | —                                 | —                        | 347                    | 347               | —                  | 347          |   |
| Net revenues  | 97,071                            | 22,222                   | 1,300                  | 120,593           | —                  | 120,593      |   |
| Segment and corporate expenses (income):              |                                   |                          |                        |                   |                    |              |   |
| Operations  | 65,191                            | 14,994                   | 1,975                  | 82,160            | —                  | 82,160       |   |
| Administrative  | —                                 | —                        | —                      | —                 | 13,341             | 13,341       |   |
| Depreciation and amortization                         | 3,531                             | 916                      | 47                     | 4,494             | 1,957              | 6,451        |   |
| Loss (gain) on sale or disposal of assets             | 107                               | (5                       | ) —                    | 102               | (2                 | ) 100        |   |
| Interest expense                                      | —                                 | 2                        | —                      | 2                 | 5,827              | 5,829        |   |
| Interest income                                       | —                                 | (763                     | ) —                    | (763              | ) (3,505           | ) (4,268     | ) |
| Equity in net income of unconsolidated affiliate      | —                                 | —                        | (876                   | ) (876            | ) —                | (876         | ) |
| Other (income) expense                                | 1                                 | (1                       | ) (35                  | ) (35             | ) 31               | (4           | ) |
| Segment contribution                                  | \$28,241                          | \$7,079                  | \$ 189                 | \$35,509          |                    |              |   |
| Income from continuing operations before income taxes |                                   |                          |                        | \$35,509          | \$(17,649)         | \$ 17,860    |   |

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Three Months Ended March 31, 2017

|  | U.S.<br>Pawn   | Latin<br>America<br>Pawn | Other<br>International | Total<br>Segments | Corporate<br>Items | Consolidated |
|--|----------------|--------------------------|------------------------|-------------------|--------------------|--------------|
|  | (in thousands) |                          |                        |                   |                    |              |
| Revenues:  |                |                          |                        |                   |                    |              |
| Merchandise sales  | \$95,550       | \$14,688                 | \$ —                   | \$110,238         | \$—                | \$ 110,238   |
| Jewelry scrapping sales                                  | 9,056          | 1,163                    | —                      | 10,219            | —                  | 10,219       |
| Pawn service charges                                     | 59,661         | 7,431                    | —                      | 67,092            | —                  | 67,092       |
| Other revenues   | 56             | 147                      | 1,876                  | 2,079             | —                  | 2,079        |
| Total revenues   | 164,323        | 23,429                   | 1,876                  | 189,628           | —                  | 189,628      |
| Merchandise cost of goods sold                           | 60,499         | 9,994                    | —                      | 70,493            | —                  | 70,493       |
| Jewelry scrapping cost of goods sold                     | 7,890          | 951                      | —                      | 8,841             | —                  | 8,841        |
| Other cost of revenues                                   | —              | —                        | 397                    | 397               | —                  | 397          |
| Net revenues   | 95,934         | 12,484                   | 1,479                  | 109,897           | —                  | 109,897      |
| Segment and corporate expenses (income):                 |                |                          |                        |                   |                    |              |
| Operations   | 63,556         | 8,901                    | 2,003                  | 74,460            | —                  | 74,460       |
| Administrative   | —              | —                        | —                      | —                 | 13,283             | 13,283       |
| Depreciation and amortization                            | 2,660          | 660                      | 50                     | 3,370             | 2,660              | 6,030        |
| Loss (gain) on sale or disposal of assets                | (3 )           | 74                       | —                      | 71                | —                  | 71           |
| Interest expense   | —              | 3                        | —                      | 3                 | 5,625              | 5,628        |
| Interest income  | —              | (342 )                   | —                      | (342 )            | (1,898 )           | (2,240 )     |
| Equity in net income of unconsolidated affiliate         | —              | —                        | (1,243 )               | (1,243 )          | —                  | (1,243 )     |
| Other expense (income)                                   | (4 )           | (48 )                    | 41                     | (11 )             | 239                | 228          |
| Segment contribution                                     | \$29,725       | \$3,236                  | \$ 628                 | \$33,589          |                    |              |
| Income from continuing operations before<br>income taxes |                |                          |                        | \$33,589          | \$(19,909)         | \$ 13,680    |



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|  | Six Months Ended March 31, 2018 |                          |                        |                   |                    |              |
|--|---------------------------------|--------------------------|------------------------|-------------------|--------------------|--------------|
|  | U.S. Pawn                       | Latin<br>America<br>Pawn | Other<br>International | Total<br>Segments | Corporate<br>Items | Consolidated |
|  | (in thousands)                  |                          |                        |                   |                    |              |
| Revenues:  |                                 |                          |                        |                   |                    |              |
| Merchandise sales  | \$ 186,247                      | \$ 42,286                | \$ —                   | \$ 228,533        | \$—                | \$ 228,533   |
| Jewelry scrapping sales                                  | 16,702                          | 7,036                    | —                      | 23,738            | —                  | 23,738       |
| Pawn service charges                                     | 118,819                         | 31,908                   | —                      | 150,727           | —                  | 150,727      |
| Other revenues   | 150                             | 343                      | 3,751                  | 4,244             | —                  | 4,244        |
| Total revenues   | 321,918                         | 81,573                   | 3,751                  | 407,242           | —                  | 407,242      |
| Merchandise cost of goods sold                           | 114,625                         | 28,762                   | —                      | 143,387           | —                  | 143,387      |
| Jewelry scrapping cost of goods sold                     | 13,354                          | 6,557                    | —                      | 19,911            | —                  | 19,911       |
| Other cost of revenues                                   | —                               | —                        | 924                    | 924               | —                  | 924          |
| Net revenues   | 193,939                         | 46,254                   | 2,827                  | 243,020           | —                  | 243,020      |
| Segment and corporate expenses (income):                 |                                 |                          |                        |                   |                    |              |
| Operations   | 131,491                         | 29,681                   | 4,598                  | 165,770           | —                  | 165,770      |
| Administrative   | —                               | —                        | —                      | —                 | 26,659             | 26,659       |
| Depreciation and amortization                            | 6,330                           | 1,761                    | 94                     | 8,185             | 3,989              | 12,174       |
| Loss on sale or disposal of assets                       | 123                             | 5                        | —                      | 128               | 11                 | 139          |
| Interest expense   | —                               | 3                        | —                      | 3                 | 11,673             | 11,676       |
| Interest income  | —                               | (1,400 )                 | —                      | (1,400 )          | (7,138 )           | (8,538 )     |
| Equity in net income of unconsolidated affiliate         | —                               | —                        | (2,326 )               | (2,326 )          | —                  | (2,326 )     |
| Other (income) expense                                   | (3 )                            | 114                      | (118 )                 | (7 )              | (179 )             | (186 )       |
| Segment contribution                                     | \$ 55,998                       | \$ 16,090                | \$ 579                 | \$ 72,667         |                    |              |
| Income from continuing operations before<br>income taxes |                                 |                          |                        | \$ 72,667         | \$(35,015)         | \$ 37,652    |

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Six Months Ended March 31, 2017

|   | U.S. Pawn      | Latin<br>America<br>Pawn | Other<br>International | Total<br>Segments | Corporate<br>Items | Consolidated |
|---|----------------|--------------------------|------------------------|-------------------|--------------------|--------------|
|   | (in thousands) |                          |                        |                   |                    |              |
| Revenues:   |                |                          |                        |                   |                    |              |
| Merchandise sales                                     | \$ 190,411     | \$ 31,340                | \$ —                   | \$ 221,751        | \$—                | \$ 221,751   |
| Jewelry scrapping sales                               | 17,901         | 2,116                    | —                      | 20,017            | —                  | 20,017       |
| Pawn service charges                                  | 120,706        | 15,399                   | —                      | 136,105           | —                  | 136,105      |
| Other revenues  | 107            | 278                      | 3,994                  | 4,379             | —                  | 4,379        |
| Total revenues  | 329,125        | 49,133                   | 3,994                  | 382,252           | —                  | 382,252      |
| Merchandise cost of goods sold                        | 120,747        | 21,478                   | —                      | 142,225           | —                  | 142,225      |
| Jewelry scrapping cost of goods sold                  | 15,440         | 1,745                    | —                      | 17,185            | —                  | 17,185       |
| Other cost of revenues                                | —              | —                        | 980                    | 980               | —                  | 980          |
| Net revenues  | 192,938        | 25,910                   | 3,014                  | 221,862           | —                  | 221,862      |
| Segment and corporate expenses (income):              |                |                          |                        |                   |                    |              |
| Operations  | 130,906        | 17,541                   | 3,659                  | 152,106           | —                  | 152,106      |
| Administrative  | —              | —                        | —                      | —                 | 27,210             | 27,210       |
| Depreciation and amortization                         | 5,277          | 1,291                    | 100                    | 6,668             | 5,735              | 12,403       |
| (Gain) loss on sale or disposal of assets             | (74 )          | 68                       | —                      | (6 )              | —                  | (6 )         |
| Interest expense                                      | —              | 5                        | —                      | 5                 | 11,188             | 11,193       |
| Interest income                                       | —              | (409 )                   | —                      | (409 )            | (4,447 )           | (4,856 )     |
| Equity in net income of unconsolidated affiliate      | —              | —                        | (2,721 )               | (2,721 )          | —                  | (2,721 )     |
| Other (income) expense                                | (9 )           | (37 )                    | 40                     | (6 )              | (189 )             | (195 )       |
| Segment contribution                                  | \$56,838       | \$7,451                  | \$ 1,936               | \$66,225          |                    |              |
| Income from continuing operations before income taxes |                |                          |                        | \$66,225          | \$(39,497)         | \$ 26,728    |

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## NOTE 10: SUPPLEMENTAL CONSOLIDATED FINANCIAL INFORMATION

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

|  | March 31,<br>2018 | March 31,<br>2017 | September 30,<br>2017 |
|--|-------------------|-------------------|-----------------------|
|  | (in thousands)    |                   |                       |
| Gross pawn service charges receivable                            | \$39,065          | \$35,177          | \$ 42,117             |
| Allowance for uncollectible pawn service charges receivable      | (8,572 )          | (8,149 )          | (10,569 )             |
| Pawn service charges receivable, net                             | \$30,493          | \$27,028          | \$ 31,548             |
| Gross inventory  | \$166,802         | \$143,237         | \$ 161,212            |
| Inventory reserves   | (8,160 )          | (6,229 )          | (6,801 )              |
| Inventory, net   | \$158,642         | \$137,008         | \$ 154,411            |
| Prepaid expenses and other                                       | \$16,217          | \$13,326          | \$ 12,047             |
| Accounts receivable and other                                    | 12,732            | 10,596            | 16,718                |
| Restricted cash  | 273               | 7,089             | —                     |
| Prepaid expenses and other current assets                        | \$29,222          | \$31,011          | \$ 28,765             |
| Property and equipment, gross                                    | \$239,954         | \$212,460         | \$ 224,240            |
| Accumulated depreciation   | (175,121 )        | (158,830 )        | (166,281 )            |
| Property and equipment, net                                      | \$64,833          | \$53,630          | \$ 57,959             |
| Accounts payable   | \$10,542          | \$8,459           | \$ 13,064             |
| Accrued expenses and other                                       | 50,147            | 53,880            | 48,479                |
| Accounts payable, accrued expenses and other current liabilities | \$60,689          | \$62,339          | \$ 61,543             |

## 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 leader internationally in responsibly and respectfully meeting our customers' desire for access to cash whenever they want it. That vision is supported by four key imperatives:

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

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"):

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

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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.

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## 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 March 31, 2018 |                          |                        |              |
|------------------------------------|-----------------------------------|--------------------------|------------------------|--------------|
|                                    | Company-owned Stores              |                          |                        |              |
|                                    | U.S.<br>Pawn                      | Latin<br>America<br>Pawn | Other<br>International | Consolidated |
| As of December 31, 2017            | 513                               | 383                      | 27                     | 923          |
| New locations opened               | —                                 | 4                        | —                      | 4            |
| Locations sold, combined or closed | (3 )                              | —                        | —                      | (3 )         |
| As of March 31, 2018               | 510                               | 387                      | 27                     | 924          |
|                                    | Three Months Ended March 31, 2017 |                          |                        |              |
|                                    | Company-owned Stores              |                          |                        |              |
|                                    | U.S.<br>Pawn                      | Latin<br>America<br>Pawn | Other<br>International | Consolidated |
| As of December 31, 2016            | 517                               | 239                      | 27                     | 783          |
| New locations opened               | —                                 | 2                        | —                      | 2            |
| Locations sold, combined or closed | —                                 | (1 )                     | —                      | (1 )         |
| As of March 31, 2017               | 517                               | 240                      | 27                     | 784          |
|                                    | Six Months Ended March 31, 2018   |                          |                        |              |
|                                    | Company-owned Stores              |                          |                        |              |
|                                    | U.S.<br>Pawn                      | Latin<br>America<br>Pawn | Other<br>International | Consolidated |
| As of September 30, 2017           | 513                               | 246                      | 27                     | 786          |
| New locations opened               | —                                 | 8                        | —                      | 8            |
| Locations acquired                 | —                                 | 133                      | —                      | 133          |
| Locations sold, combined or closed | (3 )                              | —                        | —                      | (3 )         |
| As of March 31, 2018               | 510                               | 387                      | 27                     | 924          |
|                                    | Six Months Ended March 31, 2017   |                          |                        |              |
|                                    | Company-owned Stores              |                          |                        |              |
|                                    | Consolidated                      |                          |                        |              |

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|                                    | U.S.<br>Pawn | Latin<br>America<br>Pawn | Other<br>International |      |
|------------------------------------|--------------|--------------------------|------------------------|------|
| As of September 30, 2016           | 520          | 239                      | 27                     | 786  |
| New locations opened               | —            | 2                        | —                      | 2    |
| Locations sold, combined or closed | (3 )         | (1 )                     | —                      | (4 ) |
| As of March 31, 2017               | 517          | 240                      | 27                     | 784  |

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## Results of Operations

Three Months Ended March 31, 2018 vs. Three Months Ended March 31, 2017

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   |
|--|--------------------|-----------|----------|
|  | March 31,<br>2018  | 2017      |          |
|  | (in thousands)     |           |          |
| Net revenues:  |                    |           |          |
| Pawn service charges                                   | \$59,114           | \$59,661  | (1)%     |
| Merchandise sales                                      | 94,753             | 95,550    | (1)%     |
| Merchandise sales gross profit                         | 36,216             | 35,051    | 3%       |
| Gross margin on merchandise sales                      | 38                 | % 37      | % 100bps |
| Jewelry scrapping sales                                | 8,177              | 9,056     | (10)%    |
| Jewelry scrapping sales gross profit                   | 1,665              | 1,166     | 43%      |
| Gross margin on jewelry scrapping sales                | 20                 | % 13      | % 700bps |
| Other revenues   | 76                 | 56        | 36%      |
| Net revenues   | 97,071             | 95,934    | 1%       |
| Segment operating expenses:                            |                    |           |          |
| Operations   | 65,191             | 63,556    | 3%       |
| Depreciation and amortization                          | 3,531              | 2,660     | 33%      |
| Segment operating contribution                         | 28,349             | 29,718    | (5)%     |
| Other segment expenses (income)                        | 108                | (7)       | *)       |
| Segment contribution                                   | \$28,241           | \$29,725  | (5)%     |
| Other data:  |                    |           |          |
| Net earning assets — continuing operations (a)         | \$256,587          | \$245,323 | 5%       |
| Inventory turnover                                     | 1.9                | 2.2       | (14)%    |
| Average monthly ending pawn loan balance per store (b) | \$264              | \$264     | —%       |
| Monthly average yield on pawn loans outstanding        | 15                 | % 14      | % 100bps |
| Pawn loan redemption rate (c)                          | 85                 | % 85      | % —      |

\* 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.

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Net revenue was up 1%, primarily due to higher gross margins from our merchandise sales. 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 Service Charge   | Merchandise Sales Gross Profit | Total  |
|   | (in millions)         |                                |        |
| Same stores   | \$(0.3)               | \$ 1.4                         | \$ 1.1 |
| New stores and other  | (0.2 )                | (0.2 )                         | (0.4 ) |
| Total   | \$(0.5)               | \$ 1.2                         | \$ 0.7 |
| Change in jewelry scrapping sales gross profit and other revenues |                       |                                | 0.4    |
| Total change in net revenue                                       |                       |                                | \$ 1.1 |

Pawn service charges decreased 1% with flat average ending monthly pawn loan balances outstanding per store during the current quarter and a slightly higher yield. The flat average loan balance was primarily a result of the longer recovery to rebuild the loan portfolio for locations impacted by the hurricanes, partially offset by other positive operating trends.

Merchandise sales decreased 1% with gross margin on merchandise sales of 38%, a 100 basis point improvement over the prior-year quarter. As a net result, merchandise sales gross profit increased 3% to \$36.2 million. The increase in merchandise sales gross profit is due to enhanced discipline in pricing and discounting. We expect sales gross margin for the full fiscal year to be within our target range of 35-38% as we expect to accept a slightly lower margin in order to sell through a greater amount of inventory.

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 700 basis point increase in gross margin to 20% due primarily to improvements in lending practices and gold prices.

Segment contribution decreased 5% due to a 3% increase in operations expenses, comprised primarily of labor, and a 33% increase in depreciation and amortization, including a one-time charge of \$0.5 million for the retirement of certain assets.

#### 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 three and six months ended March 31, 2018 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 March 31, 2018 and 2017 was 18.3 to 1 and 18.7 to 1, respectively. The approximate

average Mexican peso to U.S. dollar exchange rate for the three months ended March 31, 2018 and 2017 was 18.7 to 1 and 20.4 to 1, respectively. The approximate average Mexican peso to U.S. dollar exchange rate for the six months ended March 31, 2018 and 2017 was 18.8 to 1 and 20.1 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.

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## 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 March 31, |           |            | 2018               | Change (Constant |
|--|------------------------------|-----------|------------|--------------------|------------------|
|  | 2018                         | 2017      | Change     | (Constant          | Currency)        |
|  | (GAAP)                       | (GAAP)    | (GAAP)     | (Constant          | Currency)        |
|  | (in USD thousands)           |           |            | (in USD thousands) |                  |
| Net revenues:  |                              |           |            |                    |                  |
| Pawn service charges                                   | \$ 15,253                    | \$ 7,431  | 105%       | \$ 14,576          | 96%              |
| Merchandise sales                                      | 20,192                       | 14,688    | 37%        | 18,839             | 28%              |
| Merchandise sales gross profit                         | 6,509                        | 4,694     | 39%        | 6,061              | 29%              |
| Gross margin on merchandise sales                      | 32                           | % 32      | % —        | 32                 | % —              |
| Jewelry scrapping sales                                | 3,348                        | 1,163     | 188%       | 3,220              | 177%             |
| Jewelry scrapping sales gross profit                   | 286                          | 212       | 35%        | 266                | 25%              |
| Gross margin on jewelry scrapping sales                | 9                            | % 18      | % (900)bps | 8                  | % (1,000)bps     |
| Other revenues   | 174                          | 147       | 18%        | 161                | 10%              |
| Net revenues   | 22,222                       | 12,484    | 78%        | 21,064             | 69%              |
| Segment operating expenses:                            |                              |           |            |                    |                  |
| Operations   | 14,994                       | 8,901     | 68%        | 14,169             | 59%              |
| Depreciation and amortization                          | 916                          | 660       | 39%        | 855                | 30%              |
| Segment operating contribution                         | 6,312                        | 2,923     | 116%       | 6,040              | 107%             |
| Other segment income (a)                               | (767 )                       | (313 )    | 145%       | (709 )             | 127%             |
| Segment contribution                                   | \$ 7,079                     | \$ 3,236  | 119%       | \$ 6,749           | 109%             |
| Other data:  |                              |           |            |                    |                  |
| Net earning assets — continuing operations (b)         | \$ 61,438                    | \$ 34,926 | 76%        | \$ 60,602          | 74%              |
| Inventory turnover                                     | 2.7                          | 2.6       | 4%         | 2.7                | 4%               |
| Average monthly ending pawn loan balance per store (c) | \$ 88                        | \$ 67     | 31%        | \$ 85              | 27%              |
| Monthly average yield on pawn loans outstanding        | 15                           | % 16      | % (100)bps | 15                 | % (100)bps       |
| Pawn loan redemption rate (d)                          | 80                           | % 79      | % 100bps   | 80                 | % 100bps         |

The three months ended March 31, 2018 constant currency balance excludes nominal net GAAP basis foreign (a) currency transaction gains resulting from movement in exchange rates. The net foreign currency transaction gains for the three months ended March 31, 2017 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.

We opened four de novo stores in the current quarter. We see opportunity for further expansion in Latin America through de novo openings and acquisitions, and plan to open five to seven additional de novo stores in Latin America during the second half of fiscal 2018.

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Net revenue increased \$9.7 million, or 78% (\$8.6 million, or 69%, 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 | Total         |
|   | Service               | Sales Gross | Charge Profit |
|   | (in millions)         |             |               |
| Same stores   | \$1.2                 | \$ 0.5      | \$ 1.7        |
| New stores and other  | 6.6                   | 1.3         | 7.9           |
| Total   | \$7.8                 | \$ 1.8      | \$ 9.6        |
| Change in jewelry scrapping sales gross profit and other revenues |                       |             | 0.1           |
| Total change in net revenue                                       |                       |             | \$ 9.7        |

|   | Change in Net Revenue<br>(Constant Currency) |             |               |
|---|--|-------------|---------------|
|   | Pawn   | Merchandise | Total         |
|   | Service                                      | Sales Gross | Charge Profit |
|   | (in millions)                                |             |               |
| Same stores   | \$1.1  | \$ 0.4      | \$ 1.5        |
| New stores and other  | 6.0  | 1.0         | 7.0           |
| Total   | \$7.1  | \$ 1.4      | \$ 8.5        |
| Change in jewelry scrapping sales gross profit and other revenues |  |             | —             |
| Total change in net revenue                                       |  |             | \$ 8.5        |

Pawn service charges increased 105% (96% 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 per store outstanding during the current quarter increased 31% (27% on a constant currency basis), including additions to store count from acquisitions discussed above and de novo stores, offset by foreign currency impacts.

Merchandise sales increased 37% (28% on a constant currency basis), with gross margin on merchandise sales of 32%, consistent with the prior-year quarter. As a result of the combination of these effects and acquisition of stores discussed above, offset by foreign currency impacts, merchandise sales gross profit was up 39% to \$6.5 million (29% to \$6.1 million on a constant currency basis).

Jewelry scrapping sales increased 188% (177% on a constant currency basis) with a 900 basis point decline in margin, primarily due to the acquisition of stores discussed above.

We leveraged a 78% increase in net revenue (69% on a constant currency basis) into a 116% increase in segment operating contribution (107% 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 68% increase (59% on a constant currency basis) in operations expenses. After a \$0.5 million improvement in other segment income, primarily interest income from our notes receivable, segment contribution increased 119% (109% on a constant currency basis).

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## 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 March 31, Percentage Change |          |       |
|  | 2018                              | 2017     |       |
|  | (in thousands)                    |          |       |
| Net revenues:                                    |                                   |          |       |
| Consumer loan fees, interest and other           | \$1,647                           | \$1,876  | (12)% |
| Consumer loan bad debt                           | (347 )                            | (397 )   | (13)% |
| Net revenues                                     | 1,300                             | 1,479    | (12)% |
| Segment operating expenses (income):             |                                   |          |       |
| Operating expenses                               | 2,022                             | 2,053    | (2)%  |
| Equity in net income of unconsolidated affiliate | (876 )                            | (1,243 ) | (30)% |
| Segment operating contribution                   | 154                               | 669      | (77)% |
| Other segment (income) expense                   | (35 )                             | 41       | *     |
| Segment contribution                             | \$189                             | \$628    | (70)% |

\*Represents an increase or decrease that is not meaningful.

Segment contribution was \$0.2 million, a decrease of 70% from the prior-year quarter, primarily due to a \$0.4 million decrease in equity in net income of our unconsolidated affiliate. We began introducing installment loans in several of our Canada stores during the current quarter due to regulatory changes impacting the economic returns of our payday lending model, which took effect January 1, 2018.

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 fall below its carrying value for an extended period of time.

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## 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<br>Change |
|---|--------------------|-----------|----------------------|
|   | March 31,<br>2018  | 2017      |                      |
|   | (in thousands)     |           |                      |
| Segment contribution                                  | \$ 35,509          | \$ 33,589 | 6%                   |
| Corporate expenses (income):                          |                    |           |                      |
| Administrative  | 13,341             | 13,283    | —%                   |
| Depreciation and amortization                         | 1,957              | 2,660     | (26)%                |
| Gain on sale or disposal of assets                    | (2 )               | —         | *                    |
| Interest expense                                      | 5,827              | 5,625     | 4%                   |
| Interest income                                       | (3,505 )           | (1,898 )  | 85%                  |
| Other expense   | 31                 | 239       | (87)%                |
| Income from continuing operations before income taxes | 17,860             | 13,680    | 31%                  |
| Income tax expense                                    | 5,921              | 5,449     | 9%                   |
| Income from continuing operations, net of tax         | 11,939             | 8,231     | 45%                  |
| Loss from discontinued operations, net of tax         | (500 )             | (375 )    | 33%                  |
| Net income  | 11,439             | 7,856     | 46%                  |
| Net loss attributable to noncontrolling interest      | (374 )             | (167 )    | 124%                 |
| Net income attributable to EZCORP, Inc.               | \$ 11,813          | \$ 8,023  | 47%                  |

\*Represents an increase or decrease that is not meaningful.

Administrative expenses were flat in the current quarter, as we continue to focus on controlling administrative expenditures despite the growth of the business.

Depreciation and amortization expense decreased \$0.7 million, or 26%, 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 \$0.2 million, or 4%, 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 \$1.6 million, or 85%, as a result of our note receivable from the sale of Prestaciones Finmart, S.A.P.I. de C.V., SOFOM, E.N.R. ("Grupo Finmart") which was restructured in September 2017, including ordinary accruals of interest in addition to accretion of associated deferred compensation amounts. Grupo Finmart has continued to make timely monthly principal and interest payments on the notes following the restructuring.

Income tax expense increased \$0.5 million, or 9%, due primarily to the impacts of a \$4.2 million, or 31%, increase in income from continuing operations before income taxes, offset by the lower rates dictated by the Act. 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.

Loss from discontinued operations was comprised of the write-off of balances from a discontinued business which we previously anticipated to collect.



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## Results of Operations

## Six Months Ended March 31, 2018 vs. Six Months Ended March 31, 2017

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 six-months.

## U.S. Pawn

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

|  | Six Months Ended  |            | Change   |
|--|-------------------|------------|----------|
|  | March 31,<br>2018 | 2017       |          |
|  | (in thousands)    |            |          |
| Net revenues:  |                   |            |          |
| Pawn service charges                                   | \$ 118,819        | \$ 120,706 | (2)%     |
| Merchandise sales                                      | 186,247           | 190,411    | (2)%     |
| Merchandise sales gross profit                         | 71,622            | 69,664     | 3%       |
| Gross margin on merchandise sales                      | 38                | % 37       | % 100bps |
| Jewelry scrapping sales                                | 16,702            | 17,901     | (7)%     |
| Jewelry scrapping sales gross profit                   | 3,348             | 2,461      | 36%      |
| Gross margin on jewelry scrapping sales                | 20                | % 14       | % 600bps |
| Other revenues   | 150               | 107        | 40%      |
| Net revenues   | 193,939           | 192,938    | 1%       |
| Segment operating expenses:                            |                   |            |          |
| Operations   | 131,491           | 130,906    | —%       |
| Depreciation and amortization                          | 6,330             | 5,277      | 20%      |
| Segment operating contribution                         | 56,118            | 56,755     | (1)%     |
| Other segment expenses (income)                        | 120               | (83)       | )*       |
| Segment contribution                                   | \$55,998          | \$56,838   | (1)%     |
| Other data:  |                   |            |          |
| Average monthly ending pawn loan balance per store (b) | \$273             | \$275      | (1)%     |
| Monthly average yield on pawn loans outstanding        | 14                | % 14       | % —      |
| Pawn loan redemption rate (c)                          | 84                | % 84       | % —      |

\* 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.

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Net revenue increased \$1.0 million, or 1%, primarily due to higher gross margins in our merchandise sales offset by the impacts of the hurricanes affecting the Texas Gulf Coast and Florida in the fourth quarter of fiscal 2017, as previously disclosed. 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 Service Charge   | Merchandise Sales Gross Profit | Total  |
|   | (in millions)         |                                |        |
| Same stores   | \$(1.5)               | \$ 2.2                         | \$0.7  |
| New stores and other  | (0.4 )                | (0.2 )                         | (0.6 ) |
| Total   | \$(1.9)               | \$ 2.0                         | \$0.1  |
| Change in jewelry scrapping sales gross profit and other revenues |                       |                                | 0.9    |
| Total change in net revenue                                       |                       |                                | \$1.0  |

Pawn service charges decreased 2% primarily due to a 1% decrease in average ending monthly pawn loan balances per store outstanding during the current six-months and a slightly higher yield. The lower average loan balance was primarily a result of the longer recovery to rebuild the loan portfolio for locations impacted by the hurricanes, partially offset by other positive operating trends.

Merchandise sales decreased 2% with gross margin on merchandise sales of 38%, a 100 basis point improvement over the prior-year six-months. As a net result, merchandise sales gross profit increased 3% to \$71.6 million. The increase in merchandise sales gross profit is due to enhanced discipline in pricing and discounting. We expect sales gross margin for the full fiscal year to be within our target range of 35-38% as we expect to accept a slightly lower margin in order to sell through a greater amount of inventory.

Jewelry scrapping sales gross profit remained relatively flat at 2% of current six-month net revenues, in-line with our strategy to sell rather than scrap merchandise, with a 600 basis point increase in gross margin to 20% due primarily to improvements in lending practices and gold prices.

Segment contribution decreased 1% primarily due to a 20% increase in depreciation and amortization, including a one-time charge of \$0.5 million for the retirement of certain assets.

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## 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.

|  | Six Months Ended March 31, |                |                  | 2018<br>(Constant<br>Currency) | Change (Constant<br>Currency) |
|--|----------------------------|----------------|------------------|--------------------------------|-------------------------------|
|  | 2018<br>(GAAP)             | 2017<br>(GAAP) | Change<br>(GAAP) |                                |                               |
|  | (in USD thousands)         |                |                  | (in USD<br>thousands)          |                               |
| Net revenues:  |                            |                |                  |                                |                               |
| Pawn service charges                                   | \$31,908                   | \$15,399       | 107%             | \$30,784                       | 100%                          |
| Merchandise sales                                      | 42,286                     | 31,340         | 35%              | 40,049                         | 28%                           |
| Merchandise sales gross profit                         | 13,524                     | 9,862          | 37%              | 12,788                         | 30%                           |
| Gross margin on merchandise sales                      | 32                         | % 31           | % 100bps         | 32                             | % 100bps                      |
| Jewelry scrapping sales                                | 7,036                      | 2,116          | 233%             | 6,849                          | 224%                          |
| Jewelry scrapping sales gross profit                   | 479                        | 371            | 29%              | 453                            | 22%                           |
| Gross margin on jewelry scrapping sales                | 7                          | % 18           | % (1,100)bps     | 7                              | % (1,100)bps                  |
| Other revenues   | 343                        | 278            | 23%              | 323                            | 16%                           |
| Net revenues   | 46,254                     | 25,910         | 79%              | 44,348                         | 71%                           |
| Segment operating expenses:                            |                            |                |                  |                                |                               |
| Operations   | 29,681                     | 17,541         | 69%              | 28,400                         | 62%                           |
| Depreciation and amortization                          | 1,761                      | 1,291          | 36%              | 1,668                          | 29%                           |
| Segment operating contribution                         | 14,812                     | 7,078          | 109%             | 14,280                         | 102%                          |
| Other segment income (a)                               | (1,278 )                   | (373 )         | 243%             | (1,148 )                       | 208%                          |
| Segment contribution                                   | \$16,090                   | \$7,451        | 116%             | \$15,428                       | 107%                          |
| Other data:  |                            |                |                  |                                |                               |
| Average monthly ending pawn loan balance per store (c) | \$89                       | \$67           | 33%              | \$87                           | 30%                           |
| Monthly average yield on pawn loans outstanding        | 16                         | % 16           | % —              | 16                             | % —                           |
| Pawn loan redemption rate (d)                          | 79                         | % 79           | % —              | 79                             | % —                           |

The six months ended March 31, 2018 constant currency balance excludes nominal net GAAP basis foreign (a) currency transaction gains resulting from movement in exchange rates. The net foreign currency transaction gains for the six months ended March 31, 2017 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.

Our Latin America business continues to grow rapidly. In the current six-months, we acquired 112 pawn stores located in Guatemala, El Salvador, Honduras and Peru and 21 pawn stores located in Mexico, and we opened eight de

novo stores.

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Net revenue increased \$20.3 million, or 79% (\$18.4 million, or 71%, on a constant currency basis). The increase in net revenue attributable to same stores and new stores added since the prior-year six-months is summarized as follows:

|   | Change in Net Revenue |             |              |
|---|-----------------------|-------------|--------------|
|   | Pawn                  | Merchandise | Total        |
|   | Service               | Sales       | Gross Profit |
|   | Charge                |             |              |
|   | (in millions)         |             |              |
| Same stores   | \$2.9                 | \$ 1.3      | \$4.2        |
| New stores and other  | 13.6                  | 2.3         | 15.9         |
| Total   | \$16.5                | \$ 3.6      | \$20.1       |
| Change in jewelry scrapping sales gross profit and other revenues |                       |             | 0.2          |
| Total change in net revenue                                       |                       |             | \$20.3       |

|   | Change in Net Revenue<br>(Constant Currency) |             |              |
|---|--|-------------|--------------|
|   | Pawn   | Merchandise | Total        |
|   | Service                                      | Sales       | Gross Profit |
|   | Charge                                       |             |              |
|   | (in millions)                                |             |              |
| Same stores   | \$2.7  | \$ 1.0      | \$3.7        |
| New stores and other  | 12.7   | 1.9         | 14.6         |
| Total   | \$15.4                                       | \$ 2.9      | \$18.3       |
| Change in jewelry scrapping sales gross profit and other revenues |  |             | 0.1          |
| Total change in net revenue                                       |  |             | \$18.4       |

Pawn service charges increased 107% (100% 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 per store outstanding during the current six-months increased 33% (30% on a constant currency basis), including additions to store count from acquisitions discussed above and de novo stores, offset by foreign currency impacts.

Merchandise sales increased 35% (28% on a constant currency basis), with gross margin on merchandise sales of 32%, 100 basis points above the prior-year six-months. As a result of the combination of these effects, offset by foreign currency impacts, merchandise sales gross profit was up 37% to \$13.5 million (30% to \$12.8 million on a constant currency basis).

Jewelry scrapping sales increased 233% (224% on a constant currency basis) with a 1,100 basis point decline in margin, primarily due to the acquisition of stores discussed above.

We leveraged a 79% increase in net revenue (71% on a constant currency basis) into a 109% increase in segment operating contribution (102% 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 69% increase (62% increase on a constant currency basis) in operations expenses. After a \$0.9 million improvement in other segment income, primarily interest income from our notes receivable, segment contribution increased 116% (107% on a constant currency basis).

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## 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:

Six Months  
Ended March 31, Percentage Change  
2018 2017

(in thousands)

## Net revenues:

|  |         |         |      |
|--|---------|---------|------|
| Consumer loan fees, interest and other | \$3,751 | \$3,994 | (6)% |
| Consumer loan bad debt                 | 924     | 980     | (6)% |
| Net revenues                           | 2,827   | 3,014   | (6)% |

## Segment operating expenses (income):

|  |          |          |       |
|--|----------|----------|-------|
| Operating expenses                               | 4,692    | 3,759    | 25%   |
| Equity in net income of unconsolidated affiliate | (2,326 ) | (2,721 ) | (15)% |
| Segment operating contribution                   | 461      | 1,976    | (77)% |

|                                |        |         |       |
|--------------------------------|--------|---------|-------|
| Other segment (income) expense | (118 ) | 40      | *     |
| Segment contribution           | \$579  | \$1,936 | (70)% |

\*Represents an increase or decrease that is not meaningful.

Segment contribution was \$0.6 million, a decrease of 70% from the prior-year six-months, primarily due to a \$0.9 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.

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 fall below its carrying value for an extended period of time.

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## 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:

|   | Six Months Ended March |           | Percentage<br>Change |
|---|------------------------|-----------|----------------------|
|   | 31,<br>2018            | 2017      |                      |
|   | (in thousands)         |           |                      |
| Segment contribution                                  | \$ 72,667              | \$ 66,225 | 10%                  |
| Corporate expenses (income):                          |                        |           |                      |
| Administrative  | 26,659                 | 27,210    | (2)%                 |
| Depreciation and amortization                         | 3,989                  | 5,735     | (30)%                |
| Loss on sale or disposal of assets                    | 11                     | —         | *                    |
| Interest expense                                      | 11,673                 | 11,188    | 4%                   |
| Interest income                                       | (7,138 )               | (4,447 )  | 61%                  |
| Other income  | (179 )                 | (189 )    | (5)%                 |
| Income from continuing operations before income taxes | 37,652                 | 26,728    | 41%                  |
| Income tax expense                                    | 13,358                 | 10,231    | 31%                  |
| Income from continuing operations, net of tax         | 24,294                 | 16,497    | 47%                  |
| Loss from discontinued operations, net of tax         | (722 )                 | (1,603 )  | (55)%                |
| Net income  | 23,572                 | 14,894    | 58%                  |
| Net loss attributable to noncontrolling interest      | (989 )                 | (294 )    | 236%                 |
| Net income attributable to EZCORP, Inc.               | \$ 24,561              | \$ 15,188 | 62%                  |

\*Represents an increase or decrease that is not meaningful.

Administrative expenses decreased \$0.6 million, or 2%, including the impact of \$0.4 million of acquisition-related expenses in the current six-months, as we continue to focus on controlling administrative expenditures despite the growth of the business.

Depreciation and amortization expense decreased \$1.7 million, or 30%, primarily due to acceleration of depreciation in the prior-year six-months for certain assets resulting from a decrease in useful life estimates.

Interest expense increased \$0.5 million, or 4%, primarily due to an increase in long-term debt outstanding during the current six-months, offset by a decrease in the weighted interest rates accrued thereon.

Interest income increased \$2.7 million, or 61%, 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. Grupo Finmart has continued to make timely monthly principal and interest payments on the notes following the restructuring.

Income tax expense increased \$3.1 million, or 31%, due primarily to the impacts of a \$10.9 million, or 41%, 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 was effective as of January 1, 2018 and, accordingly, reduced our current fiscal year federal statutory rate to a blended rate of 24.5%, and will further reduce it to 21% beginning in fiscal 2019. As of March 31, 2018, while we are able to make reasonable estimates of the impact of the reduction in the corporate rate and the deemed repatriation transition tax, the final impact of the Act may differ from these estimates, due to, among other things, changes in our interpretations and assumptions, additional guidance that may be issued by the Internal Revenue Service, and actions we may take. We are continuing to gather additional information

to determine the final impact of the Act. We recognized \$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

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"Income tax expense" in our condensed consolidated statements of operations in the current six-months. 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 believe we have adequate foreign tax credit carryforwards to fully offset any transition tax on the total post-1986 foreign earnings and profit of our foreign subsidiaries as required under the Act.

Loss from discontinued operations was primarily comprised of the write-off of balances from a discontinued business which we previously anticipated to collect.

## Liquidity and Capital Resources

## Cash Flows

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

|  | Six Months Ended  |          | Percentage<br>Change |
|--|-------------------|----------|----------------------|
|  | March 31,<br>2018 | 2017     |                      |
|  | (in thousands)    |          |                      |
| Cash flows from operating activities                         | \$45,541          | \$20,692 | 120%                 |
| Cash flows from investing activities                         | (49,474 )         | 33,745   | *                    |
| Cash flows from financing activities                         | (311 )            | (767 )   | 59%                  |
| Effect of exchange rate changes on cash and cash equivalents | (237 )            | 692      | *                    |
| Net (decrease) increase in cash and cash equivalents         | \$(4,481 )        | \$54,362 | *                    |

\*Represents an increase or decrease that is not meaningful.

## Change in Cash and Cash Equivalents for the Six Months Ended March 31, 2018 vs. Six Months Ended March 31, 2017

The increase in cash flows from operating activities year-over-year was due to an \$11.8 million increase in the changes in operating assets and liabilities and a \$13.0 million increase in net income exclusive of non-cash items due to improved operational results and stores acquired in the current six-months. 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 \$63.8 million in cash paid for acquisitions, a \$11.2 million increase in net additions to property and equipment and capitalized labor as we continue our store refresh program, a \$5.9 million decrease in principal collections on notes receivable due to contractual amortization schedules and a \$2.3 million net decrease 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 \$4.5 million decrease in cash on hand during the six-month period ended March 31, 2018, resulting in a \$159.9 million ending cash balance compared to \$120.1 million as of March 31, 2017. Of the ending cash balance as of March 31, 2018, \$18.1 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

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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.

#### 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 ("2024 Convertible Notes") 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.

During the second quarter of fiscal 2018, the closing market price of our Class A Non-Voting Common Stock ("Class A Common Stock") met the threshold based on at least 20 of the final 30 trading days of the quarter for the 2024 Convertible Notes to become convertible at the option of the holders during the third quarter of fiscal 2018 (April 1, 2018 to June 30, 2018). If presented for conversion, the notes may be converted into cash, shares of our Class A Common Stock or a combination of cash and shares of our Class A Common Stock, at our discretion. This trading condition for conversion is evaluated on a quarterly basis and may not be met in future periods. We have classified this obligation as current on our condensed consolidated balance sheet as of March 31, 2018. However, we believe it is unlikely that any holder of these notes will in fact convert their notes during the third quarter, based on the economic benefits of holding this instrument until closer to maturity. As such, we do not expect a significant use of cash over the next twelve months to repay any of the 2024 Convertible Notes.

#### 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, other than the reclassification of our 2.875% Convertible Senior Notes Due 2024 to current as discussed in Note 6 of Notes to Interim Condensed Consolidated Financial Statements included in "Part I, Item 1 — Financial Statements."

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

We do not expect any material impacts of adopting Financial Accounting Standards Board ("FASB") Accounting Standards Updates ("ASU") included in Note 1 of Notes to Interim Condensed Consolidated Financial Statements included in "Part I, Item 1 — Financial Statements" on our results of operations, however expect ASU 2016-02 regarding lease accounting to have a material impact on our consolidation financial position upon adoption. 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 critical accounting policies and estimates including discussions of variability where applicable. Additional information around our timeline of adoption including the currently known impacts of FASB ASU 2016-13, 2016-02 and 2014-09 is included in 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

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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.

**Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2018. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2018.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2018 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.



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**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, as supplemented by the information set forth below. These factors are further supplemented by those discussed in "Part I, Item 3 — Quantitative and Qualitative Disclosures about Market Risk" and "Part II, Item 1 — Legal Proceedings" of this Quarterly Report.

Our 2024 Convertible Notes may be converted during the third quarter of fiscal 2018 due to the satisfaction of the stock trading price condition as of the end of the second quarter.

Holders of our 2024 Convertible Notes are entitled to convert their notes at any time during the third quarter of fiscal 2018 (commencing April 1 and ending June 30) because the stock trading price condition (which requires our Class A Non-Voting Common Stock ("Class A Common Stock") to trade at or above \$13.00 per share for a specified number of days) was satisfied during the second quarter. We believe it to be unlikely that any holder will convert their notes because (1) conversion will eliminate the 2.875% coupon interest and the optionality feature and (2) the notes themselves currently trade in excess of the aggregate trading price of the as-converted shares. Nevertheless, the satisfaction of the conversion conditions has required us to reclassify the 2024 Convertible Notes from a non-current liability to a current liability as of March 31, 2018.

In the unlikely event that one or more holders do elect to convert their notes, we may choose to settle the obligation through the payment of cash, the delivery of Class A Common Stock or a combination of cash and shares, although it continues to be our intention to settle the principal portion of the notes in cash and the remainder in Class A Common Stock.

The stock trading price condition is measured on a quarter-by-quarter basis. While the 2024 Convertible Notes are eligible to be converted during the third quarter, that convertibility will end on June 30, 2018, and whether the notes will be convertible after that will depend on whether the stock trading price condition is satisfied during the third quarter or any subsequent quarter. If the notes are not convertible in any subsequent quarter, we will be required to reclassify them back to a non-current liability. Thus, to the extent that our Class A Common Stock trades at or around \$13.00 per share (which is 130% of the conversion price), we may experience volatility in our current liabilities from quarter to quarter.

**ITEM 5. OTHER INFORMATION**

The Company has extended an offer of employment to Nicholas Cohen, the son of Phillip E. Cohen, the beneficial owner of all of our Class B Voting Common Stock. It is expected that Nicholas Cohen will join the Company as Director of Financial Planning and Analysis effective May 21, 2018. Under the terms of his employment, Nicholas Cohen will receive an annual base salary of \$125,000 and a target short-term incentive bonus of 20% of base salary (\$25,000), and will be eligible for healthcare and other benefits typically provided to similarly positioned employees. Nicholas Cohen received a Bachelor of Arts degree in Economics from Vassar College in 2007 and an MBA (specializing in Accounting & Finance) from New York University's Stern School of Business in 2016. He has finance and operational experience at a variety of companies since 2005.

The Company considers the employment relationship with Nicholas Cohen to be a related party transaction that is subject to the Company's Policy for Review and Evaluation of Related Party Transactions. Accordingly, prior to the Company's extending the offer of employment, the Audit Committee reviewed and approved the extension of the offer and the terms of employment.

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ITEM 6. EXHIBITS

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

Exhibit No. Description of Exhibit

- 31.1<sup>†</sup> 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<sup>†</sup> 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<sup>††</sup> 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<sup>†††</sup> XBRL Instance Document

101.SCH<sup>†††</sup> XBRL Taxonomy Extension Schema Document

101.CAL<sup>†††</sup> XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB<sup>†††</sup> XBRL Taxonomy Label Linkbase Document

101.DEF<sup>†††</sup> XBRL Taxonomy Extension Definition Linkbase Document

101.PRE<sup>†††</sup> 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 March 31, 2018, March 31, 2017 and September 30, 2017; (ii) Condensed Consolidated Statements of Operations for the three and six months ended March 31, 2018 and March 31, 2017; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended March 31, 2018 and March 31, 2017; (iv) Condensed Consolidated Statements of Stockholders' Equity for the six months ended March 31, 2018 and March 31, 2017; (v) Condensed Consolidated Statements of Cash Flows for the six months ended March 31, 2018 and March 31, 2017; and (vi) Notes to Interim Condensed Consolidated Financial Statements.



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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: May 2, 2018 /s/ David McGuire

David McGuire,

Deputy Chief Financial Officer and Chief Accounting Officer

(principal accounting officer)