

EZCORP INC  
Form 10-Q  
May 12, 2014  
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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, 2014

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 0-19424

EZCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware

74-2540145

(State or other jurisdiction of  
incorporation or organization)

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

1901 Capital Parkway

78746

Austin, Texas

(Address of principal executive offices)

(Zip Code)

(512) 314-3400

Registrant's telephone number, including area code:

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

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

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

As of March 31, 2014, 51,411,973 shares of the registrant's Class A Non-voting Common Stock, par value \$.01 per share, and 2,970,171 shares of the registrant's Class B Voting Common Stock, par value \$.01 per share, were outstanding.

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## PART I — FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements and Supplementary Data (unaudited)

EZCORP, Inc.

## CONDENSED CONSOLIDATED BALANCE SHEETS

|   | March 31,<br>2014 | March 31,<br>2013 | September 30,<br>2013 |
|---|-------------------|-------------------|-----------------------|
|   | (in thousands)    |                   |                       |
| Assets:   |                   |                   |                       |
| Current assets:                                 |                   |                   |                       |
| Cash and cash equivalents                       | \$32,198          | \$41,443          | \$ 36,317             |
| Restricted cash                                 | 21,104            | 1,204             | 3,312                 |
| Pawn loans                                      | 128,683           | 138,380           | 156,637               |
| Consumer loans, net                             | 75,501            | 36,596            | 64,683                |
| Pawn service charges receivable, net            | 24,733            | 25,388            | 30,362                |
| Consumer loan fees and interest receivable, net | 40,033            | 33,507            | 36,292                |
| Inventory, net                                  | 129,013           | 116,517           | 145,200               |
| Deferred tax asset                              | 13,825            | 15,716            | 13,825                |
| Income tax receivable                           | 17,702            | 3,079             | 16,105                |
| Prepaid expenses and other assets               | 54,321            | 42,421            | 34,217                |
| Total current assets                            | 537,113           | 454,251           | 536,950               |
| Investments in unconsolidated affiliates        | 88,685            | 147,232           | 97,085                |
| Property and equipment, net                     | 111,419           | 118,979           | 116,281               |
| Restricted cash, non-current                    | 9,575             | 2,197             | 2,156                 |
| Goodwill  | 435,048           | 438,016           | 433,300               |
| Intangible assets, net                          | 69,016            | 60,387            | 63,805                |
| Non-current consumer loans, net                 | 61,724            | 77,414            | 70,294                |
| Deferred tax asset                              | 9,619             | —                 | 8,214                 |
| Other assets, net                               | 30,037            | 20,723            | 24,105                |
| Total assets (1)                                | \$1,352,236       | \$1,319,199       | \$ 1,352,190          |
| Liabilities and stockholders' equity:           |                   |                   |                       |
| Current liabilities:                            |                   |                   |                       |
| Current maturities of long-term debt            | \$14,228          | \$34,912          | \$ 30,436             |
| Current capital lease obligations               | 533               | 533               | 533                   |
| Accounts payable and other accrued expenses     | 70,812            | 63,298            | 79,967                |
| Other current liabilities                       | 12,121            | 36,096            | 22,337                |
| Customer layaway deposits                       | 8,986             | 8,191             | 8,628                 |
| Total current liabilities                       | 106,680           | 143,030           | 141,901               |
| Long-term debt, less current maturities         | 214,254           | 137,376           | 215,939               |
| Long-term capital lease obligations             | 106               | 648               | 391                   |
| Deferred tax liability                          | —                 | 10,104            | —                     |
| Deferred gains and other long-term liabilities  | 18,613            | 19,872            | 24,040                |
| Total liabilities (2)                           | 339,653           | 311,030           | 382,271               |
| Commitments and contingencies                   |                   |                   |                       |
| Temporary equity:                               |                   |                   |                       |
| Redeemable noncontrolling interest              | 58,107            | 52,982            | 55,393                |

## Stockholders' equity:

|  |              |              |              |
|--|--------------|--------------|--------------|
| Class A Non-voting Common Stock, par value \$.01 per share; shares authorized: 100 million and 54 million at March 31, 2014 and 2013; and 56 million at September 30, 2013; issued and outstanding: 51,411,973 and 51,208,328 at March 31, 2014 and 2013; and 51,269,434 at September 30, 2013 | 513          | 508          | 513          |
| Class B Voting Common Stock, convertible, par value \$.01 per share; 3 million shares authorized; issued and outstanding: 2,970,171  | 30           | 30           | 30           |
| Additional paid-in capital   | 327,385      | 315,092      | 320,777      |
| Retained earnings  | 630,441      | 630,501      | 599,880      |
| Accumulated other comprehensive (loss) income  | (3,893 )     | 9,056        | (6,674 )     |
| EZCORP, Inc. stockholders' equity  | 954,476      | 955,187      | 914,526      |
| Total liabilities and stockholders' equity   | \$ 1,352,236 | \$ 1,319,199 | \$ 1,352,190 |

## Assets and Liabilities of Grupo Finmart Securitization Trust

(1) Our consolidated assets as of March 31, 2014, March 31, 2013 and September 30, 2013 include the following assets of Grupo Finmart's securitization trust that can only be used to settle its liabilities: Restricted cash, \$17.8 million as of March 31, 2014; Restricted cash, non-current, \$5.8 million and \$2.2 million as of March 31, 2014 and March 31, 2013, respectively, and \$2.2 million as of September 30, 2013; Consumer loans, net, \$42.2 million and \$36.1 million as of March 31, 2014 and March 31, 2013, respectively, and \$33.9 million as of September 30, 2013; Consumer loan fees and interest receivable, net, \$6.2 million and \$8.1 million as of March 31, 2014 and March 31, 2013, respectively, and \$7.3 million as of September 30, 2013; Intangible assets, net, \$2.4 million and \$3.0 million as of March 31, 2014 and March 31, 2013, respectively, and \$2.1 million as of September 30, 2013; and total assets, \$74.4 million and \$49.4 million as of March 31, 2014 and March 31, 2013, respectively, and \$45.5 million as of September 30, 2013.

(2) Our consolidated liabilities as of March 31, 2014, March 31, 2013 and September 30, 2013 include \$55.7 million, \$34.0 million, and \$32.0 million, respectively, of long-term debt for which the creditors of Grupo Finmart's securitization trust do not have recourse to EZCORP, Inc.

See accompanying notes to 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, |            |
|--|--|------------|-------------------------------|------------|
|  | 2014                                     | 2013       | 2014                          | 2013       |
|  | (in thousands, except per share amounts) |            |                               |            |
| Revenues:  |  |            |                               |            |
| Merchandise sales  | \$ 103,454                               | \$ 100,082 | \$ 209,041                    | \$ 194,686 |
| Jewelry scrapping sales  | 26,193                                   | 42,582     | 53,896                        | 87,291     |
| Pawn service charges   | 59,162                                   | 62,015     | 123,295                       | 127,415    |
| Consumer loan fees and interest  | 64,785                                   | 60,751     | 131,114                       | 123,885    |
| Other revenues   | 6,106                                    | 2,684      | 11,711                        | 7,498      |
| Total revenues   | 259,700                                  | 268,114    | 529,057                       | 540,775    |
| Merchandise cost of goods sold   | 63,857                                   | 58,716     | 127,445                       | 113,661    |
| Jewelry scrapping cost of goods sold   | 20,111                                   | 29,311     | 40,131                        | 60,616     |
| Consumer loan bad debt   | 10,422                                   | 8,457      | 28,854                        | 21,978     |
| Net revenues   | 165,310                                  | 171,630    | 332,627                       | 344,520    |
| Operating expenses:  |  |            |                               |            |
| Operations   | 108,064                                  | 101,831    | 220,833                       | 205,116    |
| Administrative   | 20,032                                   | 8,603      | 35,777                        | 22,274     |
| Depreciation   | 7,539                                    | 7,071      | 15,005                        | 13,631     |
| Amortization   | 1,975                                    | 1,316      | 3,915                         | 2,030      |
| Loss (gain) on sale or disposal of assets  | 342                                      | 13         | (5,948)                       | ) 42       |
| Total operating expenses   | 137,952                                  | 118,834    | 269,582                       | 243,093    |
| Operating income   | 27,358                                   | 52,796     | 63,045                        | 101,427    |
| Interest expense, net  | 5,275                                    | 3,753      | 9,607                         | 7,390      |
| Equity in net income of unconsolidated affiliates  | (492)                                    | ) (4,125)  | ) (1,763)                     | ) (9,163)  |
| Impairment of investments  | 7,940                                    | —          | 7,940                         | —          |
| Other expense (income)   | 1,324                                    | 405        | 1,156                         | (96)       |
| Income from continuing operations before income taxes                                    | 13,311                                   | 52,763     | 46,105                        | 103,296    |
| Income tax expense   | 4,204                                    | 16,273     | 14,085                        | 32,945     |
| Income from continuing operations, net of tax  | 9,107                                    | 36,490     | 32,020                        | 70,351     |
| (Loss) income from discontinued operations, net of tax                                   | (40)                                     | ) (1,610)  | ) 1,442                       | (3,316)    |
| Net income   | 9,067                                    | 34,880     | 33,462                        | 67,035     |
| Net income from continuing operations attributable to redeemable noncontrolling interest | 1,075                                    | 899        | 2,901                         | 2,337      |
| Net income attributable to EZCORP, Inc.  | \$ 7,992                                 | \$ 33,981  | \$ 30,561                     | \$ 64,698  |
| Basic earnings (loss) per share attributable to EZCORP, Inc.:                            |  |            |                               |            |
| Continuing operations  | \$ 0.15                                  | \$ 0.66    | \$ 0.53                       | \$ 1.28    |
| Discontinued operations  | —  | (0.03)     | ) 0.03                        | (0.06)     |
| Basic earnings per share   | \$ 0.15                                  | \$ 0.63    | \$ 0.56                       | \$ 1.22    |
| Diluted earnings (loss) per share attributable to EZCORP, Inc.:                          |  |            |                               |            |
| Continuing operations  | \$ 0.15                                  | \$ 0.66    | \$ 0.53                       | \$ 1.28    |
| Discontinued operations  | —  | (0.03)     | ) 0.03                        | (0.06)     |
| Diluted earnings per share   | \$ 0.15                                  | \$ 0.63    | \$ 0.56                       | \$ 1.22    |

Weighted average shares outstanding:

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|   |         |          |          |          |
|---|---------|----------|----------|----------|
| Basic   | 54,374  | 54,172   | 54,353   | 53,099   |
| Diluted   | 54,586  | 54,252   | 54,583   | 53,172   |
| Net income from continuing operations attributable to EZCORP, Inc., net of tax      | \$8,032 | \$35,591 | \$29,119 | \$68,014 |
| (Loss) income from discontinued operations attributable to EZCORP, Inc., net of tax | (40 )   | (1,610 ) | 1,442    | (3,316 ) |
| Net income attributable to EZCORP, Inc.   | \$7,992 | \$33,981 | \$30,561 | \$64,698 |

See accompanying notes to interim condensed consolidated financial statements.

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EZCORP, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|   | Three Months Ended |          | Six Months Ended March |          |   |
|---|--------------------|----------|------------------------|----------|---|
|   | March 31,          |          | 31,                    |          |   |
|   | 2014               | 2013     | 2014                   | 2013     |   |
|   | (in thousands)     |          |                        |          |   |
| Net income  | \$9,067            | \$34,880 | \$33,462               | \$67,035 |   |
| Other comprehensive income (loss):  |                    |          |                        |          |   |
| Foreign currency translation (loss) gain  | (2,109             | ) 11,111 | 2,607                  | 14,579   |   |
| Foreign currency translation reclassification adjustment realized upon impairment | 375                | —        | 375                    | —        |   |
| Gain (loss) on effective portion of cash flow hedge:                              |                    |          |                        |          |   |
| Other comprehensive loss before reclassifications                                 | (326               | ) —      | (672                   | ) —      |   |
| Amounts reclassified from accumulated other comprehensive income                  | 297                | —        | 542                    | —        |   |
| Unrealized holding gain (loss) arising during period                              | 626                | (221     | ) 617                  | (264     | ) |
| Income tax benefit (expense)  | 476                | (1,057   | ) (418                 | ) (3,037 | ) |
| Other comprehensive income, net of tax  | (661               | ) 9,833  | 3,051                  | 11,278   |   |
| Comprehensive income  | \$8,406            | \$44,713 | \$36,513               | \$78,313 |   |
| Attributable to redeemable noncontrolling interest:                               |                    |          |                        |          |   |
| Net income  | 1,075              | 899      | 2,901                  | 2,337    |   |
| Foreign currency translation (loss) gain  | (37                | ) 2,760  | 322                    | 2,109    |   |
| (Loss) on effective portion of cash flow hedge                                    | (52                | ) —      | (52                    | ) —      |   |
| Comprehensive income attributable to redeemable noncontrolling interest           | 986                | 3,659    | 3,171                  | 4,446    |   |
| Comprehensive income attributable to EZCORP, Inc.                                 | \$7,420            | \$41,054 | \$33,342               | \$73,867 |   |

See accompanying notes to interim condensed consolidated financial statements.



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EZCORP, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Six Months Ended March 31, |             |
|---|----------------------------|-------------|
|   | 2014                       | 2013        |
|   | (in thousands)             |             |
| Operating Activities:   |                            |             |
| Net income  | \$33,462                   | \$67,035    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                            |             |
| Depreciation and amortization   | 18,886                     | 16,415      |
| Consumer loan loss provision  | 17,365                     | 12,900      |
| Deferred income taxes   | (1,624)                    | ) 1,400     |
| Other adjustments   | 2,551                      | —           |
| (Gain) loss on sale or disposal of assets   | (6,081)                    | ) 42        |
| Gain on sale of loan portfolio  | (5,784)                    | ) —         |
| Stock compensation  | 8,268                      | 3,054       |
| Income from investments in unconsolidated affiliates                              | (1,763)                    | ) (9,163)   |
| Impairment of investments   | 7,940                      | —           |
| Changes in operating assets and liabilities, net of business acquisitions:        |                            |             |
| Service charges and fees receivable, net  | 2,625                      | 2,366       |
| Inventory, net  | 1,777                      | (3,034)     |
| Prepaid expenses, other current assets, and other assets, net                     | (15,778)                   | ) (7,072)   |
| Accounts payable and accrued expenses   | (11,155)                   | ) (2,743)   |
| Customer layaway deposits   | 353                        | 812         |
| Deferred gains and other long-term liabilities                                    | 1,554                      | 350         |
| Tax provision (benefit) from stock compensation                                   | 411                        | (342)       |
| Income taxes receivable/payable   | (1,987)                    | ) 7,320     |
| Dividends from unconsolidated affiliates  | 2,597                      | 4,828       |
| Net cash provided by operating activities   | 53,617                     | 94,168      |
| Investing Activities:   |                            |             |
| Loans made  | (448,159)                  | ) (440,917) |
| Loans repaid  | 325,171                    | 307,930     |
| Recovery of pawn loan principal through sale of forfeited collateral              | 130,359                    | 129,965     |
| Additions to property and equipment   | (10,643)                   | ) (23,506)  |
| Acquisitions, net of cash acquired  | (10,282)                   | ) (12,279)  |
| Investments in unconsolidated affiliates  | —                          | ) (11,018)  |
| Proceeds from sale of assets  | 29,546                     | —           |
| Other investing activities  | 94                         | —           |
| Net cash provided by (used in) investing activities                               | 16,086                     | (49,825)    |
| Financing Activities:   |                            |             |
| Proceeds from exercise of stock options   | —                          | 6           |
| Tax provision (benefit) from stock compensation                                   | (411)                      | ) 342       |
| Taxes paid related to net share settlement of equity awards                       | (629)                      | ) (3,596)   |
| Debt issuance costs   | (5,176)                    | ) (259)     |
| Payout of deferred and contingent consideration                                   | (23,000)                   | ) —         |
| Purchase of subsidiary shares from noncontrolling interest                        | (1,082)                    | ) —         |
| Change in restricted cash   | (25,099)                   | ) 2,303     |
| Proceeds from revolving line of credit  | 217,493                    | 148,265     |
| Payments on revolving line of credit  | (273,070)                  | ) (194,805) |
| Proceeds from bank borrowings   | 86,661                     | 1,172       |

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|  |          |           |   |
|--|----------|-----------|---|
| Payments on bank borrowings and capital lease obligations    | (49,497  | ) (5,170  | ) |
| Net cash used in financing activities                        | (73,810  | ) (51,742 | ) |
| Effect of exchange rate changes on cash and cash equivalents | (12      | ) 365     |   |
| Net decrease in cash and cash equivalents                    | (4,119   | ) (7,034  | ) |
| Cash and cash equivalents at beginning of period             | 36,317   | 48,477    |   |
| Cash and cash equivalents at end of period                   | \$32,198 | \$41,443  |   |

Non-cash Investing and Financing Activities:

|   |            |            |
|---|------------|------------|
| Pawn loans forfeited and transferred to inventory | \$ 118,050 | \$ 130,675 |
| Issuance of common stock due to acquisitions      | \$—        | \$38,705   |
| Deferred consideration                            | \$5,331    | \$24,000   |
| Contingent consideration                          | \$—        | \$4,792    |
| Accrued additions to property and equipment       | \$122      | \$—        |
| Note receivable from sale of assets               | \$15,903   | \$—        |
| Purchase of shares from noncontrolling interest   | \$619      | \$—        |

See accompanying notes to interim condensed consolidated financial statements.

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EZCORP, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

|  | Common Stock   |           | Additional | Retained  | Accumulated   | EZCORP,       |
|--|----------------|-----------|------------|-----------|---------------|---------------|
|  | Shares         | Par Value | Paid-in    | Earnings  | Other         | Inc.          |
|  |                |           | Capital    |           | Comprehensive | Stockholders' |
|  |                |           |            |           | Income (Loss) | Equity        |
|  | (in thousands) |           |            |           |               |               |
| Balances at September 30, 2012   | 51,226         | \$ 512    | \$268,626  | \$565,803 | \$ (113 )     | \$ 834,828    |
| Stock compensation   | —              | —         | 3,054      | —         | —             | 3,054         |
| Stock options exercised  | 3              | —         | 6          | —         | —             | 6             |
| Issuance of common stock due to acquisitions   | 1,965          | 20        | 38,685     | —         | —             | 38,705        |
| Issuance of common stock due to purchase of subsidiary shares from noncontrolling interest | 592            | 6         | 10,398     | —         | —             | 10,404        |
| Purchase of subsidiary shares from noncontrolling interest                                 | —              | —         | (2,423 )   | —         | 85            | (2,338 )      |
| Release of restricted stock  | 392            | —         | —          | —         | —             | —             |
| Excess tax benefit from stock compensation   | —              | —         | 342        | —         | —             | 342           |
| Taxes paid related to net share settlement of equity awards                                | —              | —         | (3,596 )   | —         | —             | (3,596 )      |
| Unrealized loss on available-for-sale securities   | —              | —         | —          | —         | (172 )        | (172 )        |
| Foreign currency translation adjustment  | —              | —         | —          | —         | 9,256         | 9,256         |
| Net income attributable to EZCORP, Inc.  | —              | —         | —          | 64,698    | —             | 64,698        |
| Balances at March 31, 2013   | 54,178         | \$ 538    | \$315,092  | \$630,501 | \$ 9,056      | \$ 955,187    |
| Balances at September 30, 2013   | 54,240         | \$ 543    | \$320,777  | \$599,880 | \$ (6,674 )   | \$ 914,526    |
| Stock compensation   | —              | —         | 8,276      | —         | —             | 8,276         |
| Purchase of subsidiary shares from noncontrolling interest                                 | —              | —         | (619 )     | —         | (15 )         | (634 )        |
| Release of restricted stock  | 142            | —         | —          | —         | —             | —             |
| Tax deficiency of stock compensation   | —              | —         | (420 )     | —         | —             | (420 )        |
| Taxes paid related to net share settlement of equity awards                                | —              | —         | (629 )     | —         | —             | (629 )        |
| Effective portion of cash flow hedge   | —              | —         | —          | —         | (78 )         | (78 )         |
| Unrealized gain on available-for-sale securities   | —              | —         | —          | —         | 401           | 401           |
| Foreign currency translation adjustment  | —              | —         | —          | —         | 2,098         | 2,098         |
| Foreign currency translation reclassification adjustment realized upon impairment          | —              | —         | —          | —         | 375           | 375           |
| Net income attributable to EZCORP, Inc.  | —              | —         | —          | 30,561    | —             | 30,561        |
| Balances at March 31, 2014   | 54,382         | \$ 543    | \$327,385  | \$630,441 | \$ (3,893 )   | \$ 954,476    |

See accompanying notes to interim condensed consolidated financial statements.

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EZCORP, Inc.

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

March 31, 2014

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Our management has included all adjustments it considers necessary for a fair presentation. These adjustments are of a normal, recurring nature except for those related to discontinued operations (described in Note 2) and acquired businesses (described in Note 3). The accompanying financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended September 30, 2013. The balance sheet at September 30, 2013 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Our business is subject to seasonal variations, and operating results for the three and six months ended March 31, 2014 (the "current quarter" and "current six-month period") are not necessarily indicative of the results of operations for the full fiscal year.

The consolidated financial statements include the accounts of EZCORP, Inc. ("EZCORP") and its consolidated subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. As of March 31, 2014, we own 60% of the outstanding equity interests in Prestaciones Finmart, S.A.P.I. de C.V., SOFOM, E.N.R. ("Grupo Finmart"), doing business under the brands "Crediamigo" and "Adex," and 59% of Renueva Comercial S.A.P.I. de C.V. ("TUYO"), and therefore, include their results in our consolidated financial statements. We account for our investments in Albemarle & Bond Holdings, PLC ("Albemarle & Bond") and Cash Converters International Limited ("Cash Converters International") using the equity method.

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, 2013.

Recently Adopted Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, Income Taxes (Topic 740)—Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward or Tax Credit Carryforward Exists. This update provides that an entity's unrecognized tax benefit, or a portion of its unrecognized tax benefit, should be presented in its financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with one exception. That exception states that, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This update applies prospectively to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. Retrospective application is also permitted. This update is effective for annual periods, and interim periods within those years, beginning after December 15, 2013. The adoption of ASU 2013-03 did not have a material effect on our financial position, results of operations or cash flows.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220) — Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This update, requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting

period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. This update requires entities to apply the amendments for periods beginning after December 15, 2012 and interim periods within those annual periods and to provide the required disclosures for all reporting periods presented. The adoption of ASU 2013-02 did not have a material effect on our financial position, results of operations or cash flows.

In February 2013, the FASB issued ASU 2013-04, Liabilities (Topic 405)—Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (a consensus of the FASB

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Emerging Issues Task Force). This update provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date (except for obligations addressed within existing guidance in U.S. GAAP). Examples of obligations within the scope of ASU 2013-04 include debt arrangements, other contractual obligations and settled litigation and judicial rulings. ASU 2013-04 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of ASU 2013-04 did not have a material effect on our financial position, results of operations or cash flows.

In March 2013, the FASB issued ASU 2013-05, Foreign Currency Matters (Topic 830) — Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force). This update applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity, or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. ASU 2013-05 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of ASU 2013-05 did not have a material effect on our financial position, results of operations or cash flows.

**Recently Issued Accounting Pronouncements**

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) — Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This update provides guidance for the reporting of discontinued operations if (1) a component or group of components of an entity meets the criteria in FASB ASC Paragraph 205-20-45-1E to be classified as held for sale; (2) the component of an entity or group of components of an entity is disposed of by sale; or (3) the component of an entity or group of components of an entity is disposed of other than by sale (for example, by abandonment or in a distribution to owners in a spinoff). This update states that a discontinued operation can also include a business or nonprofit activity. Among other disclosures, ASU No. 2014-08 requires an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position. ASU 2014-08 is effective prospectively for (1) all disposals of components that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years; and (2) all businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. We do not anticipate that the adoption of ASU No. 2014-08 will have a material effect on our financial position, results of operations or cash flows.

**NOTE 2: DISCONTINUED OPERATIONS**

During the third quarter of fiscal 2013, we implemented a plan to close 107 legacy stores (all of which were in operation at March 31, 2013) in a variety of locations. These stores were generally older, smaller stores that did not fit our future growth profile.

Store closures as discontinued operations included:

57 stores in Mexico, 52 of which were small, jewelry-only asset group formats. We will continue to operate our full-service store-within-a-store ("SWS") locations under the Empeño Fácil brand, and expect to continue our storefront growth in Mexico.

29 stores in Canada, where we were in the process of transitioning to an integrated buy/sell and financial services model under the Cash Converters brand. The affected asset group consisted of stores that were not optimal for that model because of location or size. We will continue to operate full-service buy/sell and financial services center stores under the Cash Converters brand in Canada and the United States.

20 financial services stores in Dallas, Texas and the State of Florida, where we exited both locations primarily due to onerous regulatory requirements.

One jewelry-only concept store, which was our only jewelry-only store in the United States.

Due to discontinued operations, we incurred charges in the fiscal year ended September 30, 2013 for lease termination costs, asset and inventory write-downs to net realizable liquidation value, uncollectible receivables, and employee

severance costs. During the second quarter ended March 31, 2014, we recorded \$0.5 million of pre-tax gains related to these termination costs, primarily lease terminations of \$0.4 million, as negotiated amounts were lower than the initial lease buyout estimates recorded in the prior year. During the six-month period ended March 31, 2014, we recorded \$3.1 million of pre-tax gains related to these

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termination costs, primarily lease terminations of \$2.2 million, as negotiated amounts were lower than the initial lease buyout estimates recorded in the prior year, and inventory write-downs of \$0.6 million. These gains have been recorded as part of income from discontinued operations in our three and six-month periods ended March 31, 2014 condensed consolidated statement of operations, respectively.

As of March 31, 2014 accrued severance and lease termination costs related to discontinued operations were \$2.2 million. This amount is included in accounts payable and accrued liabilities in our condensed consolidated balance sheet. During the three and six-month periods ended March 31, 2014, cash payments of \$1.2 million and \$2.9 million, respectively, were made with regard to the recorded termination costs.

Discontinued operations in the three-month periods ended March 31, 2014 and 2013 include \$0.2 million and \$4.0 million of total revenues, respectively. The six-month periods ended March 31, 2014 and 2013 include \$2.8 million and \$8.5 million of total revenues, respectively.

The table below summarizes the operating losses from discontinued operations by operating segment:

|  | Three Months Ended March 31, |           | Six Months Ended March 31, |           |
|--|------------------------------|-----------|----------------------------|-----------|
|  | 2014                         | 2013      | 2014                       | 2013      |
|  | (in thousands)               |           |                            |           |
| <b>U.S. &amp; Canada</b>                                 |                              |           |                            |           |
| Net revenues   | \$30                         | \$1,503   | \$215                      | \$3,017   |
| Operating expenses                                       | 116                          | 2,898     | 403                        | 6,031     |
| Operating loss from discontinued operations before taxes | (86)                         | (1,395)   | (188)                      | (3,014)   |
| Total termination gain related to the reorganization     | (311)                        | —         | (951)                      | —         |
| Income (loss) from discontinued operations before taxes  | 225                          | (1,395)   | 763                        | (3,014)   |
| Income tax (provision) benefit                           | (76)                         | 66        | 35                         | 171       |
| Income (loss) from discontinued operations, net of tax   | \$149                        | \$(1,329) | \$798                      | \$(2,843) |
| <b>Latin America</b>                                     |                              |           |                            |           |
| Net revenues   | \$(474)                      | \$783     | \$(809)                    | \$1,731   |
| Operating expenses                                       | 7                            | 1,184     | 397                        | 2,406     |
| Operating loss from discontinued operations before taxes | (481)                        | (401)     | (1,206)                    | (675)     |
| Total termination gain related to the reorganization     | (209)                        | —         | (2,126)                    | —         |
| (Loss) income from discontinued operations before taxes  | (272)                        | (401)     | 920                        | (675)     |
| Income tax benefit (provision)                           | 83                           | 120       | (276)                      | 202       |
| (Loss) income from discontinued operations, net of tax   | \$(189)                      | \$(281)   | \$644                      | \$(473)   |
| <b>Consolidated</b>                                      |                              |           |                            |           |
| Net revenues   | \$(444)                      | \$2,286   | \$(594)                    | \$4,748   |
| Operating expenses                                       | 123                          | 4,082     | 800                        | 8,437     |
| Operating loss from discontinued operations before taxes | (567)                        | (1,796)   | (1,394)                    | (3,689)   |
| Total termination gain related to the reorganization     | (520)                        | —         | (3,077)                    | —         |
| (Loss) income from discontinued operations before taxes  | (47)                         | (1,796)   | 1,683                      | (3,689)   |
| Income tax benefit (provision)                           | 7                            | 186       | (241)                      | 373       |
| (Loss) income from discontinued operations, net of tax   | \$(40)                       | \$(1,610) | \$1,442                    | \$(3,316) |

All revenue, expense and income reported in these condensed consolidated financial statements have been adjusted to reflect reclassification of all discontinued operations.





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NOTE 3: ACQUISITIONS

On November 29, 2013, Grupo Finmart acquired an unsecured long-term consumer loan portfolio for approximately \$15.7 million. This transaction was accounted for as an asset purchase. Refer to Note 13 for further detail.

During the six-month period ended March 31, 2014, we had no acquisitions accounted for as a business combination. Go Cash

On November 20, 2012, we entered into a definitive agreement with Go Cash, LLC and certain of its affiliates ("Go Cash" or "EZCORP Online") to acquire substantially all the assets of Go Cash's online lending business. This acquisition of assets was completed on December 20, 2012 and accounted for as a business combination. No liabilities were assumed other than trade payables and accounts payable incurred prior to closing in the ordinary course of business, which were approximately \$0.2 million.

The assets acquired include a proprietary software platform, including a loan management system and a lending decision science engine, that will enable geographic expansion both within the U.S. and internationally; an internal customer service and collections call center; a portion of the existing Go Cash multi-state loan portfolio; and related assets, including customer lists, customer data and customer transaction information. We hired substantially all of Go Cash's employees, including the management team, an internal underwriting and customer experience analytics team, and an experienced customer service and collections call center team.

The total purchase price is performance-based and will be determined over a period of four years following the closing. The total consideration of \$55.6 million includes the performance consideration element, which is based on the net income generated by the "Post-Closing Business Unit" (which includes all of our online consumer lending business). Within a specified period after the end of each of the first four years following the closing, we will make a contingent supplemental payment equal to the difference between (a) the adjusted net income for such year, multiplied by 6.0, and (b) all consideration payments previously paid. Each payment may be made, in our sole discretion, in cash or in the form of shares of EZCORP Class A Non-Voting Common Stock. A minimum of \$50.8 million will be paid, of which \$27.8 million was paid at closing, \$6.0 million was paid on November 12, 2013, \$5.0 million was paid on December 19, 2013 and the remaining \$12.0 million will be paid in installments over the next two years. The initial payment was made in the form of 1,400,198 shares of EZCORP Class A Non-Voting Common Stock, and the November and December 2013 payments were made in cash.

Based on the final purchase price allocation, the contingent consideration was valued at \$4.8 million. This amount was calculated using a Monte Carlo simulation, whereby future net income is simulated over the earn-out period. For each simulation path, the earn-out payments were calculated and then discounted to the valuation date. The fair value of the earn-out was then estimated to be the arithmetic average of all paths. The model utilized forecasted net income, and the valuation was performed in a risk-neutral framework. The significant inputs used for the valuation are not observable in the market, and thus this fair value measurement represents a Level 3 measurement within the fair value hierarchy. This contingent consideration element was valued and recorded during the first quarter ended December 31, 2013.

The three and six month periods ended March 31, 2014 include \$4.2 million and \$7.2 million in total revenues and \$0.7 million and \$3.5 million in losses related to EZCORP Online. The three and six month periods ended March 31, 2013 include \$1.4 million and \$1.5 million in total revenues and \$2.8 million and \$3.1 million in losses related to EZCORP Online.

TUYO

On November 1, 2012, we acquired a 51.0% interest in Renueva Comercial S.A.P.I. de C.V., a company headquartered in Mexico City and doing business under the name "TUYO", for approximately \$1.1 million. On January 1, 2014, we acquired an additional 7.9% interest in TUYO for \$1.1 million, increasing our ownership percentage to 58.9%. This transaction was treated as an equity transaction and not an adjustment to the purchase price of the initial controlling interest acquisition of TUYO. Refer to Note 9 for further detail. As of March 31, 2014, TUYO owned and operated 19 stores in Mexico City and the surrounding metropolitan area. In these stores, TUYO buys quality used merchandise from customers and then resells that merchandise to other customers. TUYO also sells refurbished or other merchandise acquired in bulk from wholesalers. As this acquisition was individually immaterial,

we present its related information, other than information related to the redeemable noncontrolling interest, combined with other immaterial acquisitions.

Pursuant to the acquisition agreement, the sellers have a put option with respect to their remaining shares of TUYO. The sellers have the right to sell their TUYO shares to EZCORP during a specified exercise period, with specified limitations on the number of shares that may be sold within a consecutive 12-month period. Under the guidance in ASC 480-10-S99, securities that are redeemable for cash or other assets are to be classified outside of permanent equity; therefore, we have included the redeemable noncontrolling interest related to TUYO in temporary equity.

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The acquisition date fair value of the TUYO redeemable noncontrolling interest was estimated by applying an income and market approach. This fair value measurement was based on significant inputs that are not observable in the market and thus represents a Level 3 measurement. Key assumptions include discount rates of 10% and 18% representing discounts for lack of control and lack of marketability respectively that market participants would consider when estimating the fair value of the noncontrolling interest. The fair market value of TUYO was determined using a multiple of future earnings. See Note 14 for additional details relating to the fair value disclosures.

Other - 2013

On April 26, 2013, Grupo Finmart, our 60% owned subsidiary, purchased 100% of the outstanding shares of Fondo ACH, S.A. de C.V., a specialty consumer finance company. The total purchase price is performance-based and will be determined over a period of four years. A minimum of \$3.5 million will be paid, of which \$2.7 million was paid at closing with the remaining due on January 2, 2017. The performance consideration element will be based on interest income generated by the acquired portfolios and new loans made through Fondo ACH's contractual relationships. The contingent consideration element of the purchase price, which is the amount in excess of the guaranteed \$3.5 million, has been valued at \$2.3 million as of the acquisition date and recorded during the quarter ended March 31, 2014. As this acquisition was individually immaterial, we present its related information combined with other immaterial acquisitions.

The fiscal year ended September 30, 2013, includes the December 2012 acquisition of 12 pawn locations in Arizona, which was a new state of operation for EZCORP. As this acquisition was individually immaterial, we present its related information combined with other immaterial acquisitions.

All acquisitions were made as part of our continuing strategy to enhance and diversify our earnings over the long-term. The factors contributing to the recognition of goodwill were based on several strategic and synergistic benefits we expect to realize from the acquisitions. These benefits include our initial entry into several markets and a greater presence in others, as well as the ability to further leverage our expense structure through increased scale. There were no transaction related expenses for the six-month period ended March 31, 2014 and approximately \$0.5 million for the six-month period ended March 31, 2013, which were expensed as incurred and recorded as operations expense. These amounts exclude costs related to transactions that did not close and future acquisitions. The results of all acquisitions have been consolidated with our results since their respective closing. Pro forma results of operations have not been presented because it is impracticable to do so, as historical audited financial statements in U.S. GAAP are not readily available.

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The following table provides information related to the acquisition of domestic and foreign retail and financial services locations during fiscal 2013:

|  | Fiscal Year Ended<br>September 30, 2013 |                       |
|--|---|-----------------------|
|  | Go Cash                                 | Other<br>Acquisitions |
|  | (in thousands)                          |                       |
| Current assets:                                |   |                       |
| Pawn loans                                     | \$—                                     | \$5,714               |
| Consumer loans, net                            | —                                       | 1,079                 |
| Service charges and fees receivable, net       | 23                                      | 399                   |
| Inventory, net                                 | —                                       | 2,441                 |
| Prepaid expenses and other assets              | 120                                     | 508                   |
| Total current assets                           | 143                                     | 10,141                |
| Property and equipment, net                    | 268                                     | 1,078                 |
| Goodwill                                       | 44,020                                  | 17,187                |
| Intangible assets                              | 11,215                                  | 2,685                 |
| Non-current consumer loans, net                | —                                       | 3,336                 |
| Other assets                                   | 124                                     | 314                   |
| Total assets                                   | 55,770                                  | 34,741                |
| Current liabilities:                           |   |                       |
| Accounts payable and other accrued expenses    | 202                                     | 560                   |
| Customer layaway deposits                      | —                                       | 103                   |
| Total current liabilities                      | 202                                     | 663                   |
| Total liabilities                              | 202                                     | 663                   |
| Redeemable noncontrolling interest             | —                                       | 2,836                 |
| Net assets acquired                            | \$55,568                                | \$31,242              |
| Goodwill deductible for tax purposes           | \$44,020                                | \$—                   |
| Indefinite-lived intangible assets acquired:   |   |                       |
| Domain name                                    | \$215                                   | \$—                   |
| Definite-lived intangible assets acquired (1): |   |                       |
| Non-compete agreements                         | \$—                                     | \$30                  |
| Internally developed software                  | \$11,000                                | \$66                  |
| Contractual relationship                       | \$—                                     | \$2,589               |

(1) The weighted average useful life of definite-lived intangible assets acquired is five years.

Per FASB ASC 805-10-25, adjustments to provisional purchase price allocation amounts made during the measurement period shall be recorded as if the accounting for the business combination had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements. The amounts above and our condensed consolidated balance sheets as of March 31, 2013 and September 30, 2013 reflect all measurement period adjustments recorded since the acquisition date. As of March 31, 2013 these adjustments include \$1.1 million decrease in the value of intangibles assets and a \$4.8 million increase to deferred gains and other long-term liability for a net increase in goodwill of \$5.9 million. As of September 30, 2013, these adjustments include a \$6.9 million increase to deferred gains and other long-term liability, a \$4.8 million increase to goodwill, a \$1.9 million increase to intangible assets, and a \$0.2 million net increase to various other assets.

**NOTE 4: EARNINGS PER SHARE**

We compute basic earnings per share on the basis of the weighted average number of shares of common stock outstanding during the period. We compute diluted earnings per share on the basis of the weighted average number of

shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and restricted stock awards.

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Potential common shares are required to be excluded from the computation of diluted earnings per share if the assumed proceeds upon exercise or vest, as defined by FASB ASC 718-10-25, are greater than the cost to re-acquire the same number of shares at the average market price, and therefore the effect would be anti-dilutive.

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

|   | Three Months Ended<br>March 31,          |          | Six Months Ended March<br>31, |          |
|---|--|----------|-------------------------------|----------|
|   | 2014                                     | 2013     | 2014                          | 2013     |
|   | (in thousands, except per share amounts) |          |                               |          |
| Net income from continuing operations attributable to EZCORP, Inc., net of tax (A)  | \$8,032                                  | \$35,591 | \$29,119                      | \$68,014 |
| (Loss) Income from discontinued operations, net of tax (B)                          | (40                                      | ) (1,610 | ) 1,442                       | (3,316   |
| Net income attributable to EZCORP (C)   | 7,992                                    | 33,981   | \$30,561                      | \$64,698 |
| Weighted average outstanding shares of common stock (D)                             | 54,374                                   | 54,172   | 54,353                        | 53,099   |
| Dilutive effect of stock options and restricted stock                               | 212                                      | 80       | 230                           | 73       |
| Weighted average common stock and common stock equivalents (E)                      | 54,586                                   | 54,252   | 54,583                        | 53,172   |
| Basic earnings (loss) per share attributable to EZCORP, Inc.:                       |  |          |                               |          |
| Continuing operations attributable to EZCORP, Inc. (A / D)                          | \$0.15                                   | \$0.66   | \$0.53                        | \$1.28   |
| Discontinued operations (B / D)   | —  | (0.03    | ) 0.03                        | (0.06    |
| Basic earnings per share (C / D)  | \$0.15                                   | \$0.63   | \$0.56                        | \$1.22   |
| Diluted earnings (loss) per share attributable to EZCORP, Inc.:                     |  |          |                               |          |
| Continuing operations attributable to EZCORP, Inc. (A / E)                          | \$0.15                                   | \$0.66   | \$0.53                        | \$1.28   |
| Discontinued operations (B / E)   | —  | (0.03    | ) 0.03                        | (0.06    |
| Diluted earnings per share (C / E)  | \$0.15                                   | \$0.63   | \$0.56                        | \$1.22   |
| Potential common shares excluded from the calculation of diluted earnings per share | 544                                      | —        | 236                           | 7        |

## NOTE 5: STRATEGIC INVESTMENTS

## Cash Converters International Limited

At March 31, 2014, we owned 136,848,000 shares, or approximately 32%, of Cash Converters International Limited, a publicly traded company headquartered in Perth, Australia. Cash Converters International franchises and operates a worldwide network of over 700 specialty financial services and retail stores that provide pawn loans, short-term unsecured loans and other consumer finance products, and buy and sell second-hand goods, with significant store concentrations in Australia and the United Kingdom. Those shares include 12,430,000 shares that we acquired in November 2012 for approximately \$11.0 million in cash as part of a share placement. Our total investment in Cash Converters International was acquired between November 2009 and November 2012 for approximately \$68.8 million. We account for our investment in Cash Converters International using the equity method. Since Cash Converters International's fiscal year ends three months prior to ours, we report the income from this investment on a three-month lag. Cash Converters International files semi-annual financial reports for its fiscal periods ending December 31 and June 30. Due to the three-month lag, income reported for our six-month periods ended March 31, 2014 and 2013 represents our percentage interest in the results of Cash Converters International's operations from July 1, 2013 to December 31, 2013 and July 1, 2012 to December 31, 2012, respectively.

Conversion of Cash Converters International's financial statements into U.S. GAAP resulted in no material differences from those reported by Cash Converters following IFRS.

In its functional currency of Australian dollars, Cash Converters International's total assets increased 32% from December 31, 2012 to December 31, 2013 and its net income attributable to the owners of the parent decreased 46% for the six months ended December 31, 2013. This decrease is primarily due to a decline in short-term personal lending as a result of regulatory changes in Australia. Cash Converters International sees these regulatory changes as an opportunity to capitalize on their strong compliance culture and critical mass in terms of stores and financing capability. For the month of December 2013, loan



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volumes returned to record levels as the customers are becoming more familiar with the documentation required to meet the new regulatory requirements.

The following table presents summary financial information for Cash Converters International's most recently reported results after translation to U.S. dollars (using the exchange rate as of December 31 of each year for balance sheet items and average exchange rates for the income statement items for the periods indicated):

|   | As of December 31, |           |
|---|--------------------|-----------|
|   | 2013               | 2012      |
|   | (in thousands)     |           |
| Current assets                              | \$202,735          | \$169,739 |
| Non-current assets                          | 148,010            | 141,258   |
| Total assets                                | \$350,745          | \$310,997 |
| Current liabilities                         | \$77,263           | \$38,735  |
| Non-current liabilities                     | 52,522             | 31,591    |
| Shareholders' equity:                       |                    |           |
| Equity attributable to owners of the parent | 224,026            | 240,671   |
| Non-controlling interest                    | (3,065)            | —         |
| Total liabilities and shareholders' equity  | \$350,746          | \$310,997 |

|  | Six Months Ended December 31, |           |
|--|-------------------------------|-----------|
|  | 2013                          | 2012      |
|  | (in thousands)                |           |
| Gross revenues                         | \$143,517                     | \$140,123 |
| Gross profit                           | 91,605                        | 95,149    |
| Profit for the period attributable to: |                               |           |
| Owners of the parent                   | \$9,103                       | \$19,143  |
| Noncontrolling interest                | (2,417)                       | —         |

#### Albemarle & Bond Holdings, PLC

At March 31, 2014, we owned 16,644,640 ordinary shares of Albemarle & Bond, representing approximately 30% of its total outstanding shares. Our total cost for those shares was approximately \$27.6 million. Albemarle & Bond is primarily engaged in pawnbroking, retail jewelry sales, check cashing and lending in the United Kingdom. We account for the investment using the equity method.

Since Albemarle & Bond's fiscal year ends three months prior to ours, we report the income from this investment on a three-month lag. Albemarle & Bond files semi-annual financial reports for its fiscal periods ending December 31 and June 30. Due to the three-month lag, income reported for our six-month periods ended March 31, 2014 and 2013 represents our percentage interest in the results of Albemarle & Bond's operations from July 1, 2013 to December 31, 2013 and July 1, 2012 to December 31, 2012, respectively.

On April 19, 2013, Albemarle & Bond announced that it expected profits for their full fiscal year (ending June 30, 2013) to be materially below market expectations, citing reduction in gold buying profit and pressures on its pawn loan business due to the challenging gold environment and increased competition. In addition Albemarle & Bond's Board of Directors announced that their CEO would step down earlier than planned. In early October 2013, Albemarle & Bond announced that discussions to underwrite an equity funding had failed and they were in ongoing discussions with their banks to negotiate covenants. The market price of Albemarle & Bond's stock declined as a result of this information. Due to these events, we evaluated the economic and strategic benefits of continuing to hold this investment. Based on the review as of October 18, 2013, we determined that the fair value of this investment was less than its carrying value as of September 30, 2013 and that this impairment was other than temporary. As a result, we recognized an other than temporary impairment of \$42.5 million (\$28.7 million, net of taxes), which brought our

carrying value of this investment to \$9.4 million at the end of the year ended September 30, 2013.

As of March 31, 2014, we concluded that this investment was impaired, and that such impairment was other than temporary. In reaching this conclusion, we considered all available evidence, including that (i) Albemarle & Bond had not achieved

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forecasted revenue or operating results, (ii) Albemarle & Bond had been negatively impacted by the falling price of gold on the international markets, a drop of more than 20% this year, (iii) Albemarle & Bond commenced a formal sale process of the company on December 5, 2013 and then terminated the process on January 27, 2014 after deciding that none of the proposals deemed to represent a fair value for the company, and (iv) a prolonged drop in Albemarle & Bond's stock price as a result of the above aforementioned factors. The active trading of Albemarle & Bond was suspended on March 24, 2014. Despite the final sale of Albemarle & Bond in April 2014 we believe limited value, if any, is attributable to our investment. As a result, we recognized an other than temporary impairment of \$7.9 million (\$5.4 million, net of taxes) during the quarter ended March 31, 2014, which brought our carrying value of this investment to zero.

Conversion of Albemarle & Bond's financial statements into U.S. GAAP resulted in no material differences from those reported by Albemarle & Bond following IFRS.

The table below summarizes the recorded value and fair value of each of these strategic investments at the dates indicated. The fair values of Albemarle & Bond as of March 31, 2013 and Cash Converters International as of March 31, 2014 and 2013 as well as September 30, 2013 are considered Level 1 estimates within the fair value hierarchy of FASB ASC 820-10-50, and were calculated as (a) the quoted stock price on each company's principal market multiplied by (b) the number of shares we owned multiplied by (c) the applicable foreign currency exchange rate at the dates indicated. We included no control premium by owning a large percentage of outstanding shares.

The fair value for Albemarle & Bond at March 31, 2014 is considered a Level 2 estimate within the fair value hierarchy of FASB ASC 820-10-50. We calculated the fair value based on (a) the last known stock price after all active trading was suspended on March 21, 2014 and (b) Albemarle & Bond's announcement of limited, if any, value available to the ordinary shares of its stock, which was considered to be an unobservable input insignificant to the overall determination of the Albemarle & Bond fair value. The fair value for Albemarle & Bond at September 30, 2013 is considered a Level 2 estimate within the fair value hierarchy of FASB ASC 820-10-50. We calculated the fair value based on (a) the quoted average stock price of Albemarle & Bond over the two week period subsequent to the October announcement multiplied by (b) the number of shares we owned multiplied by (c) the applicable foreign currency exchange rate as of the dates indicated during the post September 30, 2013 measurement date. We believe this measurement date allowed the market to react and adjust to the information released by Albemarle & Bond the first week of October 2013, as previously mentioned, and therefore resulted in a reasonable fair value as of September 30, 2013.

|                                | March 31,<br>2014              | 2013     | September 30,<br>2013 |
|--------------------------------|--------------------------------|----------|-----------------------|
|                                | (in thousands of U.S. dollars) |          |                       |
| Albemarle & Bond:              |                                |          |                       |
| Recorded value                 | \$—                            | \$53,053 | \$9,439               |
| Fair value                     | —                              | 54,103   | 9,439                 |
| Cash Converters International: |                                |          |                       |
| Recorded value                 | \$88,685                       | \$94,179 | \$87,645              |
| Fair value                     | 121,478                        | 208,110  | 165,663               |

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## NOTE 6: GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents the balance of goodwill and each major class of intangible assets at the specified dates:

|  | March 31,<br>2014<br>(in thousands) | 2013      | September 30,<br>2013 |
|--|-------------------------------------|-----------|-----------------------|
| Goodwill                                 | \$435,048                           | \$438,016 | \$433,300             |
| Indefinite-lived intangible assets:      |                                     |           |                       |
| Pawn licenses                            | \$8,836                             | \$8,836   | \$8,836               |
| Trade name                               | 9,887                               | 9,772     | 9,791                 |
| Domain name                              | 215                                 | 215       | 215                   |
| Total indefinite-lived intangible assets | \$18,938                            | \$18,823  | \$18,842              |
| Definite-lived intangible assets:        |                                     |           |                       |
| Real estate finders' fees                | \$866                               | \$1,079   | \$902                 |
| Non-compete agreements                   | 479                                 | 934       | 673                   |
| Favorable lease                          | 565                                 | 668       | 614                   |
| Franchise rights                         | 1,263                               | 1,439     | 1,388                 |
| Deferred financing costs                 | 7,678                               | 5,975     | 5,033                 |
| Contractual relationship                 | 12,886                              | 13,162    | 14,039                |
| Internally developed software            | 26,121                              | 18,033    | 22,088                |
| Other                                    | 220                                 | 274       | 226                   |
| Total definite-lived intangible assets   | \$50,078                            | \$41,564  | \$44,963              |
| Intangible assets, net                   | \$69,016                            | \$60,387  | \$63,805              |

The following tables present the changes in the carrying value of goodwill over the periods presented:

|  | U.S. &<br>Canada<br>(in thousands) | Latin<br>America | Other<br>International | Consolidated |
|--|------------------------------------|------------------|------------------------|--------------|
| Balances at September 30, 2013                 | \$283,199                          | \$110,209        | \$39,892               | \$433,300    |
| Effect of foreign currency translation changes | —                                  | 513              | 1,235                  | 1,748        |
| Balances at March 31, 2014                     | \$283,199                          | \$110,722        | \$41,127               | \$435,048    |
|  | U.S. &<br>Canada<br>(in thousands) | Latin<br>America | Other<br>International | Consolidated |
| Balances at September 30, 2012                 | \$224,306                          | \$110,401        | \$39,956               | \$374,663    |
| Acquisitions                                   | 58,925                             | 2,221            | —                      | 61,146       |
| Effect of foreign currency translation changes | (1 )                               | 4,578            | (2,370 )               | 2,207        |
| Balances at March 31, 2013                     | \$283,230                          | \$117,200        | \$37,586               | \$438,016    |

In accordance with ASC 350-20-35, Goodwill - Subsequent Measurement, we test goodwill and intangible assets with an indefinite useful life for potential impairment annually, or more frequently when there are events or circumstances that indicate that it is more likely than not that an impairment exists. During the second quarter ended March 31, 2014, we evaluated such events and circumstances and concluded that it was not more likely than not that a goodwill or intangible assets impairment existed. We will continue to monitor if an interim triggering event is present in subsequent periods, and we will perform our required annual impairment test in the fourth quarter of our fiscal year.



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The amortization of most definite-lived intangible assets is recorded as amortization expense. The favorable lease asset and other intangibles are amortized to operations expense (rent expense) over the related lease terms. The deferred financing costs are amortized to interest expense over the life of the related debt instruments. The following table presents the amount and classification of amortization recognized as expense in each of the periods presented:

|   | Three Months Ended March 31, |         | Six Months Ended March 31, |         |
|---|------------------------------|---------|----------------------------|---------|
|   | 2014                         | 2013    | 2014                       | 2013    |
|   | (in thousands)               |         |                            |         |
| Amortization expense in continuing operations                           | \$1,975                      | \$1,316 | \$3,915                    | \$2,030 |
| Operations expense  | 31                           | 32      | 61                         | 67      |
| Interest expense  | 1,660                        | 760     | 2,550                      | 1,524   |
| Total expense from the amortization of definite-lived intangible assets | \$3,666                      | \$2,108 | \$6,526                    | \$3,621 |

The following table presents our estimate of future amortization expense for definite-lived intangible assets:

| Fiscal Years Ended September 30, | Amortization expense | Operations expense | Interest expense |
|----------------------------------|----------------------|--------------------|------------------|
|                                  | (in thousands)       |                    |                  |
| 2014                             | \$4,284              | \$60               | \$2,690          |
| 2015                             | 8,333                | 109                | 2,253            |
| 2016                             | 7,886                | 106                | 1,134            |
| 2017                             | 7,663                | 106                | 880              |
| 2018                             | 5,232                | 106                | 617              |

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

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## NOTE 7: LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

The following table presents our long-term debt instruments and balances under capital lease obligations outstanding at March 31, 2014 and 2013 and September 30, 2013. The recourse line of credit is due in May 2015; the non-recourse debt matures at various months in the years so indicated in the table below:

|   | March 31, 2014     |                 | March 31, 2013     |                 | September 30, 2013 |                 |
|---|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|
|   | Carrying<br>Amount | Debt<br>Premium | Carrying<br>Amount | Debt<br>Premium | Carrying<br>Amount | Debt<br>Premium |
|   | (in thousands)     |                 |                    |                 |                    |                 |
| Recourse to EZCORP:   |                    |                 |                    |                 |                    |                 |
| Domestic line of credit up to \$200 million due 2015                | \$83,000           | \$—             | \$74,000           | \$—             | \$140,900          | \$—             |
| Capital lease obligations   | 639                | —               | 1,181              | —               | 924                | —               |
| Non-recourse to EZCORP:   |                    |                 |                    |                 |                    |                 |
| Secured foreign currency line of credit up to \$4 million due 2014  | 528                | 51              | 2,009              | 156             | 1,207              | 99              |
| Secured foreign currency line of credit up to \$19 million due 2015 | 2,616              | —               | 12,142             | —               | 6,281              | —               |
| Secured foreign currency line of credit up to \$5 million due 2015  | 2,863              | —               | —                  | —               | —                  | —               |
| Secured foreign currency line of credit up to \$5 million due 2016  | 1,077              | —               | —                  | —               | —                  | —               |
| Secured foreign currency line of credit up to \$23 million due 2017 | 22,929             | —               | 22,352             | —               | 22,822             | —               |
| Consumer loans facility due 2017                                    | —                  | —               | 33,995             | —               | 31,951             | —               |
| Consumer loans facility due 2019                                    | 55,715             | —               | —                  | —               | —                  | —               |
| 10% unsecured notes due 2013  | —                  | —               | 664                | —               | 503                | —               |
| 15% unsecured notes due 2013  | —                  | —               | 14,273             | 825             | 12,884             | 244             |
| 10% unsecured notes due 2014  | 7,212              | —               | 2,373              | —               | 8,925              | —               |
| 11% unsecured notes due 2014  | 110                | —               | 5,347              | —               | 110                | —               |
| 9% unsecured notes due 2015   | 29,933             | —               | —                  | —               | 16,068             | —               |
| 10% unsecured notes due 2015  | 696                | —               | 444                | —               | 418                | —               |
| 15% secured notes due 2015  | —                  | —               | 4,561              | 513             | 4,185              | 381             |
| 10% unsecured notes due 2016  | 121                | —               | 128                | —               | 121                | —               |
| 12% secured notes due 2017  | 4,103              | 281             | —                  | —               | —                  | —               |
| 12% secured notes due 2019  | 17,579             | —               | —                  | —               | —                  | —               |
| Total long-term obligations   | 229,121            | 332             | 173,469            | 1,494           | 247,299            | 724             |
| Less current portion  | 14,761             | 255             | 35,445             | 1,141           | 30,969             | 543             |
| Total long-term and capital lease obligations                       | \$214,360          | \$77            | \$138,024          | \$353           | \$216,330          | \$181           |

On May 10, 2011, we entered into a new senior secured credit agreement with a syndicate of five banks, replacing our previous credit agreement. Among other things, the new credit agreement provides for a four-year \$175 million revolving credit facility that we may, under the terms of the agreement, request to be increased to a total of \$225 million. Upon entering the new credit agreement, we repaid and retired our \$17.5 million outstanding debt. On May 31, 2013, we amended the senior secured credit agreement to increase our revolving credit facility from \$175 million to \$200 million. The new credit facility increases our available credit and provides greater flexibility to make investments and acquisitions both domestically and internationally. No other terms of our senior secured credit agreement were modified.

Pursuant to the credit agreement, we may choose to pay interest to the lenders for outstanding borrowings at LIBOR plus 200 to 275 basis points or the banks' base rate plus 100 to 175 basis points, depending on our leverage ratio

computed at the end of each calendar quarter. On the unused amount of the credit facility, we pay a commitment fee of 37.5 to 50.0 basis points depending on our leverage ratio calculated at the end of each quarter. Terms of the credit agreement require, among other things, that we meet certain financial covenants, restrict dividend payments and limit other and non-recourse debt. At March 31, 2014, we were in compliance with all covenants.

At March 31, 2014, \$83.0 million was outstanding under our revolving credit agreement. This facility is collateralized with EZCORP's domestic assets. We have also issued \$3.1 million in letters of credit, leaving \$113.9 million available on our revolving credit facility. The outstanding bank letters of credit were required under our workers' compensation insurance program and for our international office in Miami, Florida.



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Deferred financing costs related to our credit agreement are included in intangible assets, net on the condensed consolidated balance sheets and are being amortized to interest expense over the term of the agreement.

Our senior secured credit agreement will expire in May 2015. We are actively working to replace this credit facility with a new financing facility.

On January 30, 2012, we acquired a 60% ownership interest in Grupo Finmart. Non-recourse debt amounts in the table above represent Grupo Finmart's third-party debt. All unsecured notes are collateralized with Grupo Finmart's assets and are due at maturity. All lines of credit are guaranteed by Grupo Finmart's loan portfolio. Interest on lines of credit due 2014, 2015 and 2016 is charged at the Mexican Interbank Equilibrium ("TIIE") plus a margin varying from 5% to 10%. The line of credit due 2014 requires monthly payments of \$0.1 million with remaining principal due at maturity. The two lines of credit due 2015 require monthly payments of \$0.5 million with the remaining principal due at maturity. The line of credit due 2016 requires monthly payments of \$0.1 million with the remaining principal due at maturity. The line of credit due 2017 has a 14.5% interest rate, requires monthly payments of \$1.9 million, and the remaining principal is due at maturity. The 12% secured notes due 2017 require monthly payments of \$0.1 million with the remaining principal due at maturity. The 12% secured notes due 2019 require monthly payment of \$1.0 million with the remaining principal due at maturity.

At acquisition, we performed a valuation to determine the fair value of Grupo Finmart's debt. As a result, we recorded a debt premium on Grupo Finmart's debt. This debt premium is being amortized as a reduction of interest expense over the life of the debt. The fair value was determined by using an income approach, specifically the discounted cash flows method based on the contractual terms of the debt and risk adjusted discount rates.

On July 10, 2012, Grupo Finmart entered into a securitization transaction to transfer the collection rights of certain eligible consumer loans to a bankruptcy remote trust in exchange for cash on a non-recourse basis. The trust received financing as a result of the issuance of debt securities and delivered the proceeds of the financing to Grupo Finmart. The securitization agreement called for a two-year lending period in which the trust would use principal collections of the consumer loan portfolio to acquire additional collection rights up to \$114.6 million in eligible loans from Grupo Finmart. Upon the termination of the lending period, the collection received by the trust would be used to repay the debt. Grupo Finmart would continue to service the underlying loans in the trust. On February 17, 2014, Grupo Finmart repaid this facility. In connection with this repayment, we wrote off the deferred financing costs related to this facility. On February 17, 2014, Grupo Finmart entered into a new securitization transaction to transfer collection rights of certain eligible consumer loans to a bankruptcy remote trust in exchange for cash. The trust received financing as a result of the issuance of debt securities and delivered the proceeds of the financing to Grupo Finmart. The unrestricted cash received from this borrowing in the amount of \$35.2 million was primarily used to repay the previous securitization borrowing facility due 2017 and the transaction costs associated with this transaction. The cash proceeds of approximately \$20.5 million is restricted primarily for \$17.8 million of collection rights on the additional eligible loans from Grupo Finmart, which Grupo Finmart expects to deliver to the trust within the next 12 months, and \$2.7 million of interest and trust maintenance costs to be recovered at repayment. The restricted cash proceeds of \$17.8 million is recourse to Grupo Finmart unless additional eligible loans are delivered within two-year period specified in the agreement. The borrowing facility has a two year lending period and matures on March 19, 2019. Upon the termination of the lending period, Grupo has an option to start prepaying the principle early from the collection received by the trust. Grupo Finmart will continue to service the underlying loans in the trust.

Deferred financing costs related to the new consumer loans facility, totaling approximately \$2.5 million are included in intangible assets, net on the condensed consolidated balance sheets and are being amortized to interest expense over the term of the agreement.

Grupo Finmart is the primary beneficiary of the securitization trust because Grupo Finmart has the power to direct the most significant activities of the trust through its role as servicer of all the receivables held by the trust and through its obligation to absorb losses or receive benefits that could potentially be significant to the trust. Consequently, we consolidate the trust.

As of March 31, 2014, borrowings under the securitization borrowing facility due 2019 amounted to \$55.7 million. Interest is charged at TIIE plus a 2.5% margin, or a total of 6.3% as of March 31, 2014.

On May 15, 2013, Grupo Finmart issued and sold \$30.0 million of 9% Global Registered Notes due November 16, 2015. Notes with an aggregate principal amount of \$14.0 million were originally purchased by EZCORP and, therefore, eliminated in consolidation in prior periods. On March 31, 2014, EZCORP sold its outstanding notes in the amount of \$11.7 million to the outside party, thereby increasing the total consolidated notes balance. As a result of this transaction we recorded a loss of \$0.7 million, which is included under (loss) gain on sale or disposal of assets in our three and six month period ended March 31, 2014 condensed consolidated statement of operations. Grupo Finmart used a portion of the net proceeds of the offering to repay existing indebtedness, and used the remaining portion for general operating purposes.

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## NOTE 8: COMMON STOCK, OPTIONS AND STOCK COMPENSATION

Our net income includes the following compensation costs related to our stock compensation arrangements:

|                          | Three Months Ended<br>March 31, |         | Six Months Ended<br>March 31, |          |
|--------------------------|---------------------------------|---------|-------------------------------|----------|
|                          | 2014                            | 2013    | 2014                          | 2013     |
|                          | (in thousands)                  |         |                               |          |
| Gross compensation costs | \$7,040                         | \$2,129 | \$8,276                       | \$3,054  |
| Income tax benefits      | (2,444 )                        | (720 )  | (2,869 )                      | (1,019 ) |
| Net compensation expense | \$4,596                         | \$1,409 | \$5,407                       | \$2,035  |

In the current three and six month periods ended March 31, 2014, no stock options were exercised. In the prior year three and six-month periods ended March 31, 2013, stock option exercises resulted in the issuance of 3,000 shares for nominal proceeds.

On March 25, 2014, following the shareholders' approval, we filed with the Secretary of State of the State of Delaware a Certificate of Amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized Class A Shares from 55,550,000 to 100,000,000.

In connection with the impending retirement of our Executive Chairman effective June 30, 2014, we agreed to accelerate the vesting of 270,000 shares of restricted stock and recorded \$2.2 million of the related gross compensation costs in the current quarter. Out of the 270,000 shares, 135,000 shares would have otherwise vested on October 2, 2014 and 135,000 shares would have otherwise vested on October 2, 2016.

## NOTE 9: REDEEMABLE NONCONTROLLING INTEREST

The following table provides a summary of the activities in our redeemable noncontrolling interests as of March 31, 2014 and 2013:

|  | Redeemable<br>Noncontrolling<br>Interests<br>(in thousands) |
|--|---|
| Balance as of September 30, 2012   | \$53,681  |
| Acquisition of redeemable noncontrolling interest                                | 2,836   |
| Sale of additional shares to parent  | (7,981 )  |
| Net income attributable to redeemable noncontrolling interests                   | 2,337   |
| Foreign currency translation adjustment attributable to noncontrolling interests | 2,109   |
| Balance as of March 31, 2013   | \$52,982  |
| Balance as of September 30, 2013   | \$55,393  |
| Sale of additional shares to parent  | (457 )  |
| Net income attributable to redeemable noncontrolling interests                   | 2,901   |
| Foreign currency translation adjustment attributable to noncontrolling interests | 322   |
| Effective portion of cash flow hedge   | (52 )   |
| Balance as of March 31, 2014   | \$58,107  |

On November 1, 2012, we acquired a 51% interest in TUYO (see Note 3 for details). On January 1, 2014, we acquired an additional 7.9% interest in TUYO for \$1.1 million, increasing our ownership percentage to 58.9%.

On November 14, 2012, we acquired an additional 23% of the ordinary shares outstanding of Cash Genie, our U.K. online lending business, for \$10.4 million, increasing our ownership percentage from 72% to 95%, with the remaining 5% held by local management. The consideration paid to the selling shareholder was paid in the form of 592,461 shares of EZCORP Class A Non-voting Common Stock. This transaction was treated as an equity transaction and not

an adjustment to the purchase price of the initial controlling interest acquisition of Cash Genie. On August 1, 2013, we acquired the remaining ordinary shares that were held by local management for \$0.6 million. As of August 1, 2013, we own 100% of Cash Genie's ordinary shares.

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Income tax expense is provided at the U.S. tax rate on financial statement earnings, adjusted for the difference between the U.S. tax rate and the rate of tax in effect for non-U.S. earnings deemed to be permanently reinvested in our non-U.S. operations. Deferred income taxes have not been provided for the potential remittance of non-U.S. undistributed earnings to the extent those earnings are deemed to be permanently reinvested, or to the extent such recognition would result in a deferred tax asset.

The current quarter's effective tax provision rate from continuing operations is 31.6% of pretax income compared to 30.8% for the prior year quarter. For the current six-month period, the effective tax provision rate from continuing operations is 30.5% compared to 31.9% in the prior year six-month period. The effective tax rate for the three month period ended March 31, 2014 was higher primarily due to the one-time tax benefit in the prior year three-month period from the recognition of foreign net operating losses. The effective tax rate for the six-month period ended March 31, 2014 was lower primarily due to the continued diversification of our operations worldwide.

The current quarter's effective tax benefit rate from discontinued operations is 14.9% compared to the tax benefit rate of 10.4% for the prior year quarter. For the current six-month period, the effective tax provision rate from discontinued operations is 14.3% compared to the tax benefit rate of 10.1% in the prior year six-month period.

For the six months ended March 31, 2014, approximately 45% of the pre-tax income from discontinued operations was from our Canada operations, which has a net operating loss carryforward, against which we have provided a valuation allowance. In addition, Mexico accounted for approximately 55% of the pre-tax income from discontinued operations. Our effective tax rate in Mexico is 5% lower than the effective tax rate for our U.S. operations and accounted for a larger percentage of the discontinued operations income compared to Mexico's percentage of income from continuing operations. The combination of a net operating loss in Canada and a lower tax rate in Mexico resulted in a materially different tax rate for discontinued operations compared to continuing operations.

**NOTE 11: CONTINGENCIES**

Currently and from time to time, we are defendants in various legal and regulatory actions. While we cannot determine the ultimate outcome of these actions, we believe their resolution will not have a material adverse effect on our financial condition, results of operations or liquidity.

**NOTE 12: OPERATING SEGMENT INFORMATION**

Segment information is prepared on the same basis that our management reviews financial information for operational decision-making purposes.

We currently report our segments as follows:

• U.S. & Canada — All business activities in the United States and Canada

• Latin America — All business activities in Mexico and other parts of Latin America

• Other International — All business activities in the rest of the world (currently consisting of Cash Genie online lending business in the United Kingdom and our equity interests in the results of operations of Albemarle & Bond and Cash Converters International)

There are no inter-segment revenues, and the amounts below were determined in accordance with the same accounting principles used in our consolidated financial statements. The following tables present operating segment information for the three and six-month periods ending March 31, 2014 and 2013, including reclassifications discussed in Note 1 "Organization and Summary of Significant Accounting Policies."

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|   | Three Months Ended March 31, 2014  |                  |                        |                   |                    |              |   |
|---|------------------------------------|------------------|------------------------|-------------------|--------------------|--------------|---|
|   | U.S. &<br>Canada<br>(in thousands) | Latin<br>America | Other<br>International | Total<br>Segments | Corporate<br>Items | Consolidated |   |
| Revenues:   |                                    |                  |                        |                   |                    |              |   |
| Merchandise sales   | \$89,937                           | \$13,517         | \$—                    | \$103,454         | \$—                | \$103,454    |   |
| Jewelry scrapping sales   | 24,697                             | 1,496            | —                      | 26,193            | —                  | 26,193       |   |
| Pawn service charges  | 52,154                             | 7,008            | —                      | 59,162            | —                  | 59,162       |   |
| Consumer loan fees and interest                                 | 45,657                             | 14,328           | 4,800                  | 64,785            | —                  | 64,785       |   |
| Other revenues  | 1,009                              | 5,065            | 32                     | 6,106             | —                  | 6,106        |   |
| Total revenues  | 213,454                            | 41,414           | 4,832                  | 259,700           | —                  | 259,700      |   |
| Merchandise cost of goods sold                                  | 54,890                             | 8,967            | —                      | 63,857            | —                  | 63,857       |   |
| Jewelry scrapping cost of goods sold                            | 18,793                             | 1,318            | —                      | 20,111            | —                  | 20,111       |   |
| Consumer loan bad debt  | 9,121                              | 454              | 847                    | 10,422            | —                  | 10,422       |   |
| Net revenues  | 130,650                            | 30,675           | 3,985                  | 165,310           | —                  | 165,310      |   |
| Operating expenses (income):                                    |                                    |                  |                        |                   |                    |              |   |
| Operations  | 85,926                             | 18,086           | 4,052                  | 108,064           | —                  | 108,064      |   |
| Administrative  | —                                  | —                | —                      | —                 | 20,032             | 20,032       |   |
| Depreciation  | 4,295                              | 1,450            | 105                    | 5,850             | 1,689              | 7,539        |   |
| Amortization  | 657                                | 607              | 25                     | 1,289             | 686                | 1,975        |   |
| (Gain) loss on sale or disposal of<br>assets                    | (441                               | ) (2             | ) 159                  | (284              | ) 626              | 342          |   |
| Interest (income) expense, net                                  | (16                                | ) 4,246          | —                      | 4,230             | 1,045              | 5,275        |   |
| Equity in net income of<br>unconsolidated affiliates            | —                                  | —                | (492                   | ) (492            | ) —                | (492         | ) |
| Impairment of investments                                       | —                                  | —                | 7,940                  | 7,940             | —                  | 7,940        |   |
| Other (income) expense  | —                                  | (11              | ) 375                  | 364               | 960                | 1,324        |   |
| Segment contribution (loss)                                     | \$40,229                           | \$6,299          | \$ (8,179              | ) \$38,349        |                    |              |   |
| Income (loss) from continuing<br>operations before income taxes |                                    |                  |                        | \$38,349          | \$(25,038          | ) \$13,311   |   |

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|   | Three Months Ended March 31, 2013  |                  |                        |                   |                    |              |
|---|------------------------------------|------------------|------------------------|-------------------|--------------------|--------------|
|   | U.S. &<br>Canada<br>(in thousands) | Latin<br>America | Other<br>International | Total<br>Segments | Corporate<br>Items | Consolidated |
| Revenues:   |                                    |                  |                        |                   |                    |              |
| Merchandise sales   | \$86,409                           | \$13,673         | \$—                    | \$100,082         | \$—                | \$100,082    |
| Jewelry scrapping sales   | 40,501                             | 2,081            | —                      | 42,582            | —                  | 42,582       |
| Pawn service charges  | 54,500                             | 7,515            | —                      | 62,015            | —                  | 62,015       |
| Consumer loan fees and interest                                 | 42,266                             | 11,842           | 6,643                  | 60,751            | —                  | 60,751       |
| Other revenues  | 1,620                              | 205              | 859                    | 2,684             | —                  | 2,684        |
| Total revenues  | 225,296                            | 35,316           | 7,502                  | 268,114           | —                  | 268,114      |
| Merchandise cost of goods sold                                  | 50,819                             | 7,897            | —                      | 58,716            | —                  | 58,716       |
| Jewelry scrapping cost of goods sold                            | 27,563                             | 1,748            | —                      | 29,311            | —                  | 29,311       |
| Consumer loan bad debt expense<br>(benefit)                     | 6,441                              | (661)            | ) 2,677                | 8,457             | —                  | 8,457        |
| Net revenues  | 140,473                            | 26,332           | 4,825                  | 171,630           | —                  | 171,630      |
| Operating expenses (income):                                    |                                    |                  |                        |                   |                    |              |
| Operations  | 82,827                             | 15,335           | 3,669                  | 101,831           | —                  | 101,831      |
| Administrative  | —                                  | —                | —                      | —                 | 8,603              | 8,603        |
| Depreciation  | 4,030                              | 1,257            | 99                     | 5,386             | 1,685              | 7,071        |
| Amortization  | 622                                | 416              | 23                     | 1,061             | 255                | 1,316        |
| (Gain) loss on sale or disposal of<br>assets                    | (1                                 | ) 14             | —                      | 13                | —                  | 13           |
| Interest expense (income), net                                  | 15                                 | 2,802            | (1                     | ) 2,816           | 937                | 3,753        |
| Equity in net income of<br>unconsolidated affiliates            | —                                  | —                | (4,125                 | ) (4,125          | ) —                | (4,125       |
| Other (income) expense  | (1                                 | ) (315           | ) —                    | (316              | ) 721              | 405          |
| Segment contribution  | \$52,981                           | \$6,823          | \$5,160                | \$64,964          |                    |              |
| Income (loss) from continuing<br>operations before income taxes |                                    |                  |                        | \$64,964          | \$(12,201          | ) \$52,763   |

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|  | Six Months Ended March 31, 2014    |                  |                        |                   |                    |              |
|--|------------------------------------|------------------|------------------------|-------------------|--------------------|--------------|
|  | U.S. &<br>Canada<br>(in thousands) | Latin<br>America | Other<br>International | Total<br>Segments | Corporate<br>Items | Consolidated |
| Revenues:  |                                    |                  |                        |                   |                    |              |
| Merchandise sales  | \$178,827                          | \$30,214         | \$—                    | \$209,041         | \$—                | \$209,041    |
| Jewelry scrapping sales                                      | 50,622                             | 3,274            | —                      | 53,896            | —                  | 53,896       |
| Pawn service charges   | 109,223                            | 14,072           | —                      | 123,295           | —                  | 123,295      |
| Consumer loan fees and interest                              | 94,359                             | 28,621           | 8,134                  | 131,114           | —                  | 131,114      |
| Other revenues   | 1,494                              | 10,187           | 30                     | 11,711            | —                  | 11,711       |
| Total revenues   | 434,525                            | 86,368           | 8,164                  | 529,057           | —                  | 529,057      |
| Merchandise cost of goods sold                               | 107,937                            | 19,508           | —                      | 127,445           | —                  | 127,445      |
| Jewelry scrapping cost of goods sold                         | 37,363                             | 2,768            | —                      | 40,131            | —                  | 40,131       |
| Consumer loan bad debt                                       | 24,677                             | 1,845            | 2,332                  | 28,854            | —                  | 28,854       |
| Net revenues   | 264,548                            | 62,247           | 5,832                  | 332,627           | —                  | 332,627      |
| Operating expenses (income):                                 |                                    |                  |                        |                   |                    |              |
| Operations   | 176,608                            | 36,468           | 7,757                  | 220,833           | —                  | 220,833      |
| Administrative   | —                                  | —                | —                      | —                 | 35,777             | 35,777       |
| Depreciation   | 8,562                              | 2,909            | 208                    | 11,679            | 3,326              | 15,005       |
| Amortization   | 1,309                              | 1,224            | 51                     | 2,584             | 1,331              | 3,915        |
| (Gain) loss on sale or disposal of assets                    | (6,759 )                           | 4                | 159                    | (6,596 )          | 648                | (5,948 )     |
| Interest (income) expense, net                               | (11 )                              | 7,394            | (2 )                   | 7,381             | 2,226              | 9,607        |
| Equity in net income of unconsolidated affiliates            | —                                  | —                | (1,763 )               | (1,763 )          | —                  | (1,763 )     |
| Impairment of investments                                    | —                                  | —                | 7,940                  | 7,940             | —                  | 7,940        |
| Other (income) expense                                       | —                                  | (41 )            | 346                    | 305               | 851                | 1,156        |
| Segment contribution (loss)                                  | \$84,839                           | \$14,289         | \$ (8,864 )            | \$90,264          |                    |              |
| Income (loss) from continuing operations before income taxes |                                    |                  |                        | \$90,264          | \$(44,159 )        | \$46,105     |



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|  | Six Months Ended March 31, 2013 |               |                     |                |                 | Consolidated |
|--|---------------------------------|---------------|---------------------|----------------|-----------------|--------------|
|  | U.S. & Canada<br>(in thousands) | Latin America | Other International | Total Segments | Corporate Items |              |
| Revenues:  |                                 |               |                     |                |                 |              |
| Merchandise sales  | \$166,113                       | \$28,573      | \$—                 | \$194,686      | \$—             | \$194,686    |
| Jewelry scrapping sales                                      | 82,489                          | 4,802         | —                   | 87,291         | —               | 87,291       |
| Pawn service charges   | 112,697                         | 14,718        | —                   | 127,415        | —               | 127,415      |
| Consumer loan fees and interest                              | 86,594                          | 23,719        | 13,572              | 123,885        | —               | 123,885      |
| Other revenues   | 4,411                           | 1,846         | 1,241               | 7,498          | —               | 7,498        |
| Total revenues   | 452,304                         | 73,658        | 14,813              | 540,775        | —               | 540,775      |
| Merchandise cost of goods sold                               | 97,141                          | 16,520        | —                   | 113,661        | —               | 113,661      |
| Jewelry scrapping cost of goods sold                         | 56,637                          | 3,979         | —                   | 60,616         | —               | 60,616       |
| Consumer loan bad debt expense (benefit)                     | 17,369                          | (1,709)       | ) 6,318             | 21,978         | —               | 21,978       |
| Net revenues   | 281,157                         | 54,868        | 8,495               | 344,520        | —               | 344,520      |
| Operating expenses (income):                                 |                                 |               |                     |                |                 |              |
| Operations   | 167,399                         | 29,970        | 7,747               | 205,116        | —               | 205,116      |
| Administrative   | —                               | —             | —                   | —              | 22,274          | 22,274       |
| Depreciation   | 7,721                           | 2,362         | 170                 | 10,253         | 3,378           | 13,631       |
| Amortization   | 769                             | 851           | 49                  | 1,669          | 361             | 2,030        |
| Loss on sale or disposal of assets                           | 28                              | 14            | —                   | 42             | —               | 42           |
| Interest expense (income), net                               | 32                              | 5,415         | (1)                 | ) 5,446        | 1,944           | 7,390        |
| Equity in net income of unconsolidated affiliates            | —                               | —             | (9,163)             | ) (9,163)      | —               | (9,163)      |
| Other (income) expense                                       | (5)                             | ) (295)       | ) (69)              | ) (369)        | ) 273           | (96)         |
| Segment contribution   | \$105,213                       | \$16,551      | \$9,762             | \$131,526      |                 |              |
| Income (loss) from continuing operations before income taxes |                                 |               |                     | \$131,526      | \$(28,230)      | ) \$103,296  |

The following tables provide geographic information required by ASC 280-10-50-41:

|           | Three Months Ended<br>March 31, |           | Six Months Ended March<br>31, |           |
|-----------|---------------------------------|-----------|-------------------------------|-----------|
|           | 2014                            | 2013      | 2014                          | 2013      |
|           | (in thousands)                  |           |                               |           |
| Revenues: |                                 |           |                               |           |
| U.S.      | \$210,379                       | \$222,341 | \$427,865                     | \$446,376 |
| Mexico    | 41,414                          | 35,316    | 86,368                        | 73,658    |
| Canada    | 3,075                           | 2,955     | 6,660                         | 5,928     |
| U.K       | 4,832                           | 7,502     | 8,164                         | 14,813    |
| Total     | \$259,700                       | \$268,114 | \$529,057                     | \$540,775 |

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**NOTE 13: ALLOWANCE FOR LOSSES AND CREDIT QUALITY OF FINANCING RECEIVABLES**

We offer a variety of loan products and credit services to customers who do not have cash resources or access to credit to meet their cash needs. Our customers are considered to be in a higher risk pool with regard to creditworthiness when compared to those of typical financial institutions. As a result, our receivables do not have a credit risk profile that can easily be measured by the normal credit quality indicators used by the financial markets. We manage the risk through closely monitoring the performance of the portfolio and through our underwriting process. This process includes review of customer information, such as making a credit reporting agency inquiry, evaluating and verifying income sources and levels, verifying employment and verifying a telephone number where customers may be contacted. For auto title loans, we also inspect the automobile, title and reference to market values of used automobiles.

The accuracy of our allowance estimates is dependent upon several factors, including our ability to predict future default rates based on historical trends and expected future events. We base our estimates on observable trends and various other assumptions that we believe to be reasonable under the circumstances. We review and analyze our loan portfolios based on aggregation of loans by type and duration of the loan products. Loan repayment trends and default rates are evaluated each month based on each loan portfolio and adjustments to loss allowance are made accordingly. A documented and systematic process is followed.

We consider consumer loans made at our storefronts to be defaulted if they have not been repaid or renewed by the maturity date. If one payment of a multiple-payment loan is delinquent, that one payment is considered defaulted. If more than one payment is delinquent at any time, the entire loan is considered defaulted. Although defaulted loans may be collected later, we charge the loan principal to consumer loan bad debt upon default, leaving only active loans in the reported balance. Accrued fees related to defaulted loans reduce fee revenue upon loan default, and increase fee revenue upon collection.

Based on historical collection experience, the age of past-due loans and amounts we expect to receive through the sale of repossessed vehicles, we provide an allowance for losses on auto title loans.

Consumer loans made by EZCORP Online are considered delinquent if they are not repaid or renewed by the maturity date. We do not continue to accrue revenues on delinquent loans. All outstanding principal balances and fee receivables greater than 60 days past due are considered defaulted. Upon default, we charge consumer loan principal to consumer loan bad debt and reverse accrued unsecured consumer loan fee revenue. Subsequent collections of these amounts are recorded as a reduction to consumer loan bad debt expense and as consumer loan fee revenue.

Consumer loans made online in the U.K. are considered delinquent if they are not repaid or renewed by the maturity date. Based on historical collection experience and the age of past-due loans, we provide an allowance for losses up to 90 days past due. All outstanding principal balances and fee receivables greater than 90 days past due are considered defaulted. Upon default, we charge consumer loan principal to consumer loan bad debt and reverse accrued unsecured consumer loan fee revenue. Subsequent collections of these amounts are recorded as a reduction to consumer loan bad debt expense and as consumer loan fee revenue.

Grupo Finmart's unsecured long-term consumer loans are considered in current status as long as the customer is employed ("in payroll"). Loans outstanding from customers no longer employed ("out of payroll") are considered current if payments are made by the due date. However, if one payment of an out of payroll loan is delinquent, that one payment is considered defaulted. If two or more payments of an out of payroll loan are delinquent at any time, the entire loan is considered defaulted. Although defaulted loans may be collected later, Grupo Finmart charges the loan principal to consumer loan bad debt upon default, leaving only active loans in the reported balance. Subsequent collections of principal are recorded as a reduction of consumer loan bad debt when collected. Accrued fees related to defaulted loans reduce fee revenue upon default, and increase fee revenue upon collection. The \$28.1 million recorded investment in unsecured long-term loans at March 31, 2014 that are greater than 90 days are related to customers that are in payroll.



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The following table presents changes in the allowance for credit losses, as well as the recorded investment in our financing receivables by portfolio segment for the periods presented:

| Description                          | Allowance<br>Balance<br>at<br>Beginning<br>of Period<br>(in thousands) | Charge-offs  | Recoveries | Provision  | Translation<br>Adjustment | Allowance<br>Balance at<br>End of<br>Period | Financing<br>Receivable<br>at End of<br>Period |
|--------------------------------------|--|--------------|------------|------------|---------------------------|---|--|
| Unsecured short-term consumer loans: |  |              |            |            |                           |   |  |
| Three Months Ended March 31, 2014    | \$2,848  | \$ (16,601 ) | \$ 16,689  | \$ 5,644   | \$ 5                      | \$ 8,585                                    | \$ 26,815                                      |
| Three Months Ended March 31, 2013    | \$2,553  | \$ (10,875 ) | \$ 5,480   | \$ 5,076   | \$ —                      | \$ 2,234                                    | \$ 20,022                                      |
| Six Months Ended March 31, 2014      | \$2,928  | \$ (28,803 ) | \$ 20,884  | \$ 13,559  | \$ 17                     | \$ 8,585                                    | \$ 26,815                                      |
| Six Months Ended March 31, 2013      | \$2,390  | \$ (22,924 ) | \$ 10,281  | \$ 12,487  | \$ —                      | \$ 2,234                                    | \$ 20,022                                      |
| Secured short-term consumer loans:   |  |              |            |            |                           |   |  |
| Three Months Ended March 31, 2014    | \$2,332  | \$ (18,382 ) | \$ 16,573  | \$ 1,291   | * \$ —                    | \$ 1,814                                    | \$ 7,959                                       |
| Three Months Ended March 31, 2013    | \$1,473  | \$ (10,597 ) | \$ 9,840   | \$ 642     | \$ —                      | \$ 1,358                                    | \$ 6,163                                       |
| Six Months Ended March 31, 2014      | \$1,804  | \$ (32,571 ) | \$ 31,755  | \$ 826     | \$ —                      | \$ 1,814                                    | \$ 7,959                                       |
| Six Months Ended March 31, 2013      | \$942  | \$ (19,271 ) | \$ 17,800  | \$ 1,887   | \$ —                      | \$ 1,358                                    | \$ 6,163                                       |
| Unsecured long-term consumer loans:  |  |              |            |            |                           |   |  |
| Three Months Ended March 31, 2014    | \$1,956  | \$ (85 )     | \$ 1,142   | \$(455 )   | * \$ 3                    | \$ 2,561                                    | \$ 115,411                                     |
| Three Months Ended March 31, 2013    | \$624  | \$ (791 )    | \$ 1,136   | \$(663 )   | * \$ 24                   | \$ 330                                      | \$ 91,747                                      |
| Six Months Ended March 31, 2014      | \$972  | \$ (926 )    | \$ 1,573   | \$ 936     | \$ 6                      | \$ 2,561                                    | \$ 115,411                                     |
| Six Months Ended March 31, 2013      | \$623  | \$ (952 )    | \$ 2,357   | \$(1,716 ) | * \$ 18                   | \$ 330                                      | \$ 91,747                                      |

\* Benefit in consumer loan provision is due to the sale of past due loans and recoveries of loans previously written-off.

The provisions presented in the table above include only principal and exclude items such as non-sufficient funds fees, repossession fees, auction fees and interest. In addition, all credit service expenses and fees related to loans made by our unaffiliated lenders are excluded, as we do not own the loans made in connection with our credit services and they are not recorded as assets on our balance sheets. Expected losses on credit services are accrued and reported in accounts payable and other accrued expenses on our balance sheets.

Auto title loans remain as recorded investments when in delinquent or nonaccrual status. We consider an auto title loan past due if it has not been repaid or renewed by the maturity date. Based on experience, we establish a reserve on all auto title loans. On auto title loans more than 90 days past due, we reserve the percentage we estimate will not be recoverable through auction and reserve 100% of loans for which we have not yet repossessed the underlying collateral. No fees are accrued on any auto title loans more than 90 days past due.

Short-term unsecured consumer loans made online by EZCORP Online remain as recorded investments when in delinquent or nonaccrual status. We consider these loans past due if they have not been repaid or renewed by the maturity date. Valuation reserves are based on days past due and respective historical collection rates. We reserve 100% of loans once they are more than 60 days past due. No fees are accrued on delinquent short-term consumer loans.

Short-term unsecured consumer loans made online in the U.K. remain as recorded investments when in default or nonaccrual status. Based on historical collection experience and the age of past-due loans, we provide an allowance for losses up to 90 days past due. All outstanding principal balances and fee receivables greater than 90 days past due are considered defaulted. Upon default, we charge consumer loan principal to consumer loan bad debt and reverse accrued unsecured consumer loan fee revenue. Subsequent collections of these amounts are recorded as a reduction to consumer loan bad debt expense and as consumer loan fee revenue.

Consumer loans made by Grupo Finmart remain on the balance sheet as recorded investments when in delinquent status. We consider a consumer loan past due if it has not been repaid or renewed by the maturity date; however, it is not unusual to have a lag in payments due to the time it takes the government agencies to setup the initial payroll withholding. Only those consumer loans made to customers that are no longer employed are considered in nonaccrual status. We establish a reserve on all consumer loans, based on historical experience. No fees are accrued on any consumer loans made to customers that are no longer employed.

On October 21, 2013, Grupo Finmart sold an unsecured long-term consumer loan portfolio, consisting of approximately 14,500 payroll withholding loans with a book value equal to \$14.7 million, for \$19.3 million. We realized a \$4.6 million gain on this sale, which is included under other revenues in our six-month period ended March 31, 2014 condensed consolidated statement of operations.

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On November 29, 2013, Grupo Finmart acquired an unsecured long-term consumer loan portfolio, consisting of approximately 10,500 payroll withholding loans, for a total purchase price of approximately \$15.7 million. Of the total purchase price, a minimum of \$11.5 million will be paid, of which approximately \$10.4 million was paid at closing and \$1.1 million will be paid over the next year. The total price includes deferred consideration of approximately \$4.2 million, subject to the performance of the portfolio and payable over the next 12 months as stipulated in the purchase agreement. The fair value of the loan portfolio was \$11.8 million as of the acquisition date.

On March 31, 2014, Grupo Finmart completed a sale of a long-term consumer loan portfolio, consisting of approximately 7,500 payroll withholding loans with a total book value of approximately \$10.0 million of principal and \$1.3 million of accrued interest for a promissory note in the amount of \$16.0 million. The note was paid in full on April 21, 2014. The transfer of the property and title is irrevocable and all legal rights to this portfolio were assigned and transferred under standard warranties to the trust, which was set up in order to facilitate the management of the collection rights to the primary beneficiary, the purchaser. Grupo Finmart was retained by the trust as the primary servicer at agreed upon market rates for a term of 48 months. As a result of the sale of this portfolio we realized a \$4.7 million gain, which is included under other revenues in our three and six month periods ended March 31, 2014 condensed consolidated statements of operations. As a result of the portfolio sale, we accelerated the amortization of the sales commissions related to the loans sold, which totaled approximately \$0.7 million, which is part of operations expense in our condensed consolidated statements of operations for the three and six month periods ended March 31, 2014.

Grupo Finmart is not the primary beneficiary of the trust because Grupo Finmart does not individually have the power to direct the most significant activities of the trust and carries no obligation to absorb losses or receive benefits that could potentially be significant to the trust. Consequently, we do not consolidate this trust.

The following table presents an aging analysis of past due financing receivables by portfolio segment:

|                                       | Days Past Due          |         |         |          | Total<br>Past Due | Current<br>Receivable | Fair Value<br>Adjustment | Total<br>Financing<br>Receivable | Allowance<br>Balance | Recorded<br>Investment<br>> 90<br>Days<br>Accruing |
|---------------------------------------|------------------------|---------|---------|----------|-------------------|-----------------------|--------------------------|----------------------------------|----------------------|--|
|                                       | 1-30<br>(in thousands) | 31-60   | 61-90   | >90      |                   |                       |                          |                                  |                      |  |
| Unsecured short-term consumer loans:* |                        |         |         |          |                   |                       |                          |                                  |                      |  |
| March 31, 2014                        | \$1,063                | \$1,949 | \$898   | \$3,411  | \$7,321           | \$4,067               | \$—                      | \$11,388                         | \$6,964              | \$—  |
| March 31, 2013                        | \$13                   | \$13    | \$—     | \$—      | \$26              | \$119                 | \$—                      | \$145                            | \$30                 | \$—  |
| September 30,<br>2013                 | \$113                  | \$285   | \$257   | \$—      | \$655             | \$214                 | \$—                      | \$869                            | \$464                | \$—  |
| Secured short-term consumer loans:    |                        |         |         |          |                   |                       |                          |                                  |                      |  |
| March 31, 2014                        | \$1,424                | \$736   | \$757   | \$1,184  | \$4,101           | \$3,858               | \$—                      | \$7,959                          | \$1,814              | \$—  |
| March 31, 2013                        | \$1,299                | \$747   | \$506   | \$825    | \$3,377           | \$2,786               | \$—                      | \$6,163                          | \$1,358              | \$—  |
| September 30,<br>2013                 | \$2,096                | \$1,313 | \$905   | \$910    | \$5,224           | \$4,565               | \$—                      | \$9,789                          | \$1,804              | \$—  |
| Unsecured long-term consumer loans:   |                        |         |         |          |                   |                       |                          |                                  |                      |  |
| March 31, 2014                        |                        |         |         |          |                   |                       |                          |                                  |                      |  |
| In Payroll                            | \$792                  | \$1,953 | \$1,503 | \$28,070 | \$32,318          | \$80,098              | \$1,218                  | \$113,634                        | \$1,587              | \$28,070   |
| Out of payroll                        | 24                     | 34      | 25      | 943      | 1,026             | 1,111                 | (360 )                   | 1,777                            | 974                  | —  |
|                                       | \$816                  | \$1,987 | \$1,528 | \$29,013 | \$33,344          | \$81,209              | \$858                    | \$115,411                        | \$2,561              | \$28,070   |
| March 31, 2013                        |                        |         |         |          |                   |                       |                          |                                  |                      |  |
| In Payroll                            | \$1,545                | \$5,519 | \$3,856 | \$27,479 | \$38,399          | \$53,980              | \$(1,099 )               | \$91,280                         | \$327                | \$27,479   |
| Out of payroll                        | —                      | —       | —       | —        | —                 | 467                   | —                        | 467                              | 3                    | —  |
|                                       | \$1,545                | \$5,519 | \$3,856 | \$27,479 | \$38,399          | \$54,447              | \$(1,099 )               | \$91,747                         | \$330                | \$27,479   |

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|                |         |         |         |          |          |          |         |   |           |       |          |
|----------------|---------|---------|---------|----------|----------|----------|---------|---|-----------|-------|----------|
| In Payroll     | \$8,726 | \$5,245 | \$1,392 | \$29,492 | \$44,855 | \$63,209 | \$(196) | ) | \$107,868 | \$758 | \$29,492 |
| Out of payroll | 183     | 109     | 192     | —        | 484      | 258      | (7)     | ) | 735       | 214   | —        |
|                | \$8,909 | \$5,354 | \$1,584 | \$29,492 | \$45,339 | \$63,467 | \$(203) | ) | \$108,603 | \$972 | \$29,492 |

\* Unsecured short-term consumer loans amounts are included for periods after the acquisition of Go Cash.

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## NOTE 14: FAIR VALUE MEASUREMENTS

## Recurring Fair Value Measurements

In accordance with FASB ASC 820-10, Fair Value Measurements and Disclosures, our assets and liabilities, which are carried at fair value, are classified in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Other observable inputs other than quoted market prices.

Level 3: Unobservable inputs that are not corroborated by market data.

The tables below present our financial assets (liabilities) that are measured at fair value on a recurring basis as of March 31, 2014, March 31, 2013 and September 30, 2013:

| Financial assets (liabilities):    | March 31,              | Fair Value Measurements Using |         |            |
|------------------------------------|------------------------|-------------------------------|---------|------------|
|                                    | 2014<br>(in thousands) | Level 1                       | Level 2 | Level 3    |
| Marketable equity securities       | \$2,727                | \$2,727                       | \$—     | \$—        |
| Forward contracts                  | 1,621                  | —                             | 1,621   | —          |
| Contingent consideration           | (7,159 )               | —                             | —       | (7,159 )   |
| Net financial assets (liabilities) | \$(2,811 )             | \$2,727                       | \$1,621 | \$(7,159 ) |

  

| Financial assets (liabilities):    | March 31,              | Fair Value Measurements Using |         |             |
|------------------------------------|------------------------|-------------------------------|---------|-------------|
|                                    | 2013<br>(in thousands) | Level 1                       | Level 2 | Level 3     |
| Marketable equity securities       | \$4,367                | \$4,367                       | \$—     | \$—         |
| Contingent consideration           | (28,470 )              | —                             | —       | (28,470 )   |
| Net financial assets (liabilities) | \$(24,103 )            | \$4,367                       | \$—     | \$(28,470 ) |

  

| Financial assets (liabilities):    | September 30,          | Fair Value Measurements Using |         |             |
|------------------------------------|------------------------|-------------------------------|---------|-------------|
|                                    | 2013<br>(in thousands) | Level 1                       | Level 2 | Level 3     |
| Marketable equity securities       | \$2,339                | \$2,339                       | \$—     | \$—         |
| Forward contracts                  | 1,813                  | —                             | 1,813   | —           |
| Contingent consideration           | (18,197 )              | —                             | —       | (18,197 )   |
| Net financial assets (liabilities) | \$(14,045 )            | \$2,339                       | \$1,813 | \$(18,197 ) |

We measure the value of our marketable equity securities under a Level 1 input. These assets are publicly traded equity securities for which market prices are readily available. There were no transfers of assets in or out of Level 1 or Level 2 fair value measurements in the periods presented.

Grupo Finmart measures the value of the forward contracts under a Level 2 input. To measure the fair value of the forward contracts, Grupo Finmart used estimations of expected cash flows, appropriately risk-adjusted discount rates and available observable inputs (term of the forward, notional amount, discount rates based on local and foreign rate curves, and a credit value adjustment to consider the likelihood of nonperformance).

We used an income approach to measure the fair value of the contingent consideration using a probability-weighted discounted cash flow approach. The significant inputs used for the valuation are not observable in the market, and thus this fair value measurement represents a Level 3 measurement within the fair value hierarchy.

During the three and six month periods ended March 31, 2014, we recorded accretion expense of \$0.1 million and foreign currency exchange loss on earn out payments of \$1.0 million. In addition, during the three month period ended March 31, 2014, we made a \$12.1 million earn out payment related to the Grupo Finmart acquisition, bringing the



contingent consideration liability to \$7.2 million at March, 31, 2014. During the three and six month periods ended March 31, 2013, we recorded accretion expense of \$0.1 million and \$0.3 million, respectively. In addition, during the three month period ended December 31, 2012, we recorded \$4.8 million of additional contingent consideration, attributable to the Go Cash acquisition, bringing the

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contingent consideration liability to \$28.5 million at March 31, 2013. The accretion expense and foreign currency exchange loss amounts are included in administrative expenses and other expense (income), respectively, in our condensed consolidated statement of operations.

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## Financial Assets, Temporary Equity, and Liabilities Not Measured at Fair Value

Our financial assets, temporary equity, and liabilities as of March 31, 2014, March 31, 2013 and September 30, 2013, that are not measured at fair value in the condensed consolidated balance sheets, are as follows:

|   | Carrying       | Estimated Fair Value |           |                              |           |           |
|---|----------------|----------------------|-----------|------------------------------|-----------|-----------|
|   | Value          | March 31,            | March 31, | Fair Value Measurement Using |           |           |
|   | March 31,      | 2014                 | 2014      | Level 1                      | Level 2   | Level 3   |
|   | (in thousands) |                      |           |                              |           |           |
| Financial assets:                               |                |                      |           |                              |           |           |
| Cash and cash equivalents                       | \$32,198       | \$32,198             | \$32,198  | \$32,198                     | \$—       | \$—       |
| Restricted cash                                 | 21,104         | 21,104               | 21,104    | 21,104                       | —         | —         |
| Pawn loans                                      | 128,683        | 128,683              | 128,683   | —                            | —         | 128,683   |
| Consumer loans, net                             | 75,501         | 78,783               | 78,783    | —                            | —         | 78,783    |
| Pawn service charges receivable, net            | 24,733         | 24,733               | 24,733    | —                            | —         | 24,733    |
| Consumer loan fees and interest receivable, net | 40,033         | 40,033               | 40,033    | —                            | —         | 40,033    |
| Restricted cash, non-current                    | 9,575          | 9,575                | 9,575     | 9,575                        | —         | —         |
| Non-current consumer loans, net                 | 61,724         | 64,271               | 64,271    | —                            | —         | 64,271    |
| Total   | \$393,551      | \$399,380            | \$399,380 | \$62,877                     | \$—       | \$336,503 |
| Temporary equity:                               |                |                      |           |                              |           |           |
| Redeemable noncontrolling interest              | \$58,107       | \$59,912             | \$59,912  | \$—                          | \$—       | \$59,912  |
| Financial liabilities:                          |                |                      |           |                              |           |           |
| Domestic line of credit                         | \$83,000       | \$83,000             | \$83,000  | \$—                          | \$83,000  | \$—       |
| Foreign currency lines of credit                | 30,013         | 29,794               | 29,794    | —                            | 29,794    | —         |
| Consumer loans facility due 2019                | 55,715         | 55,842               | 55,842    | 55,842                       | —         | —         |
| Unsecured Notes                                 | 38,072         | 36,603               | 36,603    | 28,474                       | 8,129     | —         |
| Secured Notes                                   | 21,682         | 22,182               | 22,182    | —                            | 22,182    | —         |
| Total   | \$228,482      | \$227,421            | \$227,421 | \$84,316                     | \$143,105 | \$—       |
|   | Carrying       | Estimated Fair Value |           |                              |           |           |
|   | Value          | March 31,            | March 31, | Fair Value Measurement Using |           |           |
|   | March 31,      | 2013                 | 2013      | Level 1                      | Level 2   | Level 3   |
|   | (in thousands) |                      |           |                              |           |           |
| Financial assets:                               |                |                      |           |                              |           |           |
| Cash and cash equivalents                       | \$41,443       | \$41,443             | \$41,443  | \$41,443                     | \$—       | \$—       |
| Restricted cash                                 | 1,204          | 1,204                | 1,204     | 1,204                        | —         | —         |
| Pawn loans                                      | 138,380        | 138,380              | 138,380   | —                            | —         | 138,380   |
| Consumer loans, net                             | 36,596         | 38,293               | 38,293    | —                            | —         | 38,293    |
| Pawn service charges receivable, net            | 25,388         | 25,388               | 25,388    | —                            | —         | 25,388    |
| Consumer loan fees and interest receivable, net | 33,507         | 33,507               | 33,507    | —                            | —         | 33,507    |
| Restricted cash, non-current                    | 2,197          | 2,197                | 2,197     | 2,197                        | —         | —         |
| Non-current consumer loans, net                 | 77,414         | 86,793               | 86,793    | —                            | —         | 86,793    |
| Total   | \$356,129      | \$367,205            | \$367,205 | \$44,844                     | \$—       | \$322,361 |
| Temporary equity:                               |                |                      |           |                              |           |           |
| Redeemable noncontrolling interest              | \$52,982       | \$52,982             | \$52,982  | \$—                          | \$—       | \$52,982  |

|                                  |           |           |          |           |     |
|----------------------------------|-----------|-----------|----------|-----------|-----|
| Financial liabilities:           |           |           |          |           |     |
| Domestic line of credit          | \$74,000  | \$74,000  | \$—      | \$74,000  | \$— |
| Foreign currency lines of credit | 36,503    | 36,193    | —        | 36,193    | —   |
| Consumer loans facility due 2017 | 33,995    | 34,046    | 34,046   | —         | —   |
| Unsecured Notes                  | 23,229    | 22,407    | —        | 22,407    | —   |
| Secured Notes                    | 4,561     | 4,047     | —        | 4,047     | —   |
| Total                            | \$172,288 | \$170,693 | \$34,046 | \$136,647 | \$— |

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|  | Carrying<br>Value<br>September 30,<br>2013<br>(in thousands) | Estimated Fair Value<br>September 30,<br>2013 | Fair Value Measurement Using |                  |                  |
|--|--|---|------------------------------|------------------|------------------|
|  |  |   | Level 1                      | Level 2          | Level 3          |
| <b>Financial assets:</b>                           |  |   |                              |                  |                  |
| Cash and cash equivalents                          | \$36,317   | \$36,317                                      | \$36,317                     | \$—              | \$—              |
| Restricted cash                                    | 3,312  | 3,312   | 3,312                        | —                | —                |
| Pawn loans   | 156,637  | 156,637                                       | —                            | —                | 156,637          |
| Consumer loans, net                                | 64,683   | 74,979  | —                            | —                | 74,979           |
| Pawn service charges receivable, net               | 30,362   | 30,362  | —                            | —                | 30,362           |
| Consumer loan fees and interest receivable,<br>net | 36,292   | 36,292  | —                            | —                | 36,292           |
| Restricted cash, non-current                       | 2,156  | 2,156   | 2,156                        | —                | —                |
| Non-current consumer loans, net                    | 70,294   | 89,693  | —                            | —                | 89,693           |
| <b>Total</b>                                       | <b>\$400,053</b>   | <b>\$429,748</b>                              | <b>\$41,785</b>              | <b>\$—</b>       | <b>\$387,963</b> |
| <b>Temporary equity:</b>                           |  |   |                              |                  |                  |
| Redeemable noncontrolling interest                 | \$55,393   | \$55,557                                      | \$—                          | \$—              | \$55,557         |
| <b>Financial liabilities:</b>                      |  |   |                              |                  |                  |
| Domestic line of credit                            | \$140,900  | \$140,900                                     | \$—                          | \$140,900        | \$—              |
| Foreign currency lines of credit                   | 30,310   | 31,832  | —                            | 31,832           | —                |
| Consumer loans facility due 2017                   | 31,951   | 32,027  | 32,027                       | —                | —                |
| Unsecured Notes                                    | 39,029   | 38,734  | 15,686                       | 23,048           | —                |
| Secured Notes                                      | 4,185  | 4,026   | —                            | 4,026            | —                |
| <b>Total</b>                                       | <b>\$246,375</b>   | <b>\$247,519</b>                              | <b>\$47,713</b>              | <b>\$199,806</b> | <b>\$—</b>       |

Cash and cash equivalents and restricted cash bear interest at market rates and have maturities of less than 90 days.

The total U.S. pawn loan term ranges between 60 and 120 days, consisting of the primary term and grace period. The total Mexico pawn loan term is 40 days, consisting of the primary term and grace period.

We record pawn service charges using the interest method for all pawn loans we believe to be collectible. We base our estimate of collectible loans on several unobservable inputs, including recent redemption rates, historical trends in redemption rates and the amount of loans due in the following two months.

Consumer loan fees and interest receivable are carried in the consolidated balance sheet net of the allowance for uncollectible consumer loan fees and interest receivable, which is based on recent loan default experience adjusted for seasonal variations and collection percentages.

Based on the short-term nature of the assets discussed above we estimate that their carrying value approximates fair value.

Consumer loans, including long-term unsecured consumer loans made by Grupo Finmart, are carried in the consolidated balance sheet net of the allowance for estimated loan losses, which is based on recent loan default experience adjusted for seasonal variations. Consumer loans, other than those made by Grupo Finmart, have relatively short maturity periods that are generally less than one year; therefore, we estimate that their carrying value approximates fair value. Consumer loans made by Grupo Finmart have an average term of approximately 32 months. We estimated the fair value of the Grupo Finmart consumer loans by applying an income approach (the present value

of future cash flows). Key assumptions include an annualized probability of default as well as a discount rate based on the funding rate plus the portfolio liquidity risk.

The fair value of the redeemable noncontrolling interest was estimated by applying an income approach. This fair value measurement is based on significant inputs that are not observable in the market and thus represents a Level 3 measurement. Key assumptions include discount rates ranging from 10% to 18%, representing discounts for lack of control and lack of marketability that market participants would consider when estimating the fair value of the noncontrolling interest.

We measure the fair value of our financial liabilities using an income approach. Fair value measurements for our domestic line of credit were calculated using discount rates based on an estimated senior secured spread plus term matched risk free rates as of the valuation dates. We utilize credit quality-related zero rate curves for Mexican Pesos built by a price vendor authorized by the Comisión Nacional Bancaria y de Valores to determine the fair value measurements of the remaining financial liabilities

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that are classified as Level 2. For fair value measurements that are classified as Level 1, we utilize quoted price and yield inputs from Bloomberg and a price vendor authorized by the Comisión Nacional Bancaria y de Valores.

**NOTE 15: DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

During the third quarter ended June 30, 2013, Grupo Finmart completed a \$30 million cross-border debt offering for which it has to pay interest on a semiannual basis at a fixed rate. Grupo Finmart uses derivative instruments (cross currency forwards) to manage its exposure related to changes in foreign currency exchange rate on this instrument through its maturity on November 16, 2015. Grupo Finmart does not enter into derivative instruments for any purpose other than cash flow hedging.

Changes in the fair value of forward agreements designated as hedging instruments that effectively offset the variability of cash flows associated with exchange rate are reported in accumulated other comprehensive income. These amounts subsequently are reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

We assess the effectiveness of the hedges using linear regression for prospective testing, and the dollar offset method for retrospective testing. A hypothetical derivative with fair value of zero is created at the beginning of the hedge relationship; changes in actual derivative and hypothetical derivatives are used to carry out both testings. Based on the results of our testing, we have no ineffectiveness as of March 31, 2014 and March 31, 2013.

The following tables set forth certain information regarding our derivative instruments:

| Derivative Instrument                        | Balance Sheet Location               | Fair Value of Derivative Instruments   |                |                    |
|--|--------------------------------------|--|----------------|--------------------|
|  |                                      | March 31, 2014   | March 31, 2013 | September 30, 2013 |
| (in thousands)                               |                                      |  |                |                    |
| Designated as cash flow hedging instruments: |                                      |  |                |                    |
| Foreign currency forwards                    | Other assets, net                    | \$1,621  | \$—            | \$ 1,813           |
|  |                                      | Amount of Loss Recognized in Other Comprehensive Income on Derivatives (Effective Portion)                             |                |                    |
|  |                                      | Three Months Ended   |                | Six Months Ended   |
| Derivative Instrument                        | Location of Loss                     | March 31, 2014   | 2013           | March 31, 2014     |
|  |                                      | (in thousands)   |                |                    |
| Designated as cash flow hedging instruments: |                                      |  |                |                    |
| Foreign currency forwards                    | Effective portion of cash flow hedge | \$571  | \$—            | \$672              |
|  |                                      | Amount of Loss on Derivatives Reclassified into Income from Accumulated Other Comprehensive Income (Effective Portion) |                |                    |
|  |                                      | Three Months Ended   |                | Six Months Ended   |
| Derivative Instrument                        | Location of Loss                     | March 31, 2014   | 2013           | March 31, 2014     |
|  |                                      | (in thousands)   |                |                    |
| Designated as cash flow hedging instruments: |                                      |  |                |                    |
| Foreign currency forwards                    | Interest expense / other income      | \$297  | \$—            | \$542              |
|  |                                      | (in thousands)   |                |                    |

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## NOTE 16: SUPPLEMENTAL CONSOLIDATED FINANCIAL INFORMATION

## Supplemental Consolidated Statements of Financial Position Information:

The following table provides information on net amounts included in pawn service charges receivable, consumer loan fees, inventories and property and equipment:

|  | March 31,<br>2014 | 2013       | September 30,<br>2013 |
|--|-------------------|------------|-----------------------|
|  | (in thousands)    |            |                       |
| Pawn service charges receivable:                                       |                   |            |                       |
| Gross pawn service charges receivable                                  | \$31,840          | \$33,944   | \$40,336              |
| Allowance for uncollectible pawn service charges receivable            | (7,107)           | ) (8,556   | ) (9,974 )            |
| Pawn service charges receivable, net                                   | \$24,733          | \$25,388   | \$30,362              |
| Consumer loan fees and interest receivable:                            |                   |            |                       |
| Gross consumer loan fees and interest receivable                       | \$43,057          | \$36,331   | \$38,059              |
| Allowance for uncollectible consumer loan fees and interest receivable | (3,024)           | ) (2,824   | ) (1,767 )            |
| Consumer loan fees and interest receivable, net                        | \$40,033          | \$33,507   | \$36,292              |
| Inventory:   |                   |            |                       |
| Inventory, gross   | \$135,100         | \$121,893  | \$149,446             |
| Inventory reserves   | (6,087)           | ) (5,376   | ) (4,246 )            |
| Inventory, net   | \$129,013         | \$116,517  | \$145,200             |
| Property and equipment:  |                   |            |                       |
| Property and equipment, gross  | \$229,369         | \$285,748  | \$291,245             |
| Accumulated depreciation   | (117,950)         | ) (166,769 | ) (174,964 )          |
| Property and equipment, net  | \$111,419         | \$118,979  | \$116,281             |

Property and equipment at March 31, 2014, March 31, 2013 and September 30, 2013 includes \$1.6 million, \$1.3 million and \$1.6 million, respectively, of equipment leased under a capital lease. Amortization of equipment under capital leases is included with depreciation expense and was \$0.1 million for the three-month period ended March 31, 2014, \$0.2 million for the six-month period ended March 31, 2014, \$0.1 million for the three-month period ended March 31, 2013, and \$0.3 million for the six-month period ended March 31, 2013. Future minimum lease payments related to capital leases are \$0.5 million and \$0.2 million due within one and two years respectively for a total of \$0.7 million; of this amount, a nominal portion represents interest. The present value of net minimum lease payments as of March 31, 2014 was \$0.7 million.

During the first quarter ended December 31, 2013, we sold seven U.S. pawn stores (three in Louisiana, two in Mississippi, one in Alabama and one in Florida) for \$11.0 million, of which \$10.0 million was paid in cash and \$1.0 million with a 14% promissory note due on December 31, 2018. The carrying value of the stores' net assets amounted to \$3.7 million, primarily consisting of \$1.5 million of pawn loans, \$1.9 million of inventory, and \$0.4 million of pawn service charge receivable, offset by \$0.1 million of assumed liabilities. In the first quarter ended December 31, 2013 we realized a gain of \$6.3 million, which is included under the loss (gain) on sale or disposal of assets in the condensed consolidated statement of operations. In addition, we recorded a deferred gain of \$0.7 million. In the second quarter ended March 31, 2014, we settled the promissory note for \$0.9 million and realized the net deferred gain of \$0.6 million which is included in our condensed consolidated statements of operations for three and six-month periods ended March 31, 2014.



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## Other Supplemental Information:

We issue letters of credit (LOC) to enhance the creditworthiness of our customers seeking unsecured loans from unaffiliated lenders. The letters of credit assure the lenders that if borrower default on the loans, we will pay the lenders, upon demand, the principal and accrued interest owed to the lenders by the borrowers plus any insufficient funds fees. Our current carrying value of expected losses and maximum exposure for losses on letters of credit, if all brokered loans defaulted and none was collected, is summarized below.

|  | March 31,<br>2014 | 2013     | September 30,<br>2013 |
|--|-------------------|----------|-----------------------|
|  | (in thousands)    |          |                       |
| Consumer loans:                                      |                   |          |                       |
| Expected LOC losses                                  | \$2,460           | \$1,666  | \$2,623               |
| Maximum exposure for LOC losses                      | \$25,943          | \$22,737 | \$33,380              |
| Exposure secured by titles to customers' automobiles | \$7,268           | \$6,190  | \$9,893               |

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

The discussion in this section contains forward-looking statements that are based on our current expectations. Actual results could differ materially from those expressed or implied by the forward-looking statements due to a number of risks, uncertainties and other factors, including those identified in "Part II, Item 1A — Risk Factors" of this report and "Part I, Item 1A—Risk Factors" of our Annual Report on Form 10-K for the year ended September 30, 2013.

## GENERAL

## Overview of Operations

We are a leader in delivering easy cash solutions to our customers across channels, products, services and markets. With approximately 7,500 teammates and approximately 1,400 locations and branches, we give our customers multiple ways to access instant cash, including pawn loans and consumer loans in the United States, Mexico, Canada and the United Kingdom. We offer these products through our four primary channels: in-store, online, at the worksite and through our mobile platforms. At our pawn and buy/sell stores and online, we also sell merchandise, primarily collateral forfeited from pawn lending operations and used merchandise purchased from customers.

We fulfill the growing global consumer demand for immediate access to cash, financial services and affordable pre-owned merchandise. We offer a variety of instant cash solutions, including collateralized, non-recourse loans, commonly known as pawn loans, and a variety of short-term consumer loans, including single- and multiple-payment unsecured loans and single- and multiple-payment auto title loans. In some U.S. locations (primarily in Texas), we do not offer loan products, but rather offer credit services to help customers obtain loans from independent third-party lenders.

The Company's online lending and selling activities are a part of our store led integrated multichannel strategy. We offer easy cash solutions to our customers across channels, products, services, and markets. Our investments in marketing and technology are centered around this integrated multichannel strategy of providing easy cash solutions to our customers when they want them and how they want to access them. We utilize various online channels to sell merchandise, including Amazon, Craigslist, eBay, and Kijiji among others. Our merchandise pricing is consistent between our in-store and online sales channels.

We believe our storefront presence creates a competitive advantage for our online lending offerings, and we are continually looking for opportunities to integrate our online and storefront offerings so that our customers can interact with us seamlessly across all channels. In the states in which we are registered to offer online lending products, our investments in operations, technology, and marketing allow our customers to access loan products in-store or online. Customers are able to start an application online and finish the loan process in-store, speak to a customer service

representative in one of our call centers, and chose to make a loan payment for a loan obtained online in one of our storefront locations. In addition, our proprietary underwriting software works seamlessly across both our storefronts and our online applications.

We own a 60% interest in Prestaciones Finmart, S.A.P.I. de C.V., SOFOM, E.N.R. ("Grupo Finmart"), a leading payroll withholding lender headquartered in Mexico City; and a 59% interest in Renueva Commercial S.A.P.I. de C.V. ("TUYO"), a

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company headquartered in Mexico City that owns and operates buy/sell stores in Mexico City and the surrounding metropolitan area.

Our vision is to be the global leader in providing customers with easy cash solutions where they want, when they want and how they want, and we are making the investments in both storefronts and technology platforms to achieve that vision.

At March 31, 2014, we operated a total of 1,355 locations, consisting of:

- 491 U.S. pawn stores (operating primarily as EZPAWN or Value Pawn);
- 7 U.S. buy/sell stores (operating as Cash Converters);
- 242 Mexico pawn stores (operating as Empeño Fácil);
- 19 Mexico buy/sell stores (operating as TUYO);
- 500 U.S. financial services stores (operating primarily as EZMONEY);
- 24 financial services stores in Canada (operating as CASHMAX);
- 15 buy/sell and financial services stores in Canada (operating as Cash Converters); and
- 57 Grupo Finmart locations in Mexico.

In addition, we are the franchisor for 5 franchised Cash Converters stores in Canada. We also own approximately 32% of Cash Converters International Limited, which is based in Australia and franchises and operates a worldwide network of over 700 locations that provide financial services and buy and sell second-hand goods, and approximately 30% of Albemarle & Bond Holdings, PLC, a U.K. pawnbroking business.

Our business consists of three reportable segments:

- U.S. & Canada – All business activities in the United States and Canada
- Latin America – All business activities in Mexico and other parts of Latin America

Other International – All business activities in the rest of the world (currently consisting of Cash Genie online lending business in the United Kingdom and our equity interests in the results of operations of Albemarle & Bond and Cash Converters International)

The following tables present stores by segment:

|                           | Three Months Ended March 31, 2014 |               |                     | Consolidated | Franchises |
|---------------------------|-----------------------------------|---------------|---------------------|--------------|------------|
|                           | U.S. & Canada                     | Latin America | Other International |              |            |
| Stores in operation:      |                                   |               |                     |              |            |
| Beginning of period       | 1,028                             | 316           | —                   | 1,344        | 6          |
| De novo                   | 9                                 | 2             | —                   | 11           | —          |
| Sold, combined, or closed | —                                 | —             | —                   | —            | (1)        |
| End of period             | 1,037                             | 318           | —                   | 1,355        | 5          |

|                           | Six Months Ended March 31, 2014 |               |                     | Consolidated | Franchises |
|---------------------------|---------------------------------|---------------|---------------------|--------------|------------|
|                           | U.S. & Canada                   | Latin America | Other International |              |            |
| Stores in operation:      |                                 |               |                     |              |            |
| Beginning of period       | 1,030                           | 312           | —                   | 1,342        | 8          |
| De novo                   | 14                              | 6             | —                   | 20           | —          |
| Sold, combined, or closed | (7)                             | ) —           | —                   | (7)          | ) (3)      |
| End of period             | 1,037                           | 318           | —                   | 1,355        | 5          |

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## Three Months Ended March 31, 2013

## Company-owned Stores

|                                  | U.S. &<br>Canada | Latin<br>America | Other<br>International | Consolidated | Franchises |   |
|----------------------------------|------------------|------------------|------------------------|--------------|------------|---|
| Stores in operation:             |                  |                  |                        |              |            |   |
| Beginning of period              | 1,050            | 319              | —                      | 1,369        | 10         |   |
| De novo                          | 12               | 27               | —                      | 39           | —          |   |
| Sold, combined, or closed        | (4               | ) (1             | ) —                    | (5           | ) (1       | ) |
| End of period                    | 1,058            | 345              | —                      | 1,403        | 9          |   |
| Discontinued operations          | (50              | ) (57            | ) —                    | (107         | ) —        |   |
| Stores in continuing operations: | 1,008            | 288              | —                      | 1,296        | 9          |   |

## Six Months Ended March 31, 2013

## Company-owned Stores

|                                  | U.S. &<br>Canada | Latin<br>America | Other<br>International | Consolidated | Franchises |   |
|----------------------------------|------------------|------------------|------------------------|--------------|------------|---|
| Stores in operation:             |                  |                  |                        |              |            |   |
| Beginning of period              | 987              | 275              | —                      | 1,262        | 10         |   |
| De novo                          | 63               | 51               | —                      | 114          | —          |   |
| Acquired                         | 12               | 20               | —                      | 32           | —          |   |
| Sold, combined, or closed        | (4               | ) (1             | ) —                    | (5           | ) (1       | ) |
| End of period                    | 1,058            | 345              | —                      | 1,403        | 9          |   |
| Discontinued operations          | (50              | ) (57            | ) —                    | (107         | ) —        |   |
| Stores in continuing operations: | 1,008            | 288              | —                      | 1,296        | 9          |   |

## Discontinued Operations

During the third quarter of fiscal 2013, we implemented a plan to close 107 legacy stores (all of which were in operation at March 31, 2013) in a variety of locations. These stores were generally older, smaller stores that did not fit our future growth profile.

The store closings included:

57 stores in Mexico, 52 of which were small, jewelry-only asset group formats. We will continue to operate our full-service SWS locations under the Empeño Fácil brand, and expect to continue our storefront growth in Mexico.

29 stores in Canada, where we were in the process of transitioning to an integrated buy/sell and financial services model under the Cash Converters brand. The affected asset group consists of stores that were not optimal for that model because of location or size. We will continue to operate full-service buy/sell and financial services center stores under the Cash Converters brand in Canada and the United States.

20 financial services stores in Dallas, Texas and the State of Florida, where we exited both locations primarily due to onerous regulatory requirements.

One jewelry-only concept store, which was our only jewelry-only store in the United States.

Due to discontinued operations, we incurred charges in the fiscal year ended September 30, 2013 for lease termination costs, asset and inventory write-downs to net realizable liquidation value, uncollectible receivables, and employee severance costs. During the second quarter ended March 31, 2014, we recorded \$0.5 million of pre-tax gains related to these termination costs, primarily lease terminations of \$0.4 million, as negotiated amounts were lower than the initial lease buyout estimates recorded in the prior year. During the six-month period ended March 31, 2014, we recorded \$3.1 million of pre-tax gains related to these termination costs, primarily lease terminations of \$2.2 million, as negotiated amounts were lower than the initial lease buyout



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estimates recorded in the prior year, and inventory write-downs of \$0.6 million. These gains have been recorded as part of income from discontinued operations in our three and six-month periods ended March 31, 2014 condensed consolidated statement of operations, respectively.

As of March 31, 2014 accrued severance and lease termination costs related to discontinued operations were \$2.2 million. This amount is included in accounts payable and accrued liabilities in our condensed consolidated balance sheets. During the three and six-month periods ended March 31, 2014, cash payments of \$1.2 million and \$2.9 million, respectively, were made with regard to the recorded termination costs.

Discontinued operations in the three-month periods ended March 31, 2014 and 2013 include \$0.2 million and \$4.0 million of total revenues, respectively. The six-month periods ended March 31, 2014 and 2013 include \$2.8 million and \$8.5 million of total revenues, respectively.

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The table below summarizes the operating losses from discontinued operations by operating segment:

|  | Three Months Ended March 31, |           | Six Months Ended March 31, |           |
|--|------------------------------|-----------|----------------------------|-----------|
|  | 2014                         | 2013      | 2014                       | 2013      |
| (in thousands)   |                              |           |                            |           |
| <b>U.S. &amp; Canada</b>                                 |                              |           |                            |           |
| Net revenues   | \$30                         | \$1,503   | \$215                      | \$3,017   |
| Operating expenses                                       | 116                          | 2,898     | 403                        | 6,031     |
| Operating loss from discontinued operations before taxes | (86)                         | (1,395)   | (188)                      | (3,014)   |
| Total termination gains related to the reorganization    | (311)                        | —         | (951)                      | —         |
| Income (loss) from discontinued operations before taxes  | 225                          | (1,395)   | 763                        | (3,014)   |
| Income tax (provision) benefit                           | (76)                         | 66        | 35                         | 171       |
| Income (loss) from discontinued operations, net of tax   | \$149                        | \$(1,329) | \$798                      | \$(2,843) |
| <b>Latin America</b>                                     |                              |           |                            |           |
| Net revenues   | \$(474)                      | \$783     | \$(809)                    | \$1,731   |
| Operating expenses                                       | 7                            | 1,184     | 397                        | 2,406     |
| Operating loss from discontinued operations before taxes | (481)                        | (401)     | (1,206)                    | (675)     |
| Total termination gain related to the reorganization     | (209)                        | —         | (2,126)                    | —         |
| Income (loss) from discontinued operations before taxes  | (272)                        | (401)     | 920                        | (675)     |
| Income tax benefit (provision)                           | 83                           | 120       | (276)                      | 202       |
| (Loss) income from discontinued operations, net of tax   | \$(189)                      | \$(281)   | \$644                      | \$(473)   |
| <b>Consolidated</b>                                      |                              |           |                            |           |
| Net revenues   | \$(444)                      | \$2,286   | \$(594)                    | \$4,748   |
| Operating expenses                                       | 123                          | 4,082     | 800                        | 8,437     |
| Operating loss from discontinued operations before taxes | (567)                        | (1,796)   | (1,394)                    | (3,689)   |
| Total termination gains related to the reorganization    | (520)                        | —         | (3,077)                    | —         |
| (Loss) income from discontinued operations before taxes  | (47)                         | (1,796)   | 1,683                      | (3,689)   |
| Income tax benefit (provision)                           | 7                            | 186       | (241)                      | 373       |
| (Loss) income from discontinued operations, net of tax   | \$(40)                       | \$(1,610) | \$1,442                    | \$(3,316) |
| <b>Pawn and Retail Activities</b>                        |                              |           |                            |           |

We earn pawn service charge revenue on our pawn lending. At March 31, 2014, we had an aggregate pawn loan principal balance of \$128.7 million. Pawn service charges accounted for approximately 23% of our total revenues and 36% of our net revenues for the three months ended March 31, 2014 and approximately 23% of our total revenues and 37% of our net revenues for the six months ended March 31, 2014. While allowable service charges vary by state and loan size, a majority of our U.S. pawn loans earn 20% per month. Our average U.S. pawn loan amount typically ranges between \$132 to \$138, but varies depending on the valuation of each item pawned. The total U.S. loan term ranges between 60 and 180 days, consisting of the primary term and grace period. In Mexico, pawn service charges range from 15% to 21% per month, including applicable taxes, with the majority of loans earning 21%. The total Mexico pawn loan term is 40 days, consisting of the primary term and grace period. In Mexico, individual loans are made in Mexican pesos and vary depending on the valuation of each item pawned, but typically average \$67 U.S. dollars.

In our pawn stores, buy/sell stores in Pennsylvania and Virginia and certain financial services stores in Canada, we acquire inventory for retail sales through pawn loan forfeitures, purchases of customers' second-hand merchandise or purchases of new or refurbished merchandise from third-party vendors. We sell the acquired inventory through our in-store and online channels. The online channel pulls inventory from our in-store inventories. For the three months ended March 31, 2014 and 2013, our online merchandise sales represented approximately 5% and 4% of our total

merchandise sales, respectively. For the six months ended March 31, 2014 and 2013, our online merchandise sales represented approximately 5% of our total merchandise sales.



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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.

We record a valuation allowance for obsolete or slow-moving inventory based on the type and age of merchandise. We generally establish a higher allowance percentage on general merchandise, as it is more susceptible to obsolescence, and establish a lower allowance percentage on jewelry, as it generally has greater inherent commodity value. At March 31, 2014, our total allowance was 4.5% of gross inventory compared to 4.4% at March 31, 2013 and 2.8% at September 30, 2013. Changes in the valuation allowance are charged to merchandise cost of goods sold. The inventory valuation reserves rates from September 30, 2013 to March 31, 2014 were increased due to an increase in the aged general merchandise inventory. Gross margin overall improved due to increased focus on assessing value of pawn collateral and the investment in category management, merchandising systems, and coordinated marketing.

Consumer Loan Activities

We earn loan fee revenue on our consumer loans. In two U.S. pawn stores, 113 U.S. financial services stores and 39 Canadian financial services stores, we offer single-payment unsecured consumer loans. The average single-payment loan amount is approximately \$430 and the term is generally less than 30 days, averaging about 18 days. We typically charge a fee of 15% to 40% of the loan amount. In 124 of our U.S. financial services stores, we offer multiple-payment unsecured consumer loans. These loans carry a term of up to seven months, with a series of equal installment payments, including principal amortization, due monthly, semi-monthly or on the customer's payday. Total interest and fees on these loans vary in accordance with state law and loan terms, but over the entire loan term, total approximately 45% to 150% of the original principal amount of the loan. Multiple-payment loan principal amounts range from \$100 to \$3,500, but average approximately \$545.

In certain cities in Texas we offer credit services to customers seeking consumer loans from unaffiliated lenders. In these locations, we act as a credit services organization ("CSO") on behalf of customers in accordance with applicable state and local laws. We do not participate in any of the loans made by the lenders, but earn a fee for helping customers obtain credit and for enhancing customers' creditworthiness by providing letters of credit to the unaffiliated lenders. Customers may obtain different types of consumer loans from the unaffiliated lenders. For credit services in connection with arranging a single-payment loan (average loan amount of about \$510), our fee is approximately 22% to 44% of the loan amount. For credit services in connection with arranging an unsecured multiple-payment loan (average loan amount of about \$910), our fee is up to 150% of the initial loan amount. For credit services in connection with arranging single-payment auto title loans (average loan amount of about \$1,250), the fee is up to 30% of the loan amount with average rate of 20%. We also assist customers in obtaining longer-term multiple-payment auto title loans from unaffiliated lenders. Multiple-payment auto title loans typically carry terms of up to five months with up to ten equal installments. Multiple-payment auto title loan principal amounts range from \$150 to \$10,000, but average about \$1,190; and we earn a fee of 50% to 150% of the initial loan amount. At March 31, 2014, unsecured short-term consumer loans comprised 69% of all loans brokered through third-party lenders. Single-payment loans comprised 68% of the balance of unsecured short-term consumer loans brokered through our credit services, and multiple-payment loans comprised the remaining 32%.

At March 31, 2014, 434 of our U.S. financial services stores and two of our U.S. pawn stores offered auto title loans or, in Texas, credit services to assist customers in obtaining auto title loans from unaffiliated lenders. Auto title loans are 30-day loans secured by the titles to customers' automobiles. Loan principal amounts range from \$50 to \$20,000, but average about \$1,110. We earn a fee of 9% to 30% of auto title loan amounts.

We began online lending in the second half of fiscal 2012. At March 31, 2014, our U.S. online lending business operated in six states. In Louisiana, Missouri, South Dakota and Hawaii, we offer single-payment loans with an average principal amount of \$315 and terms generally less than 30 days. Total interest and fees vary in accordance with state law and loan terms, but over the entire loan term, total approximately 15% to 45% of the original principal amount of the loan. Our online lending business in Texas and Ohio operates under a CSO model similar to that described above. The average principal amount for online loans in Texas and Ohio is about \$441. We also offer single- and multiple-payment loans online in the U.K. For the three and six months ended March 31, 2014 and 2013,

our online lending fees represented approximately 14%, 13%, 12% and 12% of our total consumer loan fees and interest, respectively.

In Mexico, Grupo Finmart offers multiple-payment consumer loans with projected annual yields of approximately 43% and collects interest and principal through payroll deductions. The average loan is about \$1,550 with a term of approximately 30 months.

#### International Growth

Within our Mexican payroll withholding lending business, Grupo Finmart will continue to sign new convenios with federal,

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state, and local governments as well as further penetrate the existing convenios. As of March 31, 2014, our lending penetration into the booked convenios was approximately 5%, which indicates further growth opportunities. In addition, we are seeking to diversify our product offerings to this customer base. We expect to continue to obtain local financing to fund the lending growth within this business activity, which we anticipate will continue to be non-recourse to EZCORP.

We intend to continue to open new stores in our Mexican pawn business, but will adjust growth from time-to-time to conform to near-term market conditions. The Mexican pawn and retail environment has mirrored the US and Canada pawn and retail environment as gold prices have dropped and the industry has seen a shift from gold and jewelry pawn activity to general merchandise pawn activity. We intend to secure local financing for our Mexican pawn growth.

We also plan to open more buy/sell stores in Mexico over time. As of March 31, 2014, we operated 19 buy/sell stores within the Mexican market. We intend to finance this planned growth using cash flow generated from our Mexican operations, as well as local financing.

### Seasonality

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

Consumer loan fees are generally highest in our fourth and first fiscal quarters (July through December) due to a higher need for cash during the holiday season. Consumer loan bad debt, both in dollar terms and as a percentage of related fees, is highest in the fourth fiscal quarter and lowest in the second fiscal quarter due primarily to the impact of tax refunds in the U.S.

The payroll withholding lending business is less impacted by seasonality, with the exception of the summer months when new loan originations tend to moderate.

The net effect of these factors is that net revenues and net income typically are strongest in the fourth fiscal quarter and weakest in the third fiscal quarter.

### Recent Regulatory Developments

On December 18, 2013, the City of Houston passed an ordinance to regulate business offering payday loans and auto title loans by limiting certain loan terms, including the size of the loan, number of renewals and amount of principal payments. Similar ordinances have been adopted in other Texas cities such as Dallas, Austin, San Antonio and El Paso in the last few years. The Houston ordinance takes effect in July 2014. The El Paso ordinance took effect in January 2014. We expect these ordinances to have a negative impact on our financial services business in those cities.

### Certain Accounting Matters

#### Critical Accounting Policies

There have been no changes in critical accounting policies as described in our Annual Report on Form 10-K for the year ended September 30, 2013.

#### Recently Adopted Accounting Pronouncements

See Note 1 to our interim condensed financial statements included in "Part I - Item 1 - Financial Statements and Supplementary Data" for a discussion of recently adopted accounting pronouncements.

#### Recently Issued Accounting Pronouncements

See Note 1 to our interim condensed financial statements included in "Part I - Item 1 - Financial Statements and Supplementary Data" for a discussion of recently issued accounting pronouncements.

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Use of Estimates and Assumptions

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our condensed consolidated financial statements, which have been prepared according to accounting principles generally accepted in the United States for interim financial information. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, inventory, loan loss allowances, long-lived and intangible assets, income taxes, contingencies and litigation. We base our estimates on historical experience, observable trends and various other assumptions that we believe are reasonable under the circumstances. We use this information to make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from the estimates under different assumptions or conditions.

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## RESULTS OF OPERATIONS

Three Months Ended March 31, 2014 vs. Three Months Ended March 31, 2013

## Consolidated Results of Operations

The following table presents selected, unaudited, consolidated financial data for our three-month periods ended March 31, 2014 and 2013 (the "current quarter" and "prior year quarter," respectively). This table, as well as the discussion that follows, should be read with the accompanying unaudited financial statements and related notes.

|   | Three Months Ended March 31, |            | Percentage |
|---|------------------------------|------------|------------|
|   | 2014                         | 2013       | Change     |
|   | (in thousands)               |            |            |
| Revenues:   |                              |            |            |
| Sales   | \$ 129,647                   | \$ 142,664 | (9) %      |
| Pawn service charges  | 59,162                       | 62,015     | (5) %      |
| Consumer loan fees and interest   | 64,785                       | 60,751     | 7 %        |
| Other revenues  | 6,106                        | 2,684      | 127 %      |
| Total revenues  | 259,700                      | 268,114    | (3) %      |
| Cost of goods sold  | 83,968                       | 88,027     | (5) %      |
| Consumer loan bad debt  | 10,422                       | 8,457      | 23 %       |
| Net revenues  | \$ 165,310                   | \$ 171,630 | (4) %      |
|   |                              |            |            |
| Income from continuing operations before income taxes                               | \$ 13,311                    | \$ 52,763  | (75) %     |
| Income tax  | 4,204                        | 16,273     | (74) %     |
| Income from continuing operations, net of taxes                                     | \$ 9,107                     | \$ 36,490  | (75) %     |
|   |                              |            |            |
| Net income from continuing operations attributable to EZCORP, Inc., net of tax      | \$ 8,032                     | \$ 35,591  | (77) %     |
| Income (loss) from discontinued operations attributable to EZCORP, Inc., net of tax | (40)                         | (1,610)    | (98) %     |
| Net income attributable to EZCORP, Inc.   | \$ 7,992                     | \$ 33,981  | (76) %     |
|   |                              |            |            |
| Net earning assets:   |                              |            |            |
| Pawn loans  | \$ 128,683                   | \$ 138,380 | (7) %      |
| Consumer loans, net   | 75,501                       | 36,596     | 106 %      |
| Inventory, net  | 129,013                      | 116,517    | 11 %       |
| Non-current consumer loans, net   | 61,724                       | 77,414     | (20) %     |
| Consumer loans outstanding with unaffiliated lenders <sup>(1)</sup>                 | 22,234                       | 19,926     | 12 %       |
| Total net earning assets  | \$ 417,155                   | \$ 388,833 | 7 %        |

(1) Consumer loans outstanding with unaffiliated lenders "CSO loans" are not recorded on our condensed consolidated balance sheets.

In the current quarter, net income attributable to EZCORP, Inc. was \$8.0 million compared to \$34.0 million during the same period last year. This \$26.0 million decrease is primarily attributable to a \$7.2 million decrease in jewelry scrapping margin, a \$19.1 million increase in operating expenses, a \$3.6 million decrease in equity in net income of unconsolidated affiliates and a \$7.9 million impairment of investments, offset by a \$12.1 million decrease in income tax expense and \$1.6 million decrease in the loss from the discontinued operations.

Total revenues were \$259.7 million compared to \$268.1 million in the same period last year. Excluding jewelry scrapping sales, total revenues increased \$8.0 million, or 4%, driven by increased jewelry sales and consumer loan fee growth in the United States and Latin America.

Total operating expenses increased by \$19.1 million, or 16%. This increase is mainly attributable to:

• A \$6.2 million increase in operations expense primarily as a result of new stores and increased labor, benefits, and costs associated with various business growth initiatives;

An \$11.4 million increase in administrative expenses mainly due to the one-time retirement benefit accrual for our long-time Executive Chairman of \$8.0 million, and the one-time charges relating to reorganization and outsourcing of our internal audit department to a global advisory services firm;

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A \$1.1 million increase in depreciation and amortization expenses due to assets placed in service as we continue to invest in the infrastructure to support our growth.

Equity in net income of unconsolidated affiliates decreased by \$3.6 million, or 88%. This decrease was driven by a profit decline at Cash Converters International in the first half of their fiscal year due to the effect of the transition to new regulatory requirements in Australia. Cash Converters International recently announced significantly improved performance in their third fiscal quarter which will be reflected in our third quarter results. Income from affiliates was also impacted by a decrease from Albemarle & Bond as it is no longer reporting any earnings. In addition, we adjusted our remaining investment in Albemarle & Bond down to zero, resulting in a \$7.9 million write off before taxes. Income tax expense decreased by \$12.1 million primarily as a result of a decrease in net income. During the current quarter we recorded a nominal loss from discontinued operations.

Net earning assets, including our CSO loans, were \$417.2 million at quarter-end, an increase of 7%. This was a result of a 23% increase in payroll withholding loans, a 77% increase in installment loans, and a 22% auto title loans, as well as 11% increase in inventory in the U.S. and Mexico. These increases were partially offset by a 12% decrease in payday loans. Net inventory was \$129.0 million, a 11% increase compared to the same period in 2013, but 10% less than the immediately preceding quarter. The increase in inventory as compared to the prior year quarter is attributed to our successful efforts to drive jewelry retail sales rather than scrapping.



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## Segment Results of Operations

## U.S. &amp; Canada

The following table presents selected financial data for the U.S. & Canada segment:

|  | Three Months Ended March 31, |           |   |
|--|------------------------------|-----------|---|
|  | 2014                         | 2013      |   |
|  | (in thousands)               |           |   |
| Revenues:  |                              |           |   |
| Merchandise sales  | \$89,937                     | \$86,409  |   |
| Jewelry scrapping sales                                      | 24,697                       | 40,501    |   |
| Pawn service charges   | 52,154                       | 54,500    |   |
| Consumer loan fees and interest                              | 45,657                       | 42,266    |   |
| Other revenues   | 1,009                        | 1,620     |   |
| Total revenues   | 213,454                      | 225,296   |   |
| Merchandise cost of goods sold                               | 54,890                       | 50,819    |   |
| Jewelry scrapping cost of goods sold                         | 18,793                       | 27,563    |   |
| Consumer loan bad debt                                       | 9,121                        | 6,441     |   |
| Net revenues   | 130,650                      | 140,473   |   |
| Operating expenses (income):                                 |                              |           |   |
| Operations   | 85,926                       | 82,827    |   |
| Depreciation   | 4,295                        | 4,030     |   |
| Amortization   | 657                          | 622       |   |
| (Gain) loss on sale or disposal of assets                    | (441)                        | (1)       | ) |
| Interest (income) expense, net                               | (16)                         | 15        | ) |
| Other income   | —                            | (1)       | ) |
| Segment contribution   | \$40,229                     | \$52,981  |   |
| Other data:  |                              |           |   |
| Gross margin on merchandise sales                            | 39.0                         | % 41.2    | % |
| Gross margin on jewelry scrapping sales                      | 23.9                         | % 31.9    | % |
| Gross margin on total sales                                  | 35.7                         | % 38.2    | % |
| Net earning assets   | \$262,857                    | \$252,651 |   |
| Average pawn loan balance per pawn store at period end       | \$230                        | \$244     |   |
| Average yield on pawn loan portfolio (a)                     | 166                          | % 162     | % |
| Pawn loan redemption rate                                    | 85                           | % 84      | % |
| Consumer loan bad debt as a percentage of consumer loan fees | 20.0                         | % 15.2    | % |

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

The U.S. & Canada segment total revenues decreased \$11.8 million from the prior year quarter to \$213.5 million. Same-store total revenues decreased \$20.2 million, or 9%, and new and acquired stores net of closed stores contributed \$8.4 million. The overall decrease in total revenues was mostly due to a \$15.8 million decrease in jewelry scrapping sales. Excluding jewelry scrapping sales, total revenues increased \$4.0 million, or 2%. The increase mainly consisted of a \$3.5 million increase in merchandise sales, and a \$3.4 million increase in consumer loan fees, offset by a \$2.3 million decrease in pawn service charges and a \$0.6 million decrease in other revenues. In the current quarter we opened nine de novo locations bringing our total number of stores in the U.S. & Canada segment to 1,037, a 3% increase over the prior year quarter.

The U.S. & Canada segment's net earning assets increased by \$10.2 million mainly due to higher inventory levels as a result of our implemented strategy to drive jewelry retail sales rather than scrapping. Jewelry sales increased 27% in

total and 25% on a same-store basis, with gross margin of 43% compared to 45% last year, due to improved presentation, pricing and promotions

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at our 491 storefronts. Total loan balances, including CSO loans, net of reserves, were \$43 million at quarter-end, a 17% increase over the same quarter last year. This increase was driven by solid growth at our 500 storefronts as well as our online channel. For the quarter, including CSO loans, installment loans were up 77% and auto title loans grew 22% while traditional payday loans declined 12%.

Total merchandise sales increased 4% in total and on a same-store basis driven by growth in storefront jewelry sales and strong online performance. Same-store merchandise sales increased \$2.2 million and new and acquired stores net of closed stores contributed \$1.4 million. Gross margin on merchandise sales decreased 220 basis points from the same quarter last year to 39%, as we aggressively pursued market share. Both the merchandise sales and gross margin metrics compare favorably to the U.S. and Canadian marketplace for the quarter. Online sales grew 63% over the same quarter last year and accounted for roughly 8% of the segment's total merchandise sales. Gross margin remained strong at 44% as compared to the same quarter last year.

Gross profit on jewelry scrapping sales decreased \$7.0 million, or 54%, from the prior year quarter to \$5.9 million. In mid-April 2013, gold prices declined abruptly on a global basis. Jewelry scrapping revenues decreased \$15.8 million, or 39%, due to a 22% decrease in proceeds realized per gram of gold jewelry scrapped, coupled with a 28% decrease in gold volume. The decrease in volume is due to a change in strategy to retail our jewelry rather than scrap it.

Same-store jewelry scrapping sales decreased \$17.1 million, or 42%, and new and acquired stores contributed \$1.3 million. Jewelry scrapping sales include the sale of approximately \$3.9 million of loose diamonds removed from scrap jewelry in the current and the prior year quarters. As a result of the decrease in volume, scrap cost of goods decreased \$8.8 million.

Our current quarter pawn service charge revenues decreased by \$2.3 million, or 4%, from the prior year quarter to \$52.2 million. Same-store pawn service charge revenues decreased \$2.5 million, or 5%, with new and acquired stores net of closed stores contributing \$0.2 million. The total decrease is primarily driven by a decrease in average loan size related to jewelry. This expected decline moderated in April, and we expect pawn loan balances to stabilize and be roughly flat by the end of the year.

Loan fees were \$45.7 million, up 8%. The gap in growth between loan balances and fees year-over-year is the result of a shift in product mix to lower yielding products driven by a competitive marketplace and regulatory impact. We expect to grow loan balances aggressively as consumer demand for our loan products remains high.

Total segment expenses increased to \$90.4 million (42% of revenues) during the current quarter from \$87.5 million (39% of revenues) in the prior year quarter. This increase is mainly due to higher operations expense, which increased 4%, or \$3.1 million, in the current quarter due to \$0.6 million increase in operating costs at new stores, \$1.9 million increase in labor and benefits, and \$0.6 million in administrative costs associated with various business growth initiatives.

In the current quarter, U.S. & Canada delivered a segment contribution of \$40.2 million, a \$12.8 million decrease compared to the prior year quarter. In the current quarter, the U.S. & Canada segment's contribution represented 105% of consolidated segment contribution compared to 82% in the prior year. The U.S. & Canada segment has experienced significant challenges related to gold scrap sales; however, other elements of the business have continued to show strength.

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## Latin America

The following table presents selected financial data for the Latin America segment after translation to U.S. dollars from its functional currency of the Mexican peso:

|  | Three Months Ended March 31, |           |    |
|--|------------------------------|-----------|----|
|  | 2014                         | 2013      |    |
|  | (in thousands)               |           |    |
| Revenues:  |                              |           |    |
| Merchandise sales  | \$13,517                     | \$13,673  |    |
| Jewelry scrapping sales                                      | 1,496                        | 2,081     |    |
| Pawn service charges   | 7,008                        | 7,515     |    |
| Consumer loan fees and interest                              | 14,328                       | 11,842    |    |
| Other revenues   | 5,065                        | 205       |    |
| Total revenues   | 41,414                       | 35,316    |    |
| Merchandise cost of goods sold                               | 8,967                        | 7,897     |    |
| Jewelry scrapping cost of goods sold                         | 1,318                        | 1,748     |    |
| Consumer loan bad debt expense (benefit)                     | 454                          | (661)     | )  |
| Net revenues   | 30,675                       | 26,332    |    |
| Operating expenses (income):                                 |                              |           |    |
| Operations   | 18,086                       | 15,335    |    |
| Depreciation   | 1,450                        | 1,257     |    |
| Amortization   | 607                          | 416       |    |
| Loss on sale or disposal of assets                           | (2)                          | ) 14      |    |
| Interest expense, net  | 4,246                        | 2,802     |    |
| Other (income) expense                                       | (11)                         | ) (315)   | )  |
| Segment contribution   | \$6,299                      | \$6,823   |    |
| Other data:  |                              |           |    |
| Gross margin on merchandise sales                            | 33.7                         | % 42.2    | %  |
| Gross margin on jewelry scrapping sales                      | 11.9                         | % 16.0    | %  |
| Gross margin on total sales                                  | 31.5                         | % 38.8    | %  |
| Net earning assets   | \$150,252                    | \$131,326 |    |
| Average pawn loan balance per pawn store at period end       | \$65                         | \$78      |    |
| Average yield on pawn loan portfolio (a)                     | 200                          | % 198     | %  |
| Pawn loan redemption rate                                    | 78                           | % 77      | %  |
| Consumer loan bad debt as a percentage of consumer loan fees | 3.2                          | % (5.6)   | )% |

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

The average exchange rate used to translate Latin America's current quarter results from Mexican pesos to U.S. dollars was 13.2 to 1, 4% weaker than the prior year quarter's rate of 12.7 to 1. In the current quarter, we opened two de novo stores, bringing the total number of stores in the Latin America segment to 318, operating under the various brands, including Empeño Fácil, Crediamigo, Adex, and TUYO.

The Latin America segment's total revenues increased \$6.1 million, or 17%, in the current quarter to \$41.4 million. Same-store total revenues increased \$4.0 million, or 11%, to \$39.3 million, and new and acquired stores contributed \$2.1 million. The overall increase in total revenues was due to the \$2.5 million increase in Grupo Finmart consumer loan fees, \$0.2 million increase in merchandise sales, and a \$4.9 million increase in other revenues, partially offset by a \$0.6 million decrease in jewelry scrapping sales and a \$0.5 million decrease in pawn service charges.

The Latin America segment's net earning assets increased \$18.9 million, or 14%, mainly due to an increase in consumer loans outstanding.



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Latin America's pawn service charge revenues decreased by \$0.5 million, or 7%, in the current quarter to \$7.0 million. Same-store pawn service charges decreased \$1.1 million, or 15%, to \$6.4 million and new and acquired stores contributed \$0.6 million. The decrease was primarily due to management's focus on better quality lending. The yield on the loan balance improved 200 basis points to 200%.

Merchandise gross profit decreased by \$1.2 million, or 21%, from the prior year quarter to \$4.6 million. The decrease was due to a 850 basis points decrease in gross margin to 34%, offset by \$1.4 million contributed by new and acquired stores. We expect to continue to see a challenging marketplace for the foreseeable future as more jewelry-only providers attempt to enter the general merchandise pawn market.

Consumer loan fees and interest increased \$2.5 million, or 21%, from the prior year quarter to \$14.3 million. The increase is driven primarily by significant growth in new loan originations and greater penetration in existing contracts. Grupo Finmart now has approximately 100 active contracts providing access to over 6 million customers.

Latin America's other revenues increased \$4.9 million primarily as a result of a structured sale of a payroll withholding loan portfolio by Grupo Finmart at a gain of \$4.7 million in the current quarter. We expect to continue to use these and other types of structured transactions to finance the rapidly growing Grupo Finmart business going forward.

Total segment expenses increased to \$24.4 million (59% of revenues) during the current quarter from \$19.5 million (55% of revenues) in the prior year quarter. The increase was due to a \$2.8 million, or 18%, increase in operations expenses as a result of higher commissions driven by an increase in consumer loans at Grupo Finmart and the addition of 22 new stores at Empeño Fácil since the prior year quarter. Depreciation and amortization increased \$0.4 million from the prior year quarter to \$2.1 million, mainly due to depreciation of assets placed in service at new stores and amortization of acquisition related intangible assets. The \$1.4 million increase in interest expense was due to a higher weighted average debt outstanding as compared to the prior quarter and \$0.7 million in expenses during the quarter associated with the new securitization. The weighted average rate on Grupo Finmart's third-party debt decreased slightly to 10% on outstanding debt of \$145.5 million at March 31, 2014. This decrease is primarily as a result of our \$55.7 million securitization completed in the current quarter reducing the cost of capital for the receivables financed to 6.3%.

In the current quarter, the \$4.3 million increase in net revenues were offset by the \$4.9 million increase in segment expenses, resulting in a \$0.5 million decrease in contribution for the Latin America segment. In the current quarter, Latin America segment contribution remained at 16% of consolidated segment contribution.

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## Other International

The following table presents selected financial data for the Other International segment:

|   | Three Months Ended March 31, |          |
|---|------------------------------|----------|
|   | 2014                         | 2013     |
|   | (in thousands)               |          |
| Consumer loan fees and interest                           | \$4,800                      | \$6,643  |
| Other revenues  | 32                           | 859      |
| Total revenues  | 4,832                        | 7,502    |
| Consumer loan bad debt                                    | 847                          | 2,677    |
| Net revenues  | 3,985                        | 4,825    |
| Operating expenses (income):                              |                              |          |
| Operations  | 4,052                        | 3,669    |
| Depreciation  | 105                          | 99       |
| Amortization  | 25                           | 23       |
| Loss on sale or disposal of assets                        | 159                          | —        |
| Interest income, net                                      | —                            | (1 )     |
| Equity in net income of unconsolidated affiliates         | (492 )                       | (4,125 ) |
| Impairment of investments                                 | 7,940                        | —        |
| Other income  | 375                          | —        |
| Segment (loss) contribution                               | \$(8,179 )                   | \$5,160  |
| Other data:   |                              |          |
| Consumer loan bad debt as a percent of consumer loan fees | 17.6                         | % 40.3 % |

Currently our Other International segment primarily consists of the Cash Genie online lending business in the United Kingdom and our equity interests in the net income of Albemarle & Bond and Cash Converters International. The average exchange rate used to translate Cash Genie's current quarter results from British pound to U.S. dollars was 0.6043 to 1, 6% stronger than the prior year quarter's rate of 0.6441 to 1.

The segment's net revenues decreased \$0.8 million, or 17%, compared to the second quarter of last year primarily as a result of a decrease in the consumer loans balance. Cash Genie reported a nominal operating loss this quarter, showing continued improvement as compared to an operating loss of approximately \$2.0 million in the first quarter of fiscal 2014. Due to the costs associated with the implementation of FCA regulations, we expect Cash Genie's profitability to be negatively impacted in future quarters.

Our equity in the net income of unconsolidated affiliates decreased by \$3.6 million, or 88%, to \$0.5 million. This decrease was driven by a profit decline at Cash Converters International in the first half of their fiscal year due to the effect of the transition to new regulatory requirements in the U.K. and Australia. Cash Converters International recently announced significantly improved performance in their third fiscal quarter which will be reflected in our third quarter results. Income from affiliates was also impacted by a decrease from Albemarle & Bond as it is no longer reporting any earnings. In addition, we adjusted our remaining investment in Albemarle & Bond down to zero, resulting in a \$7.9 million impairment before tax.

In the current quarter, the Other International's segment contribution decreased \$13.3 million to a loss of \$8.2 million. The decrease was due to an \$0.8 million decrease in net revenues, a \$0.4 million increase in operations expense, a \$3.6 million decrease in our equity in the net income of unconsolidated affiliates and a \$7.9 million impairment of Albemarle & Bond.

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## Other Consolidated Items

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

|  | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2014                         | 2013     |
|  | (in thousands)               |          |
| Segment contribution   | \$38,349                     | \$64,964 |
| Corporate expenses (income):                                       |                              |          |
| Administrative   | 20,032                       | 8,603    |
| Depreciation   | 1,689                        | 1,685    |
| Amortization   | 686                          | 255      |
| Loss on sale or disposal of assets                                 | 626                          | —        |
| Interest expense, net  | 1,045                        | 937      |
| Other income   | 960                          | 721      |
| Consolidated income from continuing operations before income taxes | \$13,311                     | \$52,763 |

Total corporate expenses increased \$12.8 million to \$25.0 million primarily as a result of a \$11.4 million increase in administrative expenses. The increase in administrative expenses was primarily due to the one-time retirement benefit accrual for our long-time Executive Chairman of \$8.0 million, and the one-time charges relating to reorganization and outsourcing of our internal audit department to a global advisory services firm. During the current quarter we also recorded \$0.7 million of loss on sale or disposal of assets attributed to the sale of our investment in the Grupo Finmart's 9% Global Registered Notes due November 16, 2015.

Consolidated income from continuing operations before income taxes decreased \$39.5 million, or 75%, to \$13.3 million due to the \$12.8 million, \$0.5 million and \$13.3 million decreases in contribution from the U.S. & Canada, Latin America and Other International segments, respectively, and a \$12.8 million increase in corporate expenses. Six Months Ended March 31, 2014 vs. Six Months Ended March 31, 2013

## Consolidated Results of Operations

The following table presents selected, unaudited, consolidated financial data for our six-month periods ended March 31, 2014 and 2013 (the "current six-month period" and "prior year six-month period," respectively). This table, as well as the discussion



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that follows, should be read with the accompanying unaudited financial statements and related notes.

|   | Six Months Ended March 31, |           | Percentage |    |
|---|----------------------------|-----------|------------|----|
|   | 2014                       | 2013      | Change     |    |
|   | (in thousands)             |           |            |    |
| Revenues:   |                            |           |            |    |
| Sales   | \$262,937                  | \$281,977 | (7         | )% |
| Pawn service charges  | 123,295                    | 127,415   | (3         | )% |
| Consumer loan fees and interest   | 131,114                    | 123,885   | 6          | %  |
| Other revenues  | 11,711                     | 7,498     | 56         | %  |
| Total revenues  | 529,057                    | 540,775   | (2         | )% |
| Cost of goods sold  | 167,576                    | 174,277   | (4         | )% |
| Consumer loan bad debt  | 28,854                     | 21,978    | 31         | %  |
| Net revenues  | \$332,627                  | \$344,520 | (3         | )% |
|   |                            |           |            |    |
| Income from continuing operations before income taxes                               | \$46,105                   | \$103,296 | (55        | )% |
| Income tax  | 14,085                     | 32,945    | (57        | )% |
| Income from continuing operations, net of taxes                                     | \$32,020                   | \$70,351  | (54        | )% |
|   |                            |           |            |    |
| Net income from continuing operations attributable to EZCORP, Inc., net of tax      | \$29,119                   | \$68,014  | (57        | )% |
| Income (loss) from discontinued operations attributable to EZCORP, Inc., net of tax | 1,442                      | (3,316    | ) (143     | )% |
| Net income attributable to EZCORP, Inc.   | \$30,561                   | \$64,698  | (53        | )% |

In the current six-month period, net income attributable to EZCORP, Inc. was \$30.6 million compared to \$64.7 million during the same period last year. This \$34.1 million decrease is primarily attributable to a \$12.9 million decrease in jewelry scrapping margin, a \$26.5 million increase in operating expenses, and a \$7.4 million decrease in equity in net income of unconsolidated affiliates, \$7.9 million impairment of investments, and \$2.2 million increase in interest, net, offset by a \$18.9 million decrease in income tax expense and \$1.4 million gain from the discontinued operations in the current quarter as compared to a loss of \$3.3 million in the prior year quarter.

Total revenues were \$529.1 million compared to \$540.8 million in the same period last year. Excluding jewelry scrapping sales, total revenues increased \$21.7 million, or 5%, driven by increased jewelry sales and consumer loan fee growth in the United States and Latin America.

Total operating expenses increased by \$26.5 million, or 11%. This increase is mainly attributable to:

A \$15.7 million increase in operations expense primarily due to a \$5.6 million increase at new and acquired stores, an \$8.5 million increase in labor and benefits, and \$1.7 million in costs associated with various business growth initiatives and administrative costs to support our growth;

A \$13.5 million increase in administrative expenses mainly due to discretionary bonuses awarded in the current six-month period, the one-time retirement benefit accrual for our long-time Executive Chairman of \$8.0 million recorded in the current quarter, and the one-time charges relating to reorganization and outsourcing of our internal audit department to a global advisory services firm;

A \$3.3 million increase in depreciation and amortization expenses due to assets placed in service as we continue to invest in the infrastructure to support our growth; partially offset by

▲ \$5.9 million gain on sale or disposal of assets, mostly due to the sale of seven U.S. pawn stores.

Equity in net income of unconsolidated affiliates decreased by \$7.4 million. This decrease was driven by a profit decline at Cash Converters International in the first half of their fiscal year due to the effect of the transition to new regulatory requirements in the U.K. and Australia. Cash Converters International recently announced significantly improved performance in their third fiscal quarter which will be reflected in our third quarter results. Income from affiliates was also impacted by a decrease from Albemarle & Bond as it is no longer reporting any earnings. In addition, we adjusted our remaining investment in Albemarle & Bond down to zero, resulting in a \$7.9 million write off before taxes.

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Income tax expense decreased by \$18.9 million primarily as a result of a decrease in net income and a lower effective tax rate as compared to the prior year six-month period. During the current six-month period we recorded a gain from discontinued operations of \$1.4 million, net of tax, mainly due to favorable lease buyouts.

## Segment Results of Operations

## U.S. &amp; Canada

The following table presents selected financial data for the U.S. & Canada segment:

|  | Six Months Ended March 31, |            |   |
|--|----------------------------|------------|---|
|  | 2014                       | 2013       |   |
|  | (in thousands)             |            |   |
| Revenues:  |                            |            |   |
| Merchandise sales  | \$ 178,827                 | \$ 166,113 |   |
| Jewelry scrapping sales                                      | 50,622                     | 82,489     |   |
| Pawn service charges   | 109,223                    | 112,697    |   |
| Consumer loan fees and interest                              | 94,359                     | 86,594     |   |
| Other revenues   | 1,494                      | 4,411      |   |
| Total revenues   | 434,525                    | 452,304    |   |
| Merchandise cost of goods sold                               | 107,937                    | 97,141     |   |
| Jewelry scrapping cost of goods sold                         | 37,363                     | 56,637     |   |
| Consumer loan bad debt                                       | 24,677                     | 17,369     |   |
| Net revenues   | 264,548                    | 281,157    |   |
| Operating expenses (income):                                 |                            |            |   |
| Operations   | 176,608                    | 167,399    |   |
| Depreciation   | 8,562                      | 7,721      |   |
| Amortization   | 1,309                      | 769        |   |
| (Gain) loss on sale or disposal of assets                    | (6,759)                    | ) 28       |   |
| Interest expense, net  | (11)                       | ) 32       |   |
| Other income   | —                          | (5         | ) |
| Segment contribution   | \$ 84,839                  | \$ 105,213 |   |
| Other data:  |                            |            |   |
| Gross margin on merchandise sales                            | 39.6                       | % 41.5     | % |
| Gross margin on jewelry scrapping sales                      | 26.2                       | % 31.3     | % |
| Gross margin on total sales                                  | 36.7                       | % 38.1     | % |
| Average pawn loan balance per pawn store at period end       | \$ 230                     | \$ 244     |   |
| Average yield on pawn loan portfolio (a)                     | 165                        | % 164      | % |
| Pawn loan redemption rate                                    | 84                         | % 83       | % |
| Consumer loan bad debt as a percentage of consumer loan fees | 26.2                       | % 20.1     | % |

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

The U.S. & Canada segment total revenues decreased \$17.8 million from the prior year six-month period to \$434.5 million. Same-store total revenues decreased \$37.3 million, or 8%, and new and acquired stores net of closed stores contributed \$19.7 million. The overall decrease in total revenues was mostly due to a \$31.9 million decrease in jewelry scrapping sales. Excluding jewelry scrapping sales, total revenues increased \$14.1 million, or 4%. The increase mainly consisted of a \$12.7 million increase in merchandise sales, and a \$7.8 million increase in consumer loan fees, offset by a \$3.5 million decrease in pawn service charges and a \$2.9 million decrease in other revenues. In the current six-month period we opened 14 de novo



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locations bringing our total number of stores in the U.S. & Canada segment to 1,037, a 3% increase over the prior year six-month period.

The current six-month period merchandise sales gross profit increased \$1.9 million, or 3%, from the prior year six-month period to \$70.9 million. Same-store merchandise sales increased \$8.1 million and new and acquired stores net of closed stores contributed \$4.7 million. This increase is driven by storefront jewelry sales and strong online performance. Gross margin on merchandise sales remained strong at 40%, with only a 190 basis point decrease from the same six-month period last year as we aggressively pursued market share. Both the merchandise sales and gross margin metrics compare favorably to the U.S. and Canadian marketplace for the quarter.

Gross profit on jewelry scrapping sales decreased \$12.6 million, or 49%, from the prior year six-month period to \$13.3 million. In mid-April 2013, gold prices declined abruptly on a global basis. Jewelry scrapping revenues decreased \$31.9 million, or 39%, due to a 20% decrease in proceeds realized per gram of gold jewelry scrapped, coupled with a 28% decrease in gold volume. The decrease in volume is due to a change in strategy to retail our jewelry rather than scrap it. Same-store jewelry scrapping sales decreased \$35.9 million, or 44%, and new and acquired stores contributed \$4.0 million. Jewelry scrapping sales include the sale of approximately \$7.2 million of loose diamonds removed from scrap jewelry in the current and the prior year six-month periods. As a result of the decrease in volume, scrap cost of goods decreased \$19.3 million.

Online sales grew 39% over the same six month period last year and accounted for roughly 8% of the segment's total merchandise sales. Gross margin remained strong at 43%.

Our current six-month period pawn service charge revenues decreased by \$3.5 million, or 3%, from the prior year six-month period to \$109.2 million. Same-store pawn service charge revenues decreased \$5.2 million, or 5%, with new and acquired stores net of closed stores contributing \$1.7 million. The total decrease is primarily driven by a decrease in average loan size related to jewelry. This expected decline moderated in April, and we expect pawn loan balances to stabilize and be roughly flat by the end of the year.

Loan fees were \$94.4 million, up 9%. The gap in growth between loan balances and fees year-over-year is the result of lower yields driven by a competitive marketplace and regulatory impact. The company expects to continue to grow loan balances aggressively against declining yields.

Total segment expenses increased to \$179.7 million (41% of revenues) during the current six-month period from \$175.9 million (39% of revenues) in the prior year six-month period. Operations expense increased 6%, or \$9.2 million, in the current six-month period due to a \$3.9 million increase in operating costs at new and acquired stores, a \$4.3 million increase in labor and benefits, and \$1.0 million in costs associated with various business growth initiatives, such as EZCORP Online. Depreciation and amortization increased \$1.4 million, or 16%, from the prior year six-month period to \$9.9 million, mainly due to assets placed in service at new and acquired stores. We reported a gain on sale or disposal of assets of \$6.8 million primarily as a result of a gain realized on a sale of seven U.S. pawn stores (three in Louisiana, two in Mississippi, one in Alabama and one in Florida).

In the current six-month period, U.S. & Canada delivered a segment contribution of \$84.8 million, a \$20.4 million decrease compared to the prior year six-month period. In the current six-month period, the U.S. & Canada segment's contribution represented 94% of consolidated segment contribution compared to 80% in the prior year. The U.S. & Canada segment has experienced significant challenges related to gold scrap sales; however, other elements of the business have continued to show strength.

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## Latin America

The following table presents selected financial data for the Latin America segment after translation to U.S. dollars from its functional currency of the Mexican peso:

|  | Six Months Ended March 31, |          |    |
|--|----------------------------|----------|----|
|  | 2014                       | 2013     |    |
|  | (in thousands)             |          |    |
| Revenues:  |                            |          |    |
| Merchandise sales  | \$30,214                   | \$28,573 |    |
| Jewelry scrapping sales                                      | 3,274                      | 4,802    |    |
| Pawn service charges   | 14,072                     | 14,718   |    |
| Consumer loan fees and interest                              | 28,621                     | 23,719   |    |
| Other revenues   | 10,187                     | 1,846    |    |
| Total revenues   | 86,368                     | 73,658   |    |
| Merchandise cost of goods sold                               | 19,508                     | 16,520   |    |
| Jewelry scrapping cost of goods sold                         | 2,768                      | 3,979    |    |
| Consumer loan bad debt expense (benefit)                     | 1,845                      | (1,709)  | )  |
| Net revenues   | 62,247                     | 54,868   |    |
| Segment expenses (income):                                   |                            |          |    |
| Operations   | 36,468                     | 29,970   |    |
| Depreciation   | 2,909                      | 2,362    |    |
| Amortization   | 1,224                      | 851      |    |
| Loss on sale or disposal of assets                           | 4                          | 14       |    |
| Interest expense, net  | 7,394                      | 5,415    |    |
| Other (income) expense                                       | (41)                       | (295)    | )  |
| Segment contribution   | \$14,289                   | \$16,551 |    |
| Other data:  |                            |          |    |
| Gross margin on merchandise sales                            | 35.4                       | % 42.2   | %  |
| Gross margin on jewelry scrapping sales                      | 15.5                       | % 17.1   | %  |
| Gross margin on total sales                                  | 33.5                       | % 38.6   | %  |
| Average pawn loan balance per pawn store at period end       | \$65                       | \$78     |    |
| Average yield on pawn loan portfolio (a)                     | 201                        | % 193    | %  |
| Pawn loan redemption rate                                    | 78                         | % 76     | %  |
| Consumer loan bad debt as a percentage of consumer loan fees | 6.4                        | % (7.2)  | )% |

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

The average exchange rate used to translate Latin America's current six-month period results from Mexican pesos to U.S. dollars was 13.1 to 1, 2% weaker than the prior year six-month period's rate of 12.8 to 1. In the current six-month period, we opened six de novo stores, bringing the total number of stores in the Latin America segment to 318, operating under the various brands, including Empeño Fácil, Crediamigo, Adex, and TUYO.

The Latin America segment's total revenues increased \$12.7 million, or 17%, in the current six-month period to \$86.4 million. Same-store total revenues increased \$7.6 million, or 10%, to \$81.2 million, and new and acquired stores contributed \$5.2 million. The overall increase in total revenues was due to the \$4.9 million increase in Grupo Finmart consumer loan fees, \$1.6 million increase in merchandise sales, and a \$8.3 million increase in other revenues, partially offset by a \$1.5 million decrease in jewelry scrapping sales and a \$0.6 million decrease in pawn service charges.

Latin America's pawn service charge revenues decreased slightly by \$0.6 million, or 4%, in the current six-month period to \$14.1 million. Same-store pawn service charges decreased \$2.0 million, or 14%, to \$12.7 million and new and acquired stores



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contributed \$1.4 million. The decrease was primarily due as management's focus on better quality lending. Yield on the loan balance improved 800 basis points from 193% to 201%.

Latin America's other revenues increased \$8.3 million primarily as a result of two sales of a payroll withholding loan portfolios by Grupo Finmart at a gain of \$9.3 million recorded during the current six-month period. We expect to continue to use these and other types of structured transactions to finance the rapidly growing Grupo Finmart business going forward.

Merchandise gross profit decreased by \$1.3 million, or 11%, from the prior year six-month period to \$10.7 million. The decrease was due to a 680 basis points decrease in gross margin to 35%, offset by \$3.3 million contributed by new and acquired stores. We expect to continue to see a challenging marketplace for the foreseeable future as more jewelry-only providers attempt to enter the general merchandise pawn market.

Consumer loan fees and interest increased \$4.9 million, or 21%, from the prior year six-month period to \$28.6 million. The increase is driven primarily by significant growth in new loan originations and greater penetration in existing contracts. Grupo Finmart now has approximately 100 active contracts providing access to over 6 million customers. Total segment expenses increased to \$48.0 million (56% of revenues) during the current six-month period from \$38.3 million (52.0% of revenues) in the prior year six-month period. The increase was due to a \$6.5 million, or 22%, increase in operations expenses as a result a \$3.9 million increase in commissions mostly driven by an increase in consumer loans at Grupo Finmart, and a \$1.9 million increase in operating expenses due to the addition of 22 new stores at Empeño Fácil since the prior year six-month period. Depreciation and amortization increased \$0.9 million from the prior year six-month period to \$4.1 million, mainly due to depreciation of assets placed in service at new stores and amortization of acquisition related intangible assets. The \$2.0 million increase in interest expense was due to a higher weighted average debt outstanding as compared to the prior year six-month period. The weighted average rate on Grupo Finmart's third-party debt decreased slightly to 10% on outstanding debt of \$145.5 million at March 31, 2014. This decrease is primarily as a result of our \$55.7 million securitization completed in the current quarter reducing the cost of capital for the receivables financed to 6.3%.

In the current six-month period, the \$7.4 million increase in net revenues were offset by the \$9.6 million increase in segment expenses, resulting in a \$2.3 million decrease in contribution for the Latin America segment. In the current six-month period, Latin America segment contribution remained at 16% of consolidated segment contribution.



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## Other International

The following table presents selected financial data for the Other International segment:

|   | Six Months Ended March 31, |           |   |
|---|----------------------------|-----------|---|
|   | 2014                       | 2013      |   |
|   | (in thousands)             |           |   |
| Consumer loan fees and interest                           | \$8,134                    | \$13,572  |   |
| Other revenues  | 30                         | 1,241     |   |
| Total revenues  | 8,164                      | 14,813    |   |
| Consumer loan bad debt                                    | 2,332                      | 6,318     |   |
| Net revenues  | 5,832                      | 8,495     |   |
| Operating expenses (income):                              |                            |           |   |
| Operations  | 7,757                      | 7,747     |   |
| Depreciation  | 208                        | 170       |   |
| Amortization  | 51                         | 49        |   |
| Loss on sale or disposal of assets                        | 159                        | —         |   |
| Interest income, net                                      | (2                         | ) (1      | ) |
| Equity in net income of unconsolidated affiliates         | (1,763                     | ) (9,163  | ) |
| Impairment of investments                                 | 7,940                      | —         |   |
| Other income  | 346                        | (69       | ) |
| Segment (loss) contribution                               | \$(8,864                   | ) \$9,762 |   |
| Other data:   |                            |           |   |
| Consumer loan bad debt as a percent of consumer loan fees | 28.7                       | % 46.6    | % |

Currently our Other International segment primarily consists of the Cash Genie online lending business in the United Kingdom and our equity interests in the net income of Albemarle & Bond and Cash Converters International. The average exchange rate used to translate Cash Genie's current six-month period results from British pound to U.S. dollars was 0.6110 to 1, 4% stronger than the prior year six-month period's rate of 0.6334 to 1.

The segment's net revenues decreased \$2.7 million, or 31%, compared to the prior year six-month period primarily as a result of a decrease in the consumer loans balance. Cash Genie, our U.K. online lending business, reported a \$2.0 million loss, compared to a \$0.7 million loss in the prior year six-month period, but showed improved performance when compared to the \$3.2 million loss in the second half of fiscal 2013. Due to the costs associated with the implementation of FCA regulations, we expect Cash Genie's profitability to be negatively impacted in future quarters. Our equity in the net income of unconsolidated affiliates decreased by \$7.4 million, or 81%, to \$1.8 million. This decrease was driven by a profit decline at Cash Converters International in the first half of their fiscal year due to the effect of the transition to new regulatory requirements in Australia. Cash Converters International recently announced significantly improved performance in their third fiscal quarter which will be reflected in our third quarter results. Income from affiliates was also impacted by a decrease from Albemarle & Bond as it is no longer reporting any earnings. In addition, we adjusted our remaining investment in Albemarle & Bond down to zero, resulting in a \$7.9 million write off before tax.

In the current six-month period, the \$2.7 million decrease in net revenues, a \$7.4 million decrease in our equity in the net income of unconsolidated affiliates, a \$7.9 million impairment of investment and other segment expenses resulted in a \$18.6 million decrease in the segment contribution from Other International segment to a loss of \$8.9 million.

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## Other Consolidated Items

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

|  | Six Months Ended March 31, |            |
|--|----------------------------|------------|
|  | 2014                       | 2013       |
|  | (in thousands)             |            |
| Segment contribution   | \$90,264                   | \$ 131,526 |
| Corporate expenses (income):                                       |                            |            |
| Administrative   | 35,777                     | 22,274     |
| Depreciation   | 3,326                      | 3,378      |
| Amortization   | 1,331                      | 361        |
| Loss on sale or disposal of assets                                 | 648                        | —          |
| Interest expense, net  | 2,226                      | 1,944      |
| Other income   | 851                        | 273        |
| Consolidated income from continuing operations before income taxes | \$46,105                   | \$ 103,296 |

Total corporate expenses increased \$15.9 million to \$44.2 million primarily as a result of a \$13.5 million increase in administrative expenses, a \$1.0 million increase in amortization expense, \$0.7 million of loss on sale or disposal of assets, and a \$0.4 million increase in various other expenses. The increase in administrative expenses was primarily due to the one-time retirement benefit accrual for our long-time Executive Chairman of \$8.0 million, discretionary bonuses awarded in the current six-month period, and the one-time charges relating to reorganization and outsourcing of our internal audit department to a global advisory services firm. Our amortization expense increased to \$1.3 million due to assets placed in service as we continue to invest in the infrastructure to support our growth. During the six-month period, we also recorded \$0.7 million loss on sale or disposal of assets attributed the sale of our investment in the Grupo Finmart's 9% Global Registered Notes due November 16, 2015.

Consolidated income from continuing operations before income taxes decreased \$57.2 million, or 55.4%, to \$46.1 million due to the \$20.4 million, \$2.3 million and \$18.6 million decreases in contribution from the U.S. & Canada, Latin America and Other International segments, respectively, and a \$15.9 million increase in corporate expenses.

**LIQUIDITY AND CAPITAL RESOURCES**

In the current six-month period, our net cash provided by operating activities decreased \$40.6 million and 43% from the prior year quarter to \$53.6 million. Our cash flows from operations consisted of:

Net income plus several non-cash items, aggregating to \$73.2 million; plus  
 \$2.6 million in dividends from Cash Converters International; net of  
 \$22.2 million of normal, recurring changes in operating assets and liabilities.

In the prior year six-month period, our \$94.2 million cash flows from operations consisted of:

Net income plus several non-cash items, aggregating to \$91.7 million; plus  
 \$4.8 million in dividends from Cash Converters International and Albemarle & Bond; net of  
 \$2.3 million of normal, recurring changes in operating assets and liabilities.

The decrease in cash flows from operations is primarily driven by a decrease in our consolidated net income and higher net working capital, primarily driven a decrease in accounts payable and accrued expenses, increase in prepaid expenses and other assets, higher income tax receivable balance, offset by higher inventory levels as a result of the new strategy to drive jewelry retail sales rather than scrapping.

In the current six-month period, we reported net cash provided by investing activities of \$16.1 million as compared to net cash used in investing activities of \$49.8 million. This increase in net cash provided is driven by a non-recurring investment in Cash Converters International in the prior year six-month period, \$29.5 million of cash received due to the sale of seven U.S. stores and unsecured consumer loan portfolio, \$10.4 million increase in loans repaid or recovery of principal through the sale of forfeited pawn collateral in excess of loans made and a \$12.9 million decrease in capital expenditures.



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In the current six-month period, we remitted payments relating to the acquisition of Go Cash's online lending business and Grupo Finmart.

Total debt outstanding increased by \$55.7 million, or 32%, to \$229.1 million as compared to the prior year six-month period. Of this amount, \$145.5 million was non-recourse to EZCORP, Inc and attributable to our payroll withholding lending business, Grupo Finmart.

The net effect of these and other smaller cash flows was a \$4.1 million decrease in cash on hand, providing a \$32.2 million ending cash balance.

We hold 30% of our unrestricted cash in foreign jurisdictions that is subject to U.S. income tax upon repatriation.

Below is a summary of our cash needs to meet future aggregate contractual obligations:

| Contractual Obligations                  | Total          | Payments due by Period |           |           |                      |
|--|----------------|------------------------|-----------|-----------|----------------------|
|  |                | Less than<br>1 year    | 1-3 years | 3-5 years | More than<br>5 years |
|  | (in thousands) |                        |           |           |                      |
| Long-term debt obligations*              | \$228,149      | \$12,228               | \$134,028 | \$77,987  | \$3,906              |
| Interest on long-term debt obligations** | 39,485         | 12,997                 | 21,006    | 5,423     | 59                   |
| Operating lease obligations              | 256,839        | 59,668                 | 93,846    | 50,148    | 53,177               |
| Capital lease obligations                | 659            | 426                    | 233       | —         | —                    |
| Interest on capital lease obligations    | 39             | 33                     | 6         | —         | —                    |
| Deferred consideration                   | 18,098         | 11,338                 | 6,760     | —         | —                    |
|  | \$543,269      | \$96,690               | \$255,879 | \$133,558 | \$57,142             |

\* Excludes debt premium related to Grupo Finmart

\*\* Future interest on long-term obligations calculated on interest rates effective at the balance sheet date

In addition to the contractual obligations in the table above, we are obligated under letters of credit issued to unaffiliated lenders as part of our credit service operations. At March 31, 2014, our maximum exposure for losses on letters of credit, if all brokered loans defaulted and none were collected, was \$25.9 million. Of that total, \$7.3 million was secured by titles to customers' automobiles. These amounts include principal, interest and insufficient funds fees. In addition to the operating lease obligations in the table above, we are responsible for the maintenance, property taxes and insurance at most of our locations. In the fiscal year ended September 30, 2013, these collectively amounted to \$22.5 million.

The operating lease obligations in the table above include expected rent for all our store locations through the end of their current lease terms. Of the 500 U.S. financial services stores, 211 adjoin a pawn store and are covered by the same lease agreement. The lease agreements at approximately 94% of the remaining 289 free-standing U.S. financial services stores contain provisions that limit our exposure for additional rent to only a few months if laws were enacted that had a significant negative effect on our operations at these stores. If such laws were passed, the space currently utilized by stores adjoining pawn stores could be re-incorporated into the pawn operations.

On May 10, 2011, we entered into a new senior secured credit agreement with a syndicate of five banks, replacing our previous credit agreement. Among other things, the new credit agreement provides for a four-year \$175 million revolving credit facility that we may, under the terms of the agreement, request to be increased to a total of \$225 million. Upon entering the new credit agreement, we repaid and retired all other outstanding debt. On May 31, 2013, we amended the senior secured credit agreement to increase our revolving credit facility from \$175 million to \$200 million. The new credit facility increases our available credit and provides greater flexibility to make investments and acquisitions both domestically and internationally. No other terms of our senior secured credit agreement were modified. Terms of the credit agreement require, among other things, that we meet certain financial covenants. We were in compliance with all covenants at March 31, 2014 and expect to remain in compliance based on our expected future performance. At March 31, 2014, we had \$83.0 million outstanding on our revolving credit facility. We have also issued \$3.1 million in letters of credit, leaving \$113.9 million available on our revolving credit facility.

Our existing senior secured credit agreement will expire in May 2015. We are actively working to replace this credit facility with a new financing facility.

At March 31, 2014, Grupo Finmart's third-party debt (non-recourse to EZCORP) was \$145.5 million, with a weighted average interest rate of 10%. Since the acquisition of Grupo Finmart in January 2012, Grupo Finmart's debt has increased \$35.8 million,

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and its weighted average interest rate has decreased 9.0 percentage points, due to debt refinancing. This refinancing effort was a key assumption in our investment analysis and will result in significantly reduced interest expenses going forward.

In July 2012 Grupo Finmart transferred certain consumer loans to a bankruptcy remote trust in a securitization transaction. The securitization borrowing facility had a maximum capacity of approximately \$114.6 million. On February 17, 2014, Grupo Finmart repaid this facility and entered into a new securitization transaction to transfer collection rights of certain eligible consumer loans to a bankruptcy remote trust. At March 31, 2014, \$55.7 million was outstanding under the securitization borrowing facility. The trust received financing as a result of the issuance of debt securities and delivered the proceeds of the financing to Grupo Finmart. The unrestricted cash received from this borrowing in the amount of \$35.2 million was primarily used to repay the previous securitization borrowing facility due 2017 and the transaction costs associated with this transaction. The cash proceeds of approximately \$20.5 million is restricted primarily for \$17.8 million of collection rights on the additional eligible loans from Grupo Finmart, which Grupo Finmart expects to deliver to the trust within the next 12 months, and \$2.7 million of interest and trust maintenance costs to be recovered at repayment. The restricted cash proceeds of \$17.8 million is recourse to Grupo Finmart unless additional eligible loans are delivered within two-year period specified in the agreement. As a result of higher average debt outstanding and greater utilization of our revolver, we have experienced an increase in payments on bank borrowings and revolving line of credit. We expect Grupo Finmart to continue its use of the borrowing facility, in addition to structured sales of assets, and utilize proceeds to fund loan originations, operations and contractual obligations.

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

At the beginning of the fiscal year ended September 30, 2013, we had an effective "shelf" Registration Statement on Form S-4 covering an aggregate of 2.0 million shares of our Class A Common Stock that we may offer from time to time in connection with future acquisitions of businesses, assets or securities, with 1.2 million shares remaining for issuance. During the fiscal year 2013, we issued all the remaining shares in connection with the acquisition of 12 pawn stores in Arizona, and as of the end of September 30, 2013, have no remaining shares covered by the registration statement.

### Off-Balance Sheet Arrangements

We issue letters of credit ("LOCs") to enhance the creditworthiness of our credit service customers seeking unsecured consumer loans and auto title loans from unaffiliated lenders. The LOCs assure the lenders that if borrowers default on the loans, we will pay the lenders, upon demand, the principal and accrued interest owed them by the borrowers plus any insufficient funds fees or late fees. We do not record on our balance sheet the loans related to our credit services as the loans are made by unaffiliated lenders. We do not consolidate the unaffiliated lenders' results with our results as we do not have any ownership interest in the lenders, do not exercise control over them and do not otherwise meet the criteria for consolidation as prescribed by FASB ASC 810-10-25 regarding variable interest entities.

We include an allowance for expected LOC losses in accounts payable and other accrued expenses on our balance sheet. At March 31, 2014, the allowance for expected LOC losses was \$2.5 million. At that date, our maximum exposure for losses on letters of credit, if all brokered loans defaulted and none were collected, was \$25.9 million. This amount includes principal, interest and insufficient funds fees.

We have no other off-balance sheet arrangements.

### CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend that all forward-looking statements be subject to the safe harbors created by these laws. All statements, other than statements of historical facts, regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives are forward-looking statements. These statements are often, but not always, made with words or phrases like "may," "should," "could," "will," "predict," "anticipate," "believe," "estimate," "expect," "intend," "plan," "projection" and

similar expressions. Such statements are only predictions of the outcome and timing of future events based on our current expectations and currently available information and, accordingly, are subject to substantial risks, uncertainties and assumptions. Actual results could differ materially from those expressed in the forward-looking statements due to a number of risks and uncertainties, many of which are beyond our control. In addition, we cannot predict all of the risks and uncertainties that could cause our actual results to differ from those expressed in the forward-looking statements. Accordingly, you should not regard any forward-looking statements as a representation that the expected results will be achieved. Important risk factors that could cause results or events to differ from current expectations are

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identified and described in "Part II, Item 1A—Risk Factors" of this Quarterly Report and "Part I, Item 1A—Risk Factors" of our Annual Report on Form 10-K for the year ended September 30, 2013.

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, 2013. There have been no material changes to our exposure to market risks since September 30, 2013.

### 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, 2014. 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, 2014.

#### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the second quarter of fiscal 2014 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

Currently and from time to time, we are defendants in various legal and regulatory actions. While we cannot determine the ultimate outcome of these actions, we believe their resolution will not have a material adverse effect on our financial condition, results of operations or liquidity. However, we cannot give any assurance as to their ultimate outcome.

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, 2013. These factors are supplemented by those discussed under "Quantitative and Qualitative Disclosures about Market Risk" in Part I, Item 3 of this report and in Part II, Item 7A of our Annual Report on Form 10-K for the year ended September 30, 2013, as well as by the following:

**Texas Municipal Regulations** — In December 2013, the City of Houston, Texas enacted an ordinance imposing restrictions on certain financial services products we can offer as a credit services organization or a credit access business in that city. Specifically, the ordinance requires municipal registration, limits the amount borrowers can borrow and requires principal paydowns on refinancing or with each installment payment. These restrictions are similar to those contained in ordinances adopted by other Texas cities, principally Dallas, Austin, San Antonio and El Paso. These limitations and restrictions make the products less attractive to our customers, thus lessening demand, and severely impair the financial viability of our financial services business in those cities.

**CFPB Investigation** — In February 2014, we received a Civil Investigative Demand ("CID") from the U.S. Consumer Financial Protection Bureau ("CFPB") as part of its investigation to determine whether payday lenders or others have engaged in or are engaging in unlawful acts and practices in connection with the advertising, marketing, offering, provision, servicing or collection of loans in violation of U.S. federal consumer financial protection laws, as well as to determine whether CFPB action to obtain legal or equitable relief would be in the public interest. The CID requests us to produce documents and provide answers to written questions. We are cooperating with the CFPB in its investigation and are in discussions with the CFPB regarding our response to the CID. At this time, we are unable to predict the outcome of this CFPB investigation, including whether the investigation will result in any action, proceeding, fines or penalties against us.

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## Item 6. Exhibits

| Exhibit No. | Description of Exhibit  |
|-------------|---|
| 3.1         | Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated October 1, 2013, Commission File No. 0-19424)   |
| 3.2         | Certificate of Amendment, dated March 25, 2014, to the Company's Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated March 25, 2014, Commission File No 0-19424)   |
| 31.1        | Certification of Paul E. Rothamel, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2        | Certification of Mark Kuchenrither, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 32.1        | Certifications of Paul E. Rothamel, Chief Executive Officer, and Mark Kuchenrither, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 101.INS*    | XBRL Instance Document  |
| 101.SCH*    | XBRL Taxonomy Extension Schema Document   |
| 101.CAL*    | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.LAB*    | XBRL Taxonomy Label Linkbase Document   |
| 101.DEF*    | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.PRE*    | XBRL Taxonomy Extension Presentation Linkbase Document  |
|             | Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at March 31, 2014, March 31, 2013 and September 30, 2013; (ii) Condensed Consolidated Statements of Income for the three and six months ended March 31, 2014 and             |
| *           | March 31, 2013; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended March 31, 2014 and March 31, 2013 (iv) Condensed Consolidated Statements of Cash Flows for the six months ended March 31, 2014 and March 31, 2013; and (v) Notes to Interim Condensed Consolidated Financial Statements. |

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SIGNATURE

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

EZCORP, Inc.

Date: May 12, 2014

/s/ Stephen M. Brown  
Stephen M. Brown Vice  
President and  
Chief Accounting Officer

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