EZCORP INC
Form 10-K
November 24, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K

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

For the Fiscal Year Ended September 30, 2010

or

o **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. 000-19424

EZCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**74-2540145**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1901 Capital Parkway	
Austin, Texas	**78746**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code:

(512) 314-3400

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

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

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

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

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

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

Indicate by check mark 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 o No o

Indicate by check mark if disclosures of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
The only class of voting securities of the registrant issued and outstanding is the Class B Voting Common Stock, par value $.01 per share, all of which is owned by an affiliate of the registrant. There is no trading market for the Class B Voting Common Stock. The aggregate market value of the Class A Non-voting Common Stock held by non-affiliates of the registrant was $921 million, based on the closing price on the NASDAQ Stock Market on March 31, 2010.
As of October 31, 2010, 46,834,903 shares of the registrant s Class A Non-voting Common Stock, par value $.01 per share and 2,970,171 shares of the registrant s Class B Voting Common Stock, par value $.01 per share were outstanding.
Documents incorporated by reference: None

EZCORP, INC.
YEAR ENDED SEPTEMBER 30, 2010
INDEX TO FORM 10-K

Item No.		Page No.
	INTRODUCTION	
	PART I	
1.	Business	3
1A.	Risk Factors	15
1B.	Unresolved Staff Comments	18
2.	Properties	19
3.	Legal Proceedings	21
4.	Removed and Reserved	21
	PART II	
5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	22
6.	Selected Financial Data	24
7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	25
7A.	Quantitative and Qualitative Disclosures About Market Risk	49
8.	Financial Statements and Supplementary Data	50
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	82
9A.	Controls and Procedures	82
9B.	Other Information	84
	PART III	
10.	Directors, Executive Officers and Corporate Governance	85
11.	Executive Compensation	90
12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	109
13.	Certain Relationships and Related Transactions, and Director Independence	111
14.	Principal Accountant Fees and Services	113
	PART IV	
15.	Exhibits and Financial Statement Schedules	114
	Signatures	119
	Exhibit Index	120
	EX-10.14	
	EX-10.15	
	EX-10.16	
	EX-10.17	
	EX-10.23	
	EX-21.1	

EX-23.1
EX-31.1
EX-31.2
EX-32.1

Table of Contents

PART I

This report contains forward-looking statements that are based on our current expectations. Actual results in future periods may differ materially from those expressed or implied by those forward-looking statements because of a number of risks and uncertainties. For a discussion of risk factors affecting our business and prospects, see Part I Item 1A Risk Factors.

Item 1. Business

General

EZCORP, Inc. is a Delaware corporation headquartered in Austin, Texas. We are a leading provider of specialty consumer financial services. We operate pawn stores in the United States principally under the EZPAWN and Value Pawn brands, and in Mexico under the EMPEÑO FÁCIL and EMPEÑE SU ORO brands. We also operate short-term consumer loan stores in the United States principally under the EZMONEY brand and in Canada under the CASHMAX brand. We also own approximately 30% of the outstanding stock of Albemarle & Bond Holdings PLC, one of the United Kingdom s largest pawnbroking businesses with over 130 stores, and approximately 33% of Cash Converters International Limited, which franchises and operates a worldwide network of over 500 locations that provide financial services and sell pre-owned merchandise.

At our pawn stores, we offer pawn loans, which are non-recourse loans collateralized by tangible personal property, and sell merchandise to customers looking for good value. The merchandise we sell consists primarily of pre-owned collateral forfeited from our pawn lending activities or purchased from customers. At our short-term consumer loan stores and at some of our pawn stores, we offer a variety of loan products, including single-payment, non-collateralized payday loans with maturity dates typically ranging from 7 to 30 days; non-collateralized installment loans that may be repaid over extended periods of up to six months; and 30-day loans secured by automobile titles. Short-term non-collateralized loans are sometimes referred to as signature loans. Our short-term consumer loan stores in Texas do not offer loan products themselves, but rather offer credit services to help customers obtain loans from independent third-party lenders. Some of our Texas pawn stores also offer credit services in addition to pawn loans.

We manage our business as three segments. The U.S. Pawn Operations segment operates only in the United States. The Empeño Fácil segment operates only in Mexico. The EZMONEY Operations segment operates 444 stores in the United States and 51 stores in Canada. For revenues, profitability, assets and other information attributable to each of our segments, see Note R, Operating Segment Information to our consolidated financial statements contained in Item 8 of this annual report. The following table presents store data and products offered in each segment as of September 30, 2010:

	U.S. Pawn Operations	Empeño Fácil	EZMONEY Operations	Consolidated
Pawn stores	390	115		505
Short-term consumer loan stores adjoining U.S. pawn stores	6		152	158
Short-term consumer loan stores free standing			343	343
Total stores in operation	396	115	495	1,006
Stores offering payday loans (including credit services)	59		461	520
Stores offering installment loans (including credit services)			415	415
Stores offering auto title loans (including credit services)	58		390	448

Table of Contents

The following components comprised our total revenues:

	Fiscal Year Ended September 30,		
	2010	2009	2008
Pawn service charges	22%	22%	21%
Merchandise sales	31%	34%	34%
Jewelry scrapping sales	24%	20%	17%
Signature loan (including credit service) fees	19%	22%	28%
Auto title loan (including credit service) fees	2%	1%	
Other	2%	1%	
Total revenues	100%	100%	100%

Pawn Activities

Our pawn stores make pawn loans, which are typically small, non-recourse loans collateralized by tangible personal property. At September 30, 2010, we had approximately 1,039,000 loans outstanding, representing an aggregate principal balance of $121.2 million. We earn pawn service charge revenue on our pawn lending. In the year ended September 30, 2010 (fiscal 2010), pawn service charges accounted for approximately 22% of our total revenues and 36% of our net revenues.

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 $80 and $120 but varies depending on the valuation of each item pawned. The total U.S. loan term ranges between 60 and 120 days, consisting of the primary term and a 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 a grace period. In fiscal 2010, 2009 and 2008, approximately 80%, 79% and 79%, respectively, of our pawn loans were redeemed in full or were renewed or extended.

Collateral for our pawn loans consists of tangible personal property, generally jewelry, consumer electronics, tools, sporting goods and musical instruments. Approximately 64% of our pawn loan collateral is jewelry, and the vast majority of that is gold jewelry. We do not evaluate the creditworthiness of a pawn customer, but rely on the estimated resale value of the collateral and the perceived probability of the loan s redemption. We generally lend from 25% to 65% of the pledged property s estimated resale value depending on an evaluation of these factors. The sources of information we use to determine the resale value of collateral include our computerized valuation software, gold values, internet retail and auction sites, catalogues, newspaper advertisements and previous sales of similar merchandise.

The collateral is held through the duration of the loan, which the customer may renew or extend by paying accrued pawn service charges. Through our lending guidelines, we maintain an annual redemption rate (the percentage of loans made that are repaid, renewed or extended) between 76% and 80%. If a customer does not repay, renew or extend a loan, the collateral is forfeited to us and becomes inventory available for sale. We do not record loan losses or charge-offs of pawn loans because the principal amount of an unpaid loan becomes the inventory carrying cost of the forfeited collateral. We provide an inventory valuation allowance to ensure that this forfeited collateral is valued at the lower of cost or market.

Table of Contents

The table below shows our dollar amount of pawn loan activity for fiscal 2010, 2009 and 2008:

	Fiscal Year Ended September 30,		
	2010	2009	2008
		(in millions)	
Loans made	$ 416.4	$ 340.3	$ 262.5
Loans repaid	(222.2)	(181.3)	(136.8)
Loans forfeited	(177.8)	(155.7)	(113.7)
Loans acquired in business acquisitions	2.7	23.3	3.2
Change due to foreign currency exchange fluctuations	0.4	(0.9)	
Net increase in pawn loans outstanding at the end of the year	$ 19.5	$ 25.7	$ 15.2
Loans renewed	$ 124.8	$ 107.1	$ 103.1
Loans extended	$ 805.3	$ 592.4	$ 375.9

The redemption rate of pawn loans and the gross profit realized on the sale of forfeited collateral are dependent on the loan value of customer merchandise. Jewelry, which makes up approximately 64% of the value of collateral, can be appraised based on weight, gold content, style and value of gemstones. Other items pawned typically consist of consumer electronics, tools, sporting goods, and musical instruments. These are evaluated based on recent sales experience and the selling price of similar new merchandise, adjusted for age, wear, and obsolescence.

At the time a pawn transaction is made, a pawn loan agreement (called a pawn ticket) is given to the customer. The pawn ticket shows the name and address of the pawn store and the customer, the customer s identification information, the date of the loan, a detailed description of the pledged goods, the amount financed, the pawn service charge, the maturity date of the loan, the total amount that must be paid to redeem the loan and the annual percentage rate.

In our pawn stores, we acquire inventory for retail sales through pawn loan forfeitures and, to a lesser extent, through purchases of customers merchandise and purchases of new or refurbished merchandise from third party vendors. The gross profit on sales of inventory depends primarily on our assessment of the loan or purchase value at the time the property is either accepted as loan collateral or purchased. Improper value assessment in the lending or purchasing process can result in lower margins or reduced marketability of the merchandise. During fiscal 2010, 2009 and 2008, we realized gross margins on sales of 37%, 37% and 40%.

Jewelry sales represent approximately half of our total sales, with the remaining sales consisting primarily of consumer electronics, tools, sporting goods and musical instruments. We believe our ability to offer quality used merchandise at prices significantly lower than original retail prices attracts value-conscious customers.

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

	Fiscal Year Ended September 30,		
	2010	2009	2008
Forfeited pawn loan collateral	69%	69%	78%
Purchases from customers	30%	22%	21%
Acquired in business acquisitions	1%	9%	1%

For fiscal 2010, 2009 and 2008, retail activities and jewelry scrapping (sales of precious metals and gemstones to refiners and gemstone wholesalers) accounted for approximately 55%, 54% and 51% of our total revenues, or 33% of our net revenues in each year, after deducting the cost of goods sold. As a significant portion of our inventory and sales involve gold jewelry, our results can be heavily influenced by the market price of gold, which has increased over the past several years.

Customers may purchase an extended return plan (called a product protection plan) that allows them to return or exchange certain general (non-jewelry) merchandise sold through our retail pawn operations within three to six months of purchase. We recognize the fees for this service as revenue ratably over the three to six month period. We also offer a jewelry VIP package, which guarantees customers a minimum future pawn loan amount on the item sold, allows them full credit if they trade in the item to purchase a more expensive piece of jewelry, and provides minor repair service on the item sold. These fees are recognized upon sale. Customers may also purchase an item on layaway by paying a minimum layaway deposit of typically 10% to 20% of the item s sale price. We hold the item for a 60 to 180-day period, during which the customer is required to pay the balance of the sales price. The initial deposit and subsequent payments are recorded as customer layaway deposits. Layaways are recorded as sales when paid in full. As of September 30, 2010, we held $6.1 million in customer layaway deposits. We record product protection, jewelry VIP and layaway fees as other revenue.

Our overall inventory is stated at the lower of cost or market. 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 retains much greater commodity value. The total allowance was 7.4% of gross inventory at September 30, 2010 compared to 8.2% at September 30, 2009. The lower valuation allowance is reflective of the improvement in the aging of inventory, with 12.0% aged greater than one year at September 30, 2010 compared to 14.5% at September 30, 2009.

Short-Term Consumer Loan Activities

We also offer a variety of loan products and credit services to customers who do not have access to other sources of credit. Many customers find our loan products a more attractive alternative than borrowing from friends or family or incurring insufficient fund fees, overdraft protection fees, utility reconnect fees and other charges imposed when they have insufficient cash. Customers can exercise greater control of their personal finances without damaging the relationship they have with their merchants, service providers and family members.

The specific loan products offered varies by location, but generally include some or all of the following:

Signature Loans We offer two principal types of signature loans:

Payday loans Payday loans are short-term loans (generally less than 30 days and averaging about 16 days) with due dates corresponding to the customer s next payday. Principal amounts of payday loans can be up to $1,500, but average approximately $430. We typically charge a fee of 15% to 22% of the loan amount for a 7 to 23-day period.

Installment loans Outside Colorado, installment loans typically carry a term of five months, with ten equal installment payments due on the customer s paydays. On those loans, we typically charge a fee of 10% of the initial loan amount with each semi-monthly or bi-weekly installment payment. Outside Colorado, loan principal amounts range from $525 to $3,000 but average approximately $1,300. In August 2010, we stopped offering payday loans in Colorado because of a legislative change and instead began offering six-month installment loans ranging from $100 to $500 in principal, with a 45% annual interest rate plus certain permitted finance charges and maintenance fees. Including loans made in Colorado, the loan principal amount of installment loans made after introducing installment loans in Colorado averaged approximately $500.

Auto title loans Auto title loans are 30-day loans collateralized by the titles to customers automobiles. The principal amount of an auto title loan can be up to $9,000, but averages about $650. Loan amounts are established based on customers income levels, an inspection of the automobile and title and reference to market values of used automobiles. For each auto title loan, we charge a fee of 12.5% to 25% of the loan amount.

In our Texas stores, we do not offer signature loans or auto title loans themselves, but offer fee-based credit services to customers seeking loans. In these locations, we act as a credit services organization (or CSO) on behalf of customers in accordance with applicable state laws, and offer advice and assistance to customers in obtaining loans from unaffiliated lenders. Our services include arranging loans with independent third-party lenders, assisting in the preparation of loan applications and loan documents, and accepting loan payments for the lenders. We do not make, fund or participate in the loans made by the lenders, but we assist customers in obtaining credit and enhance their creditworthiness by issuing a letter of credit to guarantee the customer s payment obligations to the independent third-party lender. For credit services in connection with arranging a payday loan (average loan amount of about

Table of Contents

$550), our fee is 20% of the loan amount. For credit services in connection with arranging an installment loan (average loan amount of about $2,060), our fee is 10% of the initial loan amount with each semi-monthly or bi-weekly installment payment. For credit services in connection with arranging an auto title loan (average loan amount of about $780), the fee is 25% of the loan amount.

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

If a credit service customer defaults on a loan, we pay the lender the principal and accrued interest due under the loan and an insufficient funds fee or late fee and charge those amounts to bad debt expense. We then attempt to collect those amounts from the customer. Subsequent recoveries are recorded as a reduction of bad debt at the time of collection. We also record as bad debt expense an accrual of expected losses for principal, interest and insufficient fund fees and late fees we expect to pay the lenders on default of the lenders current loans. This estimate is based on recent default and collection experience and the amount of loans the lenders have outstanding.

The table below shows the dollar amount of our signature loan activity for fiscal 2010, 2009 and 2008. For purposes of this table, signature loan balances include the principal portion of payday loans and installment loans (net of valuation allowance) recorded on our balance sheet and the principal portion of such active brokered loans outstanding from unaffiliated lenders, which is not included on our balance sheet. In fiscal 2010, new loans were renewed 1.8 times on average, down from 1.9 times in fiscal 2009 and 2.1 times in fiscal 2008.

	Fiscal Year Ended September 30,		
	2010	2009	2008
		(in millions)	
Combined signature loans:			
Loans made	$ 233.8	$ 217.3	$ 204.4
Loans repaid	(200.7)	(184.0)	(167.5)
Loans forfeited, net of collections on bad debt	(30.7)	(32.6)	(34.3)
Net increase in signature loans outstanding at the end of the year	$ 2.4	$ 0.7	$ 2.6
Loans renewed	$ 425.5	$ 437.6	$ 449.9
Loans made by unaffiliated lenders (credit services only):			
Loans made	$ 114.0	$ 114.0	$ 122.4
Loans repaid	(92.5)	(90.6)	(96.5)
Loans forfeited, net of collections on bad debt	(21.5)	(23.9)	(25.6)
Net increase in loans outstanding at the end of the year	$	$ (0.5)	$ 0.3
Loans renewed	$ 364.1	$ 366.7	$ 392.8
Loans made by us:			
Loans made	$ 119.8	$ 103.3	$ 82.0

Loans repaid	(108.2)	(93.4)	(71.0)
Loans forfeited, net of collections on bad debt	(9.2)	(8.7)	(8.7)
Net increase in loans outstanding at the end of the year	$ 2.4	$ 1.2	$ 2.3
Loans renewed	$ 61.4	$ 70.9	$ 57.1

7

Table of Contents

Signature loans are unsecured, and their profitability is highly dependent upon our ability to manage the default rate and collect defaulted loan principal, interest and insufficient fund fees. In determining whether to lend or provide credit services, we perform a 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 the customers may be contacted.

We began offering auto title loans in September 2008, but had an immaterial balance at September 30, 2008. The table below shows the dollar amount of our auto title loan activity for fiscal 2010 and 2009. For purposes of this table, auto title loan balances include the principal portion of auto title loans (net of valuation allowance) recorded on our balance sheet and the principal portion of active brokered auto title loans outstanding from unaffiliated lenders, which is not included on our balance sheet.

	Fiscal Year Ended September 30,	
	2010	2009
	(in millions)	
Combined auto title loans:		
Loans made	$ 25.3	$ 5.6
Loans repaid	(14.7)	(2.5)
Loans forfeited, net of collections on bad debt	(4.5)	(0.4)
Loans acquired in business acquisition		1.1
Net increase in auto title loans outstanding at the end of the year	$ 6.1	$ 3.8
Loans renewed	$ 56.8	$ 14.0
Loans made by unaffiliated lenders (credit services only):		
Loans made	$ 16.0	$ 3.3
Loans repaid	(9.3)	(1.0)
Loans forfeited, net of collections on bad debt	(2.1)	(0.2)
Loans acquired in business acquisition		
Net increase in loans outstanding at the end of the year	$ 4.6	$ 2.1
Loans renewed	$ 40.7	$ 4.9
Loans made by us:		
Loans made	$ 9.3	$ 2.3
Loans repaid	(5.4)	(1.5)
Loans forfeited, net of collections on bad debt	(2.4)	(0.2)
Loans acquired in business acquisition		1.1
Net increase in loans outstanding at the end of the year	$ 1.5	$ 1.7
Loans renewed	$ 16.1	$ 9.1

Auto title loans are secured by the titles to customers automobiles. Lending decisions and loan amounts are determined based on customers income levels, an inspection of the automobile and title and reference to market values of used automobiles. Auction proceeds from repossessed automobiles reduce bad debt.

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

Table of Contents

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.

Signature loan fees are generally highest in our third and fourth fiscal quarters (April through September) due to a higher average loan balance during the summer lending season. Signature loan bad debt, both in dollar terms and as a percentage of related fees, is highest in the third and fourth fiscal quarters and lowest in the second fiscal quarter due primarily to the impact of tax refunds.

The net effect of these factors is that net revenues and net income typically are strongest in the fourth fiscal quarter and weakest in the third fiscal quarter. Our cash flow typically is greatest in the second fiscal quarter due to a high level of loan redemptions and sales in the income tax refund season.

Operations

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

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

In the majority of our short-term consumer loan stores, store employees attempt to collect defaulted signature loans in the first 30 days after default. After the initial 30 days, our centralized collection center assumes collection responsibility for these stores loans. The centralized collection center also collects defaulted signature loans for all other locations from the date of default. After attempting to collect for approximately 90 days, we generally sell the remaining defaulted signature loans to a third party or refer them to an outside collection agency for a contingency fee.

We have an internally developed store level point of sale system that automates the recording of store-level pawn transactions and a separate loan management computer system specifically designed to handle signature loans and auto title loans. We have redundant backup systems in the event of a system failure or natural disaster. Financial data from all stores is processed at the corporate office each day, and the preceding day s data are available for management review via our internal network. Our communications network provides information access between the stores and the corporate office.

Our internal audit staff monitors the perpetual inventory system, lending practices, regulatory compliance and compliance with our policies and procedures. Each location is typically audited four times annually.

As of September 30, 2010, we employed approximately 4,900 people. We believe that our success is dependent upon our employees ability to provide prompt and courteous customer service and to execute our operating procedures and standards. We seek to hire people who will become long-term, career employees. To achieve our long-range personnel goals, we offer a structured career development program for all of our field associates. This program encompasses computer-based training, formal structured classroom training and supervised on-the-job training. All store associates, including managers, must meet certain competency criteria prior to hire or promotion and participate in on-going training classes and formal instructional programs. Our career development program develops and advances our employees and provides training for the efficient integration of experienced managers and associates from outside the company.

Trademarks and Trade Names

We operate our U.S. pawn stores principally under the names EZPAWN or Value Pawn and the Mexico pawn stores under the names EMPEÑO FÁCIL and EMPEÑE SU ORO AL INSTANTE. Our U.S. short-term consumer loan stores operate under a variety of names, including EZMONEY Payday Loans, EZ Loan Services, EZ Payday Advance, AAA Payday Loans and EZPAWN Payday Loans and our CSO stores operate under the name EZMONEY Loan Services. Our short-term consumer loan stores in Canada operate under the name CASHMAX. We have registered with the United States Patent and Trademark Office the names EZPAWN, EZMONEY and EZCORP, among others. We hold a trademark in Mexico for the name EMPEÑO FÁCIL.

Growth and Expansion

We plan to expand the number of locations we operate through opening new locations and through acquisitions. We believe that in the near term the largest growth opportunities are with new pawn stores in Mexico and the U.S., short-term consumer loan stores in Canada and pawn store acquisitions in the United States. We continually evaluate and test new products and formats, which may result in further expansion opportunities.

In June 2010, we acquired eight pawn stores located in Central and South Florida and five pawn stores located in the Chicago metropolitan area. These acquisitions further strengthen our leadership position in Florida and represent our initial entrance to the Chicago area. In September 2010 we acquired two pawn stores in Corpus Christi, Texas and one pawn store in Las Vegas, Nevada. During fiscal 2010, we also opened seven pawn stores in the United States, 53 pawn stores in Mexico, 50 short-term consumer loan stores in Canada and one in the United States. In fiscal 2011, we plan to open 55 to 60 Empeño Fácil pawn locations in Mexico, 35 to 40 CASHMAX locations in Canada, and 10 pawn stores in the United States.

The seven new U.S. pawn stores opened in fiscal 2010 required an average property and equipment investment of approximately $266,000. The 50 new CASHMAX stores opened in fiscal 2010 required an average property and equipment investment of approximately $67,000. In fiscal 2010 we opened 34 Empeñe Su Oro jewelry only stores and 19 full line pawn stores for a total of 53 new pawn stores in Mexico. The jewelry only stores required an average property and equipment investment of approximately $39,000 with the full line pawn stores averaging a property and equipment investment of $110,000.

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

Competition

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

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

The pawn industry in the United States is large and highly fragmented. The industry consists of approximately 11,000 pawn stores owned primarily by independent operators who own one to three locations, and we consider the industry relatively mature. We are the second largest operator of pawn stores in the United States, with 390 locations at September 30, 2010. The three largest pawn store operators account for approximately ten percent of the total estimated pawn stores in the United States.

The pawn industry in Mexico is also fragmented, but less so than in the United States. The industry consists of approximately 5,000 pawn stores owned by independent operators and chains, including some owned by not-for-profit organizations. The pawn industry, particularly full-line stores offering general merchandise and jewelry loans and resale, remains in more of an expansion stage in Mexico than in the United States. The market for gold-only pawn stores is still in an expansion phase in Mexico, although is closer to maturity than full-line stores.

The short-term consumer loan industry in the United States is larger and more concentrated than the pawn industry. The industry consists of approximately 22,000 locations that are either mono-line stores offering only short-term consumer loans, or other businesses offering short-term consumer loans in addition to other products and services, such as check cashing stores and pawn stores. The ten largest short-term consumer loan companies, including us, operate approximately 40% of the total number of locations.

The short-term consumer loan industry in Canada remains in a growth stage. The industry consists of approximately 1,400 locations that are either mono-line stores offering only short-term consumer loans, or other businesses offering short-term consumer loans in addition to other products and services, such as check cashing stores and pawn stores. The Canadian short-term consumer loan industry is highly concentrated, with the three largest companies operating approximately 70% of the total number of locations.

Strategic Investments

At September 30, 2010, we held almost 30% of the outstanding shares of Albemarle & Bond Holdings PLC. At June 30, 2010, the latest date at which Albemarle & Bond has publicly reported results, Albemarle & Bond operated 132 locations in the United Kingdom that offer pawn loans, payday loans, installment loans, check cashing and retail jewelry. For Albemarle & Bond s fiscal year ended June 30, 2010, its turnover (gross revenues) increased 48% to £82.0 million ($129.8 million), its profit after tax (net income) increased 35% over the prior year to approximately £14.4 million ($22.8 million), and its diluted earnings per share increased 34% to £0.2589 ($0.4097). Albemarle & Bond is based in Bristol, England, and its stock is publicly traded on the Alternative Investment Market of the London Stock Exchange. We are its largest single shareholder and currently hold three of the nine seats on Albemarle & Bond s board of directors. We account for our investment in Albemarle & Bond under the equity method. In fiscal 2010, our interest in Albemarle & Bond s income was $6.8 million and we received dividends of $2.3 million. Based on the closing price and exchange rates on September 30, 2010, the market value of our investment in Albemarle & Bond was approximately $75.5 million compared to its book value of $43.1 million.

In November 2009 we acquired approximately 108.2 million shares of newly issued capital stock of Cash Converters International Limited, a public company headquartered in Perth, Australia, giving us approximately 30% ownership after the transaction. We paid AUS $0.50 per share, for a total cash investment of AUS $54.1 million (approximately U.S. $49.6 million including direct transaction costs). We acquired 16.2 million additional shares in May 2010 at a cost of AUS $9.7 million (approximately U.S. $8.2 million), which increased our ownership level to approximately 33%. As its largest single shareholder and pursuant to a shareholder agreement, we hold two of the five seats on Cash Converters board of directors. Cash Converters franchises and operates a worldwide network of over 500 financial services and retail stores, which provide pawn loans, short-term unsecured loans, and other

consumer finance products, and buy and sell used merchandise. Cash Converters now owns and operates 39 locations in Australia and 32 locations in the United Kingdom, and has more than 500 franchised stores in 21 countries, including 138 in Australia, 157 in the United Kingdom and significant presences in Spain, South Africa and France. During the past several years, Cash Converters has been buying back franchised locations and converting them into company operated stores. We expect the proceeds from our investments will be used to accelerate this buy back activity, as well as increase Cash Converters portfolio of short-term consumer loans in Australia and the U.K.

For its fiscal year ended June 30, 2010, Cash Converters gross revenue improved 35% to AUS $127.8 million (U.S. $112.7 million), net income improved 34% to AUS $21.7 million (U.S. $19.1 million), and diluted earnings per share decreased 1% to AUS $0.0658 (U.S. $0.0580). For the year, Cash Converters paid dividends of AUS $0.03 (U.S. $0.0265) per share. We account for our investment in Cash Converters under the equity method. In fiscal 2010, our interest in Cash Converters income was $3.9 million and we received dividends of $1.5 million. Based on the closing price and exchange rates on September 30, 2010, the market value of our investment in Cash Converters was approximately $70.0 million compared to its book value of $58.3 million.

Regulation

Our operations are subject to extensive regulation under various federal, state and local laws and regulations, and we believe that we conduct our business in material compliance with all of these rules. The following is a general description of significant regulations affecting our business. For a geographic breakdown of our operating locations, see Item 2 Properties.

Pawn Regulations

Our pawn stores are regulated by the states in which they are located and, in some cases, by individual municipalities or other local authorities. The applicable statutes, ordinances and regulations vary from location to location and typically impose licensing requirements for pawn stores or individual pawn store employees. Licensing requirements typically relate to financial responsibility and character, and may establish restrictions on where pawn stores can operate. Additional rules regulate various aspects of the day-to-day pawn operations, including the service charges and interest rates that a pawn store may charge, the maximum amount of a pawn loan, the minimum or maximum term of a pawn loan, the content and format of the pawn ticket and the length of time after a loan default that a pawn store must hold a pawned item before it can be sold. Failure to observe applicable regulations could result in a revocation or suspension of pawn licenses, the imposition of fines or requirements to refund service charges and fees, and other civil or criminal penalties. We must also comply with various federal requirements regarding the disclosure of interest, fees, total payments and annual percentage rate related to each pawn loan transaction. Additional federal regulations applicable to our pawn lending business are described in Other Federal Regulations below.

Most of our pawn stores, voluntarily or pursuant to applicable laws, provide periodic (generally daily) reports to local law enforcement agencies. These reports provide local law enforcement with information about the items received from customers (whether through pawn or purchase), including a detailed description of the goods involved and the name and address of the customer. If we accept as collateral or purchase merchandise from a customer and it is determined that our customer was not the rightful owner, the merchandise is subject to recovery by the rightful owner. Historically, we have not experienced a material number of claims of this nature.

We do not purchase, sell or make pawn loans on handguns or assault weapons. Some of our pawn stores in the U.S. handle other types of firearms, such as sporting rifles and other long guns, and each of those shops maintains a federal firearms license as required by federal law. The federal Gun Control Act of 1968 and regulations issued by the Bureau of Alcohol, Tobacco, and Firearms also require each pawn store dealing in firearms to maintain a permanent written record of all receipts and dispositions of firearms. In addition, we must comply with the Brady Handgun Violence Prevention Act, which requires us to conduct a background check before releasing, selling or otherwise disposing of firearms.

Mexico regulates various aspects of the pawn industry at the federal, state and local level. Regulations issued by the federal consumer protection agency, Procuraduría Federal del Consumidor (PROFECO), govern the form of pawn loan contracts and consumer disclosures, but the regulations do not impose interest rate or service charge limitations on pawn loans. Pawn stores, like other businesses in Mexico, are also subject to a variety of regulations in such areas as tax compliance, customs, consumer protection and employment.

Short-Term Consumer Loan Regulations

Each state in which we offer short-term consumer loan products has specific laws and regulations dealing with the conduct of this business. These laws and regulations vary in scope, but generally require licensing of locations, establish loan terms, provide for consumer protections and disclosures, and permit periodic regulatory examinations. In the case of payday loans, most applicable laws and regulations limit the amount of fees that may be charged, establish maximum loan amounts and duration, and restrict the customer s ability to renew or extend the loan. Some states require reporting of customers payday loan activities to a state-wide database, and prohibit the making of payday loans to customers who have payday loans outstanding with other lenders. Some municipalities in which we operate also impose various rules and regulations, primarily related to zoning and licensing requirements. Failure to observe applicable legal requirements could result in a loss of license, the imposition of fines or customer refunds, and other civil or criminal penalties.

We must also comply with various federal requirements (including the Truth in Lending Act and Regulation Z) regarding the disclosure of interest, fees, total payments and annual percentage rate related to each loan transaction. With respect to our debt collection activities, we comply with the federal Fair Debt Collection Practices Act and similar state laws regulating debt collection practices. Additional federal regulations applicable to our short-term consumer loan business are described in Other Federal Regulations below.

In Texas, we do not make loans to customers, but rather offer fee-based credit services, including assistance in arranging loans with independent third-party lenders. As required by state law, we are registered as a Credit Services Organization (CSO) in order to provide such services. Texas law requires us to provide each customer with an upfront disclosure statement describing, among other things, the services to be provided and the fees to be charged and, upon entering into a transaction, with a written contract fully describing the services provided. State law prohibits us from receiving compensation solely for referring a customer to a lender and also provides for other disclosure requirements, cancellation rights for customers, and prohibitions on fraudulent or deceptive conduct. Violations of the CSO law could subject us to criminal and civil liability. The independent lenders are not required to be licensed and are not regulated by any state agency so long as the interest rate charged on the loan does not exceed 10% per annum. The lenders are also permitted to charge late fees and insufficient funds fees. The lenders are subject to the federal regulations described below with regard to their lending activities.

Legislators and regulators frequently scrutinize the legislative and regulatory environment for short-term lending, often proposing additional legislative and regulatory restrictions ranging from additional disclosure requirements to limits on rates and fees. In some cases, rate and fee limits would effectively prohibit certain short-term lending products, such as payday loans, because it would no longer be economically feasible for most lenders to offer such products.

The Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted in July 2010. This new federal law, among other things, establishes a Bureau of Consumer Financial Protection, which will regulate companies that offer or supply consumer financial products and services, including payday loans, pawn loans and other products and services that we offer. The act contains provisions relating to the establishment of the bureau, the transfer of authority and staff from existing federal regulatory agencies and the provision of funding for the bureau. Those provisions are in the very early stages of implementation, and until the bureau has become operational and begins to propose rules and regulations that apply to our activities, it is not possible to accurately predict what affect the bureau will have on our business.

During fiscal 2010, legislation adversely affecting our business was enacted in Colorado and Wisconsin. The new Colorado law, which became effective August 11, 2010, eliminated the traditional short-term payday loan product by requiring that payday loans have a minimum term of six months and an annual interest rate of no more than 45%. But the new law permits six-month installment loans and certain add-on fees such as finance charges and maintenance fees. The new Wisconsin law, which becomes effective January 1, 2011, limits the dollar amount of payday loans a customer can have outstanding at any one time, establishes statewide database reporting

13

requirements, redefines payday loans to bring some installment loan products within the definition and completely eliminates auto title loans in Wisconsin. After evaluating the estimated impact of these new laws on our operations, we decided to consolidate three of our short-term consumer loan stores in Colorado and to consolidate or close eight of our stores in Wisconsin. With respect to the remaining stores, we have implemented, or are in the process of designing and implementing, new or modified products that will fit within the new regulatory frameworks and are evaluating the feasibility of additional product offerings to enhance our business in those stores.

There can be no assurance that additional legislative or regulatory efforts to eliminate or restrict the availability of certain short-term loan products, including payday loans and auto title loans, will not be successful, despite significant customer demand. To the extent such efforts are successful, our short-term consumer loan business could be adversely affected. See Item 1A Risk Factors.

Other Federal Regulations

All of our lending activities, both pawn loans and short-term consumer loans, are subject to other state and federal statutes and regulations, including the following:

We are subject to the federal Gramm-Leach-Bliley Act and its underlying regulations, as well as various state laws and regulations relating to privacy and data security. Under these regulations, we are required to disclose to our customers our policies and practices relating to the protection of customers nonpublic personal information. These regulations also require us to ensure that our systems are designed to protect the confidentiality of customers nonpublic personal information, and many of these regulations dictate certain actions that we must take to notify customers if their personal information is disclosed in an unauthorized manner. In addition, the Federal Fair and Accurate Credit Transactions Act requires us to adopt written guidance and procedures for detecting, preventing and mitigating identity theft, and to adopt various policies and procedures (including employee training) that address the importance of protecting non-public personal information and aid in detecting and responding to suspicious activity or identify theft red flags.

The federal Equal Credit Opportunity Act prohibits discrimination against any credit applicant on the basis of any protected category such as race, color, religion, national origin, sex, marital status or age. If we deny an application for credit, we are required to provide the applicant with a Notice of Adverse Action, informing the applicant of the action taken regarding the credit application, a statement of the prohibition on discrimination, the name and address of both the creditor and the federal agency that monitors compliance, and the applicant s right to learn the specific reasons for the denial.

Under the USA PATRIOT Act, we must maintain an anti-money laundering compliance program that includes the development of internal policies, procedures, and controls; the designation of a compliance officer; an ongoing employee training program; and an independent audit function to test the program.

We are also subject to the Bank Secrecy Act and its underlying regulations, which requires us to report and maintain records of certain high-dollar transactions. In addition, federal regulations require us to report certain suspicious transactions to the Financial Crimes Enforcement Network of the Treasury Department (FinCen). Generally, a transaction is considered to be suspicious if we know, suspect or have reason to suspect that the transaction (a) involves funds derived from illegal activity or is intended to hide or disguise such funds, (b) is designed to evade the requirements of the Bank Secrecy Act or (c) appears to serve no legitimate business or lawful purpose.

Federal law limits the annual percentage rate that may be charged on loans made to active duty military personnel and their immediate families at 36%. This 36% annual percentage rate cap applies to a variety of loan products, including signature loans, though it does not apply to pawn loans. We do not make signature loans to active duty military personnel or their immediate families because it is not economically feasible for us to do so at these rates.

Table of Contents

Available Information

We maintain an Internet website at www.ezcorp.com. All of