EZCORP INC
Form 10-Q
February 08, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2011

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 Austin, Texas	**78746**
(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 x 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 x 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 x	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 x

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 December 31, 2011, 47,409,234 shares of the registrant s Class A Non-voting Common Stock, par value $.01 per share, and 2,970,171 shares of the registrant s Class B Voting Common Stock, par value $.01 per share, were outstanding.

EZCORP, INC.

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ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Condensed Consolidated Balance Sheets

	December 31, 2011	December 31, 2010	September 30, 2011
	(Unaudited)	*(Unaudited)*	
		(In thousands)	
Assets:			
Current assets:			
Cash and cash equivalents	$ 22,868	$ 23,908	$ 23,969
Pawn loans	150,060	124,388	145,318
Signature loans, net	12,676	11,953	11,389
Auto title loans, net	3,512	3,307	3,222
Pawn service charges receivable, net	28,593	24,068	26,455
Signature loan fees receivable, net	6,206	6,141	5,348
Auto title loan fees receivable, net	1,405	1,600	1,427
Inventory, net	100,319	77,677	90,373
Deferred tax asset	18,169	23,248	18,125
Prepaid expenses and other assets	38,914	20,724	30,611
Total current assets	382,722	317,014	356,237
Investments in unconsolidated affiliates	117,820	108,959	120,319
Property and equipment, net	84,513	66,641	78,498
Goodwill	212,475	128,181	173,206
Intangible assets, net	20,568	16,320	19,790
Other assets, net	7,781	7,932	8,400
Total assets	$ 825,879	$ 645,047	$ 756,450
Liabilities and stockholders equity:			
Current liabilities:			
Current maturities of long-term debt	$	$ 10,000	$
Accounts payable and other accrued expenses	57,451	48,986	57,400
Customer layaway deposits	6,152	5,950	6,176
Income taxes payable	12,672	5,267	693
Total current liabilities	76,275	70,203	64,269
Long-term debt, less current maturities	40,500	12,500	17,500
Deferred tax liability	8,724	1,619	8,331
Deferred gains and other long-term liabilities	1,997	2,419	2,102
Total liabilities	127,496	86,741	92,202
Commitments and contingencies			
Stockholders equity:			
Class A Non-voting Common Stock, par value $.01 per share; Authorized 54 million shares; issued and outstanding: 47,409,234 at December 31, 2011; 46,952,495 at December 31, 2010;and 47,228,610 at September 30, 2011	474	469	471
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	243,919	229,789	242,398
Retained earnings	461,447	327,365	422,095
Accumulated other comprehensive income (loss)	(7,487)	653	(746)
Total stockholders equity	698,383	558,306	664,248

Total liabilities and stockholders equity	$ 825,879	$ 645,047	$ 756,450

See accompanying notes to interim condensed consolidated financial statements (unaudited).

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Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended December 31, 2011	2010
	(In thousands, except per share amounts)	
Revenues:		
Sales	$ 143,297	$ 122,545
Pawn service charges	59,792	49,810
Signature loan fees	39,621	40,066
Auto title loan fees	5,467	6,244
Other	696	161
Total revenues	248,873	218,826
Cost of goods sold	83,820	73,566
Signature loan bad debt	10,101	10,046
Auto title loan bad debt	924	982
Net revenues	154,028	134,232
Operating Expenses:		
Operations	74,501	64,504
Administrative	19,711	26,138
Depreciation and amortization	5,255	4,179
(Gain) / loss on sale or disposal of assets	(201)	7
Total operating expenses	99,266	94,828
Operating income	54,762	39,404
Interest income	(39)	(3)
Interest expense	590	300
Equity in net income of unconsolidated affiliates	(4,161)	(3,367)
Other income	(1,119)	(61)
Income before income taxes	59,491	42,535
Income tax expense	20,139	15,106
Net income	$ 39,352	$ 27,429
Net income per common share:		
Basic	$ 0.78	$ 0.55
Diluted	$ 0.78	$ 0.55
Weighted average shares outstanding:		
Basic	50,355	49,698
Diluted	50,693	50,119

See accompanying notes to interim condensed consolidated financial statements (unaudited).

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended December 31, 2011	2010
	(In thousands)	
Net Income	$ 39,352	$ 27,429
Other comprehensive income (loss):		
Foreign currency translation adjustments	(8,768)	9,777
Unrealized holding gains arising during period	(559)	491
Income tax benefit (provision)	2,586	(3,240)
Other comprehensive income (loss), net of tax	(6,741)	7,028
Comprehensive income	$ 32,611	$ 34,457

See accompanying notes to interim condensed consolidated financial statements (unaudited).

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended December 31, 2011	2010
	(In thousands)	
Operating Activities:		
Net income	$ 39,352	$ 27,429
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,255	4,179
Signature loan and auto title loan loss provisions	4,035	4,134
Deferred taxes	257	1,619
(Gain) / loss on sale or disposal of assets	(201)	7
Stock compensation	1,513	8,548
Income from investments in unconsolidated affiliates	(4,161)	(3,367)
Changes in operating assets and liabilities, net of business acquisitions:		
Service charges and fees receivable, net	(2,392)	(2,421)
Inventory, net	(1,609)	(1,680)
Prepaid expenses, other current assets, and other assets, net	(8,187)	(3,762)
Accounts payable and accrued expenses	(3,693)	(832)
Customer layaway deposits	(1,865)	(232)
Deferred gains and other long-term liabilities	(116)	(107)
Excess tax benefit from stock compensation	(460)	(3,065)
Income taxes	12,284	4,672
Net cash provided by operating activities	43,742	35,122
Investing Activities:		
Loans made	(182,757)	(152,763)
Loans repaid	110,988	91,340
Recovery of pawn loan principal through sale of forfeited collateral	61,701	50,750
Additions to property and equipment	(9,948)	(7,933)
Acquisitions, net of cash acquired	(49,399)	(13,700)
Dividends from unconsolidated affiliates	2,222	1,811
Net cash used in investing activities	(67,193)	(30,495)
Financing Activities:		
Proceeds from exercise of stock options		204
Excess tax benefit from stock compensation	460	3,065
Taxes paid related to net share settlement of equity awards	(988)	(7,396)
Proceeds on revolving line of credit	116,500	15,000
Payments on revolving line of credit	(93,500)	(15,000)
Payments on bank borrowings		(2,500)
Net cash provided by (used) in financing activities	22,472	(6,627)
Effect of exchange rate changes on cash and cash equivalents	(122)	54
Net (decrease) increase in cash and cash equivalents	(1,101)	(1,946)
Cash and cash equivalents at beginning of period	23,969	25,854
Cash and cash equivalents at end of period	$ 22,868	$ 23,908
Non-cash Investing and Financing Activities:		
Pawn loans forfeited and transferred to inventory	$ 66,068	$ 54,405
Foreign currency translation adjustment	$ 6,741	$ (6,537)
Acquisition-related stock issuance	$ 1,122	$

See accompanying notes to interim condensed consolidated financial statements (unaudited).

EZCORP, Inc. and Subsidiaries

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

December 31, 2011

Note A: 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 of 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 acquired businesses (described in Note B). The accompanying financial statements should be read with the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended September 30, 2011. The balance sheet at September 30, 2011 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Certain prior period balances have been reclassified to conform to the current presentation.

Our business is subject to seasonal variations and operating results for the interim period ended December 31, 2011 (the current quarter) are not necessarily indicative of the results of operations for the full fiscal year.

The consolidated financial statements include the accounts of EZCORP, Inc. and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. We account for our investments in Albemarle & Bond Holdings, PLC and Cash Converters International Limited using the equity method.

With the exception of the derivative instruments and hedging activities described in the section below, 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, 2011.

Derivative Instruments and Hedging Activities

We record all derivative instruments according to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 815-20-25, Derivatives and Hedging Recognition. Accounting for changes in the fair value of derivatives is determined by the intended use of the derivative, whether it is designated as a hedge and whether the hedging relationship is effective in achieving offsetting changes for the risk being hedged.Derivatives designated to hedge the changes in the fair value of an asset, liability, or firm commitment due to an identified risk in the hedged item, such as interest rate risk or foreign currency exchange rate risk are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of our risks, even though hedge accounting does not apply or we elect not to apply hedge accounting.

We acquire significant amounts of gold either through purchases or from forfeited pawn loans and sell it to refiners. In order to manage our commodity price risk associated with the forecasted sales of gold scrap, from time to time, we purchase put options related to the future market price of gold. Simultaneously, we may sell a call option for the same future period for a premium to offset the cost of the put. The combined put and call options, or collar, has the effect of providing us protection from the future downward gold price movement but also limits the extent we can participate in future upward price movement.In the current quarter, we began using derivative financial instruments. These derivatives are not designated as hedges as they do not meet the hedge accounting requirements FASB ASC 851-20-25. The fair value of the derivative instruments is recognized in Prepaid expenses and other assets in the consolidated balance sheets and changes in fair value are recognized in Other Income in our consolidated statements of operation.

Recently Issued Accounting Pronouncements

In December 2011, FASB issued Accounting Standards Update (ASU) 2011-11, *Disclosures about Offsetting Assets and Liabilities.* This update, which amends FASB ASC 210 (Balance Sheet), requires entities to disclose information about offsetting and related arrangements and the effect of those arrangements on its financial position. The amendments in ASU 2011-11 enhance disclosures required by FASB ASC 210 by requiring improved information about financial instruments and derivative instruments that are either offset in accordance with FASB ASC 210-20-45 or 815-10-45 or are subject to an enforceable master netting arrangement or similar agreement. ASU 2011-11 is effective for interim and annual periods beginning on or after January 1, 2013. Disclosures are required retrospectively for all comparative periods presented. Currently, we do not enter into any right of offset arrangements and we do not anticipate that the adoption of ASU 2011-11 will have a material effect on our financial position, results of operations or cash flows.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment.* This update amends FASB ASC 350 (Intangibles Goodwill and Other) by allowing entities to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The amendments in this update are effective for annual and interim goodwill impairment tests performed for fiscal years beginning on or after December 15, 2011. We do not anticipate the adoption of ASU 2011-08 will have a material effect on our financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS).* This update amends FASB ASC 820 (Fair Value Measurement) by providing common principles and requirements for measuring fair value, as well as similar disclosure requirements between U.S. GAAP and IFRS. It changes certain fair value measurement principles, clarifies the application of existing fair value concepts, and expands disclosure requirements, particularly for Level 3 fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning on or after December 15, 2011. We do not anticipate that the adoption of ASU 2011-04 will have a material effect on our financial position, results of operations or cash flows.

Recently Adopted Accounting Pronouncements

In December 2011, FASB issued ASU 2011-12 *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05.* This update supersedes certain content in ASU 2011-05 *Presentation of Comprehensive Income* that requires entities to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and the components of other comprehensive income are presented. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. All other requirements in ASU 2011-05, including the requirement to report comprehensive income in either a single continuous financial statement or in two separate but consecutive financial statements, were not affected by ASU 2011-12. This update is effective for fiscal years beginning on or after December 15, 2011. We early adopted this amended standard in our fiscal year beginning October 1, 2011 with no effect on our financial position, results of operations or cash flows.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations*. The amendments in this update specify that, when presenting comparative financial statements, entities should disclose revenue and earnings of the combined entity as though the business combinations that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. ASU 2010-29 also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for material (on an individual or an aggregate basis) business combinations entered into in fiscal years beginning on or after December 15, 2010. We adopted this amended standard on October 1, 2011, resulting in no effect on our financial position, operations or cash flows.

Note B: Acquisitions

The following table provides information related to the acquisitions of domestic and foreign retail and financial services locations during the fiscal quarters ended December 31, 2011 and 2010:

	Three Months Ended December 31, 2011	2010
Number of asset purchase acquisitions	5	3
Number of stock purchase acquisitions	1	1
U.S. stores acquired	24	4
Foreign stores acquired	1	
Total stores acquired	25	4

	Three Months Ended December 31, 2011	2010
	(In thousands)	
Consideration:		
Cash	$ 49,644	$ 13,736
Equity instruments	1,122	
Fair value of total consideration transferred	50,766	13,736
Cash acquired	(245)	(36)
Total purchase price	$ 50,521	$ 13,700
Current assets:		
Pawn loans	$ 5,036	$ 1,542
Service charges and fees receivable	645	312
Inventory	4,307	847
Deferred tax asset	45	53
Prepaid expenses and other assets	39	2
Total current assets	10,072	2,756
Property and equipment	1,725	273
Goodwill	39,642	10,708
Other assets	1,007	115
Total assets	$ 52,446	$ 13,852
Current liabilities:		
Accounts payable and other accrued expenses	$ 998	$ 27
Customer layaway deposits	682	72
Other current liabilities	226	
Total current liabilities	1,906	99
Deferred tax liability	19	53
Total liabilities	1,925	152
Net assets acquired	$ 50,521	$ 13,700
Goodwill deductible for tax purposes	$ 6,864	$ 6,061
Goodwill recorded in U.S. Pawn Segment	39,610	10,708

Goodwill recorded in EZMONEY segment		32		
Definite lived intangible assets acquired:				
Favorable lease asset	$	230	$	
Non-compete agreements	$	180	$	115
Contractual relationship	$	450	$	

All stores were acquired as part of our continuing strategy to acquire domestic and foreign pawn stores to enhance and diversify our earnings. Transaction related expenses were not material and were expensed as incurred. The results of all acquired stores have been consolidated with our results since their acquisition. The purchase price allocation of assets acquired in the most recent twelve months is preliminary as we continue to receive information regarding the acquired assets. Pro forma results of operations have not been presented because it is impracticable to do so, as historical audited financial statements are not readily available.

The amounts above include the acquisition, from a related party, of a decision science model for the underwriting of consumer loans, a contractual relationship with an income tax return preparer to facilitate refund anticipation loans and an online lending business in the U.K., for an aggregate purchase price of $1.2 million, which was paid in cash. Pursuant to our Policy for Review and Evaluation of Related Party Transactions, the Audit Committee reviewed and evaluated the terms of the transaction and concluded that the transaction was fair to, and in the best interest of, the company and its stockholders.

Note C: 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.

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 December 31,	
	2011	2010
	(In thousands, except per share amounts)	
Net income (A)	$ 39,352	$ 27,429
Weighted average outstanding shares of common stock (B)	50,355	49,698
Dilutive effect of stock options and restricted stock	338	421
Weighted average common stock and common stock equivalents (C)	50,693	50,119
Basic earnings per share (A/B)	$ 0.78	$ 0.55
Diluted earnings per share (A/C)	$ 0.78	$ 0.55
Potential common shares excluded from the calculation of diluted earnings per share	10	

Note D: Strategic Investments and Fair Value of Financial Instruments

At December 31, 2011, we owned 16,644,640 ordinary shares of Albemarle & Bond Holdings, PLC, representing almost 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. The income reported for our quarter ended December 31, 2011 represents our percentage interest in the estimated results of Albemarle & Bond s operations from July 1, 2011 to September 30, 2011.

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

In its functional currency of British pounds, Albemarle & Bond s total assets increased 19% from June 30, 2010 to June 30, 2011 and its net income improved 6% for the year ended June 30, 2011. Below is summarized financial information for Albemarle & Bond s most recently reported results after translation to U.S. dollars (using the exchange rate as of June 30 of each year for balance sheet items and average exchange rates for the income statement items for the periods indicated):

	As of June 30,	
	2011	2010
	(In thousands)	
Current assets	$ 125,862	$ 97,476
Non-current assets	64,325	52,325
Total assets	$ 190,187	$ 149,801
Current liabilities	$ 18,620	$ 17,898
Non-current liabilities	57,016	42,078
Shareholders equity	114,551	89,825
Total liabilities and shareholders equity	$ 190,187	$ 149,801

	Years ended June 30,	
	2011	2010
	(In thousands)	
Gross revenues	$ 162,002	$ 129,794
Gross profit	97,197	84,850
Profit for the year (net income)	24,324	22,792

At December 31, 2011, we owned 124,418,000 shares, or approximately 33% of the total ordinary shares of Cash Converters International Limited, which is a publicly traded company headquartered in Perth, Australia. We acquired the shares between November 2009 and May 2010 for approximately $57.8 million. Cash Converters franchises and operates a worldwide network of over 600 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. Cash Converters has significant store concentrations in Australia and the United Kingdom.

We account for our investment in Cash Converters using the equity method. Since Cash Converters fiscal year ends three months prior to ours, we report the income from this investment on a three-month lag. Cash Converters 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 quarter ended December 31, 2011 represents our percentage interest in the estimated results of Cash Converters operations from July 1, 2011 to September 30, 2011.

Conversion of Cash Converters 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 total assets increased 18% from June 30, 2010 to June 30, 2011 and its net income improved 27% for the year ended June 30, 2011. Below is summarized financial information for Cash Converters most recently reported results after translation to U.S. dollars (using the exchange rate as of June 30 of each year for balance sheet items and average exchange rates for the income statement items for the periods indicated):

	As of June 30,	
	2011	2010
	(In thousands)	
Current assets	$ 119,633	$ 96,489
Non-current assets	126,811	72,408
Total assets	$ 246,444	$ 168,897

Current liabilities	$ 38,235	$ 19,179
Non-current liabilities	22,528	10,199
Shareholders equity	185,681	139,519
Total liabilities and shareholders equity	$ 246,444	$ 168,897

	Year ended June 30	
	2011	2010
	(In thousands)	
Gross revenues	$ 184,011	