

EZCORP INC  
Form 10-K  
November 20, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

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

For the Fiscal Year Ended September 30, 2012

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. 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  No

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  No

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 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.

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

Smaller reporting  
company

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(Do not check if a 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  
o No

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 \$1,525 million, based on the closing price on the NASDAQ Stock Market on March 31, 2012.

As of October 31, 2012, 48,395,890 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

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EZCORP, INC.

YEAR ENDED SEPTEMBER 30, 2012

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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.” See also “Part II — Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Cautionary Statement Regarding Risks and Uncertainties That May Affect Future Results.” Unless otherwise specified, references to the “company” or “we” refer to EZCORP, Inc. and its consolidated subsidiaries. References to a “fiscal” year refer to our fiscal year ended September 30 of the specified year. For example, “fiscal 2012” refers to the fiscal year ended September 30, 2012.

ITEM 1. BUSINESS

General

EZCORP, Inc. is a Delaware corporation headquartered in Austin, Texas. We are a leading provider of instant cash solutions, employing approximately 7,200 team members and operating over 1,250 locations and branches across the United States, Mexico, Canada and the United Kingdom, with unconsolidated investments based in the United Kingdom and Australia.

We provide 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-payment and multiple-payment unsecured loans and single-payment and multiple-payment auto title loans. In Texas, we provide fee-based credit services to consumers seeking loans. At our pawn and buy/sell stores, we sell merchandise, primarily collateral forfeited from pawn lending operations and second-hand merchandise purchased from customers. We also offer prepaid debit card services to help customers better manage their money and control their spending.

During the second quarter of fiscal 2012, we entered into the unsecured lending market in Mexico with the acquisition of a 60% interest in Prestaciones Finmart, S.A.de C.V., SOFOM, E.N.R. (“Crediamigo”), a leading payroll withholding lender headquartered in Mexico City. As of September 30, 2012, Crediamigo had approximately 100 payroll withholding master agreements with Mexican employers, primarily federal, state and local governments and agencies, and provided consumer loans to the agencies' employees. In addition, during the third quarter of fiscal 2012, we acquired 72% of Ariste Holding Limited and its affiliates (“Cash Genie”), which offers short-term consumer loans online in the United Kingdom. Subsequent to the end of fiscal 2012, we increased our ownership interest in Cash Genie to 95%.

At September 30, 2012, we operated a total of 1,262 locations, consisting of 470 U.S. pawn stores (operating primarily as EZPAWN or Value Pawn), seven U.S. buy/sell stores (operating as Cash Converters), 230 pawn stores in Mexico (operating as Empeño Fácil or Empeñe Su Oro), 442 U.S. financial services stores (operating primarily as EZMONEY), 33 financial services stores in Canada (operating as CASHMAX), 35 buy/sell and financial services stores in Canada (operating as Cash Converters) and 45 financial services branches in Mexico (operating as Crediamigo). We own approximately 30% of Albemarle & Bond Holdings, PLC, one of the United Kingdom's largest pawnbroking businesses with approximately 230 stores, and approximately 33% of Cash Converters International Limited, which is based in Australia and franchises and operates a worldwide network of approximately 700 locations that provide financial services and buy and sell second-hand goods. We also own the Cash Converters master franchise rights in Canada and are the franchisor of 10 stores there.

At our pawn stores, we offer pawn loans, which are non-recourse loans collateralized by tangible personal property, and sell merchandise to customers looking for good value. The merchandise we sell consists of second-hand collateral forfeited from our pawn lending activities or purchased from customers and new or refurbished merchandise from third party vendors. In our Cash Converters stores, we also buy and sell second-hand goods. At our financial services stores and at some of our pawn stores, we offer a variety of consumer loan products, including single-payment, unsecured loans with maturity dates typically ranging from 7 to 30 days; multiple-payment unsecured loans that may be repaid over extended periods of up to seven months; single-payment 30-day loans secured by automobile titles; multiple-payment auto title loans that carry terms of two to five months; and revolving lines of credit, both unsecured and secured by automobile titles. In Texas, our financial services stores and our pawn stores that also offer financial services do not offer loan products themselves, but rather offer credit services to help customers obtain loans from

independent third-party lenders. We also offer prepaid debit cards in all of our U.S. stores.

Beginning with the second quarter of fiscal 2012, we redefined our reportable operating segments based on geography. Because our company is organized and managed along geographic lines, with product offerings and channels based on local custom and regulation, we concluded that segment reporting based on geography more closely aligns with our management organization and strategic direction.

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For periods ending after January 1, 2012, we report 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 consumer loans online in the U.K. and our equity interests in the net income of Albemarle & Bond and Cash Converters International)

Concurrent with the change in reportable operating segments, we revised our prior period financial information to reflect comparable financial information for the new segment structure. For revenues, profitability, assets and other information attributable to each of our segments, see Note 18, “Operating Segment Information,” to our consolidated financial statements contained in “Part II — Item 8 — Financial Statements and Supplementary Data.”

The following table presents store data by segment:

	Fiscal Year Ended September 30, 2012					
	Company-owned Stores			Consolidated	Franchises	
	U.S. & Canada	Latin America	Other International			
Stores in operation:						
Beginning of period	933	178	—	1,111	13	
New openings	17	54	—	71	—	
Acquired	51	45	—	96	—	
Sold, combined or closed	(14	) (2	) —	(16	) (3	)
End of period	987	275	—	1,262	10	

The following components comprised our total revenues for each of the last three fiscal years:

	Fiscal Year Ended September 30,					
	2012		2011		2010	
Merchandise sales	33	%	33	%	33	%
Jewelry scrapping sales	21	%	24	%	24	%
Pawn service charges	24	%	23	%	22	%
Consumer loan (including credit service) fees	21	%	20	%	21	%
Other revenues	1	%	—	%	—	%
Total revenues	100	%	100	%	100	%

#### Pawn and Retail Activities

At our pawn stores, we make pawn loans, which are typically small, non-recourse loans collateralized by tangible personal property. At September 30, 2012, we had an aggregate pawn loan principal balance of \$157.6 million, and the average pawn loan was approximately \$125. We earn pawn service charge revenue on our pawn lending. In fiscal 2012, pawn service charges accounted for approximately 24% of our total revenues and 38% 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 \$130 and \$145 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 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. Individual loans are made in Mexican pesos and vary depending on the valuation of each item pawned, but typically average \$60 U.S. dollars. In fiscal 2012, 2011 and 2010, and on a consolidated basis, approximately 82%, 81% and 80%, 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 60% 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. 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, catalogs, newspaper advertisements





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and previous sales of similar merchandise. We generally lend from 25% to 65% of the collateral's estimated resale value depending on an evaluation of these factors, and up to 80% based on scrap value.

The collateral is held through the duration of the loan, which the customer may renew or extend by paying accrued pawn service charges (in the case of a renewal) or pawn service charges for the extension period (in the case of an extension). Through our lending guidelines, we maintain an annual redemption rate (the percentage of loans made that are repaid, renewed or extended) between 79% and 82%. 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.

The table below shows the dollar amount of our pawn loan activity for fiscal 2012, 2011 and 2010:

	Fiscal Year Ended September 30,		
	2012	2011	2010
	(in millions)		
Loans made	\$572.0	\$505.2	\$416.4
Loans repaid	(318.9 )	(273.5 )	(222.2 )
Loans forfeited	(245.6 )	(215.3 )	(177.8 )
Loans acquired in business acquisitions	6.8	8.6	2.7
Change due to foreign currency exchange fluctuations	(2.0 )	(0.9 )	0.4
Net increase in pawn loans outstanding at the end of the year	\$12.3	\$24.1	\$19.5
Loans renewed	\$221.6	\$173.4	\$124.8
Loans extended	\$1,234.2	\$979.6	\$805.3

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 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 loan is made, the customer is given a pawn ticket, which 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 and buy/sell stores, we acquire inventory for retail sales through pawn loan forfeitures and through purchases of customers' merchandise and purchases of new or refurbished merchandise from third party vendors. We believe our ability to offer quality second-hand goods and refurbished goods at prices significantly lower than original retail prices attracts value-conscious customers. The gross profit on sales of inventory depends primarily on our assessment of the loan or purchase value at the time the property is either accepted as loan collateral or purchased. Improper value assessment in the lending or purchasing process can result in lower margins or reduced marketability of the merchandise. During fiscal 2012, 2011 and 2010, we realized gross margins on sales of 43%, 43% and 42%, respectively.

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

	Fiscal Year Ended September 30,			
	2012	2011	2010	
Forfeited pawn loan collateral	72	% 68	% 69	%
Purchases from customers	26	% 30	% 30	%
Acquired in business acquisitions	2	% 2	% 1	%
Total	100	% 100	% 100	%

For fiscal 2012, 2011 and 2010, retail activities and jewelry scrapping (sales of precious metals and gemstones to refiners and gemstone wholesalers) accounted for approximately 55%, 57% and 56%, respectively, of our total revenues, or 35%, 37% and 36%, respectively, of net revenues, 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.

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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 on 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, 2012, we held \$7.2 million in customer layaway deposits. We record product protection, jewelry VIP and layaway fees as sales revenue, as they are incidental to sales of merchandise.

Our 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 4.9% of gross inventory at September 30, 2012 compared to 9.5% at September 30, 2011. The lower valuation allowance is reflective of periodic analyses conducted to value the inventory based on aging, profitability, sell-through rates and shrink in each classification, including jewelry and general merchandise.

**Financial Services**

We also offer a variety of financial services to customers who have limited access to other sources of credit. Many customers find our financial services a more attractive alternative than borrowing from friends or family or incurring insufficient funds fees, overdraft protection fees, utility reconnect fees and other charges imposed when they have insufficient cash to meet their needs. By utilizing our financial services, customers can exercise greater control of their personal finances without damaging the relationships they have with their merchants, service providers and family members.

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

**Unsecured consumer loans** — We offer a variety of unsecured consumer loans, including single-payment loans, multiple-payment loans, lines of credit and payroll withholding loans:

**Single-payment loans** — Single-payment 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 single-payment unsecured loans can be up to \$1,500, but average approximately \$440. In the U.S. we typically charge a fee of 15% to 22% of the loan amount for a 7 to 23-day period. Online in the United Kingdom, we charge a fixed fee of 30% of the loan amount for up to 30 days.

**Multiple-payment loans** — Multiple-payment loans typically carry a term of four to seven months, with a series of equal installment payments due monthly, semi-monthly or on the customer’s paydays. 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 130% of the original principal amount of the loan. Principal amounts range from \$100 to \$3,000, but average approximately \$550.

**Line of credit** — Revolving lines of credit operate similarly to a typical credit card. Customers may borrow as needed, may fully repay borrowed amounts at any point and are billed at regular intervals with certain minimum principal and fee payment requirements due in each billing cycle. Billing cycle due dates range from two weeks to a month and generally correspond with the customer’s paydays. Customers may borrow up to their approved credit line, and may re-borrow any repaid amounts. We provide lines of credit ranging from \$100 to \$700 and typically charge an annual fee of \$30 per account and a monthly fee approximating 52% of the amount borrowed.

**Payroll withholding loans** — At Crediamigo, we offer unsecured consumer loans to employees of various employers (typically, government agencies) with whom we have master payroll withholding lending agreements. Principal amounts of the loans average \$1,200, with terms averaging 31 months. The loans typically have annual yields of approximately 27%.

Secured consumer loans — We offer three principal types of secured consumer loans:

• Single-payment auto title loans — Single-payment auto title loans are 30-day loans secured by the titles to customers' automobiles. Loan principal amounts range from \$100 to \$10,000, but average about \$835. Loan

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amounts are established based on customers' income levels, an inspection of the automobile and title and reference to market values of used automobiles. We earn a fee of 12.5% to 25% of auto title loan amounts.

Multi-payment auto title loans — In Texas, we assist customers in obtaining multiple-payment auto title loans from unaffiliated lenders. Multiple-payment auto title loans carry a term of up to five months, with a series of equal installment payments due monthly, semi-monthly or on the customer's paydays and with each installment payment we earn a fee of 11% to 35% of the initial loan amount.

Auto title line of credit — The terms and fee structure of auto title lines of credit are similar to those of unsecured lines of credit described above, except that they are secured by the titles to customers' automobiles. We provide lines of credit ranging from \$100 to \$8,000 and typically charge an initial lien fee per account and a monthly fee approximating 25% of the amount borrowed.

Debit Cards — In many of our stores and online, customers may obtain general-purpose, branded reloadable debit cards. The cards are issued by a bank, and we receive a portion of the fees charged for activity on the cards.

In our Texas stores, we do not offer consumer 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 and local laws, and offer advice and assistance to customers in obtaining loans from unaffiliated lenders. Our services include arranging consumer 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 consumer loans made by the lenders, but we assist customers in obtaining credit and enhance their creditworthiness by issuing letters of credit to guarantee customers' payment obligations to the independent third-party lenders. For credit services in connection with arranging a single-payment loan (average loan amount of about \$505), our fee is approximately 22% of the loan amount. For credit services in connection with arranging an unsecured multiple-payment loan (average loan amount of about \$2,105), our fee is 11% of the initial loan amount with each semi-monthly or bi-weekly installment payment. Low dollar installment loan principal amounts range from \$100 to \$1,500, but average about \$705. With each semi-monthly or bi-weekly installment payment, we earn a fee of 13% to 14% of the initial loan amount. For credit services in connection with arranging single-payment auto title loans (average loan amount of about \$860), the fee is up to 30% of the loan amount. In fiscal 2012, we began assisting customers in obtaining longer-term multiple-payment auto title loans from unaffiliated lenders. Multiple-payment auto title loans typically carry terms of two 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 \$1,000; and, with each installment payment, we earn a fee of 11% to 35% of the initial loan amount.

Single-payment consumer loans are considered defaulted if they are not repaid or renewed by the maturity date. Outstanding amounts on unsecured lines of credit are considered defaulted if customers do not timely make one required scheduled payment. Multiple-payment loans are considered defaulted if 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 consumer 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.

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The table below shows the dollar amount of our consumer loan activity for the three most recent fiscal years. For purposes of this table, consumer loan balances include the principal portion of loans (net of valuation allowance) recorded on our balance sheet and the principal portion of active brokered loans outstanding from unaffiliated lenders, which is not included on our balance sheet.

	Fiscal Year Ended September 30,		
	2012	2011	2010
	(in millions)		
Combined consumer loans:			
Loans made	\$366.4	\$277.2	\$259.1
Loans repaid	(313.8	) (241.2	) (215.4
Loans forfeited, net of collections on bad debt	(42.4	) (38.1	) (35.2
Loans acquired in business acquisition	68.7	—	—
Change due to foreign currency exchange fluctuations	1.1	—	—
Net increase (decrease) in consumer loans outstanding at the end of the year	\$80.0	\$(2.1	) \$8.5
Consumer loans made by unaffiliated lenders (credit services only):			
Loans made	\$135.6	\$130.0	\$130.0
Loans repaid	(112.5	) (109.8	) (101.8
Loans forfeited, net of collections on bad debt	(24.6	) (23.0	) (23.6
Loans acquired in business acquisition	—	—	—
Net increase (decrease) in consumer loans outstanding at the end of the year	\$(1.5	) \$(2.8	) \$4.6
Consumer loans made by us:			
Loans made	\$230.8	\$147.2	\$129.1
Loans repaid	(201.3	) (131.4	) (113.6
Loans forfeited, net of collections on bad debt	(17.8	) (15.1	) (11.6
Loans acquired in business acquisition	68.7	—	—
Change due to foreign currency exchange fluctuations	1.1	—	—
Net increase (decrease) in consumer loans outstanding at the end of the year	\$81.5	\$0.7	\$3.9

The profitability of unsecured consumer loans is highly dependent on 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.

Auto title loans are secured by the titles to customers' automobiles. Lending decisions and loan amounts are determined on the basis of customers' income levels, an inspection of the automobile and title and reference to market values of used automobiles. Through charges to bad debt expense, we provide a bad debt allowance on the current and delinquent balances of auto title loans and auto title lines of credit, and increase the allowance as the loans age or in response to other potential indicators of loss. Auction proceeds from repossessed automobiles are recorded as an offset to bad debt.

At the time a consumer loan is made, a loan agreement and credit services agreement, when applicable, are given to the customer. It presents the name and address of the lender, the customer and the credit services company when applicable, the customer'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. At the time a line of credit is granted, customers receive a similar agreement specifying the terms of the credit line, fees and annual percentage rate and repayment terms.

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

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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.

### Operations

A typical company pawn store employs approximately six full-time team members, consisting of a store manager, an assistant 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. Managers and regional directors receive incentive compensation based on their performance 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% to 30% of their total compensation.

Financial services stores typically employ two to three team members 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 and reports to a regional director. Managers and regional directors receive incentive compensation based on their performance in comparison to an operating budget.

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

Our payroll withholding lending business in Mexico operates using a network of low-cost branch offices dedicated to making loans to employees of government agencies and other employers with whom Crediamigo has processing and withholding agreements in place. A centralized corporate office provides the lending approval function, processing of loans and repayments, collections, sales support and other administrative functions. Each branch location is headed by a sales manager and, depending upon size of the region, may have between eight and fifteen sales professionals reporting through the branch. Sales professionals are commission-based, with earnings tied to loans originated. All loan requests are approved or declined through the centralized credit process. Crediamigo also utilizes a network of brokers to augment the sales force.

We have an internally developed store level point of sale system that automates the recording of pawn, merchandise purchase and sale transactions. We also have a separate loan management computer system specifically designed to handle consumer loan transactions. We have redundant backup systems in the event of a system failure or natural disaster. Financial data from stores owned by our wholly-owned subsidiaries is processed at the corporate office each day and the preceding day's data are available for management review via our internal network. For stores and operations owned by majority-owned subsidiaries, weekly financial data is provided to the corporate office. 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 several times annually, adjusted based



on estimated risk.

As of September 30, 2012, we employed approximately 7,200 team members. We believe that our success is dependent upon our team members' 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 team members. To achieve our long-range personnel goals, we offer a structured career development program for all of our field team members. This program includes computer-

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based training, formal structured classroom training and supervised on-the-job training. All store team members, 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 team members 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. financial services stores operate under a variety of names, including “EZMONEY Payday Loans,” “EZ Loan Services,” “EZ Payday Advance” and “EZPAWN Payday Loans,” and our CSO stores operate under the name “EZMONEY Loan Services.” Our financial services and buy/sell stores in Canada operate under the names “CASHMAX” or “Cash Converters.” In Mexico, we offer payroll withholding loans under the name “Crediamigo.” In the U.K. we offer consumer loans online under the name “Cash Genie.” 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” and are the master franchisee in Canada for the “Cash Converters” brand.

### Growth and Expansion

We plan to expand the number of locations we operate through opening de novo locations and through acquisitions. We believe that in the near term the largest growth opportunities are with de novo stores in Mexico and the U.S., pawn store acquisitions in the U.S. and online lending, both in the U.S. and internationally. We continually evaluate and test new products and formats, which may result in expansion opportunities or strategic investments.

In fiscal 2012, we acquired 28 pawn stores in the San Antonio metropolitan area, Florida, Minnesota and Georgia; 8 buy/sell stores in Virginia, Pennsylvania and Canada; and 15 financial services stores in Hawaii and Texas. The aggregate consideration for these stores was approximately \$76.9 million, net of cash acquired. During fiscal 2012, we also acquired a 60% interest in Crediamigo, a specialty consumer finance company headquartered in Mexico City, for total consideration of \$60.1 million, net of cash acquired; and a 72% interest in Ariste Holding Limited and its affiliates, which provides online loans in the U.K. under the name “Cash Genie,” for total consideration of \$32.4 million, net of cash acquired. The results of all acquired stores and businesses have been consolidated with our results since their acquisition. During fiscal 2012, we also opened 10 pawn and four financial services stores in the U.S., 52 pawn stores in Mexico, three buy/sell and financial services stores in Canada and two financial services stores in Mexico. These acquisitions were part of our continuing strategy to enhance and diversify our earnings.

In fiscal 2013, we plan to open 25 to 30 pawn stores in the U.S., 70 to 80 pawn stores in Mexico and 65 to 75 financial services stores in the U.S. (most of which will follow our store-within-a-store format).

The cost of opening new de novo stores varies based on the size, type and location of stores opened. During fiscal 2012, we opened 10 de novo U.S. pawn stores, each requiring an average property and equipment investment of approximately \$380,000. The three de novo Canadian buy/sell and financial services stores required an average property and equipment investment of approximately \$80,000, while the 52 de novo pawn stores in Mexico required an average property and equipment investment of approximately \$120,000.

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 businesses, we compete with other pawn stores, payday lenders, credit service organizations, banks, credit 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 or through other market channels, such as online, which some customers may prefer. We believe that the primary elements of competition are the quality of customer service and relationship management, convenience, store location, a customer friendly 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, superior customer service and the ability to offer certain services online.

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.

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Competitive factors in our retail operations include the ability to provide the customer with a variety of merchandise at an exceptional value and convenience.

In offering general purpose, reloadable debit cards, our competitors include other specialty financial service providers, banks and credit unions, as well as specialists in offering debit cards. Competitive factors in our debit card operations include offering competitive, comprehensive services at competitive rates.

The pawn industry in the United States is large and highly fragmented. The industry consists of approximately 13,000 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 470 locations at September 30, 2012. 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 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 mature.

The unsecured payroll lending industry in Mexico is less developed than other Latin American countries. Payroll lending in Mexico is generally marketed to public sector employees, who on average earn more and rotate less frequently than their private sector peers. Additionally, government entities tend to be more stable and on average have more employees than private companies. It is estimated that less than 15% of the market potential is being serviced. Crediamigo is the third largest vertically integrated payroll lender in Mexico with 45 branch offices located in 24 of the 32 states in the country.

The specialty financial services industry in the United States is mature and is larger and more concentrated than the pawn industry. The industry consists of a number of online lenders and approximately 20,000 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, automobile title loan stores, pawn stores and stores offering reloadable debit cards. The ten largest short-term consumer loan companies, including us, operate approximately 45% of the total number of physical locations, and online competition has increased in recent years. Recently, several national and regional banks have begun offering cash advance products with similar characteristics and rate structures to our short-term consumer loans.

The specialty financial services industry in Canada remains in a growth stage. The industry consists of approximately 1,500 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, pawn stores and stores offering reloadable debit cards or bank accounts. The Canadian short-term consumer loan industry is highly concentrated, with the three largest companies operating approximately 74% of the total number of locations.

The U.K. online lending market receives approximately 2 million applications per month, with 25% of that traffic coming from mobile phones. The online lending market is competitive, and website traffic is generated through mainstream and online media. There are over 100 online lenders within the U.K., with Cash Genie ranking in the top five.

### Strategic Investments

Albemarle & Bond — At September 30, 2012, we held almost 30% of the outstanding shares of Albemarle & Bond Holdings PLC, a publicly-traded company headquartered in Reading, United Kingdom. At June 30, 2012, the latest date at which Albemarle & Bond has publicly reported results, Albemarle & Bond operated approximately 230 locations in the United Kingdom that offer pawn loans, payday loans, installment loans, check cashing and retail jewelry. For its fiscal year ended June 30, 2012, Albemarle & Bond's gross revenues increased 16% to £117.7 million (\$186.5 million), its net income increased 2% to approximately £15.7 million (\$24.8 million), and its diluted earnings per share increased 2% to £0.2819 (\$0.4466). Albemarle & Bond's stock is 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 2012, our interest in Albemarle & Bond's income was \$7.5 million and we received dividends of

\$3.4 million. Based on the closing price and exchange rates on September 30, 2012, the market value of our investment in Albemarle & Bond was approximately \$65.1 million compared to its book value of \$51.8 million. Cash Converters International — At September 30, 2012, we owned approximately 33% of the total ordinary shares of Cash Converters International Limited, a publicly-traded company headquartered in Perth, Australia. We acquired the shares between November 2009 and May 2010 for approximately \$57.8 million. 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 approximately 700 specialty financial services and retail stores that provide pawn loans, short-term

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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. In the short-term, we expect Cash Converters will continue buying back franchised locations and converting them into company operated stores as well as increasing its portfolio of short-term consumer loans in Australia and the U.K.

The Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011 was passed by the Australian Parliament in August 2012. This new law, which will go into effect on July 1, 2013, imposes certain limitations and restrictions on short-term consumer loans in Australia, including interest limitations and restrictions on extensions and refinancings. These limitations and restrictions, however, are more favorable to the industry than previous proposals, and the passage of these rules should stabilize the Australian regulatory environment related to short-term consumer loans for the foreseeable future.

For its fiscal year ended June 30, 2012, Cash Converters' gross revenue improved 26% to AUS \$234.4 million (U.S. \$241.9 million), net income improved 6% to AUS \$29.4 million (U.S. \$30.4 million) and diluted earnings per share increased 6% to AUS \$0.0763 (U.S. \$0.0790). For the year, Cash Converters declared dividends of AUS \$0.0350 (U.S. \$0.0361) per share. We account for our investment in Cash Converters under the equity method. In fiscal 2012, our interest in Cash Converters' income was \$9.9 million and we recorded dividends of \$4.4 million. Based on the closing price and exchange rates on September 30, 2012, the market value of our investment in Cash Converters was approximately \$100.7 million compared to its book value of \$74.3 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 "Part I — Item 2 — Properties."

### Pawn and Retail 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 offered for sale. 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.

Some of our pawn stores in the U.S. handle firearms and each of those stores 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.

In Canada, and in Virginia and Pennsylvania in the U.S., we operate stores that buy and sell secondhand merchandise, as opposed to offering pawn loans. These stores are regulated by local municipalities or other local authorities. The applicable

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ordinances vary from location to location and include licensing for secondhand dealing or precious metal purchasing, law enforcement reporting requirements, and the imposition of holding periods before a purchased item can be offered for resale. Failure to observe these regulations could result in a revocation or suspension of licenses, the imposition of fines, and other civil or criminal penalties. Our Canadian buy/sell stores also offer short-term consumer loans.

### 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 single-payment 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' loan activities to a state-wide database, and prohibit the making of loans to customers who have loans outstanding with other lenders. Some municipalities in which we operate also impose various rules and regulations, primarily related to zoning and licensing requirements, but in some cases, related to loan terms (such as maximum loan amounts, maximum number of renewals or extensions and mandatory principal paydowns). 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 and, pursuant to state laws effective January 1, 2012, are licensed as a Credit Access Business ("CAB"). The applicable CSO 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. The 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. The law governing CABs requires us to provide conspicuous notices regarding fees and certain other disclosures and requires us to report certain information regarding customer transactions to the Office of the Consumer Credit Commissioner. Violations of these laws 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. Certain cities in Texas, specifically, Austin, Dallas and San Antonio, have enacted municipal regulation of CAB products and the payday loans and auto title loans to which they provide access.

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, enacted in July 2010, established the Consumer Financial Protection Bureau (the "CFPB"), which, with the appointment of a permanent director in January 2012, began exercising its supervisory and examination powers over companies that offer payday loans. The CFPB also may exercise regulatory authority over other products and services that we offer. Until such time as the CFPB examines our business or proposes rules and regulations that apply to our activities, it is not possible to accurately predict what affect the CFPB will have on our business.



There can be no assurance that 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 “Part I — Item 1A — Risk Factors.”

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