

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2019 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[®]

EZCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

74-2540145

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

2500 Bee Cave Road Bldg One Suite 200 Rollingwood TX

(Address of principal executive offices)

78746

(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	Trading Symbol(s)	Name of each exchange on which registered
Class A Non-voting Common Stock, par value \$.01 per share	EZPW	NASDAQ Stock Market (NASDAQ Global Select Market)

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

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

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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 July 22, 2019, 52,475,070 shares of the registrant's Class A Non-voting Common Stock ("Class A Common Stock"), par value \$.01 per share, and 2,970,171 shares of the registrant's Class B Voting Common Stock, par value \$.01 per share, were outstanding.

EZCORP, Inc.

INDEX TO FORM 10-Q

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets as of June 30, 2019 and 2018 and September 30, 2018 (Unaudited) 1

Condensed Consolidated Statements of Operations for the Three and Nine Months Ended June 30, 2019 and 2018 (Unaudited) 2

Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended June 30, 2019 and 2018 (Unaudited) 3

Condensed Consolidated Statements of Stockholders' Equity for the Periods Ended June 30, 2019 and 2018 (Unaudited) 3

Condensed Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2019 and 2018 (Unaudited) 5

Notes to Interim Condensed Consolidated Financial Statements (Unaudited) 6

Note 1: Organization and Summary of Significant Accounting Policies 6

Note 2: Acquisitions 10

Note 3: Earnings Per Share 11

Note 4: Strategic Investments 12

Note 5: Fair Value Measurements 13

Note 6: Debt 15

Note 7: Stock Compensation 18

Note 8: Contingencies 18

Note 9: Segment Information 20

Note 10: Supplemental Consolidated Financial Information and Other 24

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 24

Item 3. Quantitative and Qualitative Disclosures about Market Risk 42

Item 4. Controls and Procedures 42

PART II — OTHER INFORMATION

Item 1. Legal Proceedings 43

Item 1A. Risk Factors 44

Item 6. Exhibits 44

SIGNATURES 45

PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

EZCORP, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	June 30, 2019	June 30, 2018	September 30, 2018
(Unaudited)			
Assets:			
Current assets:			
Cash and cash equivalents	\$ 138,922	\$ 284,493	\$ 285,311
Pawn loans	190,299	183,054	198,463
Pawn service charges receivable, net	29,847	26,439	30,959
Inventory, net	175,802	151,145	166,997
Notes receivable, net	16,166	37,906	34,199
Prepaid expenses and other current assets	37,365	43,708	33,456
Total current assets	588,401	726,745	749,385
Investments in unconsolidated affiliates	30,922	61,056	49,500
Property and equipment, net	66,214	71,587	73,649
Goodwill	300,700	294,335	299,248
Intangible assets, net	63,646	59,678	54,923
Notes receivable, net	10,912	13,432	3,226
Deferred tax asset, net	3,956	6,146	7,986
Other assets	4,472	3,575	3,863
Total assets	\$ 1,069,223	\$ 1,236,554	\$ 1,241,780
Liabilities and equity:			
Current liabilities:			
Current maturities of long-term debt, net	\$ 215	\$ 195,796	\$ 190,181
Accounts payable, accrued expenses and other current liabilities	59,981	61,595	57,958
Customer layaway deposits	12,750	11,938	11,824
Total current liabilities	72,946	269,329	259,963
Long-term debt, net	235,449	222,897	226,702
Deferred tax liability, net	7,522	4,285	8,817
Other long-term liabilities	5,990	7,458	6,890
Total liabilities	321,907	503,969	502,372
Commitments and contingencies (Note 8)			
Stockholders' equity:			
Class A Non-voting Common Stock, par value \$.01 per share; shares authorized: 100 million; issued and outstanding: 52,475,070 as of June 30, 2019; 51,494,246 as of June 30, 2018; and 51,614,746 as of September 30, 2018	524	515	516
Class B Voting Common Stock, convertible, par value \$.01 per share; shares authorized: 3 million; issued and outstanding: 2,970,171	30	30	30
Additional paid-in capital	404,880	395,428	397,927
Retained earnings	389,808	388,014	386,622
Accumulated other comprehensive loss	(47,926)	(47,712)	(42,356)
EZCORP, Inc. stockholders' equity	747,316	736,275	742,739
Noncontrolling interest	—	(3,690)	(3,331)
Total equity	747,316	732,585	739,408
Total liabilities and equity	\$ 1,069,223	\$ 1,236,554	\$ 1,241,780

See accompanying notes to unaudited interim condensed consolidated financial statements.

EZCORP, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
(Unaudited)				
<i>(in thousands, except per share amounts)</i>				
Revenues:				
Merchandise sales	\$ 103,902	\$ 104,737	\$ 346,186	\$ 333,270
Jewelry scrapping sales	18,212	20,428	37,873	44,166
Pawn service charges	78,980	72,544	244,298	222,597
Other revenues	1,371	1,903	4,533	6,147
Total revenues	202,465	199,612	632,890	606,180
Merchandise cost of goods sold	70,271	66,896	225,183	210,283
Jewelry scrapping cost of goods sold	15,765	17,625	32,648	37,536
Other cost of revenues	576	349	1,467	1,273
Net revenues	115,853	114,742	373,592	357,088
Operating expenses:				
Operations	84,727	82,932	261,756	248,758
Administrative	15,053	13,268	46,795	39,688
Depreciation and amortization	7,254	6,124	21,114	18,298
Loss on sale or disposal of assets and other	24	314	3,643	453
Total operating expenses	107,058	102,638	333,308	307,197
Operating income	8,795	12,104	40,284	49,891
Interest expense	9,832	7,394	27,212	19,070
Interest income	(3,172)	(4,358)	(9,637)	(12,896)
Equity in net income of unconsolidated affiliates	(1,320)	(1,151)	(632)	(3,477)
Impairment of investment in unconsolidated affiliates	—	—	19,725	—
Other income	(4)	(5,287)	(121)	(5,473)
Income from continuing operations before income taxes	3,459	15,506	3,737	52,667
Income tax expense	98	1,502	1,377	14,710
Income from continuing operations, net of tax	3,361	14,004	2,360	37,957
(Loss) income from discontinued operations, net of tax	(203)	91	(404)	(631)
Net income	3,158	14,095	1,956	37,326
Net loss attributable to noncontrolling interest	—	(359)	(1,230)	(1,348)
Net income attributable to EZCORP, Inc.	\$ 3,158	\$ 14,454	\$ 3,186	\$ 38,674
Basic earnings per share attributable to EZCORP, Inc. — continuing operations	\$ 0.06	\$ 0.26	\$ 0.06	\$ 0.72
Diluted earnings per share attributable to EZCORP, Inc. — continuing operations	\$ 0.06	\$ 0.25	\$ 0.06	\$ 0.69
Weighted-average basic shares outstanding	55,445	54,464	55,306	54,453
Weighted-average diluted shares outstanding	55,487	57,954	55,327	57,080

See accompanying notes to unaudited interim condensed consolidated financial statements.

EZCORP, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
	(Unaudited) (in thousands)			
Net income	\$ 3,158	\$ 14,095	\$ 1,956	\$ 37,326
Other comprehensive gain (loss):				
Foreign currency translation gain (loss), net of income tax expense (benefit) for our investment in unconsolidated affiliate of \$45 and (\$470) for the three and nine months ended June 30, 2019 respectively, and (\$135) and \$76 for the three and nine months ended June 30, 2018, respectively.	2,024	(7,464)	(5,570)	(7,993)
Comprehensive income	5,182	6,631	(3,614)	29,333
Comprehensive loss attributable to noncontrolling interest	—	(358)	(1,230)	(1,241)
Comprehensive income attributable to EZCORP, Inc.	\$ 5,182	\$ 6,989	\$ (2,384)	\$ 30,574

See accompanying notes to unaudited interim condensed consolidated financial statements.

EZCORP, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interest	Total Equity
	Shares	Par Value					
	(Unaudited, except balances as of September 30, 2017) (in thousands)						
Balances as of September 30, 2017	54,398	\$ 544	\$ 348,532	\$ 347,885	\$ (38,157)	\$ (2,449)	\$ 656,355
Stock compensation	—	—	2,889	—	—	—	2,889
Release of restricted stock	66	1	—	—	—	—	1
Taxes paid related to net share settlement of equity awards	—	—	(311)	—	—	—	(311)
Foreign currency translation loss	—	—	—	—	(6,434)	(40)	(6,474)
Net income (loss)	—	—	—	12,639	—	(615)	12,024
Balances as of December 31, 2017	54,464	\$ 545	\$ 351,110	\$ 360,524	\$ (44,591)	\$ (3,104)	\$ 664,484
Stock compensation	—	—	2,588	—	—	—	2,588
Reclassification of stranded tax effects resulting from the Tax Cuts and Jobs Act	—	—	—	1,455	(1,455)	—	—
Foreign currency translation gain	—	—	—	—	5,799	146	5,945
Net income (loss)	—	—	—	11,581	—	(374)	11,207
Balances as of March 31, 2018	54,464	\$ 545	\$ 353,698	\$ 373,560	\$ (40,247)	\$ (3,332)	\$ 684,224
Stock compensation	—	—	2,673	—	—	—	2,673
Foreign currency translation (loss) gain	—	—	—	—	(7,465)	1	(7,464)
Equity portion of convertible notes	—	—	39,057	—	—	—	39,057
Net income (loss)	—	—	—	14,454	—	(359)	14,095
Balances as of June 30, 2018	54,464	\$ 545	\$ 395,428	\$ 388,014	\$ (47,712)	\$ (3,690)	\$ 732,585

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Equity
	Shares	Par Value					
(Unaudited, except balances as of September 30, 2018)							
(in thousands)							
Balances as of September 30, 2018	54,585	\$ 546	\$ 397,927	\$ 386,622	\$ (42,356)	\$ (3,331)	\$ 739,408
Stock compensation	—	—	2,247	—	—	—	2,247
Release of restricted stock	860	8	—	—	—	—	8
Taxes paid related to net share settlement of equity awards	—	—	(3,288)	—	—	—	(3,288)
Transfer of subsidiary shares to noncontrolling interest	—	—	3,195	—	—	(3,195)	—
Foreign currency translation loss	—	—	—	—	(6,383)	—	(6,383)
Net loss	—	—	—	(3,366)	—	(477)	(3,843)
Balances as of December 31, 2018	55,445	\$ 554	\$ 400,081	\$ 383,256	\$ (48,739)	\$ (7,003)	\$ 728,149
Stock compensation	—	—	2,424	—	—	—	2,424
Deconsolidation of subsidiary	—	—	—	—	—	7,756	7,756
Foreign currency translation loss	—	—	—	—	(1,211)	—	(1,211)
Net income (loss)	—	—	—	3,394	—	(753)	2,641
Balances as of March 31, 2019	55,445	\$ 554	\$ 402,505	\$ 386,650	\$ (49,950)	\$ —	\$ 739,759
Stock compensation	—	—	2,375	—	—	—	2,375
Foreign currency translation gain	—	—	—	—	2,024	—	2,024
Net income	—	—	—	3,158	—	—	3,158
Balances as of June 30, 2019	55,445	\$ 554	\$ 404,880	\$ 389,808	\$ (47,926)	\$ —	\$ 747,316

See accompanying notes to unaudited interim condensed consolidated financial statements.

EZCORP, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended June 30,	
	2019	2018
	(Unaudited) (in thousands)	
Operating activities:		
Net income	\$ 1,956	\$ 37,326
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	21,114	18,298
Amortization of debt discount and deferred financing costs	16,613	12,126
Accretion of notes receivable discount and deferred compensation fee	(3,788)	(7,222)
Deferred income taxes	5,003	3,135
Impairment of investment in unconsolidated affiliate	19,725	—
Other adjustments	1,875	1,948
Reserve on jewelry scrap receivable	3,646	—
Stock compensation expense	7,036	8,216
Income from investment in unconsolidated affiliates	(632)	(3,477)
Changes in operating assets and liabilities, net of business acquisitions:		
Service charges and fees receivable	1,301	2,609
Inventory	1,377	988
Prepaid expenses, other current assets and other assets	(4,194)	(3,356)
Accounts payable, accrued expenses and other liabilities	(1,477)	(4,624)
Customer layaway deposits	949	935
Income taxes, net of excess tax benefit from stock compensation	(5,527)	2,419
Net cash provided by operating activities	64,977	69,321
Investing activities:		
Loans made	(542,512)	(512,914)
Loans repaid	328,079	318,636
Recovery of pawn loan principal through sale of forfeited collateral	211,979	202,078
Additions to property and equipment, net	(24,568)	(33,917)
Acquisitions, net of cash acquired	(8,116)	(93,165)
Investment in unconsolidated affiliate	—	(14,036)
Principal collections on notes receivable	21,900	16,210
Net cash used in investing activities	(13,238)	(117,108)
Financing activities:		
Taxes paid related to net share settlement of equity awards	(3,288)	(311)
Proceeds from borrowings, net of issuance costs	1,064	170,496
Payments on borrowings	(195,877)	(28)
Net cash (used in) provided by financing activities	(198,101)	170,157
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(294)	(1,493)
Net (decrease) increase in cash, cash equivalents and restricted cash	(146,656)	120,877
Cash, cash equivalents and restricted cash at beginning of period	285,578	163,868
Cash, cash equivalents and restricted cash at end of period	\$ 138,922	\$ 284,745
Non-cash investing and financing activities:		
Pawn loans forfeited and transferred to inventory	\$ 221,940	\$ 197,163

See accompanying notes to unaudited interim condensed consolidated financial statements.

EZCORP, Inc.
Notes to Interim Condensed Consolidated Financial Statements (Unaudited)
June 30, 2019

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

When used in this report, the terms “we,” “us,” “our,” “EZCORP” and the “Company” mean EZCORP, Inc. and its consolidated subsidiaries, collectively.

We are a leading provider of pawn loans in the United States and Latin America. Pawn loans are non-recourse loans collateralized by tangible property. We also sell merchandise, primarily collateral forfeited from pawn lending operations and used merchandise purchased from customers, and operate a small number of financial services stores in Canada.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Our management has included all adjustments it considers necessary for a fair presentation which are of a normal, recurring nature. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes included in our [Annual Report on Form 10-K for the year ended September 30, 2018](#) and as corrected below. The balance sheet as of September 30, 2018 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

Our business is subject to seasonal variations, and operating results for the three and nine months ended June 30, 2019 and 2018 (the “current quarter” and “current year-to-date period” and “prior-year quarter” and “prior-year nine-months,” respectively) are not necessarily indicative of the results of operations for the full fiscal year.

There have been no changes in significant accounting policies as described in our [Annual Report on Form 10-K for the year ended September 30, 2018](#), other than those described below.

Use of Estimates and Assumptions

The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, inventories, loan loss allowances, long-lived and intangible assets, share-based compensation, income taxes, contingencies and litigation. We base our estimates on historical experience, observable trends and various other assumptions that we believe are reasonable under the circumstances. We use this information to make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

Corrections to Prior Period Financial Statements

During the second quarter of fiscal 2019, we identified errors in our previously reported financial statements during the ordinary course of account reviews and subsequent investigation of related accounts. None of the identified errors was material to any previously reported period. These have now been corrected in all periods presented. The errors related primarily to the overstatement of historical balances of pawn service charges receivable resulting from errors in the configuration of information technology reports. These errors resulted in an overstatement of October 1, 2017 beginning retained earnings of \$3.8 million. The impact of these corrections on the condensed consolidated financial statements is as follows (in thousands except per share amounts):

Condensed Consolidated Balance Sheets

	June 30, 2018		
	As Previously Reported	Corrections	As Corrected
Cash and cash equivalents	\$ 285,031	\$ (538)	\$ 284,493
Pawn service charges receivable, net	33,388	(6,949)	26,439
Prepaid expenses and other current assets	43,448	260	43,708
Goodwill	292,544	1,791	294,335
Deferred tax asset, net	616	1,245	1,861
Accounts payable, accrued expenses and other current liabilities	61,813	(218)	61,595
Retained earnings	392,315	(4,301)	388,014
Accumulated other comprehensive loss	(48,040)	328	(47,712)

Condensed Consolidated Statements of Operations

	Three Months Ended June 30, 2018		
	As Previously Reported	Corrections	As Corrected
Pawn service charges	\$ 72,874	\$ (330)	\$ 72,544
Operations expense	83,032	(100)	82,932
Income from continuing operations before income taxes	15,736	(230)	15,506
Income tax expense	1,553	(51)	1,502
Income from continuing operations, net of tax	14,183	(179)	14,004
Basic earnings per share attributable to EZCORP, Inc. — continuing operations	\$ 0.27	\$ (0.01)	\$ 0.26
Diluted earnings per share attributable to EZCORP, Inc. — continuing operations	\$ 0.25	\$ —	\$ 0.25

	Nine Months Ended June 30, 2018		
	As Previously Reported	Corrections	As Corrected
Pawn service charges	\$ 223,601	\$ (1,004)	\$ 222,597
Operations expense	248,802	(44)	248,758
Administrative expense	39,927	(239)	39,688
Income from continuing operations before income taxes	53,388	(721)	52,667
Income tax expense	14,911	(201)	14,710
Income from continuing operations, net of tax	38,477	(520)	37,957
Basic earnings per share attributable to EZCORP, Inc. — continuing operations	\$ 0.73	\$ (0.01)	\$ 0.72
Diluted earnings per share attributable to EZCORP, Inc. — continuing operations	\$ 0.70	\$ (0.01)	\$ 0.69

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended June 30, 2018		
	As Previously Reported	Corrections	As Corrected
Net income	\$ 37,846	\$ (520)	\$ 37,326
Service charges and fees receivable	1,601	1,008	2,609
Accounts payable, accrued expenses and other liabilities	(4,245)	(379)	(4,624)
Income taxes, net of excess tax benefit from stock compensation	2,586	(167)	2,419
Net cash provided by operating activities*	69,379	(58)	69,321
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(1,541)	48	(1,493)

* As previously reported amount includes the impact of adoption of accounting policies described below.

Recently Adopted Accounting Policies

- In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-15, Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract, which requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Accounting Standards Codification ("ASC") 350-40 to determine which implementation costs to defer and recognize as an asset. This ASU generally aligns the guidance on recognizing implementation costs incurred in a cloud computing arrangement that is a service contract with that for implementation costs incurred to develop or obtain internal-use software, including hosting arrangements that include an internal-use software license. Our hosting arrangements that are service contracts include various third-party software applications. We adopted this ASU during the first quarter of fiscal 2019 on a prospective basis for all service contracts entered into after adoption, with no material impact upon adoption.
- In November 2016, the FASB issued ASU 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. This ASU requires the inclusion of restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We adopted this ASU during the first quarter of fiscal 2019 with no impact on our financial position or results of operations. However, we have recast our statements of cash flows on a retrospective basis to include restricted cash when reconciling the beginning-of-period and end-of-period total amounts.
- In August 2016, the FASB issued ASU 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU provides guidance on eight specific cash flow issues. We adopted this ASU during the first quarter of fiscal 2019 on a prospective basis with no impact on our financial position, results of operations or cash flows.
- In May 2016, the FASB issued ASU 2016-01, Financial Instruments (Subtopic 825-10). The amendments in this ASU make targeted improvements to GAAP primarily as it pertains to equity investments (not including equity method of accounting), fair value disclosures, balance sheet presentation, and other items pertaining to financial instruments. We adopted this ASU during the first quarter of fiscal 2019 on a prospective basis, as applicable, with no impact on our financial position, results of operations or cash flows upon adoption.
- In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606) to defer the effective date to December 15, 2017 for annual reporting periods beginning after that date, with early adoption permitted, but not before the original effective date of December 15, 2016. The core principle of this ASU, and the subsequently issued ASUs modifying or clarifying this ASU, is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the guidance provides that an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. The new standard allows for two methods of adoption: (a) full retrospective adoption, meaning the standard is applied to all periods presented, or (b) modified retrospective adoption, meaning the cumulative effect of applying the new standard is recognized as an adjustment to the opening retained earnings balance.

We adopted this ASU and related guidance as of October 1, 2018 using the modified retrospective method. We evaluated the impact of ASC 606 on our consolidated financial position, results of operations, cash flows and disclosure requirements noting no material impact to our consolidated financial statements or disclosures. See Note 9 for disaggregated information about our sources of revenue. Additionally, we have concluded that ASC 606 does not impact our revenue recognition for pawn service charges or consumer loan fees as we believe neither of those revenue streams are within the scope of ASC 606.

The following is a summary of our current revenue recognition policies.

Pawn Service Charges Revenue

We record pawn service charges using the effective interest method over the life of the loan for all pawn loans we believe to be collectible. We base our estimate of collectible loans on several inputs, including recent redemption rates, historical trends in redemption rates and the amount of loans due in the following months. Unexpected variations in any of these factors could change our estimate of collectible loans, affecting our earnings and financial condition. If a pawn loan is not repaid, we value the forfeited collateral (inventory) at the lower of cost (pawn loan principal) or net realizable value of the item.

Merchandise and Related Sales Revenue

This revenue stream involves the sale of merchandise to retail customers in our pawn stores. The performance obligation is the delivery of the merchandise to the customer. Revenue and the related cost of merchandise sold is recognized at the time of sale. Customers have a limited period of time to return merchandise for a refund or exchange, and actual returns for refunds are insignificant. Sales and value added tax collected on the sale of merchandise is excluded from the amount recognized as sales and instead recorded as a liability in “Accounts payable, accrued expenses and other current liabilities” in our condensed consolidated balance sheets until remitted to the appropriate governmental authorities.

Jewelry Scrapping Sales Revenue

This revenue stream involves the sales of scrap (precious metals and stones) to refiners. The performance obligation is the legal transfer of scrap to the refiner. Revenue, and the related cost of scrap sold, is recognized when scrap inventory is provided to the refiner, which is when the customer obtains control of the promised good. The receivables outstanding at the end of a given reporting period are not material. Payment of the receivable from the customer is generally received within a short period of time after the legal transfer of the scrap materials to the refiner.

Other Revenue

Layaway fees, product protection plan revenues, and jewelry VIP package revenues are not significant.

Recently Issued Accounting Pronouncements

- In June 2016, the FASB issued ASU 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU, along with subsequently issued related ASUs, requires financial assets (or groups of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected, among other provisions. The provisions of this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A reporting entity should generally apply the amendment on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting periods in which the amendment is effective. We have not identified any impacts to our financial statements that we believe will be material as a result of the adoption of the ASU, although we continue to evaluate the impact of adoption. We believe we are following an appropriate timeline to allow for proper recognition, presentation and disclosure upon adoption of this ASU which is effective for fiscal 2021.
- In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU requires companies to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. The provisions of this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted based upon guidance issued within the ASU. We are in the process of evaluating the impact of adopting ASU 2016-02 on our consolidated financial position, results of operations and cash flows, and anticipate a material impact on our consolidated financial position. Additionally, we are evaluating the disclosure requirements under this ASU and are identifying and preparing to implement changes to our accounting policies, practices and controls to support adoption of the ASU and have completed upgrades to our third-party

software solution to support adoption. We will complete our implementation to allow for proper recognition, presentation and disclosure upon adoption of the ASU which is effective for fiscal 2020. We currently plan to adopt this ASU using the optional transition method provided under ASU 2018-11, Leases, (Topic 842): Targeted Improvement which was issued in July 2018, allowing for application of ASU 2016-02 at the adoption date.

Please refer to [Note 1 of Notes to Consolidated Financial Statements included in "Part II, Item 8 — Financial Statements and Supplementary Data" of our Annual Report on Form 10-K for the year ended September 30, 2018](#) for discussion of our significant accounting policies and other accounting pronouncements issued but not yet adopted.

NOTE 2: ACQUISITIONS

Fiscal 2019 Acquisitions

In June 2019, we acquired assets related to seven pawn stores operating under the name "Metro Pawn" in Nevada, entering the Reno market and expanding our presence in the Las Vegas metropolitan area, for an aggregate purchase price of \$7.0 million in cash, of which \$3.6 million was recorded as goodwill. In December 2018, we acquired assets related to five pawn stores in Mexico, for an aggregate purchase price of \$0.3 million in cash, of which \$0.1 million was recorded as goodwill. We have concluded that these acquisitions were immaterial to our overall consolidated financial results and, therefore, have omitted certain information that would otherwise be required.

Fiscal 2018 Acquisition of Camira Administration Corp. and Subsidiaries ("GPMX")

On October 6, 2017, we completed the acquisition of 100% of the outstanding stock of Camira Administration Corp. and subsidiaries ("GPMX"), a business that, at the time, owned and operated 112 stores located in Guatemala, El Salvador, Honduras and Peru for a total purchase price of \$61.7 million. The GPMX acquisition significantly expanded our store base into Latin American countries outside of Mexico and provides us with a platform for further growth in the region. The accompanying condensed consolidated results of operations for the current year-to-date period include the results of operations for GPMX, while the comparable prior-year period includes the results of GPMX for the period October 6, 2017 to June 30, 2018, affecting comparability of fiscal 2019 and 2018 year-to-date amounts. We have performed a valuation analysis of identifiable assets acquired and liabilities assumed and allocated the total consideration based on the fair values of those identifiable assets and liabilities.

All Other Fiscal 2018 Acquisitions

On June 25, 2018, June 11, 2018 and December 4, 2017, we acquired pawn stores operating in Mexico under the names "Montepio San Patricio," "Presta Dinero" and "Bazareño," respectively. These acquisitions significantly strengthened our competitive position in existing regions, gave us a presence in new regions and allowed us to achieve synergies in management and administration. The accompanying condensed consolidated results of operations for the current year-to-date period include the results of operations for these acquisitions, while the comparable prior-year periods only include the results of Bazareño for the period December 4, 2017 to June 30, 2018, affecting comparability of fiscal 2019 and 2018 amounts.

We have performed a valuation analysis of identifiable assets acquired and liabilities assumed and allocated the total consideration based on the fair values of those identifiable assets and liabilities for these acquisitions. During the first quarter of fiscal 2019, we finalized accounting for the Montepio San Patricio and Presta Dinero acquisitions, which were completed in fiscal 2018, and increased associated deferred tax assets by \$1.8 million with an offsetting reduction in goodwill.

NOTE 3: EARNINGS PER SHARE

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018
	<i>(in thousands, except per share amounts)</i>			
Net income from continuing operations attributable to EZCORP (A)	\$ 3,361	\$ 14,363	\$ 3,590	\$ 39,305
(Loss) income from discontinued operations, net of tax (B)	(203)	91	(404)	(631)
Net income attributable to EZCORP (C)	\$ 3,158	\$ 14,454	\$ 3,186	\$ 38,674
Weighted-average outstanding shares of common stock (D)	55,445	54,464	55,306	54,453
Dilutive effect of restricted stock and 2024 Convertible Notes*	42	3,490	21	2,627
Weighted-average common stock and common stock equivalents (E)	55,487	57,954	55,327	57,080
Basic earnings per share attributable to EZCORP:				
Continuing operations (A / D)	\$ 0.06	\$ 0.26	\$ 0.06	\$ 0.72
Discontinued operations (B / D)	—	—	—	(0.01)
Basic earnings per share (C / D)	\$ 0.06	\$ 0.26	\$ 0.06	\$ 0.71
Diluted earnings per share attributable to EZCORP:				
Continuing operations (A / E)	\$ 0.06	\$ 0.25	\$ 0.06	\$ 0.69
Discontinued operations (B / E)	—	—	—	(0.01)
Diluted earnings per share (C / E)	\$ 0.06	\$ 0.25	\$ 0.06	\$ 0.68
Potential common shares excluded from the calculation of diluted earnings per share above*:				
Restricted stock**	2,891	3,569	2,804	3,375

* See Note 6 for discussion of the terms and conditions of the potential impact of the 2019 Convertible Notes Warrants, 2024 Convertible Notes and 2025 Convertible Notes.

** Includes antidilutive share-based awards as well as performance-based and market conditioned share-based awards that are contingently issuable, but for which the condition for issuance has not been met as of the end of the reporting period.

NOTE 4: STRATEGIC INVESTMENTS

As of June 30, 2019, we owned 214,183,714 shares, or approximately 34.75%, of Cash Converters International Limited ("Cash Converters International"). The following tables present summary financial information for Cash Converters International's most recently reported results after translation to U.S. dollars:

	December 31,	
	2018	2017
	<i>(in thousands)</i>	
Current assets	\$ 172,836	\$ 203,664
Non-current assets	151,492	151,189
Total assets	\$ 324,328	\$ 354,853
Current liabilities	\$ 81,165	\$ 128,731
Non-current liabilities	22,109	14,559
Shareholders' equity	221,054	211,563
Total liabilities and shareholders' equity	\$ 324,328	\$ 354,853
	Half-Year Ended December 31,	
	2018	2017
	<i>(in thousands)</i>	
Gross revenues	\$ 99,390	\$ 95,784
Gross profit	56,884	63,212
Net (loss) profit	(3,791)	7,292

Through the first three quarters of fiscal 2019, the fair value of our investment in Cash Converters International, as estimated by reference to its quoted market price per share and the applicable foreign currency exchange rate, declined from its value at September 30, 2018 and ended each quarter below its carrying value. As of March 31, 2019 and December 31, 2018, we determined that our investment was impaired and that such impairment was "other-than-temporary." In reaching this conclusion, we considered all available evidence, including evidence in existence as of September 30, 2018 as discussed in [Note 4 of Notes to Consolidated Financial Statements included in "Part II, Item 8 — Financial Statements and Supplementary Data" of our Annual Report on Form 10-K for the year ended September 30, 2018](#). Additionally, we noted the following developments subsequent to September 30, 2018: (i) continued decline in Cash Converters International's share price; and (ii) ongoing uncertainty around the remaining Queensland, Australia class action lawsuit. As a result, we recognized "other-than-temporary" impairments in Cash Converters International of \$13.3 million (\$10.3 million, net of taxes) and \$6.5 million (\$5.0 million, net of taxes) during the first and second quarters of fiscal 2019, respectively. As of June 30, 2019, we determined that our investment was impaired by \$3.8 million and that such impairment was not "other-than-temporary." In reaching this conclusion, we considered all available evidence including primarily the time and extent to which our investment was impaired during the current quarter. Should the value of our investment continue to decline further, we may record additional impairments.

The above impairments increased the difference between the amount at which our investment was carried and the amount of underlying equity in net assets of Cash Converters International and was recorded in "Impairment of investment in unconsolidated affiliate" in our condensed consolidated statements of operations in the "Other International" segment. We will continue to monitor the fair value of our investment in Cash Converters International for "other-than-temporary" impairments in future reporting periods and may record additional impairment charges should the fair value of our investment in Cash Converters International further decline below its carrying value for an extended period of time. See Note 5 for the fair value and carrying value of our investment in Cash Converters International.

NOTE 5: FAIR VALUE MEASUREMENTS

Our assets and liabilities discussed below are classified in one of the following three categories based on the inputs used to develop their fair values: Level 1 — Quoted market prices in active markets for identical assets or liabilities; Level 2 — Other observable market-based inputs or unobservable inputs that are corroborated by market data; and Level 3 — Unobservable inputs that are not corroborated by market data.

Recurring Fair Value Measurements

The tables below present our financial assets (liabilities) that were carried and measured at fair value on a recurring basis:

Financial Assets (Liabilities)	Balance Sheet Location	June 30, 2019	June 30, 2018	September 30, 2018
			<i>(in thousands)</i>	
2019 Convertible Notes Hedges — Level 2	Prepaid expenses and other current assets	\$ —	\$ 7,491	\$ 2,552
2019 Convertible Notes Embedded Derivative — Level 2	Current maturities of long-term debt, net	—	(7,491)	(2,552)

We repaid our outstanding 2.125% Cash Convertible Senior Notes Due 2019 in June 2019 with expiration of the associated cash-settled call options (the “2019 Convertible Notes Hedges”) and the 2019 Convertible Notes derivative instrument (the “2019 Convertible Notes Embedded Derivative”).

There were no transfers in or out of Level 1, Level 2 or Level 3 for financial assets or liabilities measured at fair value on a recurring basis during the periods presented.

Financial Assets and Liabilities Not Measured at Fair Value

The tables below present our financial assets and liabilities that were not measured at fair value on a recurring basis:

	Carrying Value		Estimated Fair Value		
	June 30, 2019	June 30, 2019	Fair Value Measurement Using		
			Level 1	Level 2	Level 3
			<i>(in thousands)</i>		
Financial assets:					
Notes receivable from Grupo Finmart, net	\$ 18,744	\$ 19,517	\$ —	\$ —	\$ 19,517
Zero-coupon convertible promissory note due January 2021	7,226	7,226	—	—	7,226
2.89% promissory note receivable due April 2024	1,108	1,108	—	—	1,108
Investments in unconsolidated affiliates	30,922	27,158	24,464	—	2,694
Financial liabilities:					
2024 Convertible Notes	\$ 109,909	\$ 161,719	\$ —	\$ 161,719	\$ —
2025 Convertible Notes	124,542	159,873	—	159,873	—
8.5% unsecured debt due 2024	1,148	1,148	—	—	1,148
CASHMAX secured borrowing facility	65	804	—	—	804

	Carrying Value		Estimated Fair Value		
	June 30, 2018	June 30, 2018	Fair Value Measurement Using		
			Level 1	Level 2	Level 3
<i>(in thousands)</i>					
Financial assets:					
Notes receivable from Grupo Finmart, net	\$ 51,338	\$ 57,116	\$ —	\$ —	\$ 57,116
Investments in unconsolidated affiliates	61,056	49,205	49,205	—	—
Financial liabilities:					
2019 Convertible Notes	\$ 184,823	\$ 197,925	\$ —	\$ 197,925	\$ —
2024 Convertible Notes	104,562	195,974	—	195,974	—
2025 Convertible Notes	118,335	168,464	—	168,464	—

	Carrying Value		Estimated Fair Value		
	September 30, 2018	September 30, 2018	Fair Value Measurement Using		
			Level 1	Level 2	Level 3
<i>(in thousands)</i>					
Financial assets:					
Notes receivable from Grupo Finmart, net	\$ 37,425	\$ 41,153	\$ —	\$ —	\$ 41,153
Investments in unconsolidated affiliates	49,500	49,500	49,500	—	—
Financial liabilities:					
2019 Convertible Notes	\$ 187,433	\$ 189,150	\$ —	\$ 189,150	\$ —
2024 Convertible Notes	105,858	180,399	—	180,399	—
2025 Convertible Notes	119,736	161,253	—	161,253	—
8.5% unsecured debt due 2024	1,304	1,304	—	—	1,304

Based primarily on the short-term nature of cash and cash equivalents, pawn loans, pawn service charges receivable, current consumer loans, fees and interest receivable and other debt, we estimate that their carrying value approximates fair value. We consider our cash and cash equivalents to be measured using Level 1 inputs and our pawn loans, pawn service charges receivable, consumer loans, fees and interest receivable and other debt to be measured using Level 3 inputs. Significant increases or decreases in the underlying assumptions used to value pawn loans, pawn service charges receivable, consumer loans, fees and interest receivable and other debt could significantly increase or decrease these fair value estimates.

In March 2019, we deconsolidated a previously consolidated variable interest entity ("RDC") over which we no longer have the power to direct the activities that most significantly affect its economic performance. After the deconsolidation, we continue to hold the following interests in RDC:

- A 5% equity interest and a call option to repurchase an additional 43% equity interest for \$1 in September 2019 in the event that RDC has not received a qualified third party investment. These interests were recorded at a combined fair value of \$2.8 million and included in "Investment in unconsolidated affiliates" in our condensed consolidated balance sheets.
- A \$9.1 million non-interest bearing convertible promissory note due January 2021, which is automatically convertible into a 10% equity interest when RDC has received a qualified third party investment. This note was recorded at its fair value of \$6.8 million in "Notes receivable, net" in our condensed consolidated balance sheets and will accrete to par value through maturity unless converted.

In conjunction with the deconsolidation and recording of the above amounts, we recognized a loss of \$0.3 million, included in "Other income" in our condensed consolidated statements of operations included in our "Other International" segment and in "Other adjustments" in our condensed consolidated statements of cash flows for the current year-to-date period. The retained equity interest, call option and convertible promissory note are valued using weighted discounted cash flow and market approaches using Level 3 inputs. Significant increases or decreases in the underlying assumptions used to value these interests could significantly increase or decrease the fair value estimate.

In March 2019, we received \$1.1 million in previously escrowed seller funds as a result of settling certain indemnification claims with the seller of GPMX. In April 2019, we loaned the \$1.1 million back to the seller of GPMX in exchange for a promissory note. The note bears interest at the rate of 2.89% per annum and is secured by certain marketable securities owned by the seller and held in a U.S. brokerage account. All principal and accrued interest is due and payable in April 2024.

Subsequent to the sale of Prestaciones Finmart, S.A.P.I. de C.V., SOFOM, E.N.R. ("Grupo Finmart") to Alpha Holding, S.A. de C.V. ("AlphaCredit") in September 2016, we determined that we retained a variable interest in Grupo Finmart including notes receivable. We determined that we are not the primary beneficiary of Grupo Finmart subsequent to its disposition as we lack a controlling financial interest in Grupo Finmart. We measured the fair value of the notes receivable as of June 30, 2019 under a discounted cash flow approach considering the estimated credit ratings for Grupo Finmart and AlphaCredit and as determined with external consultation, with discount rates of primarily 7%. Certain of the significant inputs used for the valuation were not observable in the market. Included in the fair value of the notes receivable is the estimated fair value of the deferred compensation fee negotiated in September 2017. Significant increases or decreases in the underlying assumptions used to value the notes receivable could significantly increase or decrease these fair value estimates.

The inputs used to measure the fair value of the investment in unconsolidated affiliate Cash Converters International were considered Level 1 inputs. These inputs are comprised of (a) the quoted stock price on the Australian Stock Exchange multiplied by (b) the number of shares we owned multiplied by (c) the applicable foreign currency exchange rate as of the end of our reporting period. We included no control premium for owning a large percentage of outstanding shares.

We measured the fair value of the 2024 and 2025 Convertible Notes using quoted price inputs. The notes are not actively traded, and thus the price inputs represent a Level 2 measurement. As the quoted price inputs are highly variable from day to day, the fair value estimates disclosed above could significantly increase or decrease.

NOTE 6: DEBT

The following tables present our debt instruments outstanding as well as future principal payments due, contractual maturities and interest expense:

	June 30, 2019			June 30, 2018			September 30, 2018		
	Gross Amount	Debt Discount and Issuance Costs	Carrying Amount	Gross Amount	Debt Discount and Issuance Costs	Carrying Amount	Gross Amount	Debt Discount and Issuance Costs	Carrying Amount
<i>(in thousands)</i>									
2019 Convertible Notes	\$ —	\$ —	\$ —	\$ 195,000	\$ (10,177)	\$ 184,823	\$ 195,000	\$ (7,567)	\$ 187,433
2019 Convertible Notes Embedded Derivative	—	—	—	7,491	—	7,491	2,552	—	2,552
2024 Convertible Notes	143,750	(33,841)	109,909	143,750	(39,188)	104,562	143,750	(37,892)	105,858
2025 Convertible Notes	172,500	(47,958)	124,542	172,500	(54,165)	118,335	172,500	(52,764)	119,736
8.5% unsecured debt due 2024*	1,148	—	1,148	—	—	—	1,304	—	1,304
Other debt	—	—	—	3,482	—	3,482	—	—	—
CASHMAX secured borrowing facility*	804	(739)	65	—	—	—	—	—	—
Total	\$ 318,202	\$ (82,538)	\$ 235,664	\$ 522,223	\$ (103,530)	\$ 418,693	\$ 515,106	\$ (98,223)	\$ 416,883
Less current portion	215	—	215	205,973	(10,177)	195,796	197,748	(7,567)	190,181
Total long-term debt	\$ 317,987	\$ (82,538)	\$ 235,449	\$ 316,250	\$ (93,353)	\$ 222,897	\$ 317,358	\$ (90,656)	\$ 226,702

* Amount translated from Guatemalan quetzals and Canadian dollars as of applicable period end. Certain disclosures omitted due to materiality considerations.

and other triggers are measured on a quarter-by-quarter basis and were not met as of June 30, 2019. As of June 30, 2019, the if-converted value of the 2025 Convertible Notes did not exceed the principal amount.

2.875% Convertible Senior Notes Due 2024

In July 2017, we issued \$143.75 million aggregate principal amount of 2.875% Convertible Senior Notes Due 2024 (the "2024 Convertible Notes"). The 2024 Convertible Notes were issued pursuant to an indenture dated July 5, 2017 (the "2017 Indenture") by and between us and Wells Fargo Bank, National Association, as the trustee. The 2024 Convertible Notes were issued in a private offering under Rule 144A under the Securities Act of 1933. The 2024 Convertible Notes pay interest semi-annually in arrears at a rate of 2.875% per annum on January 1 and July 1 of each year, commencing January 1, 2018, and mature on July 1, 2024 (the "2024 Maturity Date"), unless converted, redeemed or repurchased in accordance with their terms prior to such date. The carrying amount of the 2024 Convertible Notes as a separate equity-classified instrument (the "2024 Convertible Notes Embedded Derivative") included in "Additional paid-in capital" in our condensed consolidated balance sheets of June 30, 2019 was \$25.3 million. The effective interest rate for the three and nine months ended June 30, 2019 was approximately 9%. As of June 30, 2019, the remaining unamortized debt discount and issuance costs will be amortized through the 2024 Maturity Date assuming no early conversion.

The 2024 Convertible Notes are convertible into cash or shares of Class A Common Stock, or any combination thereof, at our option subject to satisfaction of certain conditions and during the periods described in the 2017 Indenture, based on an initial conversion rate of 100 shares of Class A Common Stock per \$1,000 principal amount of 2024 Convertible Notes (equivalent to an initial conversion price of \$10.00 per share of our Class A Common Stock). We account for the Class A Common Stock issuable upon conversion under the treasury stock method. To the extent our average share price is over \$10.00 per share for any fiscal quarter, we are required to recognize incremental dilution of our earnings per share.

If, among other triggers described in the 2017 Indenture, the market price of our Class A Common Stock meets the threshold based on at least 20 of the final 30 trading days of the quarter for the 2024 Convertible Notes to become convertible at the option of the holders during the subsequent quarter, we may be required to classify the 2024 Convertible Notes as current on our condensed consolidated balance sheets for each quarter in which such triggers are met. The stock trading price condition and other triggers are measured on a quarter-by-quarter basis and were not met as of June 30, 2019. As of June 30, 2019, the if-converted value of the 2024 Convertible Notes did not exceed the principal amount.

2.125% Cash Convertible Senior Notes Due 2019

In June 2014, we issued \$200 million aggregate principal amount of 2.125% Cash Convertible Senior Notes Due 2019 (the "2019 Convertible Notes"), with an additional \$30 million principal amount of 2019 Convertible Notes issued in July 2014. In July 2017, we used \$34.4 million of net proceeds from the 2024 Convertible Notes offering to repurchase and retire \$35.0 million aggregate principal amount of 2019 Convertible Notes. The 2019 Convertible Notes were issued pursuant to an indenture dated June 23, 2014 (the "2014 Indenture") by and between us and Wells Fargo Bank, National Association, as the trustee. The 2019 Convertible Notes were issued in a private offering and resold under Rule 144A under the Securities Act of 1933. The 2019 Convertible Notes paid interest semi-annually in arrears at a rate of 2.125% per annum on June 15 and December 15 of each year. The 2019 Convertible Notes matured on June 15, 2019 (the "2019 Maturity Date"), and the remaining \$195.0 million aggregate principal amount outstanding plus accrued interest was repaid using cash on hand. The effective interest rate for the three and nine months ended June 30, 2019 was approximately 8%. The cash-settled call options (the "2019 Convertible Notes Hedges") purchased in conjunction with the issuance of the 2019 Convertible Notes expired worthless.

2019 Convertible Notes Warrants

In connection with the issuance of the 2019 Convertible Notes, we also sold net-share-settled warrants (the "2019 Convertible Notes Warrants"). The 2019 Convertible Notes Warrants allow for the purchase of up to approximately 12.1 million shares of our Class A Common Stock at a strike price of \$20.83 per share. We account for the Class A Common Stock issuable upon exercise under the treasury stock method. As a result of the 2019 Convertible Notes Warrants, we are required to recognize incremental dilution of our earnings per share to the extent our average share price is over \$20.83 for any fiscal quarter. The 2019 Convertible Notes Warrants expire on various dates from September 2019 through February 2020 and must be settled in net shares of our Class A Common Stock.

CASHMAX Secured Borrowing Facility

In November 2018, we entered into a receivables securitization facility with a third-party lender (the "lender") to provide funding for installment loan originations in our Canadian CASHMAX business. Under the facility, an unconsolidated variable interest entity (the "trust") has the right, subject to various conditions, to borrow up to CAD \$25 million from the lender (the "third-party loan") and use the proceeds to purchase interests in installment loan receivables generated by CASHMAX. The trust uses collections on the transferred receivables to pay various amounts in accordance with an agreed priority arrangement, including expenses, its obligations under the third-party loan and, to the extent available, amounts owned to CASHMAX with respect to the purchase price of the transferred receivables and CASHMAX's retained interest in the receivables. CASHMAX has no obligation with respect to the third-party loan or the transferred receivables except to (a) service the underlying installment loans on behalf of the trust and (b) pay amounts owing under or repurchase the underlying installment loans in the event of a breach by CASHMAX or in certain other limited circumstances. The facility is generally nonrecourse to EZCORP, allows borrowing through November 2019, and fully matures in November 2021. The amount outstanding under the facility as of June 30, 2019 was \$0.8 million.

NOTE 7: STOCK COMPENSATION

On May 1, 2010 our Board of Directors approved the adoption of the EZCORP, Inc. 2010 Long-Term Incentive Plan (the "2010 Plan"). As of September 30, 2018, the 2010 Plan permitted grants of options, restricted stock awards and stock appreciation rights covering up to 5,085,649 shares of our Class A Common Stock. In November 2018, the Board of Directors and the voting stockholder approved the addition of 400,000 shares to the 2010 Plan.

In the current quarter, we granted our seven new non-employee directors a total of 60,088 restricted stock awards with a grant date fair value of primarily \$10.64 per share. In November 2018, we granted 59,812 restricted stock awards to non-employee directors with a grant date fair value of \$9.18 per share. The awards granted to non-employee directors vest on September 30, 2019 and are subject only to service conditions.

In November 2018, we granted 971,615 restricted stock unit awards to employees with a grant date fair value of primarily \$9.18 per share. The awards granted to employees vest on September 30, 2021, subject to the achievement of certain adjusted net income and adjusted diluted earnings per share performance targets. As of June 30, 2019, we considered the achievement of these performance targets probable.

The number of long-term incentive award shares and units granted are generally determined based on our share price as of October 1 each year, which was \$10.51 for these fiscal 2019 awards.

NOTE 8: CONTINGENCIES

Currently and from time to time, we are involved in various claims, suits, investigations and legal proceedings, including the lawsuit described below. While we are unable to determine the ultimate outcome of any current litigation or regulatory actions (except as noted below), we believe their resolution will not have a material adverse effect on our financial condition, results of operations or liquidity.

Federal Securities Litigation — In July 2015 and August 2015, two substantially identical lawsuits were filed in the United States District Court for the Western District of Texas. Those lawsuits were subsequently consolidated into a single action under the caption *In re EZCORP, Inc. Securities Litigation* (Master File No. 1:15-cv-00608-SS). The original complaint related to the Company's announcement on July 17, 2015 that it will restate its financial statements for fiscal 2014 and the first quarter of fiscal 2015, and alleged generally that the Company issued materially false or misleading statements concerning the Company, its finances, business operations and prospects and that the Company misrepresented the financial performance of the Grupo Finmart business.

In January 2016, the plaintiffs filed an Amended Class Action Complaint (the "Amended Complaint"), which asserted that the Company and Mark E. Kuchenrither, our former Chief Financial Officer, violated Section 10(b) of the Securities Exchange Act and Rule 10b-5, issued materially false or misleading statements concerning the Company and its internal controls, specifically regarding the financial performance of Grupo Finmart. The plaintiffs also allege that Mr. Kuchenrither, as a controlling person of the Company, violated Section 20(a) of the Securities Exchange Act.

In October 2016, the Court granted the defendants' motion to dismiss and dismissed the Amended Complaint without prejudice. In November 2016, the plaintiffs filed a Second Amended Consolidated Class Action Complaint ("Second Amended Complaint"), raising the same claims previously dismissed by the Court, but reducing the class period (November 7, 2013 to October 20, 2015 instead of November 6, 2012 to October 20, 2015). In May 2017, the Court granted the defendants' motion to dismiss with regard to claims related to accounting errors relating to Grupo Finmart's bad debt reserve calculations for

“nonperforming” loans, but denied the motion to dismiss with regard to claims relating to accounting errors related to certain sales of loan portfolios to third parties.

Following discovery on the surviving claims, the plaintiff filed a Motion for Leave to File a Third Amended Complaint, seeking to revive the “nonperforming” loan claims that the Court previously dismissed, and on July 26, 2018, the Court granted the plaintiff’s motion for leave to amend, thus accepting the Third Amended Consolidated Class Action Complaint. The Court issued an order certifying the class and approving the class representative and class counsel in February 2019, and we appealed that order to the U.S. Fifth Circuit Court of Appeals, which appeal was granted in March 2019.

On May 30, 2019, the parties agreed to a mediated settlement of all remaining claims and entered into a Memorandum of Understanding regarding that settlement. The proposed settlement provides for the payment of \$4.875 million by the defendants (which will be covered by applicable directors’ and officers’ liability insurance). The accrued settlement and offsetting insurance receivable are included in “Accounts payable, accrued expenses and other current liabilities” and “Prepaid expenses and other current assets” in our condensed consolidated balance sheets as of June 30, 2019. On July 18, 2019, the parties entered into a Stipulation and Agreement of Settlement reflecting the terms of the agreed settlement and the lead plaintiff filed an unopposed motion requesting the Court to preliminarily approve the proposed settlement and set a settlement fairness hearing. The parties are awaiting the Court’s action on that motion. The proposed settlement remains subject to several conditions, including Court approval.

NOTE 9: SEGMENT INFORMATION

We currently report our segments as follows: U.S. Pawn — all pawn activities in the United States; Latin America Pawn — all pawn activities in Mexico and other parts of Latin America; and Other International — primarily our equity interest in the net income of Cash Converters International and consumer finance activities in Canada. There are no inter-segment revenues, and the amounts below were determined in accordance with the same accounting principles used in our condensed consolidated financial statements.

	Three Months Ended June 30, 2019					
	U.S. Pawn	Latin America Pawn	Other International	Total Segments	Corporate Items	Consolidated
	<i>(in thousands)</i>					
Revenues:						
Merchandise sales	\$ 83,904	\$ 19,998	\$ —	\$ 103,902	\$ —	\$ 103,902
Jewelry scrapping sales	13,889	4,323	—	18,212	—	18,212
Pawn service charges	58,635	20,345	—	78,980	—	78,980
Other revenues	34	67	1,270	1,371	—	1,371
Total revenues	156,462	44,733	1,270	202,465	—	202,465
Merchandise cost of goods sold	52,855	17,416	—	70,271	—	70,271
Jewelry scrapping cost of goods sold	11,599	4,166	—	15,765	—	15,765
Other cost of revenues	—	—	576	576	—	576
Net revenues	92,008	23,151	694	115,853	—	115,853
Segment and corporate expenses (income):						
Operations	65,449	18,284	994	84,727	—	84,727
Administrative	—	—	—	—	15,053	15,053
Depreciation and amortization	2,934	1,626	72	4,632	2,622	7,254
Loss (gain) on sale or disposal of assets and other	4	(8)	6	2	22	24
Interest expense	—	1,491	76	1,567	8,265	9,832
Interest income	—	(376)	—	(376)	(2,796)	(3,172)
Equity in net income of unconsolidated affiliates	—	—	(1,320)	(1,320)	—	(1,320)
Other (income) expense	—	34	6	40	(44)	(4)
Segment contribution	<u>\$ 23,621</u>	<u>\$ 2,100</u>	<u>\$ 860</u>	<u>\$ 26,581</u>		
Income from continuing operations before income taxes				<u>\$ 26,581</u>	<u>\$ (23,122)</u>	<u>\$ 3,459</u>

Three Months Ended June 30, 2018

	U.S. Pawn	Latin America Pawn	Other International	Total Segments	Corporate Items	Consolidated
<i>(in thousands)</i>						
Revenues:						
Merchandise sales	\$ 83,898	\$ 20,839	\$ —	\$ 104,737	\$ —	\$ 104,737
Jewelry scrapping sales	17,813	2,615	—	20,428	—	20,428
Pawn service charges	55,536	17,008	—	72,544	—	72,544
Other revenues	55	245	1,603	1,903	—	1,903
Total revenues	157,302	40,707	1,603	199,612	—	199,612
Merchandise cost of goods sold	52,340	14,556	—	66,896	—	66,896
Jewelry scrapping cost of goods sold	15,329	2,296	—	17,625	—	17,625
Other cost of revenues	—	—	349	349	—	349
Net revenues	89,633	23,855	1,254	114,742	—	114,742
Segment and corporate expenses (income):						
Operations	65,257	14,997	2,678	82,932	—	82,932
Administrative	—	—	—	—	13,268	13,268
Depreciation and amortization	3,010	951	48	4,009	2,115	6,124
Loss on sale or disposal of assets and other	74	26	—	100	214	314
Interest expense	—	3	—	3	7,391	7,394
Interest income	—	(672)	—	(672)	(3,686)	(4,358)
Equity in net income of unconsolidated affiliates	—	—	(1,151)	(1,151)	—	(1,151)
Other income	—	(103)	—	(103)	(5,184)	(5,287)
Segment contribution (loss)	\$ 21,292	\$ 8,653	\$ (321)	\$ 29,624		
Income from continuing operations before income taxes				\$ 29,624	\$ (14,118)	\$ 15,506

	Nine Months Ended June 30, 2019					
	U.S. Pawn	Latin America Pawn	Other International	Total Segments	Corporate Items	Consolidated
	<i>(in thousands)</i>					
Revenues:						
Merchandise sales	\$ 275,639	\$ 70,547	\$ —	\$ 346,186	\$ —	\$ 346,186
Jewelry scrapping sales	28,357	9,516	—	37,873	—	37,873
Pawn service charges	184,658	59,640	—	244,298	—	244,298
Other revenues	125	134	4,274	4,533	—	4,533
Total revenues	488,779	139,837	4,274	632,890	—	632,890
Merchandise cost of goods sold	172,931	52,252	—	225,183	—	225,183
Jewelry scrapping cost of goods sold	23,680	8,968	—	32,648	—	32,648
Other cost of revenues	—	—	1,467	1,467	—	1,467
Net revenues	292,168	78,617	2,807	373,592	—	373,592
Segment and corporate expenses (income):						
Operations	200,884	54,703	6,169	261,756	—	261,756
Administrative	—	—	—	—	46,795	46,795
Depreciation and amortization	8,951	4,543	190	13,684	7,430	21,114
Loss on sale or disposal of assets and other	2,856	743	22	3,621	22	3,643
Interest expense	—	1,570	280	1,850	25,362	27,212
Interest income	—	(1,226)	—	(1,226)	(8,411)	(9,637)
Equity in net income of unconsolidated affiliates	—	—	(632)	(632)	—	(632)
Impairment of investment in unconsolidated affiliates	—	—	19,725	19,725	—	19,725
Other (income) expense	—	(63)	290	227	(348)	(121)
Segment contribution (loss)	\$ 79,477	\$ 18,347	\$ (23,237)	\$ 74,587		
Income from continuing operations before income taxes				\$ 74,587	\$ (70,850)	\$ 3,737

Nine Months Ended June 30, 2018

	U.S. Pawn	Latin America Pawn	Other International	Total Segments	Corporate Items	Consolidated
<i>(in thousands)</i>						
Revenues:						
Merchandise sales	\$ 270,145	\$ 63,125	\$ —	\$ 333,270	\$ —	\$ 333,270
Jewelry scrapping sales	34,515	9,651	—	44,166	—	44,166
Pawn service charges	174,180	48,417	—	222,597	—	222,597
Other revenues	205	588	5,354	6,147	—	6,147
Total revenues	479,045	121,781	5,354	606,180	—	606,180
Merchandise cost of goods sold	166,965	43,318	—	210,283	—	210,283
Jewelry scrapping cost of goods sold	28,683	8,853	—	37,536	—	37,536
Other cost of revenues	—	—	1,273	1,273	—	1,273
Net revenues	283,397	69,610	4,081	357,088	—	357,088
Segment and corporate expenses (income):						
Operations	196,635	44,847	7,276	248,758	—	248,758
Administrative	—	—	—	—	39,688	39,688
Depreciation and amortization	9,340	2,712	142	12,194	6,104	18,298
Loss on sale or disposal of assets and other	197	31	—	228	225	453
Interest expense	—	6	—	6	19,064	19,070
Interest income	—	(2,072)	—	(2,072)	(10,824)	(12,896)
Equity in net income of unconsolidated affiliates	—	—	(3,477)	(3,477)	—	(3,477)
Other (income) expense	(3)	11	(118)	(110)	(5,363)	(5,473)
Segment contribution	\$ 77,228	\$ 24,075	\$ 258	\$ 101,561		
Income from continuing operations before income taxes				\$ 101,561	\$ (48,894)	\$ 52,667

NOTE 10: SUPPLEMENTAL CONSOLIDATED FINANCIAL INFORMATION AND OTHER
Supplemental Consolidated Financial Information

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

	June 30, 2019	June 30, 2018	September 30, 2018
	<i>(in thousands)</i>		
Gross pawn service charges receivable	\$ 39,443	\$ 36,079	\$ 40,719
Allowance for uncollectible pawn service charges receivable	(9,596)	(9,640)	(9,760)
Pawn service charges receivable, net	<u>\$ 29,847</u>	<u>\$ 26,439</u>	<u>\$ 30,959</u>
Gross inventory	\$ 184,886	\$ 160,159	\$ 176,198
Inventory reserves	(9,084)	(9,014)	(9,201)
Inventory, net	<u>\$ 175,802</u>	<u>\$ 151,145</u>	<u>\$ 166,997</u>
Prepaid expenses and other	\$ 13,189	\$ 10,836	\$ 9,705
Accounts receivable and other	20,335	25,129	18,901
Income taxes receivable	3,841	—	2,031
Restricted cash	—	252	267
2019 Convertible Notes Hedges	—	7,491	2,552
Prepaid expenses and other current assets	<u>\$ 37,365</u>	<u>\$ 43,708</u>	<u>\$ 33,456</u>
Property and equipment, gross	\$ 260,216	\$ 248,880	\$ 253,022
Accumulated depreciation	(194,002)	(177,293)	(179,373)
Property and equipment, net	<u>\$ 66,214</u>	<u>\$ 71,587</u>	<u>\$ 73,649</u>
Accounts payable	\$ 18,329	\$ 12,381	\$ 10,500
Accrued expenses and other	41,652	49,214	47,458
Accounts payable, accrued expenses and other current liabilities	<u>\$ 59,981</u>	<u>\$ 61,595</u>	<u>\$ 57,958</u>

Jewelry Scrap Receivable

In November 2018, our principal refiner that processed our scrap jewelry announced Chapter 11 bankruptcy restructuring proceedings in the U.S. As of June 30, 2019, we had a reserve against receivables from this refiner of \$3.6 million which is included in "Loss on sale or disposal of assets and other" and "Reserve on jewelry scrap receivable" in our condensed consolidated statements of operations and cash flows, respectively for the current year-to-date period. We continue to monitor the bankruptcy process and may record recoveries of such reserved amounts in a future period as we gather more information.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion in this section contains forward-looking statements that are based on our current expectations. Actual results could differ materially from those expressed or implied by the forward-looking statements due to a number of risks, uncertainties and other factors, including those identified in ["Part I, Item 1A — Risk Factors" of our Annual Report on Form 10-K for the year ended September 30, 2018](#), as supplemented by the information set forth in "Part I, Item 3 — Quantitative and Qualitative Disclosures about Market Risk" and "Part II, Item 1A — Risk Factors" of this Quarterly Report.

Overview and Financial Highlights

EZCORP is a Delaware corporation headquartered in Austin, Texas. We are a leading provider of pawn loans in the United States and Latin America.

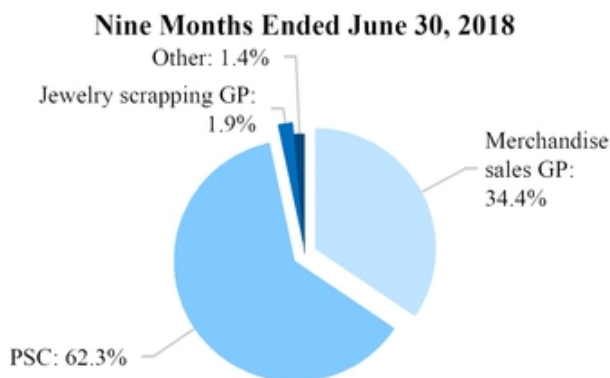
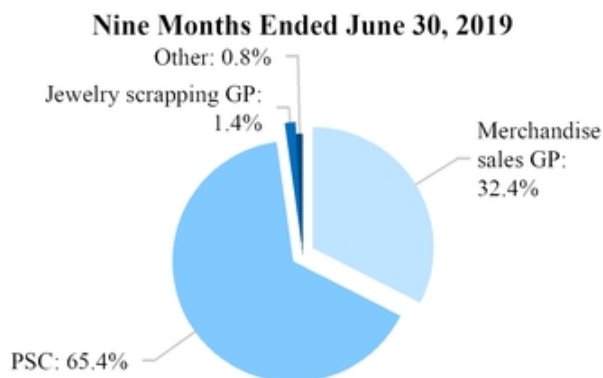
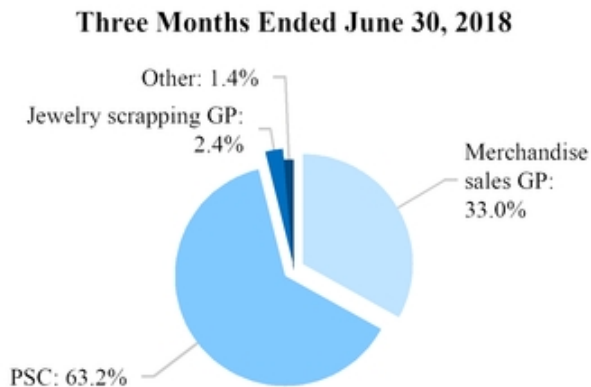
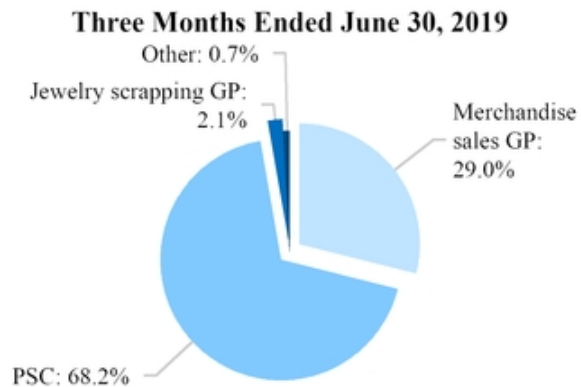
Our vision is to be the market leader in North America in responsibly and respectfully meeting our customers' desire for access to cash when they want it. That vision is supported by four key imperatives:

- Market Leading Customer Satisfaction;
- Exceptional Staff Engagement;

- Most Efficient Provider of Cash; and
- Attractive Shareholder Returns.

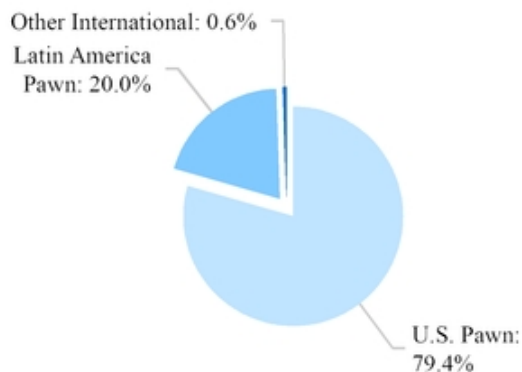
At our pawn stores, we offer pawn loans, which are nonrecourse loans collateralized by tangible personal property, and sell merchandise to customers looking for good value. The merchandise we sell consists of second-hand collateral forfeited from our pawn lending activities or purchased from customers.

We remain focused on growing our balance of pawn loans outstanding (“PLO”) and the resulting higher pawn service charges (“PSC”). The following charts present sources of net revenues, including PSC, merchandise sales gross profit (“Merchandise sales GP”) and jewelry scrapping gross profit (“Jewelry scrapping GP”):

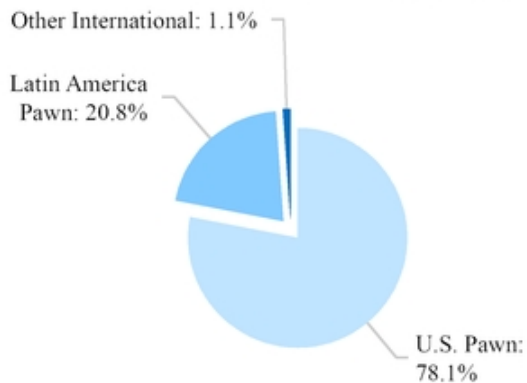


The following charts present sources of net revenues by geographic disbursement:

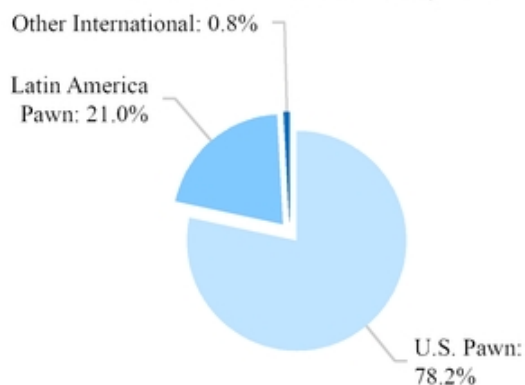
Three Months Ended June 30, 2019



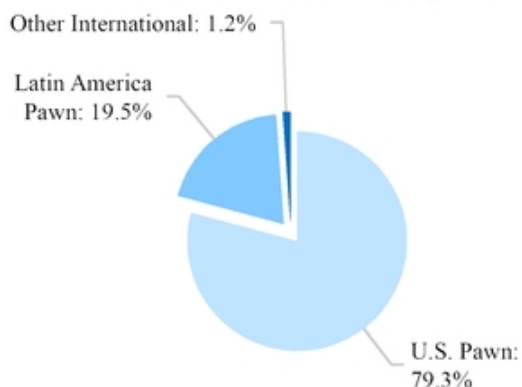
Three Months Ended June 30, 2018



Nine Months Ended June 30, 2019

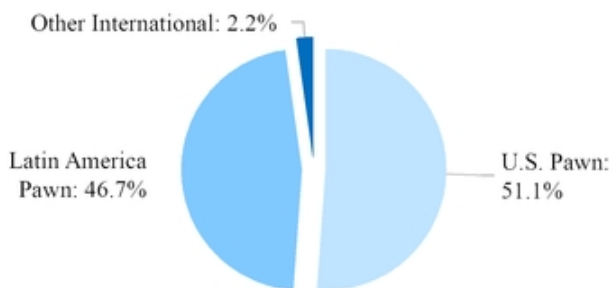


Nine Months Ended June 30, 2018

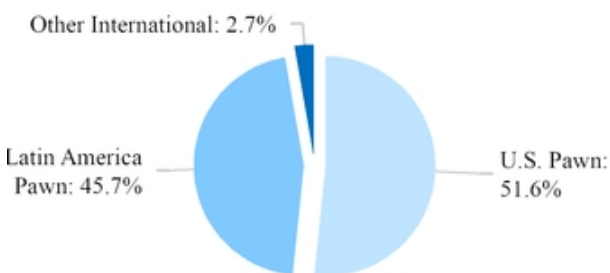


The following charts present store counts by geographic disbursement:

As of June 30, 2019



As of June 30, 2018



Pawn Activities

At our pawn stores, we offer pawn loans, which are typically small, nonrecourse loans collateralized by tangible personal property. We earn pawn service charges on our pawn loans, which varies by state and loan size. Collateral for our pawn loans consists of tangible personal property, generally jewelry, consumer electronics, tools, sporting goods and musical instruments. Security for our pawn loans is provided via the estimated resale value of the collateral and the perceived probability of the loan's redemption.

Our ability to offer quality second-hand goods at prices significantly lower than original retail prices attracts value-conscious customers. The gross profit on sales of inventory depends primarily on our assessment of the loan or purchase value at the time the property is either accepted as loan collateral or purchased. As a significant portion of our inventory and sales involve gold and jewelry, our results can be heavily influenced by the market price of gold.

Growth and Expansion

We plan to expand the number of locations we operate through opening new ("de novo") locations and through acquisitions in both Latin America and the United States and potential new markets. Our ability to add new stores is dependent on several variables, such as projected achievement of internal investment hurdles, the availability of acceptable sites or acquisition candidates, the alignment of acquirer/seller price expectations, the regulatory environment, local zoning ordinances, access to capital and availability of qualified personnel.

Seasonality and Quarterly Results

Historically, pawn service charges are highest in our fourth fiscal quarter (July through September) due to a higher average loan balance during the summer lending season in the United States and lowest in our third fiscal quarter (April through June) following the tax refund season in the United States. Merchandise sales are highest in our first and second fiscal quarters (October through March) due to the holiday season, jewelry sales in the United States surrounding Valentine's Day and the availability of tax refunds in the United States. Most of our customers in Latin America receive additional compensation from their employers in December, and many receive additional compensation in June or July, applying downward pressure on loan balances and fueling some merchandise sales in those periods. As a net effect of these and other factors and excluding discrete charges, our consolidated profit before tax is generally highest in our first fiscal quarter (October through December) and lowest in our third fiscal quarter (April through June).

Store Data by Segment

	Three Months Ended June 30, 2019			
	U.S. Pawn	Latin America Pawn	Other International	Consolidated
As of March 31, 2019	508	466	24	998
New locations opened	—	4	—	4
Locations acquired	7	—	—	7
Locations sold, combined or closed	(1)	—	(2)	(3)
As of June 30, 2019	514	470	22	1,006
	Three Months Ended June 30, 2018			
	U.S. Pawn	Latin America Pawn	Other International	Consolidated
As of March 31, 2018	510	387	27	924
New locations opened	—	2	—	2
Locations acquired	—	63	—	63
Locations sold, combined or closed	—	(1)	—	(1)
As of June 30, 2018	510	451	27	988

	Nine Months Ended June 30, 2019			
	U.S. Pawn	Latin America Pawn	Other International	Consolidated
As of September 30, 2018	508	453	27	988
New locations opened	—	12	—	12
Locations acquired	7	5	—	12
Locations sold, combined or closed	(1)	—	(5)	(6)
As of June 30, 2019	514	470	22	1,006

	Nine Months Ended June 30, 2018			
	U.S. Pawn	Latin America Pawn	Other International	Consolidated
As of September 30, 2017	513	246	27	786
New locations opened	—	10	—	10
Locations acquired	—	196	—	196
Locations sold, combined or closed	(3)	(1)	—	(4)
As of June 30, 2018	510	451	27	988

Results of Operations

Three Months Ended June 30, 2019 vs. Three Months Ended June 30, 2018

These tables, as well as the discussion that follows, should be read with the accompanying condensed consolidated financial statements and related notes. All comparisons, unless otherwise noted, are to the prior-year quarter. Prior period results have been corrected for certain out-of-period items identified in the second quarter ended March 31, 2019 but not material to any prior period, as described under "Corrections to Prior Period Financial Statements" in Note 1 of Notes to Interim Condensed Consolidated Financial Statements included in "Part I, Item 1 — Financial Statements."

U.S. Pawn

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

	<u>Three Months Ended June 30,</u>		<u>Change</u>
	<u>2019</u>	<u>2018</u>	
	<i>(in thousands)</i>		
Net revenues:			
Pawn service charges	\$ 58,635	\$ 55,536	6%
Merchandise sales	83,904	83,898	—%
Merchandise sales gross profit	31,049	31,558	(2)%
Gross margin on merchandise sales	37%	38%	(100)bps
Jewelry scrapping sales	13,889	17,813	(22)%
Jewelry scrapping sales gross profit	2,290	2,484	(8)%
Gross margin on jewelry scrapping sales	16%	14%	200bps
Other revenues	34	55	(38)%
Net revenues	92,008	89,633	3%
Segment operating expenses:			
Operations	65,449	65,257	—%
Depreciation and amortization	2,934	3,010	(3)%
Segment operating contribution	23,625	21,366	11%
Other segment expense	4	74	(95)%
Segment contribution	\$ 23,621	\$ 21,292	11%
Other data:			
Net earning assets (a)	\$ 283,781	\$ 267,104	6%
Inventory turnover	1.9	2.1	(10)%
Average monthly ending pawn loan balance per store (b)	\$ 280	\$ 270	4%
Monthly average yield on pawn loans outstanding	14%	14%	—
Pawn loan redemption rate	86%	86%	—

(a) Balance includes pawn loans and inventory.

(b) Balance is calculated based upon the average of the monthly ending balances during the applicable period.

Net revenue increased 3%, or \$2.4 million, primarily due to a 6%, or \$3.1 million, increase in pawn service charges, partially offset by a 2%, or \$0.5 million, decrease in merchandise sales gross profit and an 8%, or \$0.2 million, decrease in jewelry scrapping sales gross profit. The change in net revenue was attributable to same stores.

Pawn service charges increased 6%, or \$3.1 million, due primarily to a 4% increase in average ending monthly pawn loan balances outstanding during the current quarter. The higher average loan balance was driven by growth in new loan originations from our continued focus on meeting customers' desire for cash better than our competitors. A disciplined lending approach resulted in a slight increase in PLO yield and redemption rates compared to the prior-year quarter.

Merchandise sales remained flat with gross margin on merchandise sales of 37%, a 100 basis point decline over the prior-year quarter, but within our target range. Margins were down as we continue to reduce general merchandise aged greater than 360 days, ending at 6%. As a result, merchandise sales gross profit decreased 2% to \$31.0 million.

Jewelry scrapping sales gross profit remained relatively flat at 2% of current quarter net revenues, in line with our strategy to sell rather than scrap jewelry, with a 200 basis point increase in gross margin to 16%.

Higher store labor costs and rent, primarily reflecting inflation, were offset by savings in other store expenses and reduction in administrative costs resulting in flat segment expenses compared to the prior-year quarter. As a result, we leveraged a 3% increase in net revenue into an 11% increase in segment contribution.

Non-GAAP Financial Information

In addition to the financial information prepared in conformity with accounting principles generally accepted in the United States ("GAAP"), we provide certain other non-GAAP financial information on a constant currency basis ("constant currency"). We use constant currency results to evaluate our Latin America Pawn operations, which are denominated primarily in Mexican pesos and other Latin American currencies. We believe that presentation of constant currency results is meaningful and useful in understanding the activities and business metrics of our Latin America Pawn operations and reflect an additional way of viewing aspects of our business that, when viewed with GAAP results, provide a more complete understanding of factors and trends affecting our business. We provide non-GAAP financial information for informational purposes and to enhance understanding of our GAAP consolidated financial statements. We use this non-GAAP financial information to evaluate and compare operating results across accounting periods. Readers should consider the information in addition to, but not instead of or superior to, our financial statements prepared in accordance with GAAP. This non-GAAP financial information may be determined or calculated differently by other companies, limiting the usefulness of those measures for comparative purposes.

Constant currency results reported herein are calculated by translating consolidated balance sheet and consolidated statement of operations items denominated in local currency to U.S. dollars using the exchange rate from the prior-year comparable period, as opposed to the current period, in order to exclude the effects of foreign currency rate fluctuations. We used the end-of-period rate for balance sheet items and the average closing daily exchange rate on a monthly basis during the appropriate period for statement of operations items. The end-of-period and approximate average exchange rates for each applicable currency as compared to U.S. dollars as of and for the three and nine months ended June 30, 2019 and 2018 were as follows:

	June 30,		Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2018	2019	2018	2019	2018
Mexican peso	19.2	19.9	19.1	19.4	19.4	19.0
Guatemalan quetzal	7.5	7.4	7.5	7.3	7.6	7.3
Honduran lempira	24.3	23.9	24.2	23.6	24.1	23.5
Peruvian sol	3.3	3.3	3.3	3.2	3.3	3.2

Our statement of operations constant currency results reflect the monthly exchange rate fluctuations and so are not directly calculable from the above rates. Constant currency results, where presented, also exclude the foreign currency gain or loss.

Latin America Pawn

The following table presents selected summary financial data for the Latin America Pawn segment, including constant currency results, after translation to U.S. dollars from its functional currencies noted above under “Results of Operations — Non-GAAP Financial Information.”

	Three Months Ended June 30,				
	2019 (GAAP)	2018 (GAAP)	Change (GAAP)	2019 (Constant Currency)	Change (Constant Currency)
	<i>(in USD thousands)</i>			<i>(in USD thousands)</i>	
Net revenues:					
Pawn service charges	\$ 20,345	\$ 17,008	20%	\$ 20,340	20%
Merchandise sales	19,998	20,839	(4)%	20,059	(4)%
Merchandise sales gross profit	2,582	6,283	(59)%	2,757	(56)%
Gross margin on merchandise sales	13%	30%	(1,700)bps	14%	(1,600)bps
Jewelry scrapping sales	4,323	2,615	65%	4,339	66%
Jewelry scrapping sales gross profit	157	319	(51)%	158	(50)%
Gross margin on jewelry scrapping sales	4%	12%	(800)bps	4%	(800)bps
Other revenues	67	245	(73)%	67	(73)%
Net revenues	23,151	23,855	(3)%	23,322	(2)%
Segment operating expenses:					
Operations	18,284	14,997	22%	18,242	22%
Depreciation and amortization	1,626	951	71%	1,615	70%
Segment operating contribution	3,241	7,907	(59)%	3,465	(56)%
Other segment expense (income) (a)	1,141	(746)	*	1,049	*
Segment contribution	\$ 2,100	\$ 8,653	(76)%	\$ 2,416	(72)%
Other data:					
Net earning assets (b)	\$ 82,320	\$ 67,090	23%	\$ 80,703	20%
Inventory turnover	2.3	2.7	(15)%	2.3	(15)%
Average monthly ending pawn loan balance per store (c)	\$ 93	\$ 90	3%	\$ 93	3%
Monthly average yield on pawn loans outstanding	16%	16%	—	16%	—
Pawn loan redemption rate	77%	79%	(200)bps	77%	(200)bps

* Represents a percentage computation that is not mathematically meaningful.

(a) Fiscal 2019 constant currency amount excludes nominal net GAAP basis foreign currency transaction losses resulting from movement in exchange rates. The net foreign currency transaction gains for fiscal 2018 of \$0.1 million are included in the above results.

(b) Balance includes pawn loans and inventory.

(c) Balance is calculated based upon the average of the monthly ending balances during the applicable period.

Net revenue decreased \$0.7 million, or 3% (\$0.5 million, or 2%, on a constant currency basis), primarily due to a 59% decrease (56% on a constant currency basis) in merchandise sales gross profit, mostly offset by a 20% increase (20% on a constant currency basis) in pawn service charges. During the quarter, we recorded a discrete \$6.1 million adjustment in Latin America to correct the calculation of certain transaction tax liabilities in prior periods. Of that total, \$4.6 million reduced merchandise sales and \$1.5 million increased interest expense. The change in net revenue attributable to same stores and new stores added since the prior-year quarter is summarized as follows:

	Change in Net Revenue		
	Pawn Service Charges	Merchandise Sales Gross Profit	Total
	<i>(in millions)</i>		
Same stores	\$ 1.5	\$ 0.1	\$ 1.6
New stores and other	1.8	0.8	2.6
Discrete transaction tax adjustment	—	(4.6)	(4.6)
Total	\$ 3.3	\$ (3.7)	\$ (0.4)
Change in jewelry scrapping sales gross profit and other revenues			(0.3)
Total change in net revenue			\$ (0.7)

	Change in Net Revenue (Constant Currency)		
	Pawn Service Charges	Merchandise Sales Gross Profit	Total
	<i>(in millions)</i>		
Same stores	\$ 1.5	\$ 0.1	\$ 1.6
New stores and other	1.8	0.7	2.5
Discrete transaction tax adjustment	—	(4.3)	(4.3)
Total	\$ 3.3	\$ (3.5)	\$ (0.2)
Change in jewelry scrapping sales gross profit and other revenues			(0.3)
Total change in net revenue			\$ (0.5)

Pawn service charges increased 20% (20% on a constant currency basis), with same store growth of 9%. The average ending monthly pawn loan balance outstanding during the current quarter was up 3% (up 3% on a constant currency basis).

Merchandise sales decreased 4% (4% on a constant currency basis), with same store sales up 7% (6% on a constant currency basis). Excluding the discrete transaction tax adjustment, gross margin on merchandise sales was 29%, or 100 basis points below the prior-year quarter. As a result of these factors and foreign currency impacts, merchandise sales gross profit was down 59% to \$2.6 million (56% to \$2.8 million on a constant currency basis). Excluding the adjustment, merchandise sales gross profit increased 14% to \$7.1 million (up 13% to \$7.1 million on a constant currency basis).

Jewelry scrapping sales increased 65% (66% on a constant currency basis) on greater volume, with an 800 basis point decrease in margin to 4%. The lower scrap margin reflects higher processing fees from a new refiner, as well as our stores' efforts to merchandise higher value jewelry in store rather than scrapping, to obtain a higher overall gross profit.

Other segment expense in the current quarter included interest of \$1.5 million related to the previously discussed discrete transaction tax adjustment.

Net revenues decreased 3% (2% on a constant currency basis) as a result of the transaction tax adjustment. The remaining revenues and expenses increased primarily as a result of acquired and newly opened stores. At new stores, net revenue growth typically trails the growth in expenses until new stores begin to mature and until acquired stores are fully integrated and migrated to our operating metrics. Excluding the discrete transaction tax adjustment, net revenue increased 16% (16% on a constant currency basis). Reflecting more stores, higher labor, energy and robbery/security costs, as well as increases in operating supplies, operations expense increased 22% (22% on a constant currency basis). Depreciation and amortization increased 71% (70% on a constant currency basis) from the addition of stores and additional capital investment in existing and acquired operations. The net result was a decrease in segment contribution of \$6.6 million or 76% (\$6.2 million or 72% on a constant currency basis), including the \$6.1 million discrete transaction tax adjustment.

Other International

The following table presents selected financial data from continuing operations for the Other International segment after translation to U.S. dollars from its functional currency of primarily Australian and Canadian dollars:

	<u>Three Months Ended June 30,</u>		<u>Percentage</u> <u>Change</u>
	<u>2019</u>	<u>2018</u>	
<i>(in thousands)</i>			
Net revenues:			
Consumer loan fees, interest and other	\$ 1,270	\$ 1,603	(21)%
Consumer loan bad debt	(576)	(349)	65%
Net revenues	694	1,254	(45)%
Segment operating expenses (income):			
Operating expenses	1,066	2,726	(61)%
Equity in net income of unconsolidated affiliates	(1,320)	(1,151)	15%
Segment operating contribution (loss)	948	(321)	*
Other segment expense	88	—	*
Segment contribution (loss)	<u>\$ 860</u>	<u>\$ (321)</u>	*

* Represents a percentage computation that is not mathematically meaningful.

Segment contribution was \$0.9 million, an increase of \$1.2 million from the prior-year quarter primarily due a decrease in operating expenses of \$1.7 million, partially offset by a decrease in net revenue of \$0.6 million as we closed two under-performing CASHMAX stores in the current quarter, consolidating their loan balances into nearby stores. Operating expenses decreased as a result of the deconsolidation of a previously consolidated variable interest entity ("RDC"). As of June 30, 2019, we determined that our investment in Cash Converters International was impaired by \$3.8 million but that such impairment was not "other-than-temporary." In reaching this conclusion, we considered all available evidence including primarily the time and extent to which our investment was impaired during the current quarter. Should the value of our investment decline further, we may record additional impairments.

Due partly to regulatory changes that became effective January 1, 2018, we added installment loan products in our Canada CASHMAX business to meet the needs of our customers. In addition to single-pay loans, all CASHMAX stores are now offering installment loans with terms ranging from six to 18 months and average yields of 47% per annum. We entered into a secured borrowing arrangement in November 2018 to provide up to CAD \$25.0 million to fund originations of installment loans through November 2019 and have obtained \$1.5 million in proceeds from the facility through June 30, 2019. See Note 6 of Notes to Interim Condensed Consolidated Financial Statements included in "Part I, Item 1 — Financial Statements."

Other Items

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

	Three Months Ended June 30,		Percentage Change
	2019	2018	
	<i>(in thousands)</i>		
Segment contribution	\$ 26,581	\$ 29,624	(10)%
Corporate expenses (income):			
Administrative	15,053	13,268	13%
Depreciation and amortization	2,622	2,115	24%
Gain on sale or disposal of assets	22	214	(90)%
Interest expense	8,265	7,391	12%
Interest income	(2,796)	(3,686)	(24)%
Other income	(44)	(5,184)	(99)%
Income from continuing operations before income taxes	3,459	15,506	(78)%
Income tax expense	98	1,502	(93)%
Income from continuing operations, net of tax	3,361	14,004	(76)%
(Loss) income from discontinued operations, net of tax	(203)	91	*
Net income	3,158	14,095	(78)%
Net loss attributable to noncontrolling interest	—	(359)	(100)%
Net income attributable to EZCORP, Inc.	\$ 3,158	\$ 14,454	(78)%

* Represents a percentage computation that is not mathematically meaningful.

Segment contribution decreased primarily due to the impact of a \$6.1 million discrete transaction tax adjustment in our Latin America Pawn segment, offsetting our improved operating performance and leverage in our U.S. Pawn segment and a \$1.2 million improved contribution from our Other International segment.

Administrative expenses increased \$1.8 million, or 13%, primarily due to costs of \$1.3 million associated with the strategic investment in a new digital platform and other professional fees.

Depreciation and amortization increased \$0.5 million, or 24%, primarily due to additional capitalized software costs, including the costs to develop our new point of sale system.

Interest expense increased \$0.9 million, or 12%, primarily due to an increase in debt outstanding during the current quarter compared to the prior-year quarter, offset by the reduction of interest expense on our 2.125% Cash Convertible Senior Notes Due 2019 ("2019 Convertible Notes") which were repaid June 17, 2019. Effective interest rates on our outstanding convertible debt were approximately 8% to 9%. We expect interest expense to decrease in future periods due to the June 2019 repayment of the 2019 Convertible Notes, the principal amount of which was \$195.0 million.

Interest income decreased \$0.9 million, or 24%, primarily due to the declining principal balance on the Prestaciones Finmart, S.A.P.I. de C.V., SOFOM, E.N.R. ("Grupo Finmart") notes receivable as they are repaid in accordance with their agreed amortization schedule, in addition to the reduction of interest earned on outstanding cash balances after our 2019 Convertible Notes were repaid in June 2019. The remainder of principal outstanding on the Grupo Finmart notes receivable and the first installment of the deferred compensation fee are expected to be received through September 2019, reducing the amount of interest income recognized in the fourth quarter of fiscal 2019 and forward.

Other income in the prior-year quarter was comprised primarily of \$5.2 million in net recoveries pertaining to a legal settlement.

Income tax expense decreased \$1.4 million due primarily to:

- A \$12.0 million decrease in income from continuing operations before income taxes;
- A discrete transaction tax adjustment with a tax benefit of \$1.8 million in the current quarter; and

- A lower maximum U.S. corporate rate of 21% in the current quarter compared to a higher blended rate in the prior-year quarter; partially offset by
- A \$1.5 million reduction in benefits associated with the expiration of a statute of limitations on uncertain tax positions.

Income tax expense includes other items that do not necessarily correspond to pre-tax earnings and create volatility in our effective tax rate. These items include the net effect of state taxes, non-deductible items and changes in valuation allowances for certain foreign operations.

Nine Months Ended June 30, 2019 vs. Nine Months Ended June 30, 2018

These tables, as well as the discussion that follows, should be read with the accompanying condensed consolidated financial statements and related notes. All comparisons, unless otherwise noted, are to the prior year-to-date period.

U.S. Pawn

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

	Nine Months Ended June 30,		Change
	2019	2018	
<i>(in thousands)</i>			
Net revenues:			
Pawn service charges	\$ 184,658	\$ 174,180	6%
Merchandise sales	275,639	270,145	2%
Merchandise sales gross profit	102,708	103,180	—%
Gross margin on merchandise sales	37%	38%	(100)bps
Jewelry scrapping sales	28,357	34,515	(18)%
Jewelry scrapping sales gross profit	4,677	5,832	(20)%
Gross margin on jewelry scrapping sales	16%	17%	(100)bps
Other revenues	125	205	(39)%
Net revenues	292,168	283,397	3%
Segment operating expenses:			
Operations	200,884	196,635	2%
Depreciation and amortization	8,951	9,340	(4)%
Segment operating contribution	82,333	77,422	6%
Other segment expense	2,856	194	1,372%
Segment contribution	\$ 79,477	\$ 77,228	3%
Other data:			
Average monthly ending pawn loan balance per store (a)	\$ 288	\$ 272	6%
Monthly average yield on pawn loans outstanding	14%	14%	—
Pawn loan redemption rate	85%	85%	—

(a) Balance is calculated based upon the average of the monthly ending balances during the applicable period.

Net revenue increased \$8.8 million, or 3%, primarily due to a 6%, or \$10.5 million, increase in pawn service charges, partially offset by a 20%, or \$1.2 million, decrease in jewelry scrapping sales gross profit on less scrap volume. The change in net revenue was attributable to same stores.

Pawn service charges increased 6% primarily due to a 6% increase in average ending monthly pawn loan balances outstanding during the current year-to-date period. The higher average loan balance was driven by disciplined lending practices, a focus on meeting customers' need for cash and stronger performance from stores affected by hurricanes in the prior year-to-date period.

Merchandise sales increased 2% with gross margin on merchandise sales of 37%, a 100 basis point decline over the prior year-to-date period, but within our target range. As a result, merchandise sales gross profit was flat at \$102.7 million. A portion of the year-over-year improvement is due to the impacts of hurricanes in the prior year-to-date period. We expect sales gross margin for the full fiscal year to be within our target range of 35-38%.

Jewelry scrapping sales gross profit remained relatively flat at 2% of net revenues, but down 20% from the prior year-to-date period, in line with our strategy to sell rather than scrap jewelry, with a 100 basis point decline in gross margin to 16%.

A 3% increase in net revenue resulted in a 3% increase in segment contribution primarily as a result of a \$2.9 million reserve against a receivable balance from a gold refiner deemed uncollectible due to the refiner's Chapter 11 bankruptcy, offset by cost control initiatives in segment operating expenses.

Latin America Pawn

The following table presents selected summary financial data for the Latin America Pawn segment, including constant currency results, after translation to U.S. dollars from functional currencies. See "Results of Operations — Non-GAAP Financial Information" above.

	Nine Months Ended June 30,				
	2019 (GAAP)	2018 (GAAP)	Change (GAAP)	2019 (Constant Currency)	Change (Constant Currency)
	(in USD thousands)			(in USD thousands)	
Net revenues:					
Pawn service charges	\$ 59,640	\$ 48,417	23%	\$ 61,095	26%
Merchandise sales	70,547	63,125	12%	72,478	15%
Merchandise sales gross profit	18,295	19,807	(8)%	19,045	(4)%
Gross margin on merchandise sales	26%	31%	(500)bps	26%	(500)bps
Jewelry scrapping sales	9,516	9,651	(1)%	9,737	1%
Jewelry scrapping sales gross profit	548	798	(31)%	561	(30)%
Gross margin on jewelry scrapping sales	6%	8%	(200)bps	6%	(200)bps
Other revenues	134	588	(77)%	138	(77)%
Net revenues	78,617	69,610	13%	80,839	16%
Segment operating expenses:					
Operations	54,703	44,847	22%	56,010	25%
Depreciation and amortization	4,543	2,712	68%	4,638	71%
Segment operating contribution	19,371	22,051	(12)%	20,191	(8)%
Other segment expense (income) (a)	1,024	(2,024)	*	1,004	*
Segment contribution	\$ 18,347	\$ 24,075	(24)%	\$ 19,187	(20)%
Other data:					
Average monthly ending pawn loan balance per store (b)	\$ 91	\$ 90	1%	\$ 93	3%
Monthly average yield on pawn loans outstanding	16%	16%	—	16%	—
Pawn loan redemption rate	78%	79%	(100)bps	78%	(100)bps

* Represents a percentage computation that is not mathematically meaningful.

(a) Fiscal 2019 constant currency amount excludes nominal net GAAP basis foreign currency transaction gains resulting from movement in exchange rates. The net foreign currency transaction gains for fiscal 2018 were \$0.1 million and are included in the above results.

(b) Balance is calculated based upon the average of the monthly ending balances during the applicable period.

In the current year-to-date period, our Latin America pawn segment acquired five pawn stores and opened twelve de novo stores.

Net revenue increased \$9.0 million, or 13% (\$11.2 million, or 16%, on a constant currency basis), primarily due to a 23% increase (26% on a constant currency basis) in pawn service charges, offset by an 8% decrease (4% on a constant currency basis) in merchandise sales gross profit, inclusive of a discrete tax adjustment of \$4.6 million relating to prior periods. The change in net revenue attributable to same stores and new stores added since the prior year-to-date period is summarized as follows:

	Change in Net Revenue		
	Pawn Service Charges	Merchandise Sales Gross Profit	Total
	<i>(in millions)</i>		
Same stores	\$ 3.9	\$ 0.5	\$ 4.4
New stores and other	7.3	2.6	9.9
Discrete transaction tax adjustment	—	(4.6)	(4.6)
Total	\$ 11.2	\$ (1.5)	\$ 9.7
Change in jewelry scrapping sales gross profit and other revenues			(0.7)
Total change in net revenue			\$ 9.0

	Change in Net Revenue (Constant Currency)		
	Pawn Service Charges	Merchandise Sales Gross Profit	Total
	<i>(in millions)</i>		
Same stores	\$ 5.1	\$ 1.0	\$ 6.1
New stores and other	7.6	2.6	10.2
Discrete transaction tax adjustment	—	(4.4)	(4.4)
Total	\$ 12.7	\$ (0.8)	\$ 11.9
Change in jewelry scrapping sales gross profit and other revenues			(0.7)
Total change in net revenue			\$ 11.2

Pawn service charges increased 23% (26% on a constant currency basis), with same store growth of 8%. The average ending monthly pawn loan balance per store outstanding during the current year-to-date period was up 1% (up 3% on a constant currency basis), with the average total pawn loan balance outstanding up 22%. Pawn service charges further include \$1.1 million in revenue attributable to the receipt of previously escrowed seller funds as a result of settling certain indemnification claims with the sellers of Camira Administration Corp. and subsidiaries (“GPMX”). In the current year-to-date period, we loaned the \$1.1 million back to the seller of GPMX in exchange for a promissory note. The note bears interest at the rate of 2.89% per annum and is secured by certain marketable securities owned by the seller and held in a U.S. brokerage account. All principal and accrued interest is due and payable in April 2024.

Merchandise sales increased 12% (15% on a constant currency basis) primarily from newly acquired stores, reduced by a discrete transaction tax adjustment of \$4.6 million relating to prior periods. Excluding the discrete transaction tax adjustment, gross margin on merchandise sales was 30%, or 100 basis points below the prior year-to-date period. As a result of these factors, merchandise sales gross profit was down 8% to \$18.3 million (4% to \$19.0 million on a constant currency basis). Excluding the discrete transaction tax adjustment, merchandise sales gross profit increased 15% to \$22.8 million (up 18% to \$23.4 million on a constant currency basis).

Jewelry scrapping sales decreased 1% (increased 1% on a constant currency basis) in line with our strategy to sell rather than scrap jewelry, with a 200 basis point decrease in margin.

Other segment expense included interest of \$1.5 million related to the previously discussed discrete transaction tax adjustment.

Net revenues and expenses increased primarily as a result of acquired and newly opened stores. At new stores, net revenue growth typically trails the growth in expenses until new stores begin to mature and until acquired stores are fully integrated and migrated to our operating metrics.

Net revenue increased 13% (16% on a constant currency basis) in the current year-to-date period. Excluding the discrete transaction tax adjustment, net revenues increased 19% (22% on a constant currency basis). Reflecting more stores, higher labor, energy and robbery/security costs, as well as increases in operating supplies, operations expense increased at a slightly faster pace of 22% (25% on a constant currency basis). Depreciation and amortization increased 68% (71% on a constant currency basis) from the addition of stores and additional capital investment in existing and acquired operations. Additionally, we recorded a \$0.7 million reserve against a receivable and inventory balance deemed uncollectible from a refiner, consisting of a \$1.5 million reserve recorded in the first quarter ended December 31, 2018 and a subsequent \$0.8 million recovery in the second quarter of fiscal 2019. These factors resulted in a decrease in segment contribution of \$5.7 million or 24% (\$4.9 million or 20% on a constant currency basis), including the impact of a \$6.1 million discrete transaction tax adjustment.

Other International

The following table presents selected financial data from continuing operations for the Other International segment after translation to U.S. dollars from its functional currency of primarily Australian and Canadian dollars:

	Nine Months Ended June 30,		Percentage Change
	2019	2018	
<i>(in thousands)</i>			
Net revenues:			
Consumer loan fees, interest and other	\$ 4,274	\$ 5,354	(20)%
Consumer loan bad debt	(1,467)	(1,273)	15%
Net revenues	2,807	4,081	(31)%
Segment operating expenses (income):			
Operating expenses	6,359	7,418	(14)%
Equity in net income of unconsolidated affiliates	(632)	(3,477)	(82)%
Segment operating (loss) contribution	(2,920)	140	*
Impairment of investment in unconsolidated affiliates	19,725	—	*
Other segment expense (income)	592	(118)	*
Segment (loss) contribution	\$ (23,237)	\$ 258	*

* Represents a percentage computation that is not mathematically meaningful.

Segment loss was \$23.2 million compared to \$0.3 million in income in the prior year-to-date period, primarily due to:

- Impairment of our investment in Cash Converters International in the amount of \$19.7 million;
- A charge of \$2.9 million included in our ordinary estimated share of earnings for the current year-to-date period from Cash Converters International for charges relating to the settlement of the Queensland class action litigation in October 2018; and
- A decrease in net revenue of \$1.3 million as we closed or consolidated five under-performing CASHMAX stores in the current year-to-date period; partially offset by
- A decrease in operating expenses of \$1.1 million as a result of the deconsolidation of RDC.

As of June 30, 2019, we determined that our investment in Cash Converters International was impaired by \$3.8 million and that such impairment was not "other-than-temporary." In reaching this conclusion, we considered all available evidence including primarily the time and extent to which our investment was impaired during the current quarter. Should the value of our investment decline further, we may record additional impairments.

Due partly to regulatory changes that became effective January 1, 2018, we added installment loan products in our Canada CASHMAX business to meet the needs of our customers. In addition to single-pay loans, all CASHMAX stores are now offering installment loans with terms ranging from six to 18 months and average yields of 47% per annum. We entered into a secured borrowing arrangement in November 2018 to provide up to CAD \$25.0 million to fund originations of installment loans through November 2019 and have obtained \$1.5 million in proceeds from the facility through June 30, 2019. See Note 6 of Notes to Interim Condensed Consolidated Financial Statements included in "Part I, Item 1 — Financial Statements."

Other Items

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

	Nine Months Ended June 30,		Percentage Change
	2019	2018	
	<i>(in thousands)</i>		
Segment contribution	\$ 74,587	\$ 101,561	(27)%
Corporate expenses (income):			
Administrative	46,795	39,688	18%
Depreciation and amortization	7,430	6,104	22%
Loss on sale or disposal of assets	22	225	(90)%
Interest expense	25,362	19,064	33%
Interest income	(8,411)	(10,824)	(22)%
Other income	(348)	(5,363)	(94)%
Income from continuing operations before income taxes	3,737	52,667	(93)%
Income tax expense	1,377	14,710	(91)%
Income from continuing operations, net of tax	2,360	37,957	(94)%
Loss from discontinued operations, net of tax	(404)	(631)	(36)%
Net income	1,956	37,326	(95)%
Net loss attributable to noncontrolling interest	(1,230)	(1,348)	(9)%
Net income attributable to EZCORP, Inc.	\$ 3,186	\$ 38,674	(92)%

Segment contribution decreased primarily due to a \$19.7 million impairment of our investment in Cash Converters International, a \$2.9 million charge included in our ordinary estimated share of earnings from Cash Converters International for charges relating to settlement of a Queensland class action litigation in October 2018 and the impact of a \$6.1 million discrete transaction tax adjustment in our Latin America Pawn segment, partially offset by improved operating performance in our U.S. Pawn segment.

Administrative expenses increased \$7.1 million, or 18%, in the current year-to-date period primarily due to costs of \$4.9 million associated with a strategic investment in a new digital platform and other professional fees.

Depreciation and amortization increased \$1.3 million, or 22%, primarily due to additional capitalized software costs, including the costs to develop our new point of sale system.

Interest expense increased \$6.3 million, or 33%, primarily due to an increase in average debt outstanding during the current year-to-date period compared to the prior year-to-date period, offset by the reduction of interest expense on our 2019 Convertible Notes which were repaid on June 17, 2019. Effective interest rates on our outstanding convertible debt were approximately 8% to 9%. We expect interest expense to decrease in future periods due to the June 2019 repayment of the 2019 Cash Convertible Notes, the principal amount of which was \$195.0 million.

Interest income decreased \$2.4 million, or 22%, primarily due to the declining principal balance on the Grupo Finmart notes receivable as they are repaid in accordance with their agreed amortization schedule, in addition to the reduction of interest earned on outstanding cash balances after our 2019 Convertible Notes were repaid in June 2019. The remainder of principal outstanding on the Grupo Finmart notes receivable and the first installment of the deferred compensation fee are expected to be received through September 2019, reducing the amount of interest income recognized in the fourth quarter of fiscal 2019 and forward.

Other income in the prior year-to-date period was comprised primarily of \$5.2 million in net recoveries pertaining to a legal settlement.

Income tax expense decreased \$13.3 million due primarily to:

- A \$48.9 million decrease in income from continuing operations before income taxes;
- A discrete transaction tax adjustment with a tax benefit of \$1.8 million in the current year-to-date period; and

- A lower maximum U.S. corporate rate of 21% in the current year-to-date period compared to a higher blended rate in the prior year-to-date period; partially offset by
- A first quarter of fiscal 2018 charge related to the impacts of the U.S. Tax Cuts and Jobs Act of 2017; and
- A \$3.1 million reduction in benefits associated with the expiration of a statute of limitations on uncertain tax positions.

Income tax expense includes other items that do not necessarily correspond to pre-tax earnings and create volatility in our effective tax rate. These items include the net effect of state taxes, non-deductible items and changes in valuation allowances for certain foreign operations.

Liquidity and Capital Resources

Cash Flows

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

	Nine Months Ended June 30,		Percentage Change
	2019	2018	
	<i>(in thousands)</i>		
Cash flows from operating activities	\$ 64,977	\$ 69,321	(6)%
Cash flows from investing activities	(13,238)	(117,108)	89%
Cash flows from financing activities	(198,101)	170,157	*
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(294)	(1,493)	80%
Net (decrease) increase in cash, cash equivalents and restricted cash	\$ (146,656)	\$ 120,877	*

* Represents a percentage computation that is not mathematically meaningful.

Change in Cash and Cash Equivalents and Restricted Cash for the Nine Months Ended June 30, 2019 vs. Nine Months Ended June 30, 2018

The decrease in cash flows from operating activities year-over-year was due to \$6.5 million from changes in working capital offset by a \$2.2 million increase in net income, exclusive of non-cash items.

The increase in cash flows from investing activities year-over-year was due to a \$99.1 million decrease in cash paid for acquisitions, a \$9.3 million decrease in additions to property and equipment and a \$5.7 million increase in principal collections on notes receivable, offset by a \$10.3 million net investment in customer loan growth.

The decrease in cash flows from financing activities year-over-year was due primarily to repayment of \$195.0 million of our 2.125% Cash Convertible Senior Notes Due 2019 in June 2019, the May 2018 issuance of our \$172.5 million aggregate principal amount of 2.375% Convertible Senior Notes Due 2025 and a \$3.0 million increase in cash paid for employee net share settlement of individual tax liabilities on vested share-based awards.

The net effect of these and other smaller items was a \$146.7 million decrease in cash on hand during the current year-to-date period, resulting in a \$138.9 million ending cash balance compared to \$284.5 million as of June 30, 2018. Of the ending cash balance as of June 30, 2019, \$25.4 million was not available to fund domestic operations as we intend to permanently reinvest those funds in our foreign operations.

Sources and Uses of Cash

We anticipate that cash flow from operations and cash on hand will be adequate to fund our contractual obligations, planned de novo store growth, capital expenditures and working capital requirements, as well as a limited amount of acquisitions, through fiscal 2019. In June 2019, we repaid \$195.0 million of 2.125% Cash Convertible Senior Notes Due 2019 at maturity using cash on hand. We continue to explore accretive acquisition opportunities, both large and small, and may choose to pursue additional debt, equity or equity-linked financings in the future should the need arise. Depending on the level of acquisition activity and other factors, our ability to repay our longer term debt obligations, including the convertible debt maturing in 2024 and 2025, may require us to refinance these obligations through the issuance of new debt securities, equity securities, convertible securities or through new credit facilities.

Contractual Obligations

In "[Part II, Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations](#)" of our Annual Report on Form 10-K for the year ended September 30, 2018, we reported that we had \$795.8 million in total contractual obligations as of September 30, 2018. There have been no material changes to this total obligation since September 30, 2018, other than the repayment of the 2.125% Cash Convertible Senior Notes Due 2019 in June 2019.

We are responsible for the maintenance, property taxes and insurance at most of our locations. In the fiscal year ended September 30, 2018, these collectively amounted to \$22.4 million.

Recently Adopted Accounting Policies and Recently Issued Accounting Pronouncements

See Note 1 of Notes to Interim Condensed Consolidated Financial Statements included in "Part I, Item 1 — Financial Statements."

Cautionary Statement Regarding Risks and Uncertainties that May Affect Future Results

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend that all forward-looking statements be subject to the safe harbors created by these laws. All statements, other than statements of historical facts, regarding our strategy, future operations, financial position, future revenues, projected costs, prospects, plans and objectives are forward-looking statements. These statements are often, but not always, made with words or phrases like "may," "should," "could," "will," "predict," "anticipate," "believe," "estimate," "expect," "intend," "plan," "projection" and similar expressions. Such statements are only predictions of the outcome and timing of future events based on our current expectations and currently available information and, accordingly, are subject to substantial risks, uncertainties and assumptions. Actual results could differ materially from those expressed in the forward-looking statements due to a number of risks and uncertainties, many of which are beyond our control. In addition, we cannot predict all of the risks and uncertainties that could cause our actual results to differ from those expressed in the forward-looking statements. Accordingly, you should not regard any forward-looking statements as a representation that the expected results will be achieved. Important risk factors that could cause results or events to differ from current expectations are identified and described in "[Part I, Item 1A — Risk Factors](#)" of our Annual Report on Form 10-K for the year ended September 30, 2018, supplemented by those described in "Part II, Item 1A — Risk Factors" of this Quarterly Report.

We specifically disclaim any responsibility to publicly update any information contained in a forward-looking statement except as required by law. All forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary statement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to our operations result primarily from changes in interest rates, gold values and foreign currency exchange rates, and are described in detail in "[Part II, Item 7A — Quantitative and Qualitative Disclosures about Market Risk](#)" of our Annual Report on Form 10-K for the year ended September 30, 2018. There have been no material changes to our exposure to market risks since September 30, 2018.

ITEM 4. CONTROLS AND PROCEDURES

This report includes the certifications of our Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 of the Securities Exchange Act of 1934 (the "Exchange Act"). See Exhibits 31.1 and 31.2. This Item 4 includes information concerning the controls and control evaluations referred to in those certifications.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2019. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of June 30, 2019 due to the continuing existence of a material weakness in internal control over financial

reporting described below (which we view as an integral part of our disclosure controls and procedures). Based on the performance of additional procedures designed to ensure the reliability of our financial reporting, we believe that the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods, presented, in conformity with GAAP.

Changes in Internal Control over Financial Reporting

During the quarter ended March 31, 2019, we experienced changes in our internal control environment that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Specifically, we have certain deficiencies in our information technology general controls (ITGC) that are designed to prevent or detect unauthorized access or changes to our operating system and databases. We have historically maintained a separate logging system that mitigated the potential impact of those ITGC deficiencies. During the quarter ended March 31, 2019, however, we deemed it necessary to discontinue the separate logging system in order to maintain acceptable system performance at the store level, which eliminated compensating controls that mitigated the potential impact of the ITGC deficiencies. We believe that, without those IT compensating controls and given the lack of sufficiently designed non-IT compensating controls, the underlying ITGC deficiencies represent a material weakness in our internal control over financial reporting. We have not completed our remediation of that material weakness as of June 30, 2019.

As of March 31, 2019, we had hired a Chief Information Security Officer and subsequently further built-out and developed an IT compliance group, whose primary responsibility is to assist us with the design, implementation and maintenance of appropriate controls to safeguard the confidentiality, integrity and availability of our IT operating and reporting systems. We are focused on remediating the underlying ITGC deficiencies, and we are in the process of improving our control environment to adequately prevent or detect unauthorized access or changes to our operating systems and databases. As of the date of filing, we have developed a remediation plan with a combination of control modifications to implement by our fiscal year end and a roadmap for incremental procedures for the optimization of our IT control environment over a longer term period. Our remediation plan is focused on IT control enhancements across our logical access and change management processes, including the evaluation of automation tools, where applicable, and database monitoring activities. See "Part II, Item 1A — Risk Factors."

Inherent Limitations on Internal Controls

Notwithstanding the foregoing, management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met. Limitations inherent in any control system include the following:

- Judgments in decision-making can be faulty, and control and process breakdowns can occur because of simple errors or mistakes.
- Controls can be circumvented by individuals, acting alone or in collusion with others, or by management override.
- The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.
- Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures.
- The design of a control system must reflect the fact that resources are constrained, and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 8 of Notes to Interim Condensed Consolidated Financial Statements included in "Part I, Item 1 — Financial Statements."

ITEM 1A. RISK FACTORS

Important risk factors that could affect our operations and financial performance, or that could cause results or events to differ from current expectations, are described in ["Part I, Item 1A — Risk Factors" of our Annual Report on Form 10-K for the year ended September 30, 2018](#), as supplemented by the information set forth in ["Part II, Item 1A — Risk Factors" of our Quarterly Report on Form 10-Q for the quarter ended December 31, 2018](#) and the information set forth in ["Part II, Item 1A — Risk Factors" of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2019](#).

ITEM 6. EXHIBITS

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

Exhibit No.	Description of Exhibit
31.1†	Certification of Stuart I. Grimshaw, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2†	Certification of Daniel M. Chism, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1††	Certifications of Stuart I. Grimshaw, Chief Executive Officer, and Daniel M. Chism, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS†††	XBRL Instance Document
101.SCH†††	XBRL Taxonomy Extension Schema Document
101.CAL†††	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†††	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†††	XBRL Taxonomy Label Linkbase Document
101.PRE†††	XBRL Taxonomy Extension Presentation Linkbase Document

† Filed herewith.

†† Furnished herewith.

††† Filed herewith as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of June 30, 2019, June 30, 2018 and September 30, 2018; (ii) Condensed Consolidated Statements of Operations for the three and nine months ended June 30, 2019 and June 30, 2018; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended June 30, 2019 and June 30, 2018; (iv) Condensed Consolidated Statements of Stockholders' Equity for the periods ended June 30, 2019 and June 30, 2018; (v) Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2019 and June 30, 2018; and (vi) Notes to Interim Condensed Consolidated Financial Statements.

SIGNATURES

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

EZCORP, INC.

Date: July 31, 2019

/s/ David McGuire

David McGuire,
Deputy Chief Financial Officer and Chief Accounting Officer
(principal accounting officer)

**Certification of Stuart I. Grimshaw, Chief Executive Officer,
pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Stuart I. Grimshaw, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of EZCORP, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2019

/s/ Stuart I. Grimshaw

Stuart I. Grimshaw

Chief Executive Officer

**Certification of Daniel M. Chism, Chief Financial Officer,
pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Daniel M. Chism, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of EZCORP, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2019

/s/ Daniel M. Chism

Daniel M. Chism

Chief Financial Officer

Certifications of Stuart I. Grimshaw, Chief Executive Officer, and Daniel M. Chism, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned officers of EZCORP, Inc. hereby certify that (a) EZCORP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission, fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, as amended, and (b) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of EZCORP.

Date: 7/31/2019

/s/ Stuart I. Grimshaw

Stuart I. Grimshaw
Chief Executive Officer

Date: 7/31/2019

/s/ Daniel M. Chism

Daniel M. Chism

Chief Financial Officer