

EZCORP INC
Form 10-Q
May 12, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

or

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

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

EZCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware

74-2540145

(State or other jurisdiction of
incorporation or organization)

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

1901 Capital Parkway

78746

Austin, Texas

(Address of principal executive offices)

(Zip Code)

(512) 314-3400

Registrant's telephone number, including area code:

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

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

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

Large accelerated filer Accelerated filer

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

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

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PART I — FINANCIAL INFORMATION

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

EZCORP, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

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

Stockholders' equity:

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

Assets and Liabilities of Grupo Finmart Securitization Trust

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

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

See accompanying notes to interim condensed consolidated financial statements.

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EZCORP, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Revenues:				
Merchandise sales	\$ 103,454	\$ 100,082	\$ 209,041	\$ 194,686
Jewelry scrapping sales	26,193	42,582	53,896	87,291
Pawn service charges	59,162	62,015	123,295	127,415
Consumer loan fees and interest	64,785	60,751	131,114	123,885
Other revenues	6,106	2,684	11,711	7,498
Total revenues	259,700	268,114	529,057	540,775
Merchandise cost of goods sold	63,857	58,716	127,445	113,661
Jewelry scrapping cost of goods sold	20,111	29,311	40,131	60,616
Consumer loan bad debt	10,422	8,457	28,854	21,978
Net revenues	165,310	171,630	332,627	344,520
Operating expenses:				
Operations	108,064	101,831	220,833	205,116
Administrative	20,032	8,603	35,777	22,274
Depreciation	7,539	7,071	15,005	13,631
Amortization	1,975	1,316	3,915	2,030
Loss (gain) on sale or disposal of assets	342	13	(5,948)	) 42
Total operating expenses	137,952	118,834	269,582	243,093
Operating income	27,358	52,796	63,045	101,427
Interest expense, net	5,275	3,753	9,607	7,390
Equity in net income of unconsolidated affiliates	(492)	) (4,125)	) (1,763)	) (9,163)
Impairment of investments	7,940	—	7,940	—
Other expense (income)	1,324	405	1,156	(96)
Income from continuing operations before income taxes	13,311	52,763	46,105	103,296
Income tax expense	4,204	16,273	14,085	32,945
Income from continuing operations, net of tax	9,107	36,490	32,020	70,351
(Loss) income from discontinued operations, net of tax	(40)	) (1,610)	) 1,442	(3,316)
Net income	9,067	34,880	33,462	67,035
Net income from continuing operations attributable to redeemable noncontrolling interest	1,075	899	2,901	2,337
Net income attributable to EZCORP, Inc.	\$ 7,992	\$ 33,981	\$ 30,561	\$ 64,698
Basic earnings (loss) per share attributable to EZCORP, Inc.:				
Continuing operations	\$ 0.15	\$ 0.66	\$ 0.53	\$ 1.28
Discontinued operations	—	(0.03)	) 0.03	(0.06)
Basic earnings per share	\$ 0.15	\$ 0.63	\$ 0.56	\$ 1.22
Diluted earnings (loss) per share attributable to EZCORP, Inc.:				
Continuing operations	\$ 0.15	\$ 0.66	\$ 0.53	\$ 1.28
Discontinued operations	—	(0.03)	) 0.03	(0.06)
Diluted earnings per share	\$ 0.15	\$ 0.63	\$ 0.56	\$ 1.22

Weighted average shares outstanding:

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

See accompanying notes to interim condensed consolidated financial statements.

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EZCORP, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying notes to interim condensed consolidated financial statements.

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EZCORP, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

Non-cash Investing and Financing Activities:

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

See accompanying notes to interim condensed consolidated financial statements.

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EZCORP, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

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