EZCORP INC
Form 10-Q
February 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2015

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.)
2500 Bee Cave Road, Rollingwood, Texas	78746
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (512) 314-3400

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

As of December 31, 2015, 51,924,627 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. FINANCIAL STATEMENTS
EZCORP, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31, 2015	December 31, 2014	September 30, 2015
	(Unaudited)		
Assets:			
Current assets:			
Cash and cash equivalents	$22,781	$ 77,599	$ 59,124
Restricted cash	16,157	60,218	15,137
Pawn loans	157,905	150,930	159,964
Consumer loans, net	32,175	61,347	36,533
Pawn service charges receivable, net	31,342	30,241	30,852
Consumer loan fees and interest receivable, net	12,827	13,199	19,802
Inventory, net	132,980	132,659	124,084
Prepaid income taxes	5,929	36,580	7,945
Income taxes receivable	35,131	16,243	37,230
Prepaid expenses and other current assets	25,296	34,075	21,076
Total current assets	472,523	613,091	511,747
Investment in unconsolidated affiliate	53,404	99,219	56,182
Property and equipment, net	69,963	104,353	75,594
Restricted cash, non-current	2,667	4,310	2,883
Goodwill	326,201	337,498	327,460
Intangible assets, net	40,443	49,523	41,263
Non-current consumer loans, net	71,502	78,362	75,824
Deferred tax asset, net	73,655	28,189	69,121
Other assets, net	35,482	77,352	42,985
Total assets (1)(3)	$1,145,840	$ 1,391,897	$ 1,203,059
Liabilities, temporary equity and stockholders' equity:			
Current liabilities:			
Current maturities of long-term debt	$75,586	$ 74,832	$ 74,345
Current capital lease obligations	—	258	—
Accounts payable and other accrued expenses	87,219	81,417	107,871
Other current liabilities	6,470	6,000	15,384
Customer layaway deposits	10,138	5,133	10,470
Total current liabilities	179,413	167,640	208,070
Long-term debt, less current maturities	281,545	374,600	297,166
Deferred gains and other long-term liabilities	5,917	8,446	6,157
Total liabilities (2)(4)	466,875	550,686	511,393
Commitments and contingencies			
Temporary equity:			
Class A Non-voting Common Stock, subject to possible redemption at $10.06 per share; 1,168,456 shares issued and outstanding at redemption value as of December 31, 2015 and September 30, 2015; and none as of December 31, 2014	11,696	—	11,696

Redeemable noncontrolling interest	2,379	18,550	3,235
Total temporary equity	14,075	18,550	14,931
Stockholders’ equity:			
Class A Non-voting Common Stock, par value $.01 per share; shares authorized: 100 million as of December 31, 2015 and 2014 and September 30, 2015; issued and outstanding: 50,756,171 as of December 31, 2015; 50,680,358 as of December 31, 2014; and 50,726,289 as of September 30, 2015	508	506	507
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	309,562	329,443	307,080
Retained earnings	415,663	521,198	423,137
Accumulated other comprehensive loss	(60,873)	(28,516)	(54,019)
EZCORP, Inc. stockholders’ equity	664,890	822,661	676,735
Total liabilities, temporary equity and stockholders’ equity	$ 1,145,840	$ 1,391,897	$ 1,203,059

See accompanying notes to interim condensed consolidated financial statements.

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Assets and Liabilities of Consolidated Variable Interest Entities (See Note 12)

(1) Our consolidated assets as of December 31, 2015 and 2014 and September 30, 2015 include the following assets of our consolidated variable interest entities:

	December 31, 2015	December 31, 2014	September 30, 2015
	(Unaudited)		
	(in thousands)		
Restricted cash	$1,565	$ 1,903	$ 1,361
Consumer loans, net	8,581	16,810	5,846
Consumer loan fees and interest receivable, net	3,703	3,579	6,399
Non-current consumer loans, net	20,623	36,297	27,162
Total assets	$34,472	$ 58,589	$ 40,768

(2) Our consolidated liabilities as of December 31, 2015 and 2014 and September 30, 2015 include the following liabilities of our consolidated variable interest entities:

	December 31, 2015	December 31, 2014	September 30, 2015	
	(Unaudited)			
	(in thousands)			
Accounts payable and other accrued expenses	$5,142	$ 3,007	$ 4,313	
Current maturities of long-term debt	40,715	50,043	42,017	*
Long-term debt, less current maturities	20,741	63,125	31,247	*
Total liabilities	$66,598	$ 116,175	$ 77,577	

* This amount has been revised from the originally filed amount due to a reclassification error between current and non-current amounts as of September 30, 2015. The consolidated amounts previously reported in the balance sheet were correct.

Assets and Liabilities of Grupo Finmart Securitization Trust (See Note 12)

(3) Our consolidated assets as of December 31, 2015 and 2014 and September 30, 2015 include the following assets of Grupo Finmart's securitization trust that can only be used to settle its liabilities:

	December 31, 2015	December 31, 2014	September 30, 2015
	(Unaudited)		
	(in thousands)		
Restricted cash	$10,360	$22,457	$12,033
Consumer loans, net*	38,996	35,069	36,845
Consumer loan fees and interest receivable, net	7,056	4,937	6,067
Restricted cash, non-current	194	123	197
Total assets	$56,606	$62,586	$55,142

* This amount includes current and non-current portions.

(4) Our consolidated liabilities as of December 31, 2015 and 2014 and September 30, 2015 include the following liabilities for which the creditors of Grupo Finmart's securitization trust do not have recourse to the general credit of EZCORP, Inc.:

	December 31, 2015	December 31, 2014	September 30, 2015
	(Unaudited)		
	(in thousands)		

Long-term debt, less current maturities	$40,080	$ 46,110	$40,493

See accompanying notes to interim condensed consolidated financial statements.

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EZCORP, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,	
	2015	2014
	(Unaudited)	
	(in thousands, except per share amounts)	
Revenues:		
Merchandise sales	$108,584	$109,639
Jewelry scrapping sales	9,621	18,534
Pawn service charges	66,594	64,927
Consumer loan fees and interest	13,188	18,971
Other revenues	467	655
Total revenues	198,454	212,726
Merchandise cost of goods sold	66,259	72,478
Jewelry scrapping cost of goods sold	8,076	14,675
Consumer loan bad debt	12,603	8,515
Net revenues	111,516	117,058
Operating expenses:		
Operations	85,606	80,087
Administrative	19,983	12,552
Depreciation and amortization	8,059	8,008
Loss on sale or disposal of assets	33	256
Restructuring	1,692	22
Total operating expenses	115,373	100,925
Operating (loss) income	(3,857)	16,133
Interest expense	9,192	12,034
Interest income	(140)	(531)
Equity in net income of unconsolidated affiliate	(2,055)	(2,194)
Other expense	870	759
(Loss) income from continuing operations before income taxes	(11,724)	6,065
Income tax (benefit) expense	(3,696)	3,264
(Loss) income from continuing operations, net of tax	(8,028)	2,801
(Loss) income from discontinued operations, net of tax	(238)	6,877
Net (loss) income	(8,266)	9,678
Net loss from continuing operations attributable to redeemable noncontrolling interest	(792)	(1,934)
Net (loss) income attributable to EZCORP, Inc.	$(7,474)	$11,612
Basic (loss) earnings per share attributable to EZCORP, Inc.:		
Continuing operations	$(0.13)	$0.09
Discontinued operations	—	0.13
Basic earnings (loss) per share	$(0.13)	$0.22
Diluted (loss) earnings per share attributable to EZCORP, Inc.:		
Continuing operations	$(0.13)	$0.09
Discontinued operations	—	0.13
Diluted (loss) earnings per share	$(0.13)	$0.22

Weighted-average shares outstanding:		
Basic	54,895	53,650
Diluted	54,895	53,698
Net (loss) income from continuing operations attributable to EZCORP, Inc.	$(7,236)	$4,735
(Loss) income from discontinued operations attributable to EZCORP, Inc.	(238)	6,877
Net (loss) income attributable to EZCORP, Inc.	$(7,474)	$11,612

See accompanying notes to interim condensed consolidated financial statements.

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EZCORP, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended December 31,	
	2015	2014
	(Unaudited)	
	(in thousands)	
Net (loss) income	$(8,266)	$9,678
Other comprehensive loss:		
Foreign currency translation loss, net of income tax benefit for our investment in unconsolidated affiliate of $2,603 and $419 for the three months ended December 31, 2015 and 2014, respectively	(6,940)	(21,102)
Cash flow hedges:		
Amounts reclassified from accumulated other comprehensive loss	22	352
Other comprehensive loss, net of tax	(6,918)	(20,750)
Comprehensive loss	$(15,184)	$(11,072)
Attributable to redeemable noncontrolling interest:		
Net loss	(792)	(1,934)
Foreign currency translation loss	(65)	(2,402)
Amounts reclassified from accumulated other comprehensive loss	1	86
Comprehensive loss attributable to redeemable noncontrolling interest	(856)	(4,250)
Comprehensive loss attributable to EZCORP, Inc.	$(14,328)	$(6,822)

See accompanying notes to interim condensed consolidated financial statements.

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EZCORP, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended December 31, 2015	2014
	(Unaudited) (in thousands)	
Operating activities:		
Net (loss) income	$(8,266)	$9,678
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	8,090	9,030
Amortization of debt discount and consumer loan premium, net	2,362	1,982
Consumer loan loss provision	9,691	7,590
Deferred income taxes	(4,534)	1,498
Restructuring	1,692	—
Amortization of deferred financing costs	833	1,633
Amortization of prepaid commissions	4,023	3,013
Other adjustments	(1,966)	(176)
Loss on sale or disposal of assets	33	324
Stock compensation expense (benefit)	833	(2,458)
Income from investment in unconsolidated affiliate	(2,055)	(2,194)
Changes in operating assets and liabilities:		
Service charges and fees receivable	6,381	(3,361)
Inventory	(2,107)	509
Prepaid expenses, other current assets and other assets	(5,739)	(7,824)
Accounts payable and other accrued expenses and deferred gains and other long-term liabilities	(12,707)	(13,955)
Customer layaway deposits	(310)	(2,895)
Restricted cash	147	(933)
Prepaid income taxes and income taxes receivable	4,074	3,903
Payments of restructuring charges	(4,943)	(2,285)
Dividends from unconsolidated affiliate	—	2,407
Net cash (used in) provided by operating activities	(4,468)	5,486
Investing activities:		
Loans made	(173,162)	(223,748)
Loans repaid	106,372	166,771
Recovery of pawn loan principal through sale of forfeited collateral	58,566	69,886
Additions to property and equipment	(1,166)	(8,954)
Investment in unconsolidated affiliate	—	(12,140)
Proceeds from sale of assets	27	—
Net cash used in investing activities	(9,363)	(8,185)
Financing activities:		
Payout of deferred and contingent consideration	(8,915)	(6,000)
Proceeds from settlement of forward currency contracts	3,557	2,313
Change in restricted cash	(1,261)	(795)
Proceeds from bank borrowings, net of debt issuance costs	14,302	66,560
Payments on bank borrowings and capital lease obligations	(29,358)	(34,650)

Net cash (used in) provided by financing activities	(21,675)	27,428
Effect of exchange rate changes on cash and cash equivalents	(837)	(2,455)
Net (decrease) increase in cash and cash equivalents	(36,343)	22,274
Cash and cash equivalents at beginning of period	59,124	55,325
Cash and cash equivalents at end of period	$22,781	$77,599
Non-cash investing activities:		
Pawn loans forfeited and transferred to inventory	$65,629	$66,699

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See accompanying notes to 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	EZCORP, Inc. Stockholders' Equity
	Shares	Par Value				
	(Unaudited, except balances as of September 30, 2015 and 2014) (in thousands)					
Balances as of September 30, 2014	53,585	$536	$332,264	$509,586	$(10,082)	$832,304
Stock compensation		—	(2,458)	—	—	(2,458)
Release of restricted stock	65	—	—	—	—	—
Excess tax benefit from stock compensation	—	—	(167)	—	—	(167)
Taxes paid related to net share settlement of equity awards	—	—	(196)	—	—	(196)
Amounts reclassified from accumulated other comprehensive loss	—	—	—	—	266	266
Foreign currency translation adjustment	—	—	—	—	(18,700)	(18,700)
Net income attributable to EZCORP, Inc.	—	—	—	11,612	—	11,612
Balances as of December 31, 2014	53,650	$536	$329,443	$521,198	$(28,516)	$822,661
Balances as of September 30, 2015	53,696	$537	$307,080	$423,137	$(54,019)	$676,735
Stock compensation	—	—	2,608	—	—	2,608
Release of restricted stock	30	1	—	—	—	1
Excess tax benefit from stock compensation	—	—	(85)	—	—	(85)
Taxes paid related to net share settlement of equity awards	—	—	(41)	—	—	(41)
Amounts reclassified from accumulated other comprehensive loss	—	—	—	—	21	21
Foreign currency translation adjustment	—	—	—	—	(6,875)	(6,875)
Net loss attributable to EZCORP, Inc.	—	—	—	(7,474)	—	(7,474)
Balances as of December 31, 2015	53,726	$538	$309,562	$415,663	$(60,873)	$664,890

See accompanying notes to interim condensed consolidated financial statements.

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EZCORP, Inc.
Notes to Interim Condensed Consolidated Financial Statements (Unaudited)
December 31, 2015

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

We are a leading provider of pawn loans in the United States and Mexico and consumer loans in Mexico. In the United States and Mexico, we offer pawn loans, which are non-recourse loans collateralized by tangible property, and we sell merchandise, primarily collateral forfeited from pawn lending operations and used merchandise purchased from customers.

Through our 94%-owned subsidiary, Prestaciones Finmart, S.A.P.I. de C.V., SOFOM, E.N.R. ("Grupo Finmart"), headquartered in Mexico City, we offer unsecured installment loans to employees of various Mexican employers (principally federal, state and local government agencies), which are repaid through payroll deductions.

We also own approximately 32% of Cash Converters International Limited ("Cash Converters International"), based in Australia and publicly-traded on the Australian Stock Exchange, which franchises and operates a worldwide network of over 700 locations that provide pawn loans, short-term unsecured loans and other consumer finance products, and buy and sell second-hand goods, with significant store concentration in Australia and the United Kingdom.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Our management has included all adjustments it considers necessary for a fair presentation. These adjustments are of a normal, recurring nature except for those related to discontinued operations described in Note 2.

The accompanying financial statements should be read in conjunction with the condensed consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended September 30, 2015. The balance sheet as of September 30, 2015 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Our business is subject to seasonal variations, and operating results for the three-months ended December 31, 2015 (the "current quarter" and "current three-month period") are not necessarily indicative of the results of operations for the full fiscal year.

These condensed consolidated financial statements include the accounts of EZCORP, Inc. ("EZCORP") and its consolidated subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

To determine if we hold a controlling financial interest in an entity, we first evaluate if we are required to apply the variable interest entity ("VIE") model to the entity; otherwise, the entity is evaluated under the voting interest model. Where we hold current or potential rights that give us the power to direct the activities of a VIE that most significantly impact the VIE's economic performance combined with a variable interest that gives us the right to receive potentially significant benefits or the obligation to absorb potentially significant losses, we have a controlling financial interest in that VIE. Rights held by others to remove the party with power over the VIE are not considered unless one party can exercise those rights unilaterally. Grupo Finmart has completed several transfers of consumer loans to various securitization trusts. We consolidate those securitization entities under the VIE model as described in Note 12.

We account for our investment in our unconsolidated affiliate Cash Converters International Limited ("Cash Converters International") using the equity method.

Recasting of Certain Prior Period Information

Certain reclassifications of prior period amounts have been made to conform to the current period presentation. These reclassifications, other than those pertaining to the recasting of prior period segment information and discontinued operations discussed in our Annual Report on Form 10-K for the year ended September 30, 2015 and the adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Updates ("ASU") discussed below, primarily include the removal of historical corporate overhead allocations totaling $4.3 million for the three-month period ended

December 31, 2014 from segment level "Operations" expense and including them in corporate "Administrative" expense. These allocations were reclassified to provide greater clarity into the results of our operating segment operations. These changes primarily impacted Note 8 with no net impact on our consolidated financial position, results of operations or cash flows.

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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 on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, inventory, 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 the estimates under different assumptions or conditions.

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, 2015, other than those described below.

Recently Adopted Accounting Policies

Deferred Tax Assets

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. This ASU requires reporting entities to classify deferred income taxes as non-current on the condensed consolidated balance sheets. Deferred income taxes were previously required to be classified as current or non-current on the condensed consolidated balance sheets. The provisions of this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. A reporting entity should apply the amendment prospectively or retrospectively. We early adopted ASU 2015-17 during the current quarter on a retrospective basis. The impact of adopting ASU 2015-17 on our condensed consolidated financial statements was the reclassification of current "Deferred tax asset, net" to non-current "Deferred tax asset, net" as of December 31, 2015 and 2014 and September 30, 2015 of $43.8 million, $17.6 million and $44.1 million, respectively, within the condensed consolidated balance sheets. Other than these reclassifications, the adoption of ASU 2015-17 did not have an impact on our consolidated financial position, results of operations or cash flows.

Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This ASU requires reporting entities to record costs paid to third parties that are directly related to issuing debt, and that otherwise would not be incurred, as a deduction to the corresponding debt for presentation purposes. In addition, in August 2015, FASB issued ASU 2015-15, Interest — Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements-Amendments to SEC Paragraphs Pursuant to Staff Announcement at the June 18, 2015 EITF Meeting. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, ASU 2015-15 states the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The provisions of each ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted for each. A reporting entity may apply each amendment retrospectively. We early adopted ASU 2015-03 during the current quarter on a retrospective basis. The impact of adopting ASU 2015-03 on our condensed consolidated financial statements was the reclassification of debt issuance costs included in "Intangible assets, net" to "Long-term debt less current maturities" as of December 31, 2015 and 2014 and September 30, 2015 of $8.4 million, $12.6 million and $9.2 million, respectively, within the condensed consolidated balance sheets. Other than these reclassifications and additional disclosures, the adoption of ASU 2015-03 did not have an impact on our consolidated financial position, results of operations or cash flows.

Reporting Discontinued Operations

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) — Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This ASU provides guidance for the reporting of discontinued operations if (1) a component or group of components of an entity meets the criteria in FASB ASC Paragraph 205-20-45-1E to be classified as held for sale; (2) the component of an entity or group of components of an entity is disposed of by sale; or (3) the component of an entity or group of components of an entity is disposed of other than by sale (for example, by abandonment or in a distribution to owners in a spinoff). Among other disclosures, ASU 2014-08 requires an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position. ASU 2014-08 is effective prospectively for (1) all disposals of components that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years; and (2) all businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014,

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and interim periods within those years. There was no impact of adopting ASU 2014-08 on our consolidated financial position, results of operations or cash flows.

Recently Issued Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, Financial Instruments — Overall (Subtopic 828-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This ASU makes targeted improvements to the accounting for, and presentation and disclosure of, financial assets and liabilities. The ASU further requires separate presentation of financial assets and financial liabilities by measurement category on the balance sheet or the accompanying notes to the financial statements. The provisions of this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted based upon guidance issued within the ASU. A reporting entity should apply the amendment prospectively, with a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. We have not completed the process of evaluating the impact that will result from adopting ASU 2016-01. Therefore we are unable to disclose the impact that adopting ASU 2016-01 will have on our financial position, results of operations and cash flows when such statement is adopted.

NOTE 2: DISCONTINUED OPERATIONS AND RESTRUCTURING

Discontinued Operations

During the fourth quarter of fiscal 2015, in the context of a transformational change in strategy following an intensive six-month review of all Company activities, we implemented a plan that included exiting our U.S. financial services business ("USFS"). During the fourth quarter of fiscal 2014, as part of our new strategy to concentrate on an integrated, customer-centric financial services model that is focused on our core businesses of pawn and unsecured payroll lending, we implemented a plan to exit our online lending businesses in the United States (EZOnline) and the United Kingdom (Cash Genie). These costs are included under "Income from discontinued operations, net of tax" in our condensed consolidated statements of operations.

The following table summarizes the pre-tax charges (gains), inclusive of the charges presented in the accrued lease termination costs, severance costs and other costs rollforward below, pertaining to the above discontinued operations:

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014
	(in thousands)	
Other (a)	$1,530	$—

(a) Includes estimated costs related to employee severance and accelerated amortization of prepaid expenses and other assets.

Accrued lease termination costs, severance costs and other costs related to discontinued operations are included under "Accounts payable and other accrued expenses" in our condensed consolidated balance sheets and are primarily expected to be paid during fiscal 2016. Changes in these amounts during the three-month periods ended December 31, 2015 and 2014 are summarized as follows:

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014
	(in millions)	
Beginning balance (a)	$16.9	$8.9
Charged to expense	1.5	—
Cash payments	(9.5)	(0.7)
Other (b)	0.1	(0.4)
Ending balance	$9.0	$7.8

(a) Beginning balance includes a $10.5 million charge associated with the settlement of outstanding issues with the U.S. Consumer Financial Protection Bureau.

(b) Includes adjustments due to foreign currency effects and other individually immaterial adjustments.

Total revenue included in "(Loss) income from discontinued operations, net of tax" in our condensed consolidated statements of operations for the three-month periods ended December 31, 2015 and 2014 was $2.1 million and $41.4 million, respectively. All revenue, expense and income reported in these condensed consolidated financial statements have been adjusted to reflect reclassification of all discontinued operations.

Restructuring

Fiscal 2015

During the fourth quarter of fiscal 2015, in the context of a transformational change in strategy following an intensive six-month review of all Company activities, we implemented a plan that included streamlining our structure and operating model to improve overall efficiency and reduce costs. The costs of streamlining our structure and operating model are included under "Restructuring" expenses in our condensed consolidated statements of operations and are allocated to certain of our segments as presented in Note 8.

The following table summarizes the pre-tax charges, inclusive of the charges presented in the changes in the balance of restructuring costs rollforward below:

	Three Months Ended December 31, 2015
	(in thousands)
Other (a)	$550
Asset disposals	323
Lease termination costs	819
	$1,692

(a) Includes costs related to employee severance and other.

Accrued lease termination costs, severance costs and other costs related to restructuring are included under "Accounts payable and other accrued expenses" in our condensed consolidated balance sheets. Changes in these amounts during the three-month period ended December 31, 2015 are summarized as follows:

	Three Months Ended December 31, 2015
	(in thousands)
Beginning balance	$8,076
Charged to expense	1,376
Cash payments	(2,042)
Other (a)	(692)
Ending balance	$6,718

(a) Includes other individually immaterial adjustments.

The above amount includes accrued lease termination costs of $6.4 million that we expect to be offset by future sublease payments through 2029. The remaining other amounts accrued are expected to be paid during fiscal 2016.

Fiscal 2014

During the fourth quarter of fiscal 2014, we conducted a company-wide operational review to realign our organization to streamline operations and create synergies and efficiencies. Restructuring charges related to this action are considered corporate costs and therefore are not allocated to specific segments. Changes in these amounts during the three-month periods ended December 31, 2015 and 2014 are summarized as follows:

	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014
	(in thousands)	
Beginning balance	$2,901	$6,121
Charged to expense	—	22
Cash payments	(2,901)	(2,285)
Ending Balance	$—	$3,858

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NOTE 3: EARNINGS PER SHARE

Components of basic and diluted (loss) earnings per share and excluded anti-dilutive potential common shares are as follows:

	Three Months Ended December 31,	
	2015	2014
	(in thousands, except per share amounts)	
Net (loss) income from continuing operations attributable to EZCORP (A)	$(7,236)	$4,735
Income from discontinued operations, net of tax (B)	(238)	6,877
Net (loss) income attributable to EZCORP (C)	$(7,474)	$11,612
Weighted-average outstanding shares of common stock (D)	54,895	53,650
Dilutive effect of restricted stock	—	48
Weighted-average common stock and common stock equivalents (E)	54,895	53,698
Basic (loss) earnings per share attributable to EZCORP:		
Continuing operations (A / D)	$(0.13)	$0.09
Discontinued operations (B / D)	—	0.13
Basic (loss) earnings per share (C / D)	$(0.13)	$0.22
Diluted (loss) earnings per share attributable to EZCORP:		
Continuing operations (A / E)	$(0.13)	$0.09
Discontinued operations (B / E)	—	0.13
Diluted (loss) earnings per share (C / E)	$(0.13)	$0.22
Potential common shares excluded from the calculation of diluted (loss) earnings per share:		
Restricted stock	194	—
Warrants	14,317	14,317
Total potential common shares excluded	14,511	14,317

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NOTE 4: STRATEGIC INVESTMENTS

As of December 31, 2015, we owned 151,948,000 shares, or approximately 32%, of our unconsolidated affiliate Cash Converters International. The following tables present summary financial information for Cash Converters International's most recently reported results as of December 31, 2015 after translation to U.S. dollars:

	June 30, 2015	2014
	(in thousands)	
Current assets	$186,472	$207,415
Non-current assets	151,287	178,764
Total assets	$337,759	$386,179
Current liabilities	$86,374	$95,242
Non-current liabilities	51,044	60,441
Shareholders' equity:		
Equity attributable to owners of the parent	200,340	233,788
Noncontrolling interest	1	(3,292)
Total liabilities and shareholders' equity	$337,759	$386,179

	Fiscal Year Ended June 30, 2015	2014
	(in thousands)	
Gross revenues	$313,748	$304,432
Gross profit	197,873	195,325
(Loss) profit attributable to:		
Owners of the parent	$(17,980)	$22,206
Noncontrolling interest	(169)	(2,809)
(Loss) profit for the year	$(18,149)	$19,397

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NOTE 5: LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

The following table presents our long-term debt instruments and balances under capital lease obligations outstanding as of December 31, 2015 and 2014 and September 30, 2015:

	December 31, 2015		December 31, 2014		September 30, 2015	
	Carrying Amount	Debt (Discount) and (Issuance Costs)	Carrying Amount	Debt (Discount) Premium and (Issuance Costs)	Carrying Amount	Debt (Discount) and (Issuance Costs)
	(in thousands)					
Recourse to EZCORP:						
2.125% Cash convertible senior notes due 2019	$190,089	$(39,911)	$179,796	$(50,204)	$187,471	$(42,529)
Cash convertible senior notes due 2019 embedded derivative	7,777	—	45,163	—	10,505	—
Capital lease obligations	—	—	258	—	—	—
Non-recourse to EZCORP*:						
8.2% Secured foreign currency debt up to $14 million due 2016 (a) (b)	502	(151)	2,839	(592)	938	(204)
14.5% Secured foreign currency debt up to $17 million due 2017 (a)	17,300	—	20,360	—	17,567	—
5.8% Consumer loans facility due 2019 (b)	40,080	(1,962)	46,110	(3,365)	40,493	(2,196)
8.5% Unsecured notes due 2015	—	—	12,238	(266)	12,330	(42)
10% Unsecured notes due 2015	—	—	1,632	—	1,500	—
11% Unsecured notes due 2015	—	—	4,483	—	3,868	—
17% Secured notes due 2015 consolidated from VIEs	—	—	1,768	—	—	—
10% Unsecured notes due 2016	2,069	—	108	—	1,885	—
12% Secured notes due 2016	2,884	—	3,507	114	2,928	—
13% Unsecured notes due 2016	—	—	—	—	1,171	—
13.5% Unsecured notes due 2016	5,767	—	—	—	—	—
15% Unsecured notes due 2016	3,810	—	—	—	233	—
15% Secured notes due 2016 consolidated from VIEs	4,221	—	8,486	—	5,397	—
18% Unsecured notes due 2016	5,767	—	—	—	—	—
20% Unsecured notes due 2016	2,307	—	—	—	—	—
10% Unsecured notes due 2017	173	—	—	—	—	—
11% Secured notes due 2017 consolidated from VIEs (c)	46,469	—	86,541	—	56,113	—
14.5% Secured notes due 2017 consolidated from VIEs	10,766	—	16,373	—	11,754	—
12.4% Secured notes due 2020	17,150	(238)	20,028	(400)	17,358	(268)
Total	357,131	(42,262)	449,690	(54,713)	371,511	(45,239)
Less current portion	75,586	—	75,090	114	74,345	—
Total long-term debt and capital lease obligations	$281,545	$(42,262)	$374,600	$(54,827)	$297,166	$(45,239)

*

Even though Grupo Finmart debt may be non-recourse to EZCORP, a default on more than $25 million of such debt could constitute an event of default under our Cash Convertible Notes (described below). See "Part II, Item 1A — Risk Factors."

(a) Maximum amounts of debt are translated from Mexican pesos to United States dollars as of December 31, 2015.

(b) Interest is charged at the Mexican Interbank Equilibrium rate (“TIIE”) plus an applicable margin. The rate presented is as of December 31, 2015.

(c) Grupo Finmart has entered into foreign exchange forward contracts to mitigate the VIE's currency risk, as described in Notes 11 and 12, and EZCORP has guaranteed the future cash outflows of the forward contracts.

2.125% Cash Convertible Senior Notes Due 2019

In June 2014 ("Original Issuance Date"), we issued $200 million aggregate principal amount of 2.125% Cash Convertible Senior Notes due 2019 (the “Cash Convertible Notes”). We granted the initial purchasers the option to purchase up to an additional $30 million aggregate principal amount of Cash Convertible Notes. That option was exercised in full on June 27, 2014, and we issued an additional $30 million principal amount of Cash Convertible Notes on July 2, 2014. All of the Cash

Convertible Notes were issued pursuant to an indenture dated June 23, 2014 (the "Indenture") by and between us and Wells Fargo Bank, National Association, as the trustee. The Cash Convertible Notes were issued in a private offering under Rule 144A under the Securities Act of 1933. The Cash Convertible Notes pay interest semi-annually in arrears at a rate of 2.125% per annum on June 15 and December 15 of each year, commencing December 15, 2014, and will mature on June 15, 2019 (the "Maturity Date").

Prior to December 15, 2018, the Cash Convertible Notes will be convertible only upon the occurrence of certain events and during certain periods, and thereafter, at any time prior to the close of business on the second scheduled trading day immediately preceding the Maturity Date. At maturity, the holders of the Cash Convertible Notes will be entitled to receive cash equal to the principal amount of the Cash Convertible Notes plus unpaid accrued interest.

The Cash Convertible Notes are unsubordinated unsecured obligations and rank senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the Cash Convertible Notes, equal in right of payment with all of our other unsecured unsubordinated indebtedness, and effectively junior to all debt or other obligations (including trade payables) of our wholly-owned subsidiaries. The Indenture governing the Cash Convertible Notes does not contain any financial covenants.

We incurred transaction costs of approximately $8.8 million related to the issuance of the Cash Convertible Notes, which we recorded as deferred financing costs and have included as a deduction to the corresponding debt liability. Deferred financing costs are being amortized to interest expense using the effective interest method over the expected term of the Cash Convertible Notes.

Under the terms of our Cash Convertible Notes, payment of dividends requires a conversion rate adjustment equal to the conversion rate in effect immediately prior to the open of business on the ex-dividend date for such dividend multiplied by the last reported sale price of the Class A Non-voting Common Stock (“Class A Common Stock”) on the trading day immediately preceding the ex-dividend date for such dividend, divided by the difference between the last reported sale price of the Class A Common Stock on the trading day immediately preceding the ex-dividend date for such dividend and the amount in cash per share we distribute to all or substantially all holders of Class A Common Stock. Should we pay dividends in the future, our certificate of incorporation provides that cash dividends on common stock, when declared, must be declared and paid at the same per share amounts on both classes of stock. Any future determination to pay cash dividends will be at the discretion of our Board of Directors.

Cash Convertible Notes Embedded Derivative

We account for the cash conversion feature of the Cash Convertible Notes as a separate derivative instrument (the “Cash Convertible Notes Embedded Derivative”), which had a fair value of $46.5 million on the issuance date that was recognized as the original issue discount of the Cash Convertible Notes. This original issue discount is being amortized to interest expense over the term of the Cash Convertible Notes using the effective interest method. As of December 31, 2015 and 2014 and September 30, 2014, the Cash Convertible Notes Embedded Derivative was recorded as a non-current liability under "Long-term debt, less current maturities" in our condensed consolidated balance sheets, and will be marked to market in subsequent reporting periods. The classification of the Cash Convertible Notes Embedded Derivative liability as current or non-current on the condensed consolidated balance sheets corresponds with the classification of the net balance of the Cash Convertible Notes as discussed below.

The Cash Convertible Notes are convertible into cash, subject to satisfaction of certain conditions and during the periods described below, based on an initial "Conversion Rate" of 62.2471 shares of Class A Common Stock per $1,000 principal amount of Cash Convertible Notes (equivalent to an initial "Conversion Price" of approximately $16.065 per share of our Class A Common Stock). Upon conversion of a note, we will pay cash based on a daily conversion value calculated on a proportionate basis for each trading day in the applicable 80 trading day observation period as described in the Indenture. The conversion rate will not be adjusted for any accrued and unpaid interest.

Holders may surrender their Cash Convertible Notes for conversion into cash prior to December 15, 2018 only under the following circumstances (the “Early Conversion Conditions”): (1) during any fiscal quarter commencing after the fiscal quarter ending on September 30, 2014 (and only during such fiscal quarter), if the last reported sale price of our Class A Common Stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to

130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price, as defined in the Indenture, per $1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our Class A Common Stock and the conversion rate on such trading day; or (3) upon the occurrence of specified corporate events, as defined in the Indenture. On or after December 15, 2018 until the close of business on the second scheduled trading day immediately preceding the Maturity Date, holders may convert their notes into cash at any time, regardless of the foregoing circumstances.

If a holder elects to convert its Cash Convertible Notes in connection with certain make-whole fundamental changes, as that term is defined in the Indenture, that occur prior to the Maturity Date, we will in certain circumstances increase the conversion rate for Cash Convertible Notes converted in connection with such make-whole fundamental changes by a specified number of shares of Class A Common Stock. In addition, the conversion rate is subject to customary anti-dilution adjustments (for example, certain dividend distributions or tender or exchange offer of our Class A Common Stock).

Upon the occurrence of a fundamental change, as defined in the Indenture, holders may require us to repurchase for cash all or any portion of the then outstanding Cash Convertible Notes at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest.

Impact of Early Conversion Conditions on Financial Statements

As of December 31, 2015, the Cash Convertible Notes were not convertible because the Early Conversion Conditions described above had not been met. Accordingly, the net balance of the Cash Convertible Notes was classified as a non-current liability in our condensed consolidated balance sheets as of December 31, 2015 and 2014 and September 30, 2015. The classification of the Cash Convertible Notes as current or non-current in the condensed consolidated balance sheets is evaluated at each balance sheet date and may change from time to time depending on whether any of the Early Conversion Conditions has been met.

If any of the Early Conversion Conditions is met in any future fiscal quarter, we would classify our net liability under the Cash Convertible Notes as a current liability in the condensed consolidated balance sheets as of the end of that fiscal quarter. If none of the Early Conversion Conditions have been met in a future fiscal quarter prior to the one year period immediately preceding the Maturity Date, we would classify our net liability under the Cash Convertible Notes as a non-current liability in the condensed consolidated balance sheets as of the end of that fiscal quarter. If the note holders elect to convert their Cash Convertible Notes prior to maturity, any unamortized discount and transaction costs will be expensed at the time of conversion. If the entire outstanding principal amount had been converted on December 31, 2015, we would have recorded an expense of $39.9 million associated with the conversion, comprised of $33.9 million of unamortized debt discount and $6.0 million of unamortized debt issuance costs. As of December 31, 2015, none of the note holders had elected to convert their Cash Convertible Notes.

Cash Convertible Notes Hedges

In connection with the issuance of the Cash Convertible Notes, we purchased cash-settled call options (the “Cash Convertible Notes Hedges”) in privately negotiated transactions with certain of the initial purchasers or their affiliates (in this capacity, the “Option Counterparties”). The Cash Convertible Notes Hedges provide us with the option to acquire, on a net settlement basis, approximately 14.3 million shares of our Class A Common Stock at a strike price of $16.065, which is equal to the number of shares of our Class A Common Stock that notionally underlie the Cash Convertible Notes and corresponds to the Conversion Price of the Cash Convertible Notes. The Cash Convertible Notes Hedges have an expiration date that is the same as the Maturity Date of the Cash Convertible Notes, subject to earlier exercise. The Cash Convertible Notes Hedges have customary anti-dilution provisions similar to the Cash Convertible Notes. If we exercise the Cash Convertible Notes Hedges, the aggregate amount of cash we will receive from the option counterparties to the Cash Convertible Notes Hedges will cover the aggregate amount of cash that we would be required to pay to the holders of the converted Cash Convertible Notes, less the principal amount thereof. As of December 31, 2015, we have not purchased any shares under the Cash Convertible Notes Hedges.

The aggregate cost of the Cash Convertible Notes Hedges was $46.5 million (or $21.3 million net of the total proceeds from the Warrants sold, as discussed below). The Cash Convertible Notes Hedges are accounted for as a derivative asset and are recorded in the condensed consolidated balance sheets at their estimated fair value under "Other assets, net." The Cash Convertible Notes Embedded Derivative liability and the Cash Convertible Notes Hedges asset will be adjusted to fair value each reporting period and unrealized gains and losses will be reflected in the condensed consolidated statements of operations. The Cash Convertible Notes Embedded Derivative and the Cash Convertible Notes Hedges are designed to have similar fair values. Accordingly, the changes in the fair values of these instruments are expected to offset and not have a net impact on the condensed consolidated statements of operations.

The classification of the Cash Convertible Notes Hedges asset as current or long-term on the condensed consolidated balance sheets corresponds with the classification of the Cash Convertible Notes, which is evaluated at each balance sheet date and may change from time to time depending on whether any of the Early Conversion Conditions has been met.

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Cash Convertible Notes Warrants

In connection with the issuance of the Cash Convertible Notes, we also sold net-share-settled warrants (the “Warrants”) in privately negotiated transactions with the Option Counterparties for the purchase of up to approximately 14.3 million shares of our Class A Common Stock at a strike price of $20.83 per share, for total proceeds of $25.1 million, net of issuance costs, which was recorded as an increase in stockholders' equity. The Warrants have customary anti-dilution provisions similar to the Cash Convertible Notes. As a result of the Warrants, we will experience dilution to our diluted earnings per share if our average closing stock price exceeds $20.83 for any fiscal quarter. The Warrants expire on various dates from September 2019 through February 2020 and must be settled in net shares of our Class A Common Stock. Therefore, upon expiration of the Warrants, we will issue shares of Class A Common Stock to the purchasers of the Warrants that represent the value by which the price of the Class A Common Stock exceeds the strike price stipulated within the particular warrant agreement. As of December 31, 2015, there were 14.3 million warrants outstanding.

Cash Convertible Notes Interest Expense

Total interest expense attributable to the Cash Convertible Notes for the three-month periods ended December 31, 2015 and 2014 was $3.7 million and $3.6 million, respectively, comprised of contractual interest expense of $1.2 million and 1.3 million, respectively, and debt discount and deferred financing cost amortization of $2.5 million and $2.3 million, respectively. The effective interest rate approximates 8% after inclusion of deferred financing costs upon adoption of ASU 2015-03, from the effective interest rate of approximately 7% during fiscal 2015.

As of December 31, 2015, the remaining unamortized issuance discount and costs will be amortized over the next three years assuming no early conversion.

Non-Recourse Debt to EZCORP

Non-recourse debt amounts in the table above represent Grupo Finmart’s third-party debt including secured notes consolidated from VIEs. Amounts due in Mexican pesos are translated each reporting period. Effective interest rates approximate stated rates.

Secured Foreign Currency Debt, Secured Notes not Consolidated from VIEs and Unsecured Notes

Foreign currency debt and secured notes (not including secured notes consolidated from VIEs, which are discussed below) are guaranteed by Grupo Finmart's loan portfolio or collateralized cash at Grupo Finmart’s option. As of December 31, 2015 and 2014, Grupo Finmart’s secured foreign currency debt and notes, excluding secured notes consolidated from VIEs, were guaranteed by consumer loans totaling $37.0 million and $8.7 million, respectively, included in “Consumer loans, net” and “Non-current consumer loans, net” in our condensed consolidated balance sheets, and collateralized cash totaling $2.4 million and $34.1 million, respectively, included in “Restricted cash” and “Restricted cash, non-current” in our condensed consolidated balance sheets. All unsecured notes are collateralized with Grupo Finmart’s assets.

During the three-month period ended December 31, 2015, Grupo Finmart issued $6.1 million of 13.5% unsecured notes due September 2016, $6.1 million of 18% unsecured notes due September 2016 and $2.3 million of 20% unsecured notes due March 2016.

During the three-month period ended December 31, 2015, Grupo Finmart repaid the remaining $12.3 million 8.5% unsecured notes due 2015, $1.5 million 10% unsecured notes due 2015, $3.9 million 11% unsecured notes due 2015 and $1.2 million 13% unsecured notes due 2016 outstanding as of September 30, 2015.

Notes Consolidated from VIEs

During the year ended September 30, 2014, Grupo Finmart entered into three separate agreements with third party investors and variable interest entities (“VIEs”) to securitize selected loans providing asset backed financing for operations. The VIEs issued promissory notes to the third party first beneficiaries of the VIEs. The debt described below is collateralized by all of the assets of the VIEs as presented in our condensed consolidated balance sheets described in Note 12.

The secured notes consolidated from VIEs contain certain prepayment clauses. Where the collections on consumer loans held by the VIEs are greater than anticipated in future reporting periods, we expect an accelerated repayment of the secured notes. See “Assets and Liabilities of Consolidated Variable Interest Entities” included in our condensed consolidated balance sheets.

During the three-month period ended December 31, 2015, the VIEs repaid a net $11.8 million of outstanding debt, including the impact of foreign exchange effects, of its notes outstanding as of September 30, 2015.

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NOTE 6: TEMPORARY EQUITY

The following table provides a summary of the activity in our temporary equity balances during the three-month periods ended December 31, 2015 and 2014:

	Common Stock, Subject to Possible Redemption	Redeemable Noncontrolling Interest	Total Temporary Equity
	(in thousands)		
Balance as of September 30, 2014	$—	$22,800	$22,800
Net loss attributable to redeemable noncontrolling interest	—	(1,934)	(1,934)
Foreign currency translation adjustment attributable to redeemable noncontrolling interest	—	(2,402)	(2,402)
Amounts reclassified from accumulated other comprehensive loss	—	86	86
Balance as of December 31, 2014	$—	$18,550	$18,550
Balances as of September 30, 2015	$11,696	$3,235	$14,931
Net loss attributable to redeemable noncontrolling interest	—	(792)	(792)
Foreign currency translation adjustment attributable to redeemable noncontrolling interest	—	(65)	(65)
Amounts reclassified from accumulated other comprehensive loss	—	1	1
Balances as of December 31, 2015	$11,696	$2,379	$14,075

Common Stock, Subject to Possible Redemption

On February 19, 2015, we completed the acquisition of 12 pawn stores in Central Texas doing business under the "Cash Pawn" brand. The aggregate purchase price for the acquisition was $16.5 million, comprised of $5.0 million cash and 1,168,456 shares of our Class A Non-voting Common Stock (the "Shares"), valued at $10.01 per share less a $0.2 million Holding Period Adjustment discussed below. The Shares were issued in an unregistered private placement transaction pursuant to Section 4(a)(2) of the Securities Act of 1933 to a small number of related individuals and entities (the "Sellers") who were either "accredited investors" or "sophisticated investors."

On the first anniversary of the closing date, the Sellers have the right to require us to repurchase the Shares for an aggregate price of $11.8 million (the "Put Option"). The Sellers may terminate the Put Option, in whole or in part, at any time. The Sellers are required to hold the Shares for a period of six months following the termination of the Put Option or such later date when we are in compliance with Rule 144(c) (the "Holding Period"). If the trading price of the Class A Non-voting Common Stock at the end of the Holding Period is less than $10.06 per share (the average closing sales price of the stock on The Nasdaq Stock Market for the five trading days immediately preceding the closing), then we will make an additional cash payment to the Sellers equal to the aggregate deficit, but such payment will not exceed $1.0 million. If the trading price of the Class A Non-voting Common Stock at the end of the Holding Period is more than $10.06 per share, then we will receive from the Sellers (either in cash or by returning a portion of the Shares) an amount equal to 50% of the aggregate excess, but such payment will not exceed $1.0 million (the "Holding Period Adjustment"). As of December 31, 2015, the Sellers had not terminated the Put Option in whole or in part.

The Put Option is not accounted for separately from the Shares and does not require bifurcation. The Shares are accounted for as common stock, subject to possible redemption under FASB ASC 480 Distinguishing Liabilities from Equity and are included in temporary equity in our condensed consolidated balance sheet as of December 31, 2015. The Holding Period Adjustment is accounted for as a contingent consideration asset under FASB ASC 805 Business Combinations, will be adjusted to fair value in subsequent reporting periods, and is recorded in our condensed consolidated balance sheet at its estimated fair value under "Other assets, net" as of December 31, 2015. See Note 10 for additional information regarding the Holding Period Adjustment.

Grupo Finmart

On January 30, 2012, we acquired a 60% interest in Grupo Finmart. On June 30, 2014, we acquired an additional 16% of the ordinary shares outstanding of Grupo Finmart, increasing our ownership percentage to 76%. On August 31, 2015, we acquired an additional 18% of the outstanding ordinary shares of Grupo Finmart, increasing our ownership percentage to 94%. The holders of the remaining 6% of the outstanding ordinary shares of Grupo Finmart have the right, exercisable once in fiscal 2016

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and once in fiscal 2017, to require us to purchase their remaining shares at a purchase price based on an independent valuation of the business.

NOTE 7: CONTINGENCIES

We are involved in various claims, suits, investigations and legal proceedings, including those described below. We are unable to determine the ultimate outcome of any current litigation or regulatory actions. An unfavorable outcome could have a material adverse effect on our financial condition, results of operations or liquidity. We have not recorded a liability for any of these matters as of December 31, 2015 because we do not believe at this time that any loss is probable or that the amount of any probable loss can be reasonably estimated. The following is a description of significant proceedings.

Shareholder derivative litigation — On July 28, 2014, Lawrence Treppel, a purported holder of Class A Non-voting Common Stock, filed a derivative action in the Court of Chancery of the State of Delaware styled Treppel v. Cohen, et al. (C.A. No. 9962-VCP). The complaint, as originally filed and as amended on September 23, 2014, names as defendants Phillip E. Cohen, the beneficial owner of all of our outstanding Class B Voting Common Stock; several current and former members of our Board of Directors (Joseph J. Beal, Sterling B. Brinkley, John Farrell, Pablo Lagos Espinosa, William C. Love, Thomas C. Roberts and Paul E. Rothamel); three entities controlled by Mr. Cohen (MS Pawn Limited Partnership, the record holder of our Class B Voting Common Stock; MS Pawn Corporation, the general partner of MS Pawn Limited Partnership; and Madison Park LLC); and EZCORP, Inc., as nominal defendant. The amended complaint asserts the following claims:

- Claims against the current and former Board members for breach of fiduciary duties and waste of corporate assets in connection with the Board’s decision to enter into advisory services agreements with Madison Park from October 2004 to June 2014 (Counts I and II, respectively);
- Claims against Mr. Cohen and MS Pawn Limited Partnership for aiding and abetting the breaches of fiduciary duties relating to the advisory services agreements with Madison Park (Count III); and
- Claims against Mr. Cohen and Madison Park for unjust enrichment for payments under the advisory services agreements (Count IV).

The plaintiff seeks (a) recovery for the Company in the amount of the damages the Company has sustained as a result of the alleged breach of fiduciary duties, waste of corporate assets and aiding and abetting, (b) disgorgement by Mr. Cohen and Madison Park of the benefits they received as a result of the related party transactions and (c) reimbursement of costs and expenses, including reasonable attorney’s fees.

On November 13, 2014, pursuant to the parties’ stipulation, the Court dismissed the action as to Mr. Brinkley, Mr. Rothamel and Mr. Lagos.

The remaining defendants filed motions to dismiss, and a hearing on those motions was held before the Court on September 8, 2015. Prior to that hearing, the plaintiff proposed a dismissal without prejudice for the claims against Mr. Beal, Mr. Love and Mr. Farrell. Those defendants continued to seek a dismissal with prejudice that would bind all potential plaintiffs. On January 15, 2016, the Court issued an opinion dismissing the action as to Mr. Beal, Mr. Love and Mr. Farrell with prejudice only as to the plaintiff.

On January 25, 2016, the Court issued a separate opinion granting in part and denying in part the motions to dismiss filed by the remaining defendants. Specifically, the Court granted the motion to dismiss Count IV (unjust enrichment) for failure to state a claim. The Court also dismissed Count III (aiding and abetting) as to Mr. Cohen, but interpreted Count I (breach of fiduciary duty) to state a claim against Mr. Cohen and MS Pawn, as well as Mr. Roberts. The Court otherwise denied the motions to dismiss, including the motion to dismiss Count III (aiding and abetting) against MS Pawn.

On February 4, 2016, the remaining defendants filed an Application for Certification of Interlocutory Appeal, and the Court has set a hearing on the application for February 22, 2016.

We intend to continue to defend vigorously against the claims asserted in this lawsuit. Although the lawsuit does not seek relief against the Company, we have certain indemnification obligations to the other defendants (including Madison Park and Mr. Cohen), which obligations include the payment of attorney’s fees in advance of the outcome. We cannot predict the outcome of this lawsuit, or the amount of time and expense that will be required to resolve it.

Federal securities litigation (SDNY) — On August 22, 2014, Jason Close, a purported holder of Class A Non-voting Common Stock, for himself and on behalf of other similarly situated holders of Class A Non-voting Common Stock, filed a lawsuit in the United States District Court for the Southern District of New York styled Close v. EZCORP, Inc., et al. (Case No. 1:14-cv-06834-ALC). The complaint names as defendants EZCORP, Inc., Paul E. Rothamel (our former chief executive officer) and

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Mark Kuchenrither (our former chief financial officer and former chief operating officer) and asserts violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. In general, the complaint alleges that the implementation of certain strategic and growth initiatives were less successful than represented by the defendants, that certain of the Company's business units and investments were not performing as well as represented by the defendants and that, as a result, the defendants' disclosures and statements about the Company's business and operations were materially false and misleading at all relevant times.

On October 17, 2014, the Automotive Machinists Pension Plan, also purporting to be the holder of Class A Non-voting Common Stock and acting for itself and on behalf of other similarly situated holders of Class A Non-voting Common Stock, filed a lawsuit in the United Stated District Court for the Southern District of New York styled Automotive Machinists Pension Plan v. EZCORP, Inc., et al. (Case No. 1:14-cv-8349-ALC). The complaint names EZCORP, Inc., Mr. Rothamel and Mr. Kuchenrither as defendants, but also names Mr. Cohen and MS Pawn Limited Partnership. The complaint likewise asserts violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as well as Rule 10b-5 promulgated thereunder, alleging generally that (1) EZCORP and the officer defendants (Mr. Rothamel and Mr. Kuchenrither) issued false and misleading statements and omissions concerning the business and prospects, and compliance history, of the Company's online lending operations in the U.K. and the nature of the Company's consulting relationship with entities owned by Mr. Cohen and the process the Board of Directors used in agreeing to it, and (2) Mr. Cohen and MS Pawn Limited Partnership, as controlling persons of EZCORP, participated in the preparation and dissemination of the Company's disclosures and controlled the Company's business strategy and activities.

On October 21, 2014, the plaintiff in the Automotive Machinists Pension Plan action filed a motion to consolidate the Close action and the Automotive Machinists Pension Plan action and to appoint the Automotive Machinists Pension Plan as the lead plaintiff. On November 18, 2014, the court consolidated the two lawsuits under the caption In Re EZCORP, Inc. Securities Litigation (Case No. 1:14-cv-06834-ALC), and on January 16, 2015, appointed the lead plaintiff and lead counsel.

On March 13, 2015, the lead plaintiff filed a Consolidated Amended Class Action Complaint (the "Amended Complaint"). The Amended Complaint asserts violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as well as Rule 10b-5 promulgated thereunder, alleging generally that:

- EZCORP and the officer defendants (Mr. Rothamel and Mr. Kuchenrither) issued false and misleading statements and omissions regarding the Company's online lending operations in the U.K. (Cash Genie) and Cash Genie's compliance history;
- EZCORP and the officer defendants issued false and misleading statements and omissions regarding the nature of the Company's consulting relationship with Madison Park LLC (as entity owned by Mr. Cohen) and the process the Board of Directors used in agreeing to it;
- EZCORP's financial statements were false and misleading, and violated GAAP and SEC rules and regulations, by failing to properly recognize impairment charges with respect to the Company's investment in Albemarle & Bond; and
- Mr. Cohen and MS Pawn Limited Partnership, as controlling persons of EZCORP, were aware of and controlled the Company's alleged false and misleading statements and omissions.

The defendants have filed motions to dismiss, and the parties have submitted their respective supporting and opposing briefs. That motion is pending before the Court.

We cannot predict the outcome of the litigation, but we intend to continue to defend vigorously against all allegations and claims.

Federal Securities Litigation (WDT) — On July 20, 2015, Wu Winfred Huang, a purported holder of Class A Non-voting Common Stock, for himself and on behalf of other similarly situated holders of Class A Non-voting Common Stock, filed a lawsuit in the United States District Court for the Western District of Texas styled Huang v. EZCORP, Inc., et al. (Case No. 1:15-cv-00608-SS). The complaint names as defendants EZCORP, Inc., Stuart I. Grimshaw (our chief executive officer) and Mark E. Kuchenrither (our former chief financial officer) and asserts violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The original complaint related to the Company's announcement on July 17, 2015 that it will restate the 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.
On August 14, 2015, a substantially identical lawsuit, styled Rooney v. EZCORP, Inc., et al. (Case No. 1:15-cv-00700-SS) was also filed in the United States District Court for the Western District of Texas. On September 28, 2015, the plaintiffs in these 2 lawsuits filed an agreed stipulation to be appointed co-lead plaintiffs and agreed that their two actions should be

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consolidated. On November 3, 2015, the Court entered an order consolidating the two actions under the caption In re EZCORP, Inc. Securities Litigation (Master File No. 1:15-cv-00608-SS), and appointed the two plaintiffs as co-lead plaintiffs, with their respective counsel appointed as co-lead counsel.

On January 11, 2016, the plaintiffs filed an Amended Class Action Complaint (the "Amended Complaint"). In the Amended Complaint, the plaintiffs seek to represent a class of purchasers of our Class A Common Stock between November 6, 2015 and October 20, 2015. The Amended Complaint asserts that the Company and Mr. Kuchenrither violated Section 10(b) of the Securities Exchange Act and Rule 10b-5, issued materially false or misleading statements throughout the proposed class period 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. The Amended Complaint does not assert any claims against Mr. Grimshaw. Under the Court's current scheduling order, we have until February 29, 2016 to respond to the Amended Complaint, and we intend to file a motion to dismiss the claims.

This case is in the very early stages. We cannot predict the outcome of the litigation, but we intend to defend vigorously against all allegations and claims.

SEC Investigation — On October 23, 2014, we received a notice from the Fort Worth Regional Office of the SEC that it was conducting an investigation into certain matters involving EZCORP, Inc. The notice was accompanied by a subpoena, directing us to produce a variety of documents, including all minutes and materials related to Board of Directors and Board committee meetings since January 1, 2009 and all documents and communications relating to our historical advisory services relationship with Madison Park (the business advisory firm owned by Mr. Cohen) and LPG Limited (a business advisory firm owned by Lachlan P. Given, our current Executive Chairman of the Board). The SEC has also issued subpoenas to current and former members of our Board of Directors requesting production of similar documents, as well as to certain third parties, and has conducted interviews with certain individuals. We continue to cooperate fully with the SEC in its investigation.

NOTE 8: SEGMENT INFORMATION

We currently report our segments as follows:

- U.S. Pawn — All pawn activities in the United States
- Mexico Pawn — All pawn activities in Mexico and other parts of Latin America
- Grupo Finmart — All payroll lending activities in Mexico and other parts of Latin America
- Other International — Our equity interest in the net income of Cash Converters International and consumer finance activities in Canada

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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. The following tables present operating segment information for the three-month periods ended December 31, 2015 and 2014, including reclassifications discussed in Note 1 and adjustments to reflect reclassification of all discontinued operations discussed in Note 2.

	Three Months Ended December 31, 2015						
	U.S. Pawn	Mexico Pawn	Grupo Finmart	Other International	Total Segments	Corporate Items	Consolidated
	(in thousands)						
Revenues:							
Merchandise sales	$91,994	$16,586	$—	$4	$108,584	$—	$ 108,584
Jewelry scrapping sales	9,600	—	—	21	9,621	—	9,621
Pawn service charges	58,621	7,973	—	—	66,594	—	66,594
Consumer loan fees and interest	—	—	10,814	2,374	13,188	—	13,188
Other revenues	193	191	83	—	467	—	467
Total revenues	160,408	24,750	10,897	2,399	198,454	—	198,454
Merchandise cost of goods sold	55,461	10,798	—	—	66,259	—	66,259
Jewelry scrapping cost of goods sold	8,060	—	—	16	8,076	—	8,076
Consumer loan bad debt	—	—	11,991	612	12,603	—	12,603
Net revenues	96,887	13,952	(1,094)	1,771	111,516	—	111,516
Segment and corporate expenses (income):							
Operations	63,545	11,193	9,588	1,280	85,606	—	85,606
Administrative	—	—	—	—	—	19,983	19,983
Depreciation and amortization	3,560	801	517	51	4,929	3,130	8,059
Loss on sale or disposal of assets	7	26	—	—	33	—	33
Interest expense	86	40	5,065	—	5,191	4,001	9,192
Interest income	(1)	—	(131)	—	(132)	(8)	(140)
Equity in net income of unconsolidated affiliate	—	—	—	(2,055)	(2,055)	—	(2,055)
Restructuring	891	328	—	204	1,423	269	1,692
Other expense (income)	—	128	768	(3)	893	(23)	870
Segment contribution (loss)	$28,799	$1,436	$(16,901)	$2,294	$15,628		
Loss from continuing operations before income taxes					$15,628	$(27,352)	$ (11,724)

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	Three Months Ended December 31, 2014						
	U.S. Pawn	Mexico Pawn	Grupo Finmart	Other International	Total Segments	Corporate Items	Consolidated
	(in thousands)						
Revenues:							
Merchandise sales	$89,442	$19,580	$—	$617	$109,639	$—	$ 109,639
Jewelry scrapping sales	17,007	1,407	—	120	18,534	—	18,534
Pawn service charges	57,035	7,892	—	—	64,927	—	64,927
Consumer loan fees and interest	—	—	16,315	2,656	18,971	—	18,971
Other revenues	184	240	56	175	655	—	655
Total revenues	163,668	29,119	16,371	3,568	212,726	—	212,726
Merchandise cost of goods sold	58,617	13,484	—	377	72,478	—	72,478
Jewelry scrapping cost of goods sold	13,333	1,261	—	81	14,675	—	14,675
Consumer loan bad debt	—	—	7,740	775	8,515	—	8,515
Net revenues	91,718	14,374	8,631	2,335	117,058	—	117,058
Segment and corporate expenses (income):							
Operations	59,507	10,520	8,288	1,772	80,087	—	80,087
Administrative	—	—	—	—	—	12,552	12,552
Depreciation and amortization	3,452	1,244	566	191	5,453	2,555	8,008
Loss on sale or disposal of assets	—	256	—	—	256	—	256
Restructuring	—	—	—	—	—	22	22
Interest expense	8	1	8,281	—	8,290	3,744	12,034
Interest income	(16)	—	(481)	—	(497)	(34)	(531)
Equity in net income of unconsolidated affiliate	—	—	—	(2,194)	(2,194)	—	(2,194)
Other expense	—	438	174	3	615	144	759
Segment contribution (loss)	$28,767	$1,915	$(8,197)	$2,563	$25,048		
Income from continuing operations before income taxes					$25,048	$(18,983)	$ 6,065

NOTE 9: ALLOWANCE FOR LOSSES AND CREDIT QUALITY OF CONSUMER LOANS

Grupo Finmart customers obtain installment loans with a series of payments due over the stated term, which can be as long as four years. We recognize consumer loan interest related to loans we originate based on the percentage of consumer loans made that we believe to be collectible, and reserve the percentage of interest we expect not to collect, over the period in which payments are expected to be received under the effective interest method.

Loans to Grupo Finmart customers whose employment is continuing are referred to as “in-payroll” loans, while loans to Grupo Finmart customers whose employment is discontinued are referred to as “out-of-payroll” loans. A customer is generally considered to have discontinued their employment if they are no longer employed by the employer that is responsible for the payroll withholding. We do not reclassify non-performing loans to performing status if there are subsequent collections on the non-performing loans. We establish reserves for Grupo Finmart loans as follows:

- We reserve 100% of non-performing loans, which for this purpose we consider to be:

Out-of-payroll loans for which Grupo Finmart is not receiving payments; and

In-payroll loans for which Grupo Finmart has not received any payments for 180 consecutive days.

- We also establish additional reserves on loan principal and accrued interest reserves for performing loans based on historical experience.

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When we reserve 100% of a Grupo Finmart loan, we charge the loan principal to consumer loan bad debt expense, reduce interest revenue by the amount of unpaid interest theretofore accrued on the loan and cease accruing interest revenue. Future collections are recorded as a reduction of consumer loan bad debt expense (in the case of written-off principal) and an increase in consumer loan fee revenue (in the case of written-off accrued interest) after principal has been recovered. Long-term unsecured consumer loan bad debt expense is included in "Consumer loan bad debt" expense in our condensed consolidated statements of operations.

Grupo Finmart provides an allowance for losses on performing, in-payroll loans and related interest receivable based on historical collection experience. Changes in the principal valuation allowance are charged to "Consumer loan bad debt" expense and changes in the interest receivable valuation allowance are charged to "Consumer loan fees and interest" in our condensed consolidated statements of operations.

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The following table presents changes in the allowance for credit losses, as well as the recorded investment in our financing receivables by portfolio segment for the periods presented and excludes items such as non-sufficient funds fees, repossession fees, auction fees and interest: