EZCORP INC
Form 10-Q/A
November 26, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q/A
(AMENDMENT NO. 1)

(MARK ONE)
[X]QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2004

OR

[ ]TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM ______________ TO _____________

COMMISSION FILE NUMBER 000-19424

EZCORP, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| | |
|---|---|
| DELAWARE | 74-2540145 |
| (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION | (IRS EMPLOYER IDENTIFICATION NO.) |

1901 CAPITAL PARKWAY
AUSTIN, TEXAS 78746
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)
(ZIP CODE)

(512) 314-3400
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

NA
(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT)

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 is an accelerated filer (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, 100% of which is owned by one record holder who is an affiliate of the registrant. There is no trading market for the Class B Voting Common Stock.

As of March 31, 2004, 11,007,534 shares of the registrant's Class A Non-voting Common Stock, par value $.01 per share and 1,190,057 shares of the registrant's Class B Voting Common Stock, par value $.01 per share were outstanding.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (this "Amendment") amends our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 filed on May 10, 2004 (our "Original Filing"). EZCORP, Inc. (the "Company") has filed this Amendment to correct the classification of certain transactions presented in the Statements of Cash Flows in our Original Filing. The net effect of the reclassifications in the six-month period ended March 31, 2004 is to increase operating cash flows, while decreasing investing cash flows by an equal and offsetting amount. The net effect of the reclassifications in the six-month period ended March 31, 2003 is to decrease operating cash flows, while increasing investing cash flows by an equal and offsetting amount. These changes were identified during the course of the Company preparing its response to a comment letter from the U.S. Securities and Exchange Commission regarding our Annual Report on Form 10-K for the year ended September 30, 2003, as well as filings of other registrants in our industry.

A description of these reclassifications and a summary showing their effect on the restated Statements of Cash Flows is provided in Note K to the Condensed Consolidated Financial Statements. This Amendment also includes corresponding textual changes in the Liquidity and Capital Resources section of Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, an update to related information in Item 4, Controls and Procedures, and updated officer certifications required to be currently dated. This Amendment has no effect on the Condensed Consolidated Balance Sheets or Statements of Operations, and more specifically, does not affect net income (loss), earnings (loss) per share, total cash flows, current assets, total assets, current liabilities, total stockholders' equity or any other information as presented in our Original Filing.

Other information contained herein has not been updated. Therefore, this Amendment should be read together with other documents that the Company has filed with the Securities and Exchange Commission subsequent to the filing of our Original Filing. Information in such reports and documents updates and supersedes certain information contained in this Amendment. The filing of this Amendment shall not be deemed an admission that our Original Filing, when made, included any known, untrue statement of material fact or knowingly omitted to state a material fact necessary to make a statement not misleading.

EZCORP, INC.
INDEX TO FORM 10-Q/A

PART I

ITEM 1. FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets

| | March 31, 2004 | March 31, 2003 |
|---|---|---|
| | (Unaudited) | (In thousands) |
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | $ 202 | $ 3,386 |
| Pawn loans | 42,079 | 41,218 |
| Payday loans | 4,643 | 2,253 |
| Pawn service charges receivable, net | 7,825 | 7,966 |
| Payday loan service charges receivable, net | 928 | 442 |
| Inventory, net | 29,492 | 29,535 |
| Deferred tax asset | 8,163 | 6,418 |
| Federal income tax receivable | -- | -- |
| Prepaid expenses and other assets | 3,054 | 2,456 |
| Total current assets | 96,386 | 93,674 |
| Investment in unconsolidated affiliates | 15,417 | 15,124 |
| Property and equipment, net | 24,642 | 28,659 |
| Note receivable from related party | 1,500 | 1,500 |
| Deferred tax asset, non-current | 4,391 | 1,948 |
| Other assets, net | 3,866 | 3,977 |

| | | |
|---|---|---|
| Total assets | $ 146,202 | $ 144,882 |
| Liabilities and stockholders' equity: | | |
| Current liabilities: | | |
| Accounts payable and other accrued expenses | $ 11,668 | $ 10,030 |
| Customer layaway deposits | 1,842 | 1,731 |
| Federal income taxes payable | 771 | 443 |
| Total current liabilities | 14,281 | 12,204 |
| Long-term debt, less current maturities | 15,000 | 28,000 |
| Deferred gains and other long-term liabilities | 4,139 | 4,019 |
| Total long-term liabilities | 19,139 | 32,019 |
| Commitments and contingencies | -- | -- |
| Stockholders' equity: | | |
| Preferred Stock, par value $.01 per share; Authorized 5,000,000 shares; none issued and outstanding | -- | -- |
| Class A Non-Voting Common Stock, par value $.01 per share; Authorized 40,000,000 shares; 11,016,567 issued and 11,007,534 outstanding at March 31, 2004; 11,006,864 issued and 10,997,831 outstanding at March 31, 2003 and September 30, 2003 | 110 | 110 |
| Class B Voting Common Stock, convertible, par value $.01 per share; Authorized 1,198,990 shares; 1,190,057 issued and outstanding | 12 | 12 |
| Additional paid-in capital | 116,230 | 114,796 |
| Accumulated deficit | (3,164) | (13,777) |
| Less deferred compensation expense | (1,125) | -- |
| | 112,063 | 101,141 |
| Treasury stock, at cost (9,033 shares) | (35) | (35) |
| Receivable from stockholder | -- | (729) |
| Accumulated other comprehensive income | 754 | 282 |
| Total stockholders' equity | 112,782 | 100,659 |
| Total liabilities and stockholders' equity | $ 146,202 | $ 144,882 |

See Notes to Condensed Consolidated Financial Statements (unaudited).

1

Condensed Consolidated Statements of Operations (Unaudited)

| | Three Months Ende | |
|---|---|---|
| | March 31, | |
| | 2004 | 200 |
| | (In thousands, | |
| Revenues: | | |
| Sales | $ 38,374 | $ 35, |
| Pawn service charges | 14,488 | 14, |
| Payday loan service charges | 5,072 | 2, |

| | | |
|---|---|---|
| Other | 355 | |
| Total revenues | 58,289 | 53, |
| Cost of goods sold | 22,517 | 22, |
| Net revenues | 35,772 | 30, |
| Operating expenses: | | |
| Operations | 23,061 | 21, |
| Administrative | 6,378 | 4, |
| Depreciation and amortization | 1,865 | 2, |
| Total operating expenses | 31,304 | 27, |
| Operating income | 4,468 | 2, |
| Interest expense, net | 373 | |
| Equity in net income of unconsolidated affiliate | (496) | ( |
| Income before income taxes and cumulative effect of adopting a new accounting principle | 4,591 | 2, |
| Income tax expense | 1,584 | |
| Income before cumulative effect of adopting a new accounting principle | 3,007 | 1, |
| Cumulative effect of adopting a new accounting principle, net of tax | -- | |
| Net income (loss) | $ 3,007 | $ 1, |
| Income (loss) per common share - basic: | | |
| Income before cumulative effect of adopting a new accounting principle | $ 0.25 | $ 0 |
| Cumulative effect of adopting a new accounting principle, net of tax | -- | |
| Net income (loss) | $ 0.25 | $ 0 |
| Income (loss) per common share - assuming dilution: | | |
| Income before cumulative effect of adopting a new accounting principle | $ 0.23 | $ 0 |
| Cumulative effect of adopting a new accounting principle, net of tax | -- | |
| Net income (loss) | $ 0.23 | $ 0 |
| Weighted average shares outstanding: | | |
| Basic | 12,196 | 12, |
| Assuming dilution | 13,209 | 12, |

See Notes to Interim Condensed Consolidated Financial Statements (unaudited).



Condensed Consolidated Statements of Cash Flows (Unaudited)

| | Six Months Ended March 31, | |
|---|---|---|
| | 2004 | 2003 |

| | Restated (In thousands) | |
|---|---|---|
| Operating Activities: | | |
| Net income (loss) | $ 5,997 | $ (4,254) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Cumulative effect of adopting a new accounting principle | -- | 8,037 |
| Depreciation and amortization | 3,780 | 4,459 |
| Payday loan loss provision | 2,657 | 1,428 |
| Deferred taxes | -- | (3,139) |
| Impairment of receivable | 729 | -- |
| Deferred compensation expense | 245 | 3 |
| Income from investment in unconsolidated affiliate | (861) | (730) |
| Changes in operating assets and liabilities: | | |
| Service charges receivable, net | 972 | 896 |
| Inventory | 326 | 1,055 |
| Notes receivable from related parties | -- | 22 |
| Prepaid expenses, other current assets, and other assets, net | (1,283) | 2,090 |
| Accounts payable and accrued expenses | 626 | (1,518) |
| Customer layaway deposits | 50 | (435) |
| Deferred gains and other long-term liabilities | (180) | (190) |
| Federal income taxes | 1,099 | 802 |
| Net cash provided by operating activities | 14,157 | 8,526 |
| Investing Activities: | | |
| Pawn loans made | (78,664) | (77,451) |
| Pawn loans repaid | 48,717 | 48,582 |
| Recovery of pawn loan principal through sale of forfeited collateral | 35,760 | 38,406 |
| Payday loans made | (21,600) | (10,777) |
| Payday loans repaid | 17,930 | 9,422 |
| Additions to property and equipment | (3,012) | (882) |
| Dividends from unconsolidated affiliate | 414 | 313 |
| Net cash provided by (used in) investing activities | (455) | 7,613 |
| Financing Activities: | | |
| Proceeds from exercise of stock options | 4 | -- |
| Net payments on bank borrowings | (16,000) | (14,245) |
| Net cash used in financing activities | (15,996) | (14,245) |
| Change in cash and equivalents | (2,294) | 1,894 |
| Cash and equivalents at beginning of period | 2,496 | 1,492 |
| Cash and equivalents at end of period | $ 202 | $ 3,386 |
| Non-cash Investing and Financing Activities: | | |
| Pawn loans forfeited and transferred to inventory | $ 35,823 | $ 36,899 |
| Foreign currency translation adjustment | $ 269 | $ 302 |
| Issuance of common stock to 401(k) plan | $ 61 | $ 63 |

See Notes to Interim Condensed Consolidated Financial Statements (unaudited).



EZCORP, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
MARCH 31, 2004

NOTE A: BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring entries) considered necessary for a fair presentation have been included. The accompanying financial statements should be read with the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2003 ("Fiscal 2003"). The balance sheet at September 30, 2003 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.

The Company's business is subject to seasonal variations, and operating results for the three-month and six-month periods ended March 31, 2004 are not necessarily indicative of the results of operations for the full fiscal year.

NOTE B: SIGNIFICANT ACCOUNTING POLICIES

PAWN LOAN REVENUE RECOGNITION: Pawn service charges are recorded using the interest method for all pawn loans the Company deems to be collectible. The Company bases its estimate of collectible loans on several factors, including recent redemption rates, historical trends in redemption rates, and the amount of loans due in the following three months. Unexpected variations in any of these factors could increase or decrease the Company's estimate of collectible loans, affecting the Company's earnings and financial condition.

PAYDAY LOAN REVENUE RECOGNITION: Payday loans and related service charges reported in the Company's consolidated financial statements reflect only the Company's participation interest in these loans. The Company accrues service charges on the percentage of loans the Company deems to be collectible using the interest method. Accrued service charges related to defaulted loans are deducted from service charge revenue upon loan default, and increase service charge revenue upon subsequent collection.

The Company considers a loan defaulted if the loan has not been repaid or refinanced by the maturity date. Although defaulted loans may be collected later, the Company charges defaulted loans' principal to bad debt upon default, leaving only active loans in the reported balance. Subsequent collections of principal are recorded as a reduction of bad debt at the time of collection. The Company's payday loan net defaults, included in store operating expense, were $1.2 million and $2.7 million, representing 4.3% and 4.9% of loans made for the three-month and six-month periods ended March 31, 2004 (the "Fiscal 2004 Second Quarter" and the "Fiscal 2004 Year-to-Date Period," respectively). In the comparable 2003 periods (the "Fiscal 2003 Second Quarter" and the "Fiscal 2003 Year-to-Date Period," respectively), payday loan net defaults were $0.5 million and $1.5 million, representing 3.6% and 4.7%, respectively, of loans made.

ALLOWANCE FOR LOSSES ON PAYDAY LOANS: The Company also provides an allowance for losses on active payday loans and related service charges receivable. Changes in the principal valuation allowance are charged to bad debt expense, a component of operations expense in the Company's statement of operations. Changes in the service charge receivable valuation allowance are charged to payday loan service charge revenue.

INVENTORY: If a pawn loan is not repaid, the forfeited collateral (inventory) is recorded at cost (pawn loan principal). The Company does not record loan loss allowances or charge-offs on the principal portion of pawn loans. In order to state inventory at the lower of cost (specific identification) or market (net realizable value), the Company provides an allowance for shrinkage and excess, obsolete, or slow-moving inventory. The allowance is based on the type and age of merchandise as well as recent sales trends and margins. At March 31, 2004, March 31, 2003, and September 30, 2003, the valuation allowance deducted from the carrying value of inventory was $1.0 million, $2.4 million, and $1.8 million (3.2%, 7.4%, and 5.8% of gross inventory), respectively. Changes in the inventory valuation allowance are recorded as cost of goods sold.

4

VALUATION OF TANGIBLE LONG-LIVED ASSETS: The Company assesses the impairment of tangible long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors which could trigger an impairment review include the following: significant underperformance relative to historical or projected future cash flows; significant changes in the manner of use of the assets or the strategy for the overall business; and significant negative industry trends. When management determines that the carrying value of tangible long-lived assets may not be recoverable, impairment is measured based on the excess of the assets' carrying value over the estimated fair value. No impairment of tangible long-lived assets has been recognized in the Fiscal 2004 or 2003 Periods.

INCOME TAXES: The provision for federal income taxes has been calculated based on the Company's estimate of its effective tax rate for the full fiscal year. As part of the process of preparing the consolidated financial statements, the Company is required to estimate income taxes in each of the jurisdictions in which it operates. This process involves estimating the actual current tax liability together with assessing temporary differences in recognition of income for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the Company's consolidated balance sheet. Management must then assess the likelihood that the deferred tax assets will be recovered from future taxable income. In the event the Company was to determine that it would not be able to realize all or part of its net deferred tax assets in the future, a valuation allowance would be charged to the income tax provision in the period such determination was made. Likewise, should the Company determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, a decrease to a valuation allowance would increase income in the period such determination was made. The Company evaluates the realizability of its deferred tax assets quarterly by assessing the need for a valuation allowance, if any. No adjustments have been made to the Company's valuation allowance in the Fiscal 2004 or 2003 Periods.

STOCK-BASED COMPENSATION: The Company accounts for its stock-based compensation plans in accordance with the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations ("APB 25"). Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure," encourages expensing the fair value of employee stock options, but allows an entity to continue to account for stock-based compensation to employees under

APB 25 with disclosures of the pro forma effect on net income had the fair value accounting provisions of SFAS No. 123 been adopted. The Company has calculated the fair value of options granted in these periods using the Black-Scholes option-pricing model and has determined the pro forma impact on net income. See Note H, Common Stock, Warrants, and Options.

PROPERTY AND EQUIPMENT: Property and equipment is shown net of accumulated depreciation of $69.4 million, $61.6 million and $65.7 million at March 31, 2004, March 31, 2003, and September 30, 2003, respectively.

Certain prior year balances have been reclassified to conform to the Fiscal 2004 presentation.

5

NOTE C: EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | (In thousands, except per share amounts) | | | |
| Numerator | | | | |
| Income before cumulative effect of adopting a new accounting principle | $ 3,007 | $ 1,498 | $ 5,997 | $ 3,783 |
| Cumulative effect of adopting a new accounting principle, net of tax | -- | -- | -- | (8,037) |
| Net income (loss) | 3,007 | 1,498 | $ 5,997 | $ (4,254) |
| Denominator | | | | |
| Denominator for basic earnings per share: weighted average shares | 12,196 | 12,181 | 12,192 | 12,174 |
| Effect of dilutive securities: | | | | |
| Options and warrants | 947 | 332 | 862 | 264 |
| Restricted common stock grants | 66 | -- | 47 | -- |
| Dilutive potential common shares | 1,013 | 332 | 909 | 264 |
| Denominator for diluted earnings per share: adjusted weighted average shares and assumed conversions | 13,209 | 12,513 | 13,101 | 12,438 |
| Basic earnings (loss) per share | $ 0.25 | $ 0.12 | $ 0.49 | $ (0.35) |
| Diluted earnings (loss) per share | $ 0.23 | $ 0.12 | $ 0.46 | $ (0.34) |

The following table presents the weighted average shares subject to options outstanding during the periods indicated. Anti-dilutive options have been excluded from the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares and, therefore, the effect would be anti-dilutive.

| | Three Months Ended March 31 | | Six Months March 3 | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2 |
| Total options outstanding | | | | |
| Weighted average shares subject to options | 2,402,791 | 2,072,291 | 2,267,872 | 2, |
| Average exercise price per share | $ 6.55 | $ 5.98 | $ 6.35 | |
| Anti-dilutive options outstanding | | | | |
| Weighted average shares subject to options | 294,273 | 901,545 | 948,001 | |
| Average exercise price per share | $ 13.61 | $ 10.72 | $ 11.09 | $ |

NOTE D: INVESTMENT IN UNCONSOLIDATED AFFILIATE

The Company owns 13,276,666 common shares of Albemarle & Bond Holdings, plc ("A&B"), approximately 29% of A&B's total outstanding shares. The Company accounts for its investment in A&B using the equity method. Since A&B's fiscal year ends three months prior to the Company's fiscal year, the income reported by the Company for its investment in A&B is on a three-month lag. In accordance with U.K. securities regulations, A&B files only semi-annual financial reports, for its fiscal periods ending December 31 and June 30. The income reported for the Company's Fiscal 2004 Year-to-Date Period represents its percentage interest in the results of A&B's operations from July 1, 2003 to December 31, 2003.



Conversion of A&B's financial statements into US Generally Accepted Accounting Principles ("GAAP") resulted in no material differences from those reported by A&B following UK GAAP. Below is summarized financial information for A&B's most recently reported results (in thousands of U.S. dollars, using average exchange rates for the periods indicated):

| | Six Months ended December 31, | |
|---|---|---|
| | 2003 | 2002 |
| Turnover (gross revenues) | $ 19,726 | $ 16,655 |
| Gross profit | 13,164 | 11,047 |
| Profit after tax (net income) | 2,977 | 2,464 |

NOTE E: CONTINGENCIES

From time to time, the Company is involved in litigation and regulatory actions arising from its normal business operations. Currently, the Company is a defendant in several actions, some of which involve claims for substantial amounts. While the ultimate outcome of these actions cannot be determined, after consultation with counsel, the Company believes the resolution of these actions will not have a material adverse effect on the Company's financial condition, results of operations, or liquidity. However, there can be no assurance as to the ultimate outcome of these actions.

NOTE F: COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes net income (loss) and other revenues, expenses, gains and losses that are excluded from net income (loss) but are included as a component of total stockholders' equity. Comprehensive income for the Fiscal 2004 Second Quarter was $3.2 million and comprehensive income for the Fiscal 2004 Year-to-Date Period was $6.3 million. For the comparable 2003 periods, comprehensive income was $1.7 million and comprehensive loss was $4.0 million, respectively. The difference between comprehensive income (loss) and net income (loss) results primarily from the effect of foreign currency translation adjustments determined in accordance with SFAS No. 52, "Foreign Currency Translation." The accumulated balance of foreign currency activity excluded from net income (loss) of $1.2 million is presented, net of tax of $0.4 million, in the Condensed Consolidated Balance Sheets as "Accumulated other comprehensive income."

NOTE G: LONG-TERM DEBT

At March 31, 2004, the Company's credit agreement provided for a $42.5 million revolving credit facility with an effective rate of 4.5%. Effective April 8, 2004, the Company amended and restated its credit agreement. The amendment extends the maturity date to April 1, 2007 and provides for a $40.0 million revolving credit facility. Advances are secured by the Company's assets. The Company may choose either a Eurodollar rate or the agent bank's base rate. Interest accrues at the Eurodollar rate plus 150 to 275 basis points or the agent bank's base rate plus 0 to 125 basis points, depending on the total leverage ratio computed at the end of each quarter. The Company also pays a commitment fee of 37.5 basis points on the unused amount of the revolving facility. Terms of the agreement require, among other things, that the Company meet certain financial covenants. In addition, payment of dividends and additional debt are allowed but restricted.

NOTE H: COMMON STOCK, WARRANTS, AND OPTIONS

The Company accounts for its stock-based compensation plans as described in Note B, Significant Accounting Policies. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.



The Company's pro forma results are as follows:

| | Three Months Ended March 31 | | Six Months Ended March 31 | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | (In thousands, except per share amounts) | | | |
| Net income (loss), as reported | $ 3,007 | $ 1,498 | $ 5,997 | $(4,254) |
| Add: stock-based employee compensation expense included in reported net income (loss), net of related tax effects | 97 | -- | 162 | 1 |
| Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (237) | (91) | (417) | (176) |

| | | | | |
|---|---|---|---|---|
| Pro forma net income (loss) | $ 2,867 | $ 1,407 | $ 5,742 | $(4,429) |
| | ======= | ======= | ======= | ======= |
| Earnings (loss) per share, basic: | | | | |
| As reported | $ 0.25 | $ 0.12 | $ 0.49 | $ (0.35) |
| Pro forma | $ 0.24 | $ 0.12 | $ 0.47 | $ (0.36) |
| Earnings (loss) per share, assuming dilution: | | | | |
| As reported | $ 0.23 | $ 0.12 | $ 0.46 | $ (0.34) |
| Pro forma | $ 0.22 | $ 0.11 | $ 0.44 | $ (0.36) |

On September 17, 2003, the Compensation Committee of the Board of Directors approved an award of 125,000 shares of restricted stock to the Chairman of the Board. The Company also agreed to reimburse the Chairman for the income tax consequences resulting from the award. The market value of the restricted stock on the award date was $0.8 million, which is being amortized over the two-year restriction period expiring September 17, 2005. During the Fiscal 2004 Second Quarter and the Fiscal 2004 Year-to-Date Period, $0.1 million and $0.2 million, respectively, of this cost was amortized to expense. In the quarter ended December 31, 2003, the Company also reimbursed $0.8 million for the Chairman's one-time taxes related to the award. The reimbursement was charged to administrative expense.

On January 15, 2004, the Compensation Committee of the Board of Directors approved an award of 60,000 shares of restricted stock to the Company's Chief Executive Officer. The shares will vest on January 1, 2009, provided he remains continuously employed by the Company through the vesting date. The shares are subject to earlier vesting based on the occurrence of certain objectives. The Company also agreed to reimburse him for the income tax consequences resulting from the award. The market value of the restricted stock on the award date was $0.6 million, which is being amortized over a three-year period based on the Company's expectation that earlier vesting objectives will be met. During the Fiscal 2004 Second Quarter, $0.05 million of this cost was amortized to expense. The Company expects to amortize an additional $0.1 million of stock compensation cost related to this award during the remaining six months of the fiscal year ending September 30, 2004. Additionally in the quarter ended March 31, 2004, the Company reimbursed $0.3 million for the Chief Executive Officer's one-time taxes related to the award. The reimbursement was charged to administrative expense.

NOTE I: CHANGE IN ACCOUNTING PRINCIPLE - GOODWILL AND OTHER INTANGIBLE ASSETS

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" effective October 1, 2002. Under the provisions of SFAS No. 142, goodwill and other intangible assets having indefinite lives are not subject to amortization but are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the assets might be impaired. During the quarter ended December 31, 2002, the Company, with assistance of independent valuation specialists, completed impairment tests of its goodwill and pawn licenses; its indefinite lived intangible assets. The goodwill testing estimated enterprise value based on discounted cash flows and market capitalization and indicated an implied fair value of goodwill of $0 based on the allocation of enterprise value to all of the Company's assets and liabilities. This resulted in an $8.0 million, net of tax, impairment charge for goodwill, recorded as a cumulative effect of adopting a new accounting principle. Separately, the estimated fair value of pawn licenses was compared to their carrying value, indicating no impairment.

At each balance sheet date presented, the balance of pawn licenses - the only major class of indefinite lived intangible assets at each of these dates was $1.5 million.

The following table presents the gross carrying amount and accumulated amortization for each major class of definite lived intangible assets at the specified dates:

| | March 31, 2004, | | March 31, 2003, | | September 30, 200 | |
|---|---|---|---|---|---|---|
| | Carrying Amount | Accumulated Amortization | Carrying Amount | Accumulated Amortization | Carrying Amount | Accumula Amortiza |
| | (In thousands) | | | | | |
| License application fees | $ 742 | $ 577 | $ 742 | $ 546 | $ 742 | $ 56 |
| Real estate finders' fees | 554 | 265 | 554 | 230 | 554 | 24 |
| Non-compete agreements | 388 | 228 | 388 | 209 | 388 | 21 |
| Total | $ 1,684 | $ 1,070 | $ 1,684 | $ 985 | $ 1,684 | $ 1,02 |

Total amortization expense from definite lived intangible assets for the Fiscal 2004 Second Quarter and the Fiscal 2004 Year-to-Date Period was approximately $20,000 and $41,000, respectively. In comparison, the amortization expense for the Fiscal 2003 Second Quarter and the Fiscal 2003 Year-to-Date Period was approximately $23,000 and $46,000, respectively. The following table presents the Company's estimate of amortization expense for definite lived intangible assets for each of the five succeeding full fiscal years ending September 30 (in thousands):

| Fiscal Year | Amortization Expense |
|---|---|
| 2004 | $ 77 |
| 2005 | 68 |
| 2006 | 67 |
| 2007 | 67 |
| 2008 | 66 |

As acquisitions and dispositions occur in the future, amortization expense may vary from these estimates.

NOTE J: RELATED PARTY TRANSACTIONS

In 1994, the Company loaned Vince Lambiase, the former President and Chief Executive Officer, approximately $729,000 to purchase 50,000 shares of EZCORP Class A Common Stock. The loan was shown as a reduction of stockholders' equity. In connection with his separation from the Company in 2000, the maturity date of the loan was extended to the earlier of (a) ten business days following the first day that the closing price for the Company's stock is equal to or exceeds $10 per share, or (b) August 1, 2005. On January 16, 2004, the Company's stock closed at $10.34. As of March 31, 2004, the note remained outstanding. A full valuation allowance has been recorded for the note as its collection is doubtful.

NOTE K: RESTATEMENT OF THE STATEMENTS OF CASH FLOWS

In addressing comments from the staff of the Securities and Exchange Commission, the Company restated its Condensed Consolidated Statements of Cash Flows to reclassify certain transactions between the operating and investing sections of the Statements of Cash Flows. The Company has reviewed its classification of cash flows arising from the forfeiture and subsequent sale of pawn loan collateral. The Company determined that investing cash flows representing a return of pawn loans receivable which were reported on the dates of loan forfeiture should have been reported on the dates that the forfeited collateral was sold. The previously reported cash flows have been adjusted to remove the non-cash transfer of forfeited collateral from pawn loans to inventory, and to report as a cash flow from investing activities the portion of sales proceeds representing the return of amounts previously loaned. The effect of this adjustment is to increase cash provided by operating activities and to decrease cash flows from investing activities by $0.1 million in the six-month period ended March 31, 2004, and to decrease cash flows from operating activities and increase cash flows from investing activities by $1.5 million in the six-month period ended March 31, 2003. The Company also determined that it should have reported its payday loan loss provision as an



adjustment to reconcile net income to cash provided by operating activities rather than including it in the net change in payday loans in investing activities. The effect of the adjustment to correct this is to increase cash flows from operating activities and to decrease cash flows from investing activities in the amounts of $2.7 million and $1.4 million in the six-month periods ended March 31, 2004 and 2003, respectively. Additionally, the Company previously included renewed pawn loans as both a loan repaid and a loan made. Because a customer need only pay accrued pawn service charges but not the loan principal in order to renew a loan, the Company has restated its statements of cash flows to exclude the principal portion of renewed loans from both loans made and repaid. The effect of this adjustment is to reduce pawn loans made and repaid by $11.8 million and $11.3 million in the six-month periods ended March 31, 2004 and 2003, respectively. As pawn loans made and repaid are each reported as investing activities, there was no net effect on operating or investing cash flows as a result of this adjustment.

A summary of the effects of these corrections is as follows:

| | Six Months Ended March 31, 2004 | | |
|---|---|---|---|
| | As Previously Reported | Adjustments | As Restated |
| | | (in thousands) | |
| Net cash provided by operating activities | $ 11,437 | $ 2,720 | $ 14,157 |
| Net cash provided by (used in) investing activities | 2,265 | (2,720) | (455) |
| Net cash used in financing activities | (15,996) | -- | (15,996) |
| Change in cash and cash equivalents | (2,294) | -- | (2,294) |
| Cash and equivalents at beginning of period | 2,496 | -- | 2,496 |

| | | | |
|---|---|---|---|
| Cash and equivalents at end of period | $ 202 | $ -- | $ 202 |

| | Six Months Ended March 31, 2003 | | |
|---|---|---|---|
| | As Previously Reported | Adjustments | As Restated |
| | | (in thousands) | |
| Net cash provided by operating activities | $ 8,605 | $ (79) | $ 8,526 |
| Net cash provided by investing activities | 7,534 | 79 | 7,613 |
| Net cash used in financing activities | (14,245) | -- | (14,245) |
| Change in cash and cash equivalents | 1,894 | -- | 1,894 |
| Cash and equivalents at beginning of period | 1,492 | -- | 1,492 |
| Cash and equivalents at end of period | $ 3,386 | $ -- | $ 3,386 |

10

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

The discussion in this section of this report contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this section and those discussed elsewhere in this report.

Second Quarter Ended March 31, 2004 vs. Second Quarter Ended March 31, 2003

The following table sets forth selected, unaudited, consolidated financial data with respect to the Company for the three-month periods ended March 31, 2004 and 2003 ("Fiscal 2004 Second Quarter" and "Fiscal 2003 Second Quarter," respectively):

| | Three Months Ended March 31,(a) | | % or Point Change(b) |
|---|---|---|---|
| | 2004 | 2003 | |
| Net revenues: | | | |
| Sales | $38,374 | $35,771 | 7.3% |
| Pawn service charges | 14,488 | 14,323 | 1.2% |
| Payday loan service charges | 5,072 | 2,675 | 89.6% |
| Other | 355 | 235 | 40.3% |
| Total revenues | 58,289 | 53,022 | 9.9% |
| Cost of goods sold | 22,517 | 22,672 | (0.7)% |
| Net revenues | $35,772 | $30,350 | 17.9% |

| | | | |
|---|---|---|---|
| Other data: | | | |
| Gross margin | 41.3% | 36.6% | 4.7 pts. |
| Average annual inventory turnover | 2.9x | 2.8x | 0.1x |
| Average inventory per pawn location at quarter end | $ 105 | $ 105 | -- |
| Average pawn loan balance per pawn location at quarter end | $ 150 | $ 147 | 2.0% |
| Average yield on pawn loan portfolio | 135% | 134% | 1 pt. |
| Pawn loan redemption rate | 79% | 78% | 1 pt. |
| Expenses and income as a percentage of net revenues (%): | | | |
| Store operating | 64.5 | 70.6 | (6.1) pts. |
| Administrative | 17.8 | 14.5 | 3.3 pts. |
| Depreciation and amortization | 5.2 | 7.2 | (2.0) pts. |
| Interest, net | 1.0 | 1.6 | (0.6) pts. |
| Income before income taxes | 12.8 | 7.6 | 5.2 pts. |
| Net income | 8.4 | 4.9 | 3.5 pts. |
| Stores in operation: | | | |
| Beginning of period | 303 | 280 | |
| New openings | 32 | - | |
| End of period | 335 | 280 | |
| Average number of stores during the period | 319 | 280 | |

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a In thousands, except percentages, inventory turnover and store count.

b In comparing the period differences between dollar amounts or per store counts, a percentage change is used. In comparing the period differences between two percentages, a percentage point (pt.) change is used.

11

Six Months Ended March 31, 2004 vs. Six Months Ended March 31, 2003

The following table sets forth selected, unaudited, consolidated financial data with respect to the Company for the six-month periods ended March 31, 2004 and 2003 ("Fiscal 2004 Year-to-Date Period" and "Fiscal 2003 Year-to-Date Period," respectively):

| | Six Months Ended March 31,(a) 2004 | 2003 | % or Point Change(b) |
|---|---|---|---|
| Net revenues: | | | |
| Sales | $ 71,929 | $ 69,969 | 2.8% |
| Pawn service charges | 30,040 | 29,957 | 0.3% |
| Payday loan service charges | 9,933 | 5,752 | 72.7% |
| Other | 701 | 543 | 29.1% |
| Total revenues | 112,603 | 106,221 | 6.0% |

| | | | |
|---|---|---|---|
| Cost of goods sold | 41,790 | 43,992 | (5.0)% |
| Net revenues | $ 70,813 | $ 62,229 | 13.8% |
| Other data: | | | |
| Gross margin | 41.9% | 37.1% | 4.8 pts. |
| Average annual inventory turnover | 2.7x | 2.7x | -- |
| Average inventory per pawn location at quarter end | $ 105 | $ 105 | -- |
| Average pawn loan balance per pawn location at quarter end | $ 150 | $ 147 | 2.0% |
| Average yield on pawn loan portfolio | 134% | 133% | 1 pt. |
| Pawn loan redemption rate | 77% | 77% | -- |
| Expenses and income as a percentage of net revenues (%): | | | |
| Store operating | 64.5 | 68.9 | (4.4) pts. |
| Administrative | 17.3 | 14.0 | 3.3 pts. |
| Depreciation and amortization | 5.3 | 7.2 | (1.9) pts. |
| Interest, net | 1.2 | 1.8 | (0.6) pts. |
| Income before income taxes and cumulative effect | 12.9 | 9.4 | 3.5 pts. |
| Income before cumulative effect | 8.5 | 6.1 | 2.4 pts. |
| Stores in operation: | | | |
| Beginning of period | 284 | 280 | |
| New openings | 51 | -- | |
| End of period | 335 | 280 | |
| Average number of stores during the period | 306 | 280 | |

----------

a In thousands, except percentages, inventory turnover and store count.

b In comparing the period differences between dollar amounts or per store counts, a percentage change is used. In comparing the period differences between two percentages, a percentage point (pt.) change is used.

12

OVERVIEW

The Company meets the short-term cash needs of the cash and credit constrained consumer by offering convenient, non-recourse loans secured by tangible personal property, commonly known as pawn loans, and short-term non-collateralized loans, often referred to as payday loans. The Company makes pawn loans in its 280 EZPAWN pawnshops, located in eleven states. The Company makes payday loans in 205 of its EZPAWN locations, 55 EZMONEY Payday Loans locations ("EZMONEY stores"), and its Austin, Texas based call center.

The Company earns pawn service charge revenue on its pawn lending activity. While allowable service charges vary by state and by amount of the loan, a majority of the Company's pawn loans are in amounts that permit pawn service charges of 20% per month or 240% per annum. The Company's average pawn loan amount has historically averaged between $70 and $75, but varies depending on the evaluation of each item pawned and prevailing gold prices. The allowable term of pawn loans also differs by state, but is typically 30 days with a 60-day grace period.

The Company earns payday loan service charge revenue on its payday loans. In 204 locations and its call center, the Company markets and services payday loans made by County Bank of Rehoboth Beach ("County Bank"), a federally insured Delaware bank. After origination of the loans, the Company may purchase an 85% participation in the loans made by County Bank and marketed by the Company. In 56 of its locations, the Company makes payday loans in compliance with state law. The average payday loan amount is approximately $370 and the terms are generally less than 30 days, averaging about 17 days. The service charge per $100 loaned is typically $18 for a 7 to 23-day period, but varies in certain locations.

In its 280 EZPAWNs, the Company sells merchandise acquired primarily through pawn loan forfeitures and, to a lesser extent, through purchases of customers' merchandise. The realization of gross profit on sales of inventory primarily depends on the Company's initial assessment of the property's resale value. Improper assessment of the resale value of the collateral in the lending function can result in reduced marketability of the property and the realization of a lower margin.

In the Fiscal 2004 Second Quarter, the Company saw significant growth in its payday loan balances and related earnings contribution. The Company also realized improvements in its gross margins on merchandise sales primarily due to effective liquidation of aged general merchandise and due to market-driven price increases on gold jewelry sold to refiners. The Company's income improved to $3.0 million in the Fiscal 2004 Second Quarter from $1.5 million in the Fiscal 2003 Second Quarter.

RESULTS OF OPERATIONS

Second Quarter Ended March 31, 2004 vs. Second Quarter Ended March 31, 2003

The following discussion compares the results of operations for the Fiscal 2004 Second Quarter to the Fiscal 2003 Second Quarter. The discussion should be read in conjunction with the accompanying financial statements and related notes.

The Company's Fiscal 2004 Second Quarter pawn service charge revenue increased 1.2%, or $0.2 million, from the Fiscal 2003 Second Quarter to $14.5 million. This increase was due to a one percentage point improvement in loan yields to 135% in the Fiscal 2004 Second Quarter. Variations in the annualized loan yield, as seen between these periods, are due generally to changes in statutory fees that can be charged, changes in the level of loan forfeitures and a mix shift between loans with different yields. The Company's ending balance of pawn loans outstanding at March 31, 2004 was 2.1% higher than at March 31, 2003, while the average balance of pawn loans outstanding during the two periods remained constant.

In the Fiscal 2004 Second Quarter, 112.3%, or $16.3 million, of recorded pawn service charge revenue was collected in cash offset by a $1.8 million decrease in accrued pawn service charges receivable. In the comparable Fiscal 2003 Second Quarter, 111.0%, or $15.9 million, of recorded pawn service charge revenue was collected in cash offset by a $1.6 million decrease in accrued pawn service charges receivable. This pattern is consistent with the seasonal nature of the pawn lending business. The accrual of pawn service charges is dependent on the Company's estimate of collectible loans in its portfolio at the end of each quarter. Consistent with prior year treatment, the Company decreased its estimate of collectible loans at March 31, 2004 in anticipation of lower loan redemptions following the income tax refund season.



Sales increased $2.6 million in the Fiscal 2004 Second Quarter compared to the Fiscal 2003 Second Quarter, to $38.4 million. The increase was due to 5.1%

higher same store merchandise sales ($1.6 million) and an increase in jewelry scrapping sales ($1.0 million). Below is a summary of comparable sales data:

| | Quarter Ended March 31, 2004 | Quarter Ended March 31, 2003 |
|---|---|---|
| | (Dollars in thousands) | |
| Merchandise sales | $ 33,188 | $ 31,587 |
| Jewelry scrapping sales | 5,186 | 4,184 |
| Total sales | 38,374 | 35,771 |
| Gross profit on merchandise sales | $ 14,330 | $ 12,344 |
| Gross profit on jewelry scrapping sales | 1,527 | 755 |
| Gross margin on merchandise sales | 43.2% | 39.1% |
| Gross margin on jewelry scrapping sales | 29.4% | 18.0% |
| Overall gross margin | 41.3% | 36.6% |

The Fiscal 2004 Second Quarter overall gross margins on sales increased 4.7 percentage points from the Fiscal 2003 Second Quarter to 41.3%. This resulted from improved margins on same store merchandise sales and the effect higher recent gold prices had on jewelry scrapping. Margins on merchandise sales, excluding jewelry scrapping, increased 4.1 percentage points due primarily to more effective liquidation of aged general merchandise in the Fiscal 2004 Second Quarter. During the Fiscal 2004 Second Quarter, the inventory valuation allowance was reduced $0.2 million as a result of the improved liquidation of aged merchandise. In the comparable Fiscal 2003 Second Quarter, the inventory allowance was increased $0.2 million due to the less favorable liquidation of aged merchandise during that quarter. Changes in the inventory valuation allowance are recorded in cost of goods sold, directly impacting the Company's gross margins. Inventory shrinkage, also included in cost of goods sold, was 1.5% of merchandise sales in the Fiscal 2004 Second Quarter compared to 1.9% in the Fiscal 2003 Second Quarter.

Payday loan data are as follows:

| | Quarter Ended M 2004 | |
|---|---|---|
| | (Dollars in th | |
| Service charge revenue | $ 5,072 | $ |
| Bad debt (included in operating expense): | | |
| Net defaults on loans | (1,203) | |
| Change in valuation allowance and other related costs | 104 | |
| Net bad debt | (1,099) | |
| Other direct expenses (included in operating expense) | (187) | |
| Collection and call center costs (included in administrative expense) | (194) | |
| Contribution to operating income | $ 3,592 | $ |

| | | |
|---|---|---|
| Average payday loan balance outstanding during quarter | $ 5,033 | $ |
| Payday loan balance at end of quarter | $ 4,643 | $ |
| Average loan balance per participating location at end of quarter | $ 17.8 | $ |
| Participating locations at end of quarter (whole numbers) | 261 | |
| Net default rate (defaults net of collections, measured as a percent of loans made) | 4.3% | |

The Contribution to operating income presented above is the incremental contribution only and excludes other costs such as labor, rent, and other overhead costs.

Payday loan service charge revenue increased from the Fiscal 2003 Second Quarter with the growth in the amount of loans made during the quarter. Payday loan bad debt expense increased primarily due to the growth in the amount of loans made during the quarter. An increase in the net default rate also contributed approximately one

14

third of the increase in bad debt expense. The maturing of the product and a growth in the number of locations offering the loans contributed to the increase in the loan balance. In the Fiscal 2004 Second Quarter, 104.1% or $5.3 million of recorded payday loan service charge revenue was collected in cash offset by a $0.2 million decrease in accrued payday loan service charges receivable. In the comparable Fiscal 2003 Second Quarter, 106.2% or $2.9 million of recorded payday loan service charge revenue was collected in cash offset by a $0.2 million decrease in accrued payday loan service charges receivable. This is consistent with the seasonal pattern expected in payday lending. The 18.4% decrease in accrued payday loan service charges receivable during the Fiscal 2004 Second Quarter was commensurate with the 18.3% reduction in the related payday loans receivable. The Company anticipates continued growth in payday loans as it continues the expansion of additional EZMONEY Payday Loans stores and the product matures in its current locations.

The Company provides for a valuation allowance on both the principal and fees receivable for payday loans. At March 31, 2004, the valuation allowance was $0.3 million, or 4.7% of the payday loan principal and fees receivable, compared to $0.2 million, or 5.2% of payday loan principal and fees receivable at March 31, 2003. Due to the short-term nature of these loans, the Company uses recent net default rates and anticipated seasonal changes in the rate of defaults as the basis for its valuation allowance, rather than reserving the annual or quarterly rate. Actual loan losses could vary from those estimated due to variance in any of these factors, as well as any national or regional economic downturn.

Although store operating expenses decreased 6.1 percentage points when measured as a percentage of net revenues, it increased 7.7% ($1.6 million) in dollar terms, to $23.1 million. This was due primarily to a $0.6 million volume-related increase in bad debt from payday loans and a 12.6% ($1.3 million) increase in store labor and benefits, offset by a $0.5 million decrease in robbery expense. The Company expects continued volume-related increases in bad debt from payday loans, commensurate with the growth in locations offering payday loans and the maturation of the product in existing locations.

Administrative expenses increased 45.2% ($2.0 million) from the Fiscal 2003 Second Quarter to $6.4 million, representing a 3.3 percentage point increase when measured as a percent of net revenues. The primary causes of this were a $0.4 million increase in accrued incentive compensation due to the Company's improved performance, $0.5 million related to restricted stock awarded to the Company's Chairman and its Chief Executive Officer as long-term incentives as discussed in Note H to the Company's Interim Condensed Consolidated Financial

Statements, and $0.7 million related to a valuation allowance placed on a note receivable from a former Chief Executive Officer of the Company as discussed in Note J to the Company's Interim Condensed Consolidated Financial Statements.

Depreciation and amortization expense decreased $0.3 million in the Fiscal 2004 Second Quarter to $1.9 million. This improvement is primarily due to the reduction in depreciable assets through the 2003 sale-leaseback of three previously owned locations and assets that became fully depreciated over the past year, net of additional depreciation on assets placed in service in the last twelve months.

In the Fiscal 2004 Second Quarter, interest expense decreased by $0.1 million to $0.4 million as a result of lower average debt balances and lower effective interest rates. At March 31, 2004, the Company's total debt was $15.0 million compared to $28.0 million at March 31, 2003.

The Fiscal 2004 Second Quarter income tax provision was $1.6 million (34.5% of pretax income) compared to $0.8 million (35% of pretax income) for the Fiscal 2003 Second Quarter. The decrease in effective tax rate between these periods is due to non-tax deductible items having a smaller percentage impact on larger pre-tax earnings.

Operating income for the Fiscal 2004 Second Quarter increased $2.1 million from the Fiscal 2003 Second Quarter to $4.5 million. The $1.9 million greater contribution from payday loans, $2.8 million higher gross profit on sales, and $0.3 million decrease in depreciation and amortization were somewhat offset by $2.2 million additional labor, benefits, and incentive compensation expense and the $0.7 million valuation allowance placed on a note receivable. After a $0.8 million increase in income tax expense and smaller changes in other non-operating items, net income improved to $3.0 million in the Fiscal 2004 Second Quarter from $1.5 million in the Fiscal 2003 Second Quarter.

15

Six Months Ended March 31, 2004 vs. Six Months Ended March 31, 2003
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The following discussion compares the results of operations for the Fiscal 2004 Year-to-Date Period to the Fiscal 2003 Year-to-Date Period. The discussion should be read in conjunction with the accompanying financial statements and related notes.

The Company's Fiscal 2004 Year-to-Date Period pawn service charge revenue increased 0.3%, or $0.1 million from the Fiscal 2003 Year-to-Date Period to $30.0 million. This increase was primarily due to a one percentage point improvement in loan yields to 134% in the Fiscal 2004 Year-to-Date Period, offset by lower average loan balances during the Fiscal 2004 Year-to-Date Period. Variations in the annualized loan yield, as seen between these periods, are due generally to changes in statutory fees that can be charged, changes in the level of loan forfeitures and a mix shift between loans with different yields. The Company's average balance of pawn loans outstanding during the Fiscal 2004 Year-to-Date Period was 0.9% lower and ending pawn loans outstanding were 2.1% higher than in the Fiscal 2003 Year-to-Date Period.

In the Fiscal 2004 Year-to-Date Period, 103.9% or $31.2 million of recorded pawn service charge revenue was collected in cash offset by a $1.2 million decrease in accrued pawn service charges receivable. In the Fiscal 2003 Year-to-Date Period, 102.8% or $30.8 million of recorded pawn service charge revenue was collected in cash offset by a $0.8 million decrease in accrued pawn service charges receivable. This pattern is consistent with the seasonal nature of the pawn lending business. The accrual of pawn service charges is dependent on the

Company's estimate of collectible loans in its portfolio at the end of each quarter. Consistent with prior year treatment, the Company decreased its estimate of collectible loans at March 31, 2004 in anticipation of lower loan redemptions following the income tax refund season.

Sales increased $1.9 million in the Fiscal 2004 Year-to-Date Period compared to the Fiscal 2003 Year-to-Date Period, to $71.9 million. The increase was due to higher same store merchandise sales ($1.1 million) and an increase in jewelry scrapping sales ($0.8 million). Below is a summary of comparable sales data:

| | Six Months Ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| | (Dollars in thousands) | |
| Merchandise sales | $ 64,250 | $ 63,132 |
| Jewelry scrapping sales | 7,679 | 6,837 |
| Total sales | 71,929 | 69,969 |
| Gross profit on merchandise sales | $ 27,809 | $ 25,195 |
| Gross profit on jewelry scrapping sales | 2,330 | 782 |
| Gross margin on merchandise sales | 43.3% | 39.9% |
| Gross margin on jewelry scrapping sales | 30.3% | 11.4% |
| Overall gross margin | 41.9% | 37.1% |

The Fiscal 2004 Year-to-Date Period overall gross margins on sales increased 4.8 percentage points from the Fiscal 2003 Year-to-Date Period to 41.9%. This resulted from improved margins on same store merchandise sales and the favorable effect higher recent gold prices had on jewelry scrapping. Margins on merchandise sales, excluding jewelry scrapping, increased 3.4 percentage points primarily due to more effective liquidation of aged general merchandise in the Fiscal 2004 Year-to-Date Period. During the Fiscal 2004 Year-to-Date Period, the inventory valuation allowance was reduced $0.8 million as a result of the improved liquidation of aged merchandise. In the comparable Fiscal 2003 Year-to-Date Period, the inventory allowance was increased $0.7 million due to the less favorable liquidation of aged merchandise during that period. Changes in the inventory valuation allowance are recorded in cost of goods sold, directly impacting the Company's gross margins. Inventory shrinkage, also included in cost of goods sold, was 1.6% of merchandise sales in the Fiscal 2004 Year-to-Date Period compared to 1.5% in the Fiscal 2003 Year-to-Date Period.

16

Payday loan data are as follows:

| | Six Months Ended | |
|---|---|---|
| | 2004 | |
| | (Dollars in th | |
| Service charge revenue | $ 9,933 | $ |
| Bad debt (included in operating expense): | | |

| | | |
|---|---|---|
| Net defaults on loans | (2,724) | ( |
| Change in valuation allowance and other related costs | 67 | |
| Net bad debt | (2,657) | ( |
| Other direct expenses (included in operating expense) | (468) | |
| Collection and call center costs (included in administrative expense) | (377) | |
| Contribution to operating income | $ 6,431 | $ |
| Average payday loan balance outstanding during Period | $ 4,607 | $ |
| Payday loan balance at end of Period | $ 4,643 | $ |
| Average loan balance per participating location at end of Period | $ 17.8 | $ |
| Participating locations at end of Period (whole numbers) | 261 | |
| Net default rate (defaults net of collections, measured as a percent of loans made) | 4.9% | |

The Contribution to operating income presented above is the incremental contribution only and excludes other costs such as labor, rent, and other overhead costs.

Payday loan service charge revenue and bad debt expense each increased from the Fiscal 2003 Year-to-Date Period primarily due to an increase in the amount of loans made during the period. The maturing of the product and a growth in the number of locations offering the loans contributed to the increase in the loan balance. In the Fiscal 2004 Year-to-Date Period, 98.1% ($9.7 million) of recorded payday loan service charge revenue was collected in cash, and 1.9% ($0.2 million) resulted from an increase in accrued payday loan service charges receivable. In the comparable Fiscal 2003 Year-to-Date Period, 100.7% or $5.8 million of recorded payday loan service charge revenue was collected in cash offset by a $0.04 million decrease in accrued payday loan service charges receivable. The Company anticipates continued growth in payday loans as it continues the expansion of additional EZMONEY Payday Loans stores and the product matures in its current locations.

The Company provides for a valuation allowance on both the principal and fees receivable for payday loans. At March 31, 2004, the valuation allowance was $0.3 million, or 4.7% of the payday loan principal and fees receivable, compared to $0.2 million, or 5.2% of payday loan principal and fees receivable at March 31, 2003. Due to the short-term nature of these loans, the Company uses recent net default rates and anticipated seasonal changes in the rate of defaults as the basis for its valuation allowance, rather than reserving the annual or quarterly rate. Actual loan losses could vary from those estimated due to variance in any of these factors, as well as any national or regional economic downturn.

Although store operating expenses decreased 4.4 percentage points when measured as a percentage of net revenues, it increased 6.6% ($2.8 million) in dollar terms, to $45.7 million. This was due primarily to a $1.2 million volume-related increase in bad debt from payday loans and an 8.7% ($1.8 million) increase in store labor and benefits, offset by smaller fluctuations in other operating expenses.

Administrative expenses increased 40.9% ($3.6 million) from the Fiscal 2003 Year-to-Date Period to $12.2 million, representing a 3.3 percentage point increase when measured as a percent of net revenues. The primary causes of this were a $1.0 million increase in accrued incentive compensation related to the Company's improved performance and $1.3 million for restricted stock awarded to the Company's Chairman and its Chief Executive Officer as long-term incentives as discussed in Note H to the Company's Interim Condensed Consolidated Financial Statements. Also contributing to the increase was $0.7 million related to a valuation allowance placed on a note receivable from a former Chief Executive

Officer of the Company as discussed in Note J to the Company's Interim Condensed Consolidated Financial Statements and a $0.5 million increase in professional fees.

Depreciation and amortization expense decreased $0.7 million in the Fiscal 2004 Year-to-Date Period to $3.8 million. This improvement is primarily due to the reduction in depreciable assets through the 2003 sale-leaseback of

17

three previously owned locations and assets that became fully depreciated over the past year, net of additional depreciation on assets placed in service in the last twelve months.

In the Fiscal 2004 Year-to-Date Period, interest expense decreased by $0.3 million to $0.8 million as a result of lower average debt balances and lower effective interest rates. At March 31, 2004, the Company's total debt was $15.0 million compared to $28.0 million at March 31, 2003.

The Fiscal 2004 Year-to-Date Period income tax provision was $3.2 million (34.5% of pretax income) compared to $2.0 million (35% of pretax income) for the Fiscal 2003 Year-to-Date Period. The decrease in effective tax rate between these periods is due to non-tax deductible items having a smaller percentage impact on larger pre-tax earnings.

On October 1, 2002, the Company adopted SFAS No. 142 regarding goodwill and other intangible assets. During the Fiscal 2003 Year-to-Date Period, the Company completed its transitional impairment tests, resulting in a non-cash $8.0 million, net of tax impairment charge for goodwill, recorded as a cumulative effect of adopting a new accounting principle.

Operating income for the Fiscal 2004 Year-to-Date Period increased $2.9 million from the Fiscal 2003 Year-to-Date Period to $9.1 million. This increase was primarily due to a $3.1 million greater contribution from payday loans, $4.2 million higher gross profit on sales, and a $0.7 million decrease in depreciation and amortization. Somewhat offsetting these factors were a $4.1 million increase in labor, benefits, and incentive compensation expense and the $0.7 million valuation allowance placed on a note receivable. After a $0.3 million decrease in interest expense, a $1.1 million increase in income tax expense, and smaller changes in other non-operating items, income before the cumulative effect of adopting a new accounting principle improved to $6.0 million in the Fiscal 2004 Year-to-Date Period from $3.8 million in the Fiscal 2003 Year-to-Date Period. The Company's net income for the Fiscal 2004 Year-to-Date Period was $6.0 million, compared to a net loss of $4.3 million after the cumulative effect of adopting a new accounting principle in the Fiscal 2003 Year-to-Date Period.

LIQUIDITY AND CAPITAL RESOURCES

Certain transactions presented in the restated Statements of Cash Flows for the six-month periods ended March 31, 2004 and 2003 have been reclassified between certain sections of the Statements of Cash Flows. A summary of these reclassifications showing their effect on the restated Statements of Cash Flows is provided in Note K to the Condensed Consolidated Financial Statements.

During the Fiscal 2004 Year-to-Date Period, operating activities provided $14.2 million compared to $8.5 million in the Fiscal 2003 Year-to-Date Period. Payday loan service charges collected increased $3.9 million in the Fiscal 2004 Year-to-Date Period due primarily to the growth in the underlying loan portfolio, cash from sales (less the portion representing a recovery of pawn loan principal) increased $5.1 million in the Fiscal 2004 Year-to-Date Period compared to the Fiscal 2003 Year-to-Date Period, and pawn service charges collected in cash increased $0.4 million. Offsetting these improvements in cash flows were the payments of $1.1 million in payroll taxes related to the restricted stock awards discussed above, $0.7 million to settle previously accrued workers' compensation claims, and $0.4 million more in incentive compensation. Among other smaller changes, the Company also used $0.8 million more in the Fiscal 2004 Year-to-Date Period for the direct purchase of customers' merchandise.

The Company's investing activities used $0.5 million of cash during the Fiscal 2004 Year-to-Date Period, consisting of $5.8 million from pawn loans repaid and recovered through the sale of forfeited collateral in excess of new pawn loans made, and a $0.4 million dividend received from the Company's investment in an unconsolidated affiliate. Offsetting this was $3.7 million invested in payday loans net of repayments and $3.0 million invested in property and equipment. The cash flow from operating activities and $2.3 million of cash on hand were used to fund the investing activities and to make payments on the Company's revolving credit facility of $16.0 million in the Fiscal 2004 Year-to-Date Period.

18

Below is a summary of the Company's cash needs to meet its future aggregate contractual obligations in the full fiscal years ending September 30:

| | | Payments due by Period | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Long-term debt obligations | $15,000 | $ -- | $ -- | $15,000 | $ -- |
| Capital lease obligations | -- | -- | -- | -- | -- |
| Operating lease obligations | 71,449 | 12,373 | 20,092 | 12,888 | 26,096 |
| Purchase obligations | -- | -- | -- | -- | -- |
| Other long-term liabilities | -- | -- | -- | -- | -- |
| Total | $86,449 | $12,373 | $20,092 | $27,888 | $26,096 |

In the remaining six months of the fiscal year ending September 30, 2004, the Company also plans to open an additional 65 to 70 EZMONEY payday loan stores for an expected aggregate capital expenditure of approximately $1.9 million, plus the funding of working capital and start-up losses at these stores. While the Company anticipates that these new stores will increase future earnings, it expects they will have a negative effect on earnings and cash flow in their first year of operation.

Effective April 8, 2004, the Company amended and restated its credit agreement. The amendment extends the maturity date to April 1, 2007 and provides for a $40.0 million revolving credit facility. Under the terms of the amended agreement, the Company would have had the ability to borrow an additional $25.0 million at March 31, 2004. Advances are secured by the Company's assets. Terms of the agreement require, among other things, that the Company meet certain financial covenants. In addition, payment of dividends and additional debt are allowed but restricted.

The Company anticipates that cash flow from operations and availability under its revolving credit facility will be adequate to fund its contractual obligations, planned store growth, capital expenditures, and working capital requirements during the coming year.

SEASONALITY

Historically, service charge revenues are highest in the Company's first fiscal quarter (October through December) due to improving loan redemption rates coupled with a higher average loan balance following the summer lending season. Sales generally are highest in the Company's first and second fiscal quarters (October through March) due to the holiday season and the impact of tax refunds. Sales volume can be heavily influenced by the timing of decisions to scrap excess jewelry inventory, which generally occurs during low jewelry sales periods (May through October). The net effect of these factors is that net revenues and net income typically are highest in the first and second fiscal quarters. The Company's cash flow is greatest in its second fiscal quarter primarily due to a high level of loan redemptions and sales in the income tax refund season.

USE OF ESTIMATES AND ASSUMPTIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon the Company's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. The preparation of these financial statements requires management 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, management evaluates its estimates and judgments, including those related to revenue recognition, inventory, allowance for losses on payday loans, long-lived and intangible assets, income taxes, contingencies and litigation. Management bases its estimates on historical experience, observable trends, and various other assumptions that are believed to be reasonable under the circumstances. Management uses 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.

19

DISCLOSURE AND INTERNAL CONTROLS

Based on an assessment of the effectiveness of the Company's disclosure controls and procedures, accounting policies, and the underlying judgments and uncertainties affecting the application of those policies and procedures, management believes that the Company's condensed consolidated financial statements provide a meaningful and fair perspective of the Company in all material respects. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation. Management identified no significant deficiencies or material weaknesses in internal controls, but did identify and take corrective action related to a significant deficiency in its disclosure controls and procedures surrounding the preparation of its Condensed Consolidated Statements of Cash Flows, as more thoroughly discussed in Item 4, "Controls and Procedures" below. Other risk factors, such as those discussed elsewhere in this interim report as well as changes in business strategies, could adversely impact the consolidated financial position, results of operations, and cash flows in future periods.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion about the Company's market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. The Company is exposed to market risk related to changes in interest rates, foreign currency exchange rates, and gold prices. The Company also is exposed to regulatory risk in relation to its payday loans. The Company does not use derivative financial instruments.

The Company's earnings and financial position may be affected by changes in gold prices and the resulting impact on pawn lending and jewelry sales. The proceeds of scrap sales and the Company's ability to liquidate excess jewelry inventory at an acceptable margin are dependent upon gold prices. The impact on the Company's financial position and results of operations of a hypothetical change in gold prices cannot be reasonably estimated.

The Company's earnings are affected by changes in interest rates due to the impact those changes have on its debt, all of which is variable-rate debt. If interest rates average 50 basis points more during the remaining six months of the fiscal year ending September 30, 2004 than they did in the comparable period of 2003, the Company's interest expense during those six months would increase by approximately $38,000. This amount is determined by considering the impact of the hypothetical interest rates on the Company's variable-rate debt at March 31, 2004.

The Company's earnings and financial position are affected by foreign exchange rate fluctuations related to the equity investment in A&B. A&B's functional currency is the U.K. pound. The U.K. pound exchange rate can directly and indirectly impact the Company's results of operations and financial position in several ways. For example, a devalued pound could result in an economic recession in the U.K., which in turn could impact A&B's and the Company's results of operations and financial position. The impact on the Company's results of operations and financial position of a hypothetical change in the exchange rate between the U.S. dollar and the U.K. pound cannot be reasonably estimated due to the interrelationship of operating results and exchange rates. The translation adjustment, net of tax, representing the strengthening in the U.K. pound during the quarter ended December 31, 2003 (included in the Company's March 31, 2004 results on a three-month lag as described above) was approximately a $190,000 increase to stockholders' equity. On March 31, 2004, the U.K. pound closed at 1.00 to 1.8262 U.S. dollars, a strengthening from 1.7785 at December 31, 2003. No assurance can be given as to the future valuation of the U.K. pound and how further movements in the pound could affect future earnings or the financial position of the Company.

FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical information provided herein are forward-looking and may contain information about financial results, economic conditions, trends and known uncertainties. The Company cautions the reader that actual results could differ materially from those expected by the Company depending on the outcome of certain factors, including without limitation (i) fluctuations in the Company's inventory and loan balances, inventory turnover, average yields on loan portfolios, pawn redemption rates, payday loan default and collection rates, labor and employment matters, competition, operating risk, acquisition and expansion risk, changes in the number of expected store openings, changes in expected returns from new stores, liquidity, and capital requirements and the effect of government and environmental regulations, and (ii) adverse changes in the market for the Company's services. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligations to release publicly the results of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereon, including without limitation, changes in the Company's business strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

ITEM 4. CONTROLS AND PROCEDURES

The Company restated its Condensed Consolidated Statements of Cash Flows for the quarter ended March 31, 2004 and the years ended September 30, 2003, 2002 and 2001. For a description of the restatement of the Condensed Consolidated Statements of Cash Flows and the amendment of related disclosures, see the Explanatory Note on the second page of this Form 10-Q/A.

Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, management of the Company has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of March 31, 2004 ("Evaluation Date").

In making this evaluation, we considered matters relating to the restatement of the previously issued Consolidated Statements of Cash Flows and the amendment of related disclosures. The Company determined that a significant deficiency existed in its disclosure controls surrounding the preparation of the Statements of Cash Flows. The Company has taken steps to improve the control processes surrounding the preparation and review of the Statements of Cash Flows. Specifically, key personnel involved in the preparation and review of the Company's financial statements have undertaken research of both authoritative guidance and industry practices in order to improve their understanding of cash flow presentation issues relevant to the consumer finance industry. Management also will institute more rigorous reviews of the elements contained in the Statement of Cash Flows to be certain that it accurately captures only cash items consistent with the requirements of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 95 - Statement of Cash Flows ("SFAS 95"), and properly segregates transactions between the different activities presented in the Consolidated Statements of Cash Flows. There were no other significant deficiencies, and therefore there were no other corrective actions taken.

In light of, among other things, the facts and circumstances relating to the restatement, the Chief Executive Officer and Chief Financial Officer concluded the significant deficiency noted above and the restatement itself were not reflective of any material weakness in the disclosure controls and procedures. In support of this conclusion, the Chief Executive Officer and Chief Financial Officer noted that the Company's restatement of its Consolidated Statements of Cash Flows for the quarter ended March 31, 2004 and the years ended September 30, 2003, 2002 and 2001 is, in substance, only a reclassification of certain items as well as an elimination of certain non-cash items in the Consolidated Statements of Cash Flows, as more fully described in Note K to the Condensed Consolidated Financial Statements. Also, to management's knowledge no investor has expressed to the Company any confusion or uncertainty about the Company's disclosure approach during that period of time.

The reclassification is the result of an interpretation of the Company's business characteristics in relation to generally accepted accounting principles pursuant to the requirements of SFAS 95, which calls for the exclusion of non-cash transactions from the statement of cash flows.

Management assessed the magnitude of any actual or potential misstatement resulting from the changes described above and concluded that the magnitude of any actual or potential misstatement was limited to the classification of certain items in the "Cash Flows from Operating Activities" and "Cash Flows from Investing Activities" sections of the Consolidated Statements of Cash Flows and did not affect any other part of the Consolidated Statements of Cash Flows or any of the Company's other financial statements.

Based upon the evaluation described above, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Additionally, there were no

21

significant changes in the Company's internal controls or other factors that could significantly affect those controls subsequent to the date of their evaluation.

The Company's management, including its Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or internal controls will prevent all possible error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

22

PART II

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company is involved in litigation and regulatory actions arising from its normal business operations. Currently, the Company is a defendant in several actions, some of which involve claims for substantial amounts. While the ultimate outcome of these actions cannot be determined, after consultation with counsel, the Company believes the resolution of these actions will not have a material adverse effect on the Company's financial condition, results of operation, or liquidity. There can be no assurance, however, as to the ultimate outcome of these actions.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

By written consent dated February 10, 2004, the holder of a majority of the Company's Class B voting common stock ratified the audit committee's re-appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending September 30, 2004.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a)

| Exhibit Number | Description |
|---|---|
| 10.89 | Third Amended and Restated Credit Agreement between the Company and Wells Fargo Bank, N.A., as Agent and Issuing Bank, re: $40 million Credit Facility |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

(b) Reports on Form 8-K

| Filing | Date | Item Reported | Information Reported |
|---|---|---|---|
| 8-K | 4/20/04 | Item 12 - Results of Operations and Financial Condition | Quarterly earnings announcement and release. |



SIGNATURE

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

EZCORP, INC.
(Registrant)

Date: November 24, 2004

By:/s/ DAN N. TONISSEN
(Signature)

Dan N. Tonissen
Senior Vice President,
Chief Financial Officer &
Director

EXHIBIT INDEX

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