CF Industries Holdings, Inc.
Form 10-Q
May 02, 2019

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM10-Q

(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, 2019**

OR

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

For the transition period from ______________ to ______________

Commission file number 001-32597

CF INDUSTRIES HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-2697511**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4 Parkway North, Suite 400 Deerfield, Illinois	**60015**
(Address of principal executive offices)	(Zip Code)

(847) 405-2400

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No o

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
common stock, par value $0.01 per share	CF	New York Stock Exchange

221,077,667 shares of the registrant’s common stock, $0.01 par value per share, were outstanding at April 29, 2019.

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CF INDUSTRIES HOLDINGS, INC.

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CF INDUSTRIES HOLDINGS, INC.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended March 31,	
	2019	2018
	(in millions, except per share amounts)	
Net sales	$1,001	$957
Cost of sales	781	767
Gross margin	220	190
Selling, general and administrative expenses	58	57
Other operating—net	4	(21)
Total other operating costs and expenses	62	36
Equity in earnings of operating affiliate	7	7
Operating earnings	165	161
Interest expense	60	60
Interest income	(4)	(3)
Other non-operating—net	(1)	(1)
Earnings before income taxes	110	105
Income tax (benefit) provision	(8)	17
Net earnings	118	88
Less: Net earnings attributable to noncontrolling interests	28	25
Net earnings attributable to common stockholders	$90	$63
Net earnings per share attributable to common stockholders:		
Basic	$0.40	$0.27
Diluted	$0.40	$0.27
Weighted-average common shares outstanding:		
Basic	223.4	233.9
Diluted	224.6	234.8
Dividends declared per common share	$0.30	$0.30

See accompanying Notes to Unaudited Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended March 31, 2019	Three months ended March 31, 2018
	(in millions)	
Net earnings	$118	$88
Other comprehensive income (loss):		
Foreign currency translation adjustment—net of taxes	32	17
Defined benefit plans—net of taxes	(2)	(1)
	30	16
Comprehensive income	148	104
Less: Comprehensive income attributable to noncontrolling interests	28	25
Comprehensive income attributable to common stockholders	$120	$79

See accompanying Notes to Unaudited Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31, 2019	December 31, 2018
	(in millions, except share and per share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	$ 671	$ 682
Accounts receivable—net	264	235
Inventories	446	309
Prepaid income taxes	1	28
Other current assets	30	20
Total current assets	1,412	1,274
Property, plant and equipment—net	8,471	8,623
Investment in affiliate	100	93
Goodwill	2,360	2,353
Operating lease right-of-use assets	285	—
Other assets	314	318
Total assets	$ 12,942	$ 12,661
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 432	$ 545
Income taxes payable	3	5
Customer advances	301	149
Current operating lease liabilities	85	—
Other current liabilities	5	6
Total current liabilities	826	705
Long-term debt	4,700	4,698
Deferred income taxes	1,135	1,117
Operating lease liabilities	203	—
Other liabilities	408	410
Equity:		
Stockholders' equity:		
Preferred stock—$0.01 par value, 50,000,000 shares authorized	—	—
Common stock—$0.01 par value, 500,000,000 shares authorized, 2019—223,070,183 shares issued and 2018—233,800,903 shares issued	2	2
Paid-in capital	1,311	1,368
Retained earnings	2,047	2,463
Treasury stock—at cost, 2019—1,546,005 shares and 2018—10,982,408 shares	(64)	(504)
Accumulated other comprehensive loss	(341)	(371)
Total stockholders' equity	2,955	2,958
Noncontrolling interests	2,715	2,773
Total equity	5,670	5,731
Total liabilities and equity	$ 12,942	$ 12,661

See accompanying Notes to Unaudited Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

	Common Stockholders							
	$0.01 Par Value Common Stock	Treasury Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	(in millions, except per share amounts)							
Balance as of December 31, 2018	$2	$(504)	$1,368	$2,463	$ (371)	$ 2,958	$ 2,773	$5,731
Net earnings	—	—	—	90	—	90	28	118
Other comprehensive income	—	—	—	—	30	30	—	30
Purchases of treasury stock	—	(60)	—	—	—	(60)	—	(60)
Retirement of treasury stock	—	504	(65)	(439)	—	—	—	—
Acquisition of treasury stock under employee stock plans	—	(4)	—	—	—	(4)	—	(4)
Issuance of $0.01 par value common stock under employee stock plans	—	—	2	—	—	2	—	2
Stock-based compensation expense	—	—	6	—	—	6	—	6
Cash dividends ($0.30 per share)	—	—	—	(67)	—	(67)	—	(67)
Distribution declared to noncontrolling interest	—	—	—	—	—	—	(86)	(86)
Balance as of March 31, 2019	$2	$(64)	$1,311	$2,047	$ (341)	$ 2,955	$ 2,715	$5,670
Balance as of December 31, 2017	$2	$—	$1,397	$2,443	$ (263)	$ 3,579	$ 3,105	$6,684
Adoption of ASU No. 2014-09	—	—	—	(1)	—	(1)	—	(1)
Adoption of ASU No. 2016-01	—	—	—	1	(1)	—	—	—
Net earnings	—	—	—	63	—	63	25	88
Other comprehensive income	—	—	—	—	16	16	—	16
Acquisition of treasury stock under employee stock plans	—	(1)	—	—	—	(1)	—	(1)
Issuance of $0.01 par value common stock under employee stock plans	—	—	2	—	—	2	—	2
Stock-based compensation expense	—	—	6	—	—	6	—	6
Cash dividends ($0.30 per share)	—	—	—	(70)	—	(70)	—	(70)
Distributions declared to noncontrolling interests	—	—	—	—	—	—	(59)	(59)
Balance as of March 31, 2018	$2	$(1)	$1,405	$2,436	$ (248)	$ 3,594	$ 3,071	$6,665

See accompanying Notes to Unaudited Consolidated Financial Statements.

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CF INDUSTRIES HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31, 2019	2018
	(in millions)	
Operating Activities:		
Net earnings	$118	$88
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	188	193
Deferred income taxes	14	29
Stock-based compensation expense	6	6
Unrealized net loss (gain) on natural gas derivatives	2	(3)
Unrealized loss on embedded derivative	1	—
Loss on disposal of property, plant and equipment	1	—
Undistributed earnings of affiliate—net of taxes	(8)	(3)
Changes in:		
Accounts receivable—net	(28)	61
Inventories	(101)	(97)
Accrued and prepaid income taxes	24	(14)
Accounts payable and accrued expenses	(65)	(24)
Customer advances	152	65
Other—net	2	(19)
Net cash provided by operating activities	306	282
Investing Activities:		
Additions to property, plant and equipment	(80)	(68)
Proceeds from sale of property, plant and equipment	5	8
Distributions received from unconsolidated affiliate	—	4
Other—net	—	1
Net cash used in investing activities	(75)	(55)
Financing Activities:		
Financing fees	—	1
Dividends paid on common stock	(67)	(70)
Distributions to noncontrolling interests	(86)	(59)
Purchases of treasury stock	(87)	—
Issuances of common stock under employee stock plans	2	2
Shares withheld for taxes	(4)	(1)
Net cash used in financing activities	(242)	(127)
Effect of exchange rate changes on cash and cash equivalents	—	1
(Decrease) increase in cash and cash equivalents	(11)	101
Cash and cash equivalents at beginning of period	682	835
Cash and cash equivalents at end of period	$671	$936

See accompanying Notes to Unaudited Consolidated Financial Statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Background and Basis of Presentation

We are a leading global fertilizer and chemical company. Our 3,000 employees operate world-class manufacturing complexes in Canada, the United Kingdom and the United States. Our principal customers are cooperatives, independent fertilizer distributors, traders, wholesalers, farmers and industrial users. Our principal nitrogen fertilizer products are ammonia, granular urea, urea ammonium nitrate solution (UAN) and ammonium nitrate (AN). Our other nitrogen products include diesel exhaust fluid (DEF), urea liquor, nitric acid and aqua ammonia, which are sold primarily to our industrial customers, and compound fertilizer products (NPKs), which are solid granular fertilizer products for which the nutrient content is a combination of nitrogen, phosphorus, and potassium. We serve our customers in North America through our production, storage, transportation and distribution network. We also reach a global customer base with exports from our Donaldsonville, Louisiana, plant, the world's largest and most flexible nitrogen complex. Additionally, we move product to international destinations from our Verdigris, Oklahoma, facility, our Yazoo City, Mississippi, facility, our Billingham and Ince facilities in the United Kingdom, and from a joint venture ammonia facility in the Republic of Trinidad and Tobago in which we own a 50 percent interest.

All references to "CF Holdings," "the Company," "we," "us" and "our" refer to CF Industries Holdings, Inc. and its subsidiarie except where the context makes clear that the reference is only to CF Industries Holdings, Inc. itself and not its subsidiaries. All references to "CF Industries" refer to CF Industries, Inc., a 100% owned subsidiary of CF Industries Holdings, Inc.

The accompanying unaudited interim consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements for the year ended December 31, 2018, in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial reporting. In the opinion of management, these statements reflect all adjustments, consisting only of normal and recurring adjustments, that are necessary for the fair representation of the information for the periods presented. The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Operating results for any period presented apply to that period only and are not necessarily indicative of results for any future period.

The accompanying unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements and related disclosures included in our 2018 Annual Report on Form 10-K filed with the SEC on February 22, 2019. The preparation of the unaudited interim consolidated financial statements requires us to make use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the unaudited consolidated financial statements and the reported revenues and expenses for the periods presented. Significant estimates and assumptions are used for, but are not limited to, net realizable value of inventories, environmental remediation liabilities, environmental and litigation contingencies, the cost of customer incentives, useful lives of property and identifiable intangible assets, the assumptions used in the evaluation of potential impairments of property, investments, identifiable intangible assets and goodwill, income tax and valuation reserves, allowances for doubtful accounts receivable, the measurement of the fair values of investments for which markets are not active, assumptions used in the determination of the funded status and annual expense of defined benefit pension and other postretirement benefit plans and the assumptions used in the valuation of stock-based compensation awards granted to employees.

2. New Accounting Standards

Recently Adopted Pronouncements

On January 1, 2019, we adopted Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), which supersedes the lease accounting requirements in ASC Topic 840, Leases. This ASU requires lessees to recognize the rights and obligations resulting from virtually all leases (other than leases that meet the definition of a short-term lease) on their balance sheets as right-of-use assets with corresponding lease liabilities. Extensive quantitative and qualitative disclosures, including significant judgments made by management, are required to provide greater insight into the extent of income and expense recognized and expected to be recognized from existing contracts. We elected the optional transition method provided under ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, which provides the option to adopt ASU No. 2016-02 as of the adoption date with a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The cumulative effect adjustment we recognized in the opening balance of retained earnings as of January 1, 2019 was not material. In addition, we elected the package of practical expedients permitted under the transition guidance within ASU No. 2016-02, which allows us to carry forward the historical lease determination, lease classification, and assessment of initial direct costs. See Note 13—Leases for additional information.

On January 1, 2019, we adopted ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which improves the financial reporting of hedging relationships in order to better portray the economic results of an entity's risk management activities in its financial statements. The adoption of this ASU had no effect on our consolidated financial statements.

Recently Issued Pronouncements

In August 2018, the Financial Accounting Standards Board issued ASU No. 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This ASU does not affect the accounting for the service element of a hosting arrangement that is a service contract. The amendments in this ASU are effective for annual and interim periods beginning after December 15, 2019 and can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Early adoption is permitted. We plan to adopt this ASU prospectively and are currently evaluating the impact that our adoption of this ASU will have on our consolidated financial statements.

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CF INDUSTRIES HOLDINGS, INC.

3. Revenue Recognition

We track our revenue by product and by geography. See Note 17—Segment Disclosures for our revenue by reportable segment, which are ammonia, granular urea, UAN, AN and Other. The following table summarizes our revenue by product and by geography (based on destination of our shipment) for the three months ended March 31, 2019 and 2018:

	Ammonia	Granular Urea	UAN	AN	Other	Total
	(in millions)					
Three months ended March 31, 2019						
North America	$160	$ 335	$242	$46	$ 59	$842
Europe and other	27	8	14	81	29	159
Total revenue	$187	$ 343	$256	$127	$ 88	$1,001
Three months ended March 31, 2018						
North America	$168	$ 264	$246	$45	$ 59	$782
Europe and other	44	—	37	55	39	175
Total revenue	$212	$ 264	$283	$100	$ 98	$957

As of March 31, 2019 and December 31, 2018, we had $301 million and $149 million, respectively, in customer advances on our consolidated balance sheets. The revenue recognized during the three months ended March 31, 2019 and 2018 that was included in our customer advances at the beginning of each respective period amounted to approximately $85 million and $65 million, respectively.

We offer cash incentives to certain customers based on the volume of their purchases over a certain period. These incentives do not provide an option to the customer for additional product. The balances of customer incentives accrued at March 31, 2019 and December 31, 2018 were not material.

We have certain customer contracts with performance obligations where if the customer does not take the required amount of product specified in the contract, then the customer is required to make a payment to us, which may vary based upon the terms and conditions of the applicable contract. As of March 31, 2019, excluding contracts with original durations of less than one year, and based on the minimum product tonnage to be sold and current market price estimates, our remaining performance obligations under these contracts are approximately $1.3 billion. We expect to recognize approximately 19% of these performance obligations as revenue in the remainder of 2019, approximately 42% as revenue during 2020 and 2021, approximately 26% as revenue during 2022 and 2023, and the remainder thereafter. If these customers do not fulfill their contractual obligations under such contracts, the legally enforceable minimum amount that they would pay to us under these contracts, in the aggregate, is approximately $285 million as of March 31, 2019. Other than the performance obligations described above, any performance obligations with our customers that were unfulfilled or partially filled at December 31, 2018 will be satisfied in 2019.

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4. Net Earnings Per Share

Net earnings per share were computed as follows:

	Three months ended March 31,	
	2019	2018
	(in millions, except per share amounts)	
Net earnings attributable to common stockholders	$90	$63
Basic earnings per common share:		
Weighted-average common shares outstanding	223.4	233.9
Net earnings attributable to common stockholders	$0.40	$0.27
Diluted earnings per common share:		
Weighted-average common shares outstanding	223.4	233.9
Dilutive common shares—stock options	1.2	0.9
Diluted weighted-average shares outstanding	224.6	234.8
Net earnings attributable to common stockholders	$0.40	$0.27

In the computation of diluted earnings per common share, potentially dilutive stock options are excluded if the effect of their inclusion is anti-dilutive. Shares for anti-dilutive stock options not included in the computation of diluted earnings per common share were 1.5 million and 2.0 million for the three months ended March 31, 2019 and 2018, respectively.

5. Inventories

Inventories consist of the following:

	March 31, 2019	December 31, 2018
	(in millions)	
Finished goods	$405	$ 272
Raw materials, spare parts and supplies	41	37
Total inventories	$446	$ 309

6. Property, Plant and Equipment—Net

Property, plant and equipment—net consists of the following:

	March 31, 2019	December 31, 2018
	(in millions)	
Land	$70	$ 69
Machinery and equipment	12,162	12,127
Buildings and improvements	882	886
Construction in progress	210	225
Property, plant and equipment[(1)]	13,324	13,307
Less: Accumulated depreciation and amortization	4,853	4,684
Property, plant and equipment—net	$8,471	$ 8,623

(1) As of March 31, 2019 and December 31, 2018, we had property, plant and equipment that was accrued but unpaid of approximately $26 million and $48 million, respectively. As of March 31, 2018 and December 31, 2017, we had property, plant and equipment that was accrued but unpaid of $42 million and $46 million, respectively.

During the first quarter of 2019, we entered into an agreement to sell our Pine Bend dry bulk storage and logistics facility in Minnesota. As of March 31, 2019, the assets met the criteria to be classified as held for sale and, as a result, we reclassified the carrying value of the assets of $10 million from property, plant and equipment—net to other current assets on our consolidated balance sheet. See Note 19—Subsequent Event for additional information.

Depreciation and amortization related to property, plant and equipment was $183 million and $185 million for the three months ended March 31, 2019 and 2018, respectively.

Plant turnarounds—Scheduled inspections, replacements and overhauls of plant machinery and equipment at our continuous process manufacturing facilities during a full plant shutdown are referred to as plant turnarounds. The expenditures related to turnarounds are capitalized in property, plant and equipment when incurred. The following is a summary of capitalized plant turnaround costs:

	Three months ended March 31, 2019	2018
	(in millions)	
Net capitalized turnaround costs:		
Beginning balance	$252	$208
Additions	9	20
Depreciation	(30)	(28)
Effect of exchange rate changes	2	1
Ending balance	$233	$201

Scheduled replacements and overhauls of plant machinery and equipment include the dismantling, repair or replacement and installation of various components including piping, valves, motors, turbines, pumps, compressors, heat exchangers and the replacement of catalysts when a full plant shutdown occurs. Scheduled inspections are also conducted during full plant shutdowns, including required safety inspections which entail the disassembly of various components such as steam boilers, pressure vessels and other equipment requiring safety certifications. Internal employee costs and overhead amounts are not considered turnaround costs and are not capitalized.

7. Goodwill and Other Intangible Assets

The following table shows the carrying amount of goodwill by reportable segment as of March 31, 2019 and December 31, 2018:

	Ammonia	Granular Urea	UAN	AN	Other	Total
	(in millions)					
Balance as of December 31, 2018	$586	$ 828	$576	$292	$ 71	$2,353
Effect of exchange rate changes	—	—	—	6	1	7
Balance as of March 31, 2019	$586	$ 828	$576	$298	$ 72	$2,360

All of our identifiable intangible assets have definite lives and are presented in other assets on our consolidated balance sheets at gross carrying amount, net of accumulated amortization, as follows:

	March 31, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
	(in millions)					
Customer relationships	$129	$ (40)	$89	$127	$ (37)	$90
TerraCair brand	—	—	—	10	(10)	—
Trade names	32	(6)	26	30	(5)	25
Total intangible assets	$161	$ (46)	$115	$167	$ (52)	$115

Our intangible assets are being amortized over a weighted-average life of approximately 20 years. Amortization expense of our identifiable intangible assets for each of the three-month periods ended March 31, 2019 and 2018 was $2 million. The gross carrying amount and accumulated amortization of our intangible assets are also impacted by the effect of exchange rate changes. Total estimated amortization expense for the remainder of 2019 and each of the five succeeding fiscal years is as follows:

	Estimated Amortization Expense
	(in millions)
Remainder of 2019	$ 6
2020	8
2021	8
2022	8
2023	8
2024	8

8. Equity Method Investment

We have a 50% ownership interest in Point Lisas Nitrogen Limited (PLNL), which operates an ammonia production facility in the Republic of Trinidad and Tobago. We include our share of the net earnings from this equity method investment as an element of earnings from operations because PLNL provides additional production to our operations and is integrated with our other supply chain and sales activities in the ammonia segment.

As of March 31, 2019, the total carrying value of our equity method investment in PLNL was $100 million, $48 million more than our share of PLNL's book value. The excess is attributable to the purchase accounting impact of our acquisition of the investment in PLNL and reflects the revaluation of property, plant and equipment. The increased basis for property, plant and equipment is being amortized over a remaining period of approximately 14 years. Our equity in earnings of PLNL is different from our ownership interest in income reported by PLNL due to amortization of this basis difference.

We have transactions in the normal course of business with PLNL reflecting our obligation to purchase 50% of the ammonia produced by PLNL at current market prices. Our ammonia purchases from PLNL totaled $22 million and $29 million for the three months ended March 31, 2019 and 2018, respectively.

The Trinidadian tax authority (the Board of Inland Revenue) has issued PLNL a tax assessment with respect to tax years 2011 and 2012 in the aggregate amount of approximately $12 million, in addition to interest and penalties with respect to tax years 2011 and 2012 in the aggregate amount of approximately $22 million, for alleged underpayment of withholding taxes on distributions made by PLNL to its owners. Since we own a 50% interest in PLNL, our effective share of any assessment that is determined to be a liability of PLNL would be 50%, which would be reflected as a reduction in our equity in earnings of PLNL. The Board of Inland Revenue has not provided PLNL with the legal or factual basis for the assessment. As a result, PLNL cannot assess the likelihood of the outcome of this matter and we cannot assess the potential foreign tax credit we may be eligible for, if the withholding tax amount was determined to be a liability of PLNL.

9. Fair Value Measurements

Our cash and cash equivalents and other investments consist of the following:

	March 31, 2019			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
	(in millions)			
Cash	$73	$ —	$ —	$73
Cash equivalents:				
U.S. and Canadian government obligations	562	—	—	562
Other debt securities	36	—	—	36
Total cash and cash equivalents	$671	$ —	$ —	$671
Nonqualified employee benefit trusts	17	2	—	19

December 31, 2018	
Cost Basis	Unrealized Gains

—

$
189,150

$
—

2024 Convertible Notes

105,858

180,399

—

180,399

—

2025 Convertible Notes

119,736

161,253

—

161,253

—

8.5% unsecured notes due 2024

1,304

1,304

—

—

1,304

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

Subsequent to the sale of Prestaciones Finmart, S.A.P.I. de C.V., SOFOM, E.N.R. ("Grupo Finmart") to Alpha Holding, S.A. de C.V. (“AlphaCredit”) in September 2016, we determined that we retained a variable interest in Grupo Finmart including notes receivable. We determined that we are not the primary beneficiary of Grupo Finmart subsequent to its disposition as we lack a controlling financial interest in Grupo Finmart. We measured the fair value of the notes receivable as of December 31, 2018 under a discounted cash flow approach considering the estimated credit ratings for Grupo Finmart and AlphaCredit and as determined with external consultation, with discount rates ranging primarily from 7% to 8%. Certain of the significant inputs used for the valuation were not observable in the market. Included in the fair value of the notes receivable is the estimated fair value of the deferred compensation fee negotiated in September 2017, of which the ultimate amount to be received is dependent upon the timing of payment of the notes receivable. Significant increases or decreases in the underlying assumptions used to value the notes receivable could significantly increase or decrease these fair value estimates.

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

We measured the fair value of the 2019 Convertible Notes, 2024 Convertible Notes and 2025 Convertible Notes using quoted price inputs. The 2019 Convertible Notes, 2024 Convertible Notes and 2025 Convertible Notes are not actively traded, and thus the price inputs represent a Level 2 measurement. As the quoted price inputs are highly variable from day to day, the fair value estimates disclosed above could significantly increase or decrease.

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NOTE 6: DEBT

The following tables present our long-term debt instruments outstanding as well as future principal payments due:

	December 31, 2018			December 31, 2017			September 30, 2018		
	Gross Amount	Debt Discount and Issuance Costs	Carrying Amount	Gross Amount	Debt Discount and Issuance Costs	Carrying Amount	Gross Amount	Debt Discount and Issuance Costs	Carrying Amount
	(in thousands)								
2019 Convertible Notes	$195,000	$(4,924)	$190,076	$195,000	$(15,165)	$179,835	$195,000	$(7,567)	$187,433
2019 Convertible Notes Embedded Derivative	21	—	21	12,863	—	12,863	2,552	—	2,552
2024 Convertible Notes	143,750	(36,568)	107,182	143,750	(41,687)	102,063	143,750	(37,892)	105,858
2025 Convertible Notes	172,500	(51,184)	121,316	—	—	—	172,500	(52,764)	119,736
8.5% unsecured notes due 2024*	1,237	—	1,237	—	—	—	1,304	—	1,304
CASHMAX secured borrowing facility**	1,160	(826)	334	—	—	—	—	—	—
Total	$513,668	$(93,502)	$420,166	$351,613	$(56,852)	$294,761	$515,106	$(98,223)	$416,883
Less current portion	195,162	(4,924)	190,238	—	—	—	197,748	(7,567)	190,181
Total long-term debt	$318,506	$(88,578)	$229,928	$351,613	$(56,852)	$294,761	$317,358	$(90,656)	$226,702

* Amount translated from Guatemalan quetzals as of December 31, 2018. Certain disclosures omitted due to materiality considerations.
** See description below.

	Principal Payment Schedule				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
	(in thousands)				
2019 Convertible Notes*	$195,000	$195,000	$—	$—	$—
2024 Convertible Notes*	143,750	—	—	—	143,750
2025 Convertible Notes*	172,500	—	—	—	172,500
8.5% unsecured notes due 2024	1,237	141	424	424	248
CASHMAX secured borrowing facility	1,160	—	1,160	—	—
	$513,647	$195,141	$1,584	$424	$316,498

* Excludes the potential impact of embedded derivatives.

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	Three Months Ended December 31, 2018	2017
	(in millions)	
2019 Convertible Notes:		
Contractual interest expense	$1.1	$1.1
Amortization of debt discount and deferred financing costs	2.6	2.5
Total interest expense	$3.7	$3.6
2024 Convertible Notes:		
Contractual interest expense	$1.0	$1.0
Amortization of debt discount and deferred financing costs	1.4	1.3
Total interest expense	$2.4	$2.3
2025 Convertible Notes:		
Contractual interest expense	$1.0	$—
Amortization of debt discount and deferred financing costs	1.6	—
Total interest expense	$2.6	$—

2.375% Convertible Senior Notes Due 2025

In May 2018, we issued $172.5 million aggregate principal amount of 2.375% Convertible Senior Notes Due 2025 (the “2025 Convertible Notes”). The 2025 Convertible Notes were issued pursuant to an indenture dated May 14, 2018 (the "2018 Indenture") by and between us and Wells Fargo Bank, National Association, as the trustee. The 2025 Convertible Notes were issued in a private offering under Rule 144A under the Securities Act of 1933. The 2025 Convertible Notes pay interest semi-annually in arrears at a rate of 2.375% per annum on May 1 and November 1 of each year, commencing November 1, 2018, and mature on May 1, 2025 (the "2025 Maturity Date"), unless converted, redeemed or repurchased in accordance with their terms prior to such date. The carrying amount of the 2025 Convertible Notes as a separate equity-classified instrument (the “2025 Convertible Notes Embedded Derivative”) included under “Additional paid-in capital” in our condensed consolidated balance sheets of December 31, 2018 was $39.0 million. The effective interest rate for the three months ended December 31, 2018 was approximately 9%. As of December 31, 2018, the remaining unamortized debt discount and issuance costs will be amortized through the 2025 Maturity Date assuming no early conversion.

The 2025 Convertible Notes are convertible into cash or shares of Class A Non-Voting Common Stock ("Class A Common Stock"), or any combination thereof, at our option subject to satisfaction of certain conditions and during the periods described in the 2018 Indenture, based on an initial conversion rate of 62.8931 shares of Class A Common Stock per $1,000 principal amount of 2025 Convertible Notes (equivalent to an initial conversion price of $15.90 per share of our Class A Common Stock). We account for the Class A Common Stock issuable upon conversion under the treasury stock method. To the extent our average share price is over $15.90 per share for any fiscal quarter, we are required to recognize incremental dilution of our earnings per share.

If, among other triggers described in the 2018 Indenture, the market price of our Class A Common Stock meets the threshold based on at least 20 of the final 30 trading days of the quarter for the 2025 Convertible Notes to become convertible at the option of the holders during the subsequent quarter, we may be required to classify the 2025 Convertible Notes as current on our condensed consolidated balance sheets for each quarter in which such triggers are met. The stock trading price condition and other triggers are measured on a quarter-by-quarter basis and were not met as of December 31, 2018. As of December 31, 2018, the if-converted value of the 2025 Convertible Notes did not exceed the principal amount.

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2.875% Convertible Senior Notes Due 2024
In July 2017, we issued $143.75 million aggregate principal amount of 2.875% Convertible Senior Notes Due 2024 (the “2024 Convertible Notes”). All of the 2024 Convertible Notes were issued pursuant to an indenture dated July 5, 2017 (the "2017 Indenture") by and between us and Wells Fargo Bank, National Association, as the trustee. The 2024 Convertible Notes were issued in a private offering under Rule 144A under the Securities Act of 1933. The 2024 Convertible Notes pay interest semi-annually in arrears at a rate of 2.875% per annum on January 1 and July 1 of each year, commencing January 1, 2018, and mature on July 1, 2024 (the "2024 Maturity Date"), unless converted, redeemed or repurchased in accordance with their terms prior to such date. The carrying amount of the 2024 Convertible Notes as a separate equity-classified instrument (the “2024 Convertible Notes Embedded Derivative”) included under “Additional paid-in capital” in our condensed consolidated balance sheets of December 31, 2018 was $25.3 million. The effective interest rate for the three months ended December 31, 2018 was approximately 9%. As of December 31, 2018, the remaining unamortized debt discount and issuance costs will be amortized through the 2024 Maturity Date assuming no early conversion.
The 2024 Convertible Notes are convertible into cash or shares of Class A Common Stock, or any combination thereof, at our option subject to satisfaction of certain conditions and during the periods described in the 2017 Indenture, based on an initial conversion rate of 100 shares of Class A Common Stock per $1,000 principal amount of 2024 Convertible Notes (equivalent to an initial conversion price of $10.00 per share of our Class A Common Stock). We account for the Class A Common Stock issuable upon conversion under the treasury stock method. To the extent our average share price is over $10.00 per share for any fiscal quarter, we are required to recognize incremental dilution of our earnings per share.
If, among other triggers described in the 2017 Indenture, the market price of our Class A Common Stock meets the threshold based on at least 20 of the final 30 trading days of a quarter for the 2024 Convertible Notes to become convertible at the option of the holders during the subsequent quarter, we may be required to classify the 2024 Convertible Notes as current on our condensed consolidated balance sheets for each quarter in which such triggers are met. The stock trading price condition and other triggers are measured on a quarter-by-quarter basis and were not met as of December 31, 2018, and therefore, the 2024 Convertible notes are not classified as current as of December 31, 2018. As of December 31, 2018, the if-converted value of the 2024 Convertible Notes did not exceed the principal amount.
2.125% Cash Convertible Senior Notes Due 2019
In June 2014, we issued $200 million aggregate principal amount of 2.125% Cash Convertible Senior Notes Due 2019 (the "2019 Convertible Notes"), with an additional $30 million principal amount of 2019 Convertible Notes issued in July 2014. In July 2017, we used $34.4 million of net proceeds from the 2024 Convertible Notes offering to repurchase and retire $35.0 million aggregate principal amount of 2019 Convertible Notes. All of the 2019 Convertible Notes were issued pursuant to an indenture dated June 23, 2014 (the "2014 Indenture") by and between us and Wells Fargo Bank, National Association, as the trustee. The 2019 Convertible Notes were issued in a private offering and resold under Rule 144A under the Securities Act of 1933. The 2019 Convertible Notes pay interest semi-annually in arrears at a rate of 2.125% per annum on June 15 and December 15 of each year and mature on June 15, 2019 (the "2019 Maturity Date"), unless converted, redeemed or repurchased in accordance with their terms prior to such date. The effective interest rate for the three months ended December 31, 2018 was approximately 8%. As of December 31, 2018, the remaining unamortized debt discount and issuance costs will be amortized through the 2019 Maturity Date assuming no early conversion.
The 2019 Convertible Notes are convertible into cash, subject to satisfaction of certain conditions and during the periods described in the 2014 Indenture, based on an initial conversion rate of 62.2471 shares of Class A Common Stock per $1,000 principal amount of 2019 Convertible Notes (equivalent to an initial conversion price of approximately $16.065 per share of our Class A Common Stock). As of December 31, 2018, the if-converted value of the 2019 Convertible Notes did not exceed the principal amount.
2019 Convertible Notes Hedges
In connection with the issuance of the 2019 Convertible Notes, we purchased cash-settled call options (the “2019 Convertible Notes Hedges”) in privately negotiated transactions with certain of the initial purchasers or their affiliates

(in this capacity, the “Option Counterparties”). The 2019 Convertible Notes Hedges provide us with the option to acquire, on a net settlement basis, approximately 12.1 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 2019 Convertible Notes and corresponds to the conversion price of the 2019 Convertible Notes. If we exercise the 2019 Convertible Notes Hedges, the aggregate amount of cash we will receive from the Option Counterparties will cover the aggregate amount of cash that we would be required to pay to the holders of the converted 2019 Convertible Notes, less the principal amount thereof.

2019 Convertible Notes Warrants
In connection with the issuance of the 2019 Convertible Notes, we also sold net-share-settled warrants (the “2019 Convertible Notes Warrants”) in privately negotiated transactions with the Option Counterparties. The 2019 Convertible Notes Warrants allow for the purchase of up to approximately 12.1 million shares of our Class A Common Stock at a strike price of $20.83 per share. We account for the Class A Common Stock issuable upon exercise under the treasury stock method. As a result of the 2019 Convertible Notes Warrants and related transactions, we are required to recognize incremental dilution of our earnings per share to the extent our average share price is over $20.83 for any fiscal quarter. The 2019 Convertible Notes Warrants expire on various dates from September 2019 through February 2020 and must be settled in net shares of our Class A Common Stock.
CASHMAX Secured Borrowing Facility
In November 2018 we entered into a receivables securitization facility with a third-party lender (the "lender") to provide funding for installment loan originations in our Canadian CASHMAX business. Under the facility, an unconsolidated variable interest entity (the "trust") has the right, subject to various conditions, to borrow up to CAD $25 million from the lender (the "third-party loan") and use the proceeds to purchase interests in installment loan receivables generated by CASHMAX. The trust uses collections on the transferred receivables to pay various amounts in accordance with an agreed priority arrangement, including expenses, its obligations under the third-party loan and, to the extent available, amounts owned to CASHMAX with respect to the purchase price of the transferred receivables and CASHMAX's retained interest in the receivables. CASHMAX has no obligation with respect to the third-party loan or the transferred receivables except to (a) service the underlying installment loans on behalf of the trust and (b) pay amounts owning under or repurchase the underlying installment loans in the event of a breach by CASHMAX or in certain other limited circumstances. The facility is generally nonrecourse to EZCORP. The amount outstanding under the facility as of December 31, 2018 was $1.2 million.
NOTE 7: STOCK COMPENSATION
On May 1, 2010 our Board of Directors approved the adoption of the EZCORP, Inc. 2010 Long-Term Incentive Plan (the “2010 Plan”). As of September 30, 2018, the 2010 Plan permitted grants of options, restricted stock awards and stock appreciation rights covering up to 5,085,649 shares of our Class A Common Stock. In November 2018, the Board of Directors and the voting stockholder approved the addition of 400,000 shares to the 2010 Plan.
In November 2018, we granted 1,008,998 restricted stock unit awards to employees and 59,812 restricted stock awards to non-employee directors with a grant date fair value of primarily $9.18 per share. The number of long-term incentive award shares and units granted are generally determined based on our share price as of October 1 each year, which was $10.51 for these fiscal 2019 awards. The awards granted to employees vest on September 30, 2021, subject to the achievement of certain adjusted net income and adjusted diluted earnings per share performance targets. As of December 31, 2018, we considered the achievement of these performance targets probable. The awards granted to non-employee directors vest on September 30, 2019 and are subject only to service conditions.
NOTE 8: 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, 2018 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.
Federal Securities Litigation — On July 20, 2015, Wu Winfred Huang, a purported holder of Class A Common Stock, for himself and on behalf of other similarly situated holders of Class A 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 two lawsuits filed an agreed stipulation to be appointed co-lead plaintiffs and agreed that their two actions should be consolidated. On November 3, 2015, the Court entered an order consolidating the two actions under the caption *In re EZCORP, Inc. Securities*

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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, 2012 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. On February 25, 2016, defendants filed a motion to dismiss the lawsuit. The plaintiff filed an opposition to the motion to dismiss on April 11, 2016, and the defendants filed their reply on May 11, 2016. The Court held a hearing on the motion to dismiss on June 22, 2016.

On October 18, 2016, the Court granted the defendants' motion to dismiss and dismissed the Amended Complaint without prejudice. The Court gave the plaintiffs 20 days (until November 7, 2016) to file a further amended complaint.

On November 4, 2016, the plaintiffs filed a Second Amended Consolidated Class Action Complaint ("Second Amended Complaint"). The Second Amended Complaint raises the same claims dismissed by the Court on October 18, 2016, except plaintiffs now seek to represent a class of purchasers of EZCORP's Class A Common Stock between November 7, 2013 and October 20, 2015 (instead of between November 6, 2012 and October 20, 2015). On December 5, 2016, defendants filed a motion to dismiss the Second Amended Compliant. The plaintiffs filed their opposition to the motion to dismiss on January 6, 2017, and the defendants filed their reply brief on January 20, 2017.

On May 8, 2017, the Court granted the defendants' motion to dismiss with regard to claims related to accounting errors relating to Grupo Finmart's bad debt reserve calculations for "nonperforming" loans, but denied the motion to dismiss with regard to claims relating to accounting errors related to certain sales of loan portfolios to third parties.

Following discovery on the surviving claims, the plaintiff filed a Motion for Leave to File a Third Amended Complaint, seeking to revive the "nonperforming" loan claims that the Court previously dismissed. We opposed that motion, and on May 14, 2018, the Court heard oral arguments on the motion, as well as plaintiff's Motion for Class Certification and Appointment of Class Representative and Class Counsel, which was also pending.

On July 26, 2018, the Court granted the plaintiff's motion for leave to amend, thus accepting the Third Amended Consolidated Class Action Complaint, and we filed our answer on August 3, 2018. On August 31, 2018, the plaintiff filed an Amended Motion for Class Certification and Appointment of Class Representative and Class Counsel, and we filed our opposition on September 28, 2018. The Court held a hearing on that motion on November 15, 2018, and the motion is pending decision of the Court.

We cannot predict the outcome of the litigation, but we intend to continue 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.

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NOTE 9: SEGMENT INFORMATION

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

	Three Months Ended December 31, 2018					
	U.S. Pawn	Latin America Pawn	Other International	Total Segments	Corporate Items	Consolidated
	(in thousands)					
Revenues:						
Merchandise sales	$95,103	$25,921	$—	$121,024	$—	$121,024
Jewelry scrapping sales	6,552	2,729	—	9,281	—	9,281
Pawn service charges	64,303	19,371	—	83,674	—	83,674
Other revenues	48	42	1,781	1,871	—	1,871
Total revenues	166,006	48,063	1,781	215,850	—	215,850
Merchandise cost of goods sold	59,148	17,964	—	77,112	—	77,112
Jewelry scrapping cost of goods sold	5,510	2,540	—	8,050	—	8,050
Other cost of revenues	—	—	484	484	—	484
Net revenues	101,348	27,559	1,297	130,204	—	130,204
Segment and corporate expenses (income):						
Operations	68,068	18,848	2,630	89,546	—	89,546
Administrative	—	—	—	—	15,479	15,479
Depreciation and amortization	3,035	1,422	41	4,498	2,350	6,848
Loss on sale or disposal of assets and other	2,853	1,589	—	4,442	—	4,442
Interest expense	—	29	72	101	8,690	8,791
Interest income	—	(419)	—	(419)	(2,920)	(3,339)
Equity in net loss of unconsolidated affiliate	—	—	1,119	1,119	—	1,119
Impairment of investment in unconsolidated affiliate	—	—	13,274	13,274	—	13,274
Other (income) expense	—	(126)	22	(104)	(282)	(386)
Segment contribution (loss)	$27,392	$6,216	$(15,861)	$17,747		
(Loss) income from continuing operations before income taxes				$17,747	$(23,317)	$(5,570)

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	Three Months Ended December 31, 2017					
	U.S. Pawn	Latin America Pawn	Other International	Total Segments	Corporate Items	Consolidated
	(in thousands)					
Revenues:						
Merchandise sales	$91,494	$22,094	$ —	$113,588	$—	$113,588
Jewelry scrapping sales	8,525	3,688	—	12,213	—	12,213
Pawn service charges	59,705	16,655	—	76,360	—	76,360
Other revenues	74	169	2,104	2,347	—	2,347
Total revenues	159,798	42,606	2,104	204,508	—	204,508
Merchandise cost of goods sold	56,088	15,079	—	71,167	—	71,167
Jewelry scrapping cost of goods sold	6,842	3,495	—	10,337	—	10,337
Other cost of revenues	—	—	577	577	—	577
Net revenues	96,868	24,032	1,527	122,427	—	122,427
Segment and corporate expenses (income):						
Operations	66,300	14,687	2,623	83,610	—	83,610
Administrative	—	—	—	—	13,318	13,318
Depreciation and amortization	2,799	845	47	3,691	2,032	5,723
Loss on sale or disposal of assets	16	10	—	26	13	39
Interest expense	—	1	—	1	5,846	5,847
Interest income	—	(637)	—	(637)	(3,633)	(4,270)
Equity in net income of unconsolidated affiliate	—	—	(1,450)	(1,450)	—	(1,450)
Other (income) expense	(4)	115	(83)	28	(210)	(182)
Segment contribution	$27,757	$9,011	$ 390	$37,158		
Income from continuing operations before income taxes				$37,158	$(17,366)	$19,792

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NOTE 10: SUPPLEMENTAL CONSOLIDATED FINANCIAL INFORMATION AND OTHER

Supplemental Consolidated Financial Information

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

	December 31, 2018	December 31, 2017	September 30, 2018
	(in thousands)		
Gross pawn service charges receivable	$48,892	$43,316	$49,629
Allowance for uncollectible pawn service charges receivable	(9,933)	(9,262)	(11,311)
Pawn service charges receivable, net	$38,959	$34,054	$38,318
Gross inventory	$185,706	$171,029	$176,198
Inventory reserves	(10,284)	(7,719)	(9,201)
Inventory, net	$175,422	$163,310	$166,997
Prepaid expenses and other	$11,460	$11,305	$9,402
Accounts receivable and other	19,487	14,958	20,933
Restricted cash	255	253	267
2019 Convertible Notes Hedges	21	—	2,552
Prepaid expenses and other current assets	$31,223	$26,516	$33,154
Property and equipment, gross	$253,336	$231,549	$253,022
Accumulated depreciation	(183,566)	(169,451)	(179,373)
Property and equipment, net	$69,770	$62,098	$73,649
Accounts payable	$15,141	$14,229	$10,500
Accrued expenses and other	42,487	45,978	47,300
Accounts payable, accrued expenses and other current liabilities	$57,628	$60,207	$57,800

Jewelry Scrap Receivable

In November 2018, our principal refiner that processes our scrap jewelry announced Chapter 11 bankruptcy restructuring proceedings in the U.S. As of December 31, 2018, we had potential exposure from this refiner of $4.4 million on our balance sheet. In the first quarter of our fiscal 2019, we recorded a full reserve of $4.4 million against this amount which is included under "Loss on sale or disposal of assets and other" and "Other adjustments" in our condensed consolidated statements of operations and cash flows, respectively. We continue to monitor the bankruptcy process and may record recoveries of such reserved amounts in a future period as we gather more information.

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

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

Overview and Financial Highlights

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

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

- Market Leading Customer Satisfaction;
- Exceptional Staff Engagement;

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

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

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

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

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The following charts present store counts by geographic disbursement:

Pawn Activities

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

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

Growth and Expansion

We plan to expand the number of locations we operate through opening new (“de novo”) locations and through acquisitions. There are growth opportunities with de novo stores in Latin America and pawn store acquisitions in both Latin America and to a lesser extent in the U.S. Our ability to add new stores is dependent on several variables, such as the availability of acceptable sites or acquisition candidates, the alignment of acquirer/seller price expectations, the regulatory environment, local zoning ordinances, access to capital, availability of qualified personnel, and projected financial results meeting our investment hurdles.

Seasonality and Quarterly Results

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

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Store Data by Segment

	Three Months Ended December 31, 2018			
	U.S. Pawn	Latin America Pawn	Other International	Consolidated
As of September 30, 2018	508	453	27	988
New locations opened	—	4	—	4
Locations acquired	—	5	—	5
As of December 31, 2018	508	462	27	997

	Three Months Ended December 31, 2017			
	U.S. Pawn	Latin America Pawn	Other International	Consolidated
As of September 30, 2017	513	246	27	786
New locations opened	—	4	—	4
Locations acquired	—	133	—	133
As of December 31, 2017	513	383	27	923

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Results of Operations

Three Months Ended December 31, 2018 vs. Three Months Ended December 31, 2017

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

U.S. Pawn

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

	Three Months Ended December 31,		Change
	2018	2017	
	(in thousands)		
Net revenues:			
Pawn service charges	$64,303	$59,705	8%
Merchandise sales	95,103	91,494	4%
Merchandise sales gross profit	35,955	35,406	2%
Gross margin on merchandise sales	38 %	39 %	(100)bps
Jewelry scrapping sales	6,552	8,525	(23)%
Jewelry scrapping sales gross profit	1,042	1,683	(38)%
Gross margin on jewelry scrapping sales	16 %	20 %	(400)bps
Other revenues	48	74	(35)%
Net revenues	101,348	96,868	5%
Segment operating expenses:			
Operations	68,068	66,300	3%
Depreciation and amortization	3,035	2,799	8%
Segment operating contribution	30,245	27,769	9%
Other segment expenses	2,853	12	23,675%
Segment contribution	$27,392	$27,757	(1)%
Other data:			
Net earning assets — continuing operations (a)	$299,160	$284,933	5%
Inventory turnover	1.8	1.8	—%
Average monthly ending pawn loan balance per store (b)	$304	$282	8%
Monthly average yield on pawn loans outstanding	14 %	14 %	—
Pawn loan redemption rate	83 %	84 %	(100)bps

(a) Balance includes pawn loans and inventory.

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

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Net revenue was up 5%, or \$4.5 million, primarily due to an 8%, or \$4.6 million, increase in pawn service charges and a 2%, or \$0.5 million, increase in merchandise sales gross profit, offset by a 38%, or \$0.6 million, decrease in jewelry scrapping sales gross profit. The change in net revenue attributable to same stores and new stores added since the prior-year quarter is summarized as follows:

	Change in Net Revenue		
	Pawn Service Charges	Merchandise Sales Gross Profit	Total
	(in millions)		
Same stores	\$4.8	\$ 0.8	\$5.6
New stores and other	(0.2)	(0.3)	(0.5)
Total	\$4.6	\$ 0.5	\$5.1
Change in jewelry scrapping sales gross profit and other revenues			(0.6)
Total change in net revenue			\$4.5

Pawn service charges increased 8% primarily due to an 8% increase in average ending monthly pawn loan balances outstanding during the current quarter. The higher average loan balance was driven by disciplined lending practices, a focus on meeting customers' need for cash and stronger performance from stores affected by hurricanes in the prior-year quarter.

Merchandise sales increased 4% with gross margin on merchandise sales of 38%, a 100 basis point decline over the prior-year quarter. As a result, merchandise sales gross profit increased 2% to \$36.0 million. The increase in merchandise sales gross profit is inclusive of the impacts of the hurricanes in the prior-year quarter. We expect sales gross margin for the full fiscal year to be within our target range of 35-38%.

Jewelry scrapping sales gross profit remained relatively flat at 1% of current quarter net revenues, in-line with our strategy to sell rather than scrap merchandise, with a 400 basis point decline in gross margin to 16%.

A 5% increase in net revenue turned into a 1% decrease in segment contribution primarily as a result of a \$2.9 million reserve against a receivable balance deemed uncollectible from a refiner, in addition to a 3% increase in operations expense due to ordinary inflation of costs.

Non-GAAP Financial Information

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

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Constant currency results reported herein are calculated by translating consolidated balance sheet and consolidated statement of operations items denominated in Mexican pesos, Guatemalan quetzals, Honduran lempiras and Peruvian sols to U.S. dollars using the exchange rate from the prior-year comparable period, as opposed to the current period, in order to exclude the effects of foreign currency rate fluctuations. We used the end-of-period rate for balance sheet items and the average closing daily exchange rate on a monthly basis during the appropriate period for statement of operations items. The end-of-period and approximate average exchange rates for each currency as compared to U.S. dollars as of and for the three months ended December 31, 2018 and 2017 were as follows:

	December 31,		**Three Months Ended December 31,**	
	2018	**2017**	**2018**	**2017**
Mexican peso	19.6	19.7	19.8	19.0
Guatemalan quetzal	7.7	7.3	7.6	7.2
Honduran lempira	24.2	23.5	24.0	23.3
Peruvian sol	3.4	3.2	3.3	3.2

Our statement of operations constant currency results reflect the monthly exchange rate fluctuations and so are not directly calculable from the above rates. Constant currency results, where presented, also exclude the foreign currency gain or loss. We have experienced a prolonged weakening of the Mexican peso to the U.S. dollar and may continue to experience further weakening in future reporting periods, which may adversely impact our future operating results when stated on a GAAP basis.

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Latin America Pawn

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

	Three Months Ended December 31,				
	2018 (GAAP)	2017 (GAAP)	Change (GAAP)	2018 (Constant Currency)	Change (Constant Currency)
	(in USD thousands)			*(in USD thousands)*	
Net revenues:					
Pawn service charges	$19,371	$16,655	16%	$20,259	22%
Merchandise sales	25,921	22,094	17%	27,117	23%
Merchandise sales gross profit	7,957	7,015	13%	8,323	19%
Gross margin on merchandise sales	31 %	32 %	(100)bps	31 %	(100)bps
Jewelry scrapping sales	2,729	3,688	(26)%	2,852	(23)%
Jewelry scrapping sales gross profit	189	193	(2)%	196	2%
Gross margin on jewelry scrapping sales	7 %	5 %	200bps	7 %	200bps
Other revenues	42	169	(75)%	44	(74)%
Net revenues	27,559	24,032	15%	28,822	20%
Segment operating expenses:					
Operations	18,848	14,687	28%	19,712	34%
Depreciation and amortization	1,422	845	68%	1,487	76%
Segment operating contribution	7,289	8,500	(14)%	7,623	(10)%
Other segment loss (income) (a)	1,073	(511)	*	1,201	*
Segment contribution	$6,216	$9,011	(31)%	$6,422	(29)%
Other data:					
Net earning assets — continuing operations (b)	$70,246	$55,352	27%	$70,971	28%
Inventory turnover	2.6	3.0	(13)%	2.6	(13)%
Average monthly ending pawn loan balance per store (c)	$90	$90	—%	$94	4%
Monthly average yield on pawn loans outstanding	15 %	17 %	(200)bps	15 %	(200)bps
Pawn loan redemption rate	78 %	79 %	(100)bps	78 %	(100)bps

* Represents a percentage computation that is not mathematically meaningful.

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

(b) Balance includes pawn loans and inventory.

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

In the current quarter, we acquired five pawn stores in Mexico and opened four de novo stores. We see opportunity for further expansion in Latin America through de novo openings and acquisitions, and plan to open at least ten additional stores in Latin America during the remainder of fiscal 2019.

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Net revenue increased $3.5 million, or 15% (up $4.8 million, or 20%, on a constant currency basis). The increase in net revenue attributable to same stores and new stores added since the prior-year quarter is summarized as follows:

	Change in Net Revenue		
	Pawn Service Charges	**Merchandise Sales Gross Profit**	**Total**
	(in millions)		
Same stores	$0.5	$ —	$0.5
New stores and other	2.2	0.9	3.1
Total	$2.7	$ 0.9	$3.6
Change in jewelry scrapping sales gross profit and other revenues			(0.1)
Total change in net revenue			$3.5

	Change in Net Revenue (Constant Currency)		
	Pawn Service Charges	**Merchandise Sales Gross Profit**	**Total**
	(in millions)		
Same stores	$1.2	$ 0.3	$1.5
New stores and other	2.4	1.0	3.4
Total	$3.6	$ 1.3	$4.9
Change in jewelry scrapping sales gross profit and other revenues			(0.1)
Total change in net revenue			$4.8

Pawn service charges increased 16% (22% on a constant currency basis) primarily from newly acquired stores as well as continued same store growth. As a result and in addition to foreign currency impacts, the average ending monthly pawn loan balance outstanding during the current year was flat (up 4% on a constant currency basis).

Merchandise sales increased 17% (23% on a constant currency basis) primarily from newly acquired stores as well as continued same store growth. Gross margin on merchandise sales was 31%, or 100 basis points below the prior-year quarter. As a result and in addition to foreign currency impacts, merchandise sales gross profit was up 13% to $8.0 million (19% to $8.3 million on a constant currency basis).

Jewelry scrapping sales decreased 26% (23% on a constant currency basis) with a 200 basis point increase in margin, in-line with our strategy to sell rather than scrap merchandise.

Net revenue increased 15% (20% on a constant currency basis). However, operations expense increased 28% (34% on a constant currency basis) as a result of increased staffing counts and wage costs of $1.6 million ($2.0 million on a constant currency basis), non-recurring charges of $0.5 million ($0.6 million on a constant currency basis) and ordinary inflation of other costs. Additionally, we recorded a $1.5 million reserve against a receivable and inventory balance deemed uncollectible from a refiner. These factors resulted in a decrease in segment contribution of 31% (29% on a constant currency basis).

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Other International

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

	Three Months Ended December 31, 2018	2017	Percentage Change
	(in thousands)		
Net revenues:			
Consumer loan fees, interest and other	$1,781	$2,104	(15)%
Consumer loan bad debt	(484)	(577)	(16)%
Net revenues	1,297	1,527	(15)%
Segment operating expenses (income):			
Operating expenses	2,743	2,670	3%
Equity in net loss (income) of unconsolidated affiliate	1,119	(1,450)	*
Segment operating (loss) contribution	(2,565)	307	*
Impairment of investment in unconsolidated affiliate	13,274	—	*
Other segment expense (income)	22	(83)	*
Segment (loss) contribution	$(15,861)	$390	*

* Represents a percentage computation that is not mathematically meaningful.

Segment loss was $15.9 million, a decrease of $16.3 million from the prior-year quarter, primarily due to:

- Impairment of our investment in Cash Converters International in the amount of $13.3 million; and
- A charge of $2.9 million included in our ordinary estimated share of earnings of $1.8 million from Cash Converters International for estimated charges relating to settlement of Queensland class action litigation in October 2018.

Due to regulatory changes that became effective January 1, 2018, we added installment loan products in our Canada CASHMAX business to meet the needs of our customers. In addition to payday loans, all CASHMAX stores are now offering installment loans with terms ranging from six to 18 months and average yields of 47% per annum. We entered into a secured borrowing arrangement in November 2018 to provide up to CAD $25.0 million to fund originations of installment loans through November 2019 and have obtained $1.2 million in proceeds from the facility through December 31, 2018. See Note 6 of Notes to Interim Condensed Consolidated Financial Statements included in "Part I, Item 1 — Financial Statements."

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Other Items

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

	Three Months Ended December 31, 2018	2017	Percentage Change
	(in thousands)		
Segment contribution	$17,747	$37,158	(52)%
Corporate expenses (income):			
Administrative	15,479	13,318	16%
Depreciation and amortization	2,350	2,032	16%
Loss on sale or disposal of assets	—	13	(100)%
Interest expense	8,690	5,846	49%
Interest income	(2,920)	(3,633)	(20)%
Other income	(282)	(210)	34%
(Loss) income from continuing operations before income taxes	(5,570)	19,792	*
Income tax (benefit) expense	(1,032)	7,437	*
(Loss) income from continuing operations, net of tax	(4,538)	12,355	*
Loss from discontinued operations, net of tax	(183)	(222)	(18)%
Net (loss) income	(4,721)	12,133	*
Net loss attributable to noncontrolling interest	(477)	(615)	(22)%
Net (loss) income attributable to EZCORP, Inc.	$(4,244)	$12,748	*

* Represents a percentage computation that is not mathematically meaningful.

Segment contribution decreased primarily due to impairment of our investment in Cash Converters International of $13.3 million, a $2.6 million decrease in earnings from Cash Converters International, a $2.8 million decrease in Latin America Pawn contribution and a $0.4 million decrease in U.S. Pawn contribution.

Administrative expenses increased $2.2 million, or 16%, in the current quarter primarily due to costs of $2.1 million associated with the strategic investment in a new digital platform.

Interest expense increased $2.8 million, or 49%, primarily due to an increase in debt outstanding during the current quarter compared to the first quarter of fiscal 2018. Effective interest rates on our outstanding convertible debt were approximately 8% to 9%.

Interest income decreased $0.7 million, or 20%, primarily due to a decrease in notes receivable outstanding during the current quarter.

Income tax expense decreased $8.5 million due primarily to:

- A $25.4 million decrease in income from continuing operations before income taxes;
- A lower maximum U.S. corporate rate of 21% compared to 24.5% in the prior-year quarter; and
- A prior-year quarter charge related to the impacts of the U.S. Tax Cuts and Jobs Act of 2017; partially offset by
- The elimination of benefits in the prior-year quarter for the expiration of statute of limitations on an uncertain tax position.

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

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Liquidity and Capital Resources

Cash Flows

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

	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017	Percentage Change
	(in thousands)		
Cash flows from operating activities	$22,760	$19,252	18%
Cash flows from investing activities	(8,279)	(68,332)	88%
Cash flows from financing activities	(2,612)	(311)	(740)%
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(865)	(1,165)	26%
Net increase (decrease) in cash and cash equivalents and restricted cash	$11,004	$(50,556)	*

* Represents a percentage computation that is not mathematically meaningful.

Change in Cash and Cash Equivalents and Restricted Cash for the Three Months Ended December 31, 2018 vs. Three Months Ended December 31, 2017

The increase in cash flows from operating activities year-over-year was due to a $4.2 million increase in net income exclusive of non-cash items due to operational results and stores acquired in the prior year, offset by a $0.7 million decrease from changes in operating assets and liabilities.

The increase in cash flows from investing activities year-over-year was due to a $61.8 million decrease in cash paid for acquisitions, a $3.7 million decrease in additions to property and equipment and a $4.4 million decrease in principal collections on notes receivable, offset by a $9.9 million net decrease in proceeds related to loan activities (net loans repaid and recovery of pawn loan principal through sale of forfeited collateral).

The decrease in cash flows from financing activities year-over-year was due to a $3.0 million increase in cash paid for employee net share settlement of individual tax liabilities on vested share-based awards, offset by $0.7 million in net proceeds from borrowing.

The net effect of these and other smaller items was a $11.0 million increase in cash on hand during the three months ended December 31, 2018, resulting in a $297.0 million ending cash balance compared to $113.6 million as of December 31, 2017. Of the ending cash balance as of December 31, 2018, $22.2 million was not available to fund domestic operations as we intend to permanently reinvest those earnings in our foreign operations.

Sources and Uses of Cash

We anticipate that cash flow from operations and cash on hand will be adequate to fund our contractual obligations, planned de novo store growth, capital expenditures and working capital requirements, as well as a limited amount of acquisitions, through fiscal 2019. Depending on the level of acquisition activity and other factors, our ability to repay our debt obligations, including the $195 million of convertible debt that matures in June 2019, may require us to refinance those obligations through the issuance of new debt securities, equity securities, convertible securities or through new credit facilities.

Contractual Obligations

In "Part II, Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended September 30, 2018, we reported that we had $795.8 million in total contractual obligations as of September 30, 2018. There have been no material changes to this total obligation since September 30, 2018.

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

Recently Adopted Accounting Policies and Recently Issued Accounting Pronouncements

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

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Cautionary Statement Regarding Risks and Uncertainties that May Affect Future Results

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2018. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2018 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Inherent Limitations on Internal Controls

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

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Judgments in decision-making can be faulty, and control and process breakdowns can occur because of simple errors or mistakes.

- Controls can be circumvented by individuals, acting alone or in collusion with others, or by management override.

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- The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.
- Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures.
- The design of a control system must reflect the fact that resources are constrained, and the benefits of controls must be considered relative to their costs.

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

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Important risk factors that could affect our operations and financial performance, or that could cause results or events to differ from current expectations, are described in "Part I, Item 1A — Risk Factors" of our Annual Report on Form 10-K for the year ended September 30, 2018, as supplemented by the information set forth below.

Our development of a digital platform to provide transaction and lending services, and the commercialization of that platform, may not be successful.

We are investing in the design and development of a digital platform to enhance our relationships with customers and provide them access to a broader and more targeted range of financial products and services. At this early stage, there can be no assurance that our efforts to develop and launch such a digital platform will be successful or, if launched, that the platform will be accepted by existing customers or attract new customers. Consequently, we may not realize the expected return on our investment.

ITEM 6. EXHIBITS

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

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

† Filed herewith.

†† Furnished herewith.

††† Filed herewith as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of December 31, 2018, December 31, 2017 and September 30, 2018; (ii) Condensed Consolidated Statements of Operations for the three months ended December 31, 2018 and December 31, 2017; (iii) Condensed Consolidated Statements of Comprehensive (Loss) Income for the three months ended December 31, 2018 and December 31, 2017; (iv) Condensed Consolidated Statements of Stockholders' Equity for the three months ended December 31, 2018 and December 31, 2017; (v) Condensed Consolidated Statements of

Cash Flows for the three months ended December 31, 2018 and December 31, 2017; and (vi) Notes to Interim Condensed Consolidated Financial Statements.

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SIGNATURES

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

		EZCORP, INC.
Date:	January 30, 2019	/s/ David McGuire
		David McGuire,
		Deputy Chief Financial Officer and Chief Accounting Officer
		(principal accounting officer)

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