EZCORP INC
Form 10-Q
February 05, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended December 31, 2007 **Commission File No. 000-19424**

EZCORP, INC.
(Exact name of registrant as specified in its charter)

Delaware	**74-2540145**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1901 Capital Parkway
Austin, Texas 78746
(Address of principal executive offices)
Registrant s telephone number: **(512) 314-3400**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ Noo

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

As of December 31, 2007, 38,372,610 shares of the registrant s Class A Non-voting Common Stock, par value $.01 per share and 2,970,171 shares of the registrant s Class B Voting Common Stock, par value $.01 per share were outstanding.

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PART I

Item 1. Financial Statements

Condensed Consolidated Balance Sheets

	December 31, 2007 (Unaudited)	December 31, 2006 (Unaudited)	September 30, 2007
		(In thousands)	
Assets:			
Current assets:			
Cash and cash equivalents	$ 13,651	$ 39,964	$ 22,533
Pawn loans	63,270	47,793	60,742
Payday loans, net	6,169	3,273	4,814
Pawn service charges receivable, net	10,710	8,434	10,113
Signature loan fees receivable, net	7,217	5,141	5,992
Inventory, net	41,788	35,235	37,942
Deferred tax asset, net	9,005	7,150	8,964
Prepaid expenses and other assets	8,121	5,786	6,146
Total current assets	159,931	152,776	157,246
Investment in unconsolidated affiliate	37,294	20,317	35,746
Property and equipment, net	37,308	29,881	33,806
Deferred tax asset, non-current	5,023	3,950	4,765
Goodwill	24,591	768	16,211
Other assets, net	5,089	2,979	3,412
Total assets	$ 269,236	$ 210,671	$ 251,186
Liabilities and stockholders equity:			
Current liabilities:			
Accounts payable and other accrued expenses	$ 25,164	$ 19,689	$ 25,592
Customer layaway deposits	2,144	2,103	1,988
Federal income taxes payable	9,063	4,305	4,795
Total current liabilities	36,371	26,097	32,375
Deferred gains and other long-term liabilities	3,096	3,158	2,886
Commitments and contingencies			
Stockholders equity:			
Preferred Stock, par value $.01 per share; 5 million shares authorized; none issued and outstanding			
Class A Non-voting Common Stock, par value $.01 per share; 50 million shares authorized; 38,399,709 issued and 38,372,610 outstanding at December 31, 2007; 37,636,788	384	376	383

issued and 37,609,689 outstanding at December 31, 2006; 38,363,176 issued and 38,336,077 outstanding at September 30, 2007			
Class B Voting Common Stock, convertible, par value $.01 per share; 3 million shares authorized; 2,970,171 issued and outstanding	30	30	30
Additional paid-in capital	132,103	125,687	131,098
Cumulative effect of adopting a new accounting principle	(106)		
Retained earnings	94,402	53,734	81,847
	226,813	179,827	213,358
Treasury stock, at cost (27,099 shares)	(35)	(35)	(35)
Accumulated other comprehensive income	2,991	1,624	2,602
Total stockholders equity	229,769	181,416	215,925
Total liabilities and stockholders equity	$ 269,236	$ 210,671	$ 251,186

See Notes to Condensed Consolidated Financial Statements (unaudited).

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Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended December 31, 2007	2006
	(In thousands, except per share amounts)	
Revenues:		
Sales	$ 55,507	$ 48,980
Pawn service charges	22,908	17,962
Signature loan fees	33,528	24,395
Other	363	350
Total revenues	112,306	91,687
Cost of goods sold	33,541	29,823
Net revenues	78,765	61,864
Operating expenses:		
Operations	37,071	31,388
Signature loan bad debt	9,670	6,028
Administrative	9,905	7,527
Depreciation and amortization	2,827	2,298
Total operating expenses	59,473	47,241
Operating income	19,292	14,623
Interest income	(57)	(314)
Interest expense	81	64
Equity in net income of unconsolidated affiliate	(1,047)	(645)
Loss on sale / disposal of assets	162	24
Income before income taxes	20,153	15,494
Income tax expense	7,598	5,733
Net income	$ 12,555	$ 9,761
Net income per common share:		
Basic	$ 0.30	$ 0.24
Diluted	$ 0.29	$ 0.23
Weighted average shares outstanding:		
Basic	41,339	40,549

Diluted	43,273	43,306

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

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Condensed Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended December 31, 2007	2006
	(In thousands)	
Operating Activities:		
Net income	$ 12,555	$ 9,761
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,827	2,298
Payday loan loss provision	2,084	824
Deferred taxes	(259)	(201)
Net loss on sale or disposal of assets	162	24
Share-based compensation	856	750
Income from investment in unconsolidated affiliate	(1,047)	(645)
Changes in operating assets and liabilities, net of business acquisitions:		
Service charges and fees receivable, net	(1,598)	(961)
Inventory, net	(467)	1
Prepaid expenses, other current assets, and other assets, net	(2,089)	(1,987)
Accounts payable and accrued expenses	(461)	(2,888)
Customer layaway deposits	91	213
Deferred gains and other long-term liabilities	210	(91)
Excess tax benefit from stock-based compensation	(67)	(189)
Federal income taxes	4,229	4,529
Net cash provided by operating activities	17,026	11,438
Investing Activities:		
Pawn loans made	(60,251)	(46,803)
Pawn loans repaid	31,049	24,649
Recovery of pawn loan principal through sale of forfeited collateral	27,442	25,045
Payday loans made	(18,437)	(9,468)
Payday loans repaid	14,998	7,814
Additions to property and equipment	(5,500)	(2,738)
Acquisitions, net of cash acquired	(15,344)	
Investment in unconsolidated affiliate	(15)	
Net cash used in investing activities	(26,058)	(1,501)
Financing Activities:		
Proceeds from exercise of stock options and warrants	83	177
Excess tax benefit from stock-based compensation	67	189
Debt issuance costs		(278)
Net cash provided by financing activities	150	88
Change in cash and equivalents	(8,882)	10,025
Cash and equivalents at beginning of period	22,533	29,939

Cash and equivalents at end of period	$ 13,651	$ 39,964
Non-cash Investing and Financing Activities:		
Pawn loans forfeited and transferred to inventory	$ 29,887	$ 24,665
Foreign currency translation adjustment	$ (389)	$ (399)
Cumulative effect of adopting a new accounting principle	$ 106	$

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

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EZCORP, Inc. and Subsidiaries
Notes to Interim Condensed Consolidated Financial Statements (Unaudited)
December 31, 2007

Note A: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Management has included all adjustments it considers necessary for a fair presentation. These adjustments are of a normal, recurring nature except for those related to an acquired business (described in Note C) and the adoption of a new accounting principle for uncertain tax positions (described in Note K). The accompanying financial statements should be read with the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended September 30, 2007. The balance sheet at September 30, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Certain prior period balances have been reclassified to conform to the current presentation.

Our business is subject to seasonal variations, and operating results for the three-month period ended December 31, 2007 (the current quarter) are not necessarily indicative of the results of operations for the full fiscal year.

Note B: Significant Accounting Policies

CONSOLIDATION: The consolidated financial statements include the accounts of EZCORP, Inc. and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. We account for our interest in Albemarle & Bond Holdings, plc using the equity method.

PAWN LOAN AND SALES REVENUE RECOGNITION: We record pawn service charges using the interest method for all pawn loans we believe to be collectible. We base our estimate of collectible loans on several factors, including recent redemption rates, historical trends in redemption rates and the amount of loans due in the following two to three months. Unexpected variations in any of these factors could change our estimate of collectible loans, affecting our earnings and financial condition. If a pawn loan is not repaid, we value the forfeited collateral (inventory) at the lower of cost (pawn loan principal) or market (net realizable value) of the property. We record sales revenue and the related cost when this inventory is sold.

CREDIT SERVICE REVENUE RECOGNITION: We earn credit service fees when we assist customers in obtaining a loan from unaffiliated lenders. We accrue the percentage of credit service fees we expect to collect. Accrued fees related to defaulted loans reduce credit service fee revenue upon loan default, and increase credit service fee revenue upon collection. Credit service revenue is included in Signature loan fees on our statements of operations.

CREDIT SERVICE BAD DEBT: We issue letters of credit to enhance the creditworthiness of our credit service customers seeking loans from unaffiliated lenders. The letters of credit assure the lenders that if borrowers default on the loans, we will pay the lenders, upon demand, the principal and accrued interest owed it by the borrowers plus any insufficient funds fee. Although amounts paid under letters of credit may be collected later, we charge those amounts to signature loan bad debt upon default. We record recoveries under the letters of credit as a reduction of bad debt at the time of collection. After attempting collection of bad debts internally for 60 days, we generally sell them to an unaffiliated company on a weekly basis as another method of recovery. We account for the sale of defaulted accounts in the same manner as internal collections of defaulted accounts.

The majority of our credit service customers obtain short-term loans with a single maturity date. These short-term loans, with maturity dates averaging about 18 days, are considered defaulted if they have not been repaid or renewed by the maturity date. Other credit service customers obtain installment loans with a series of payments due over as much as a five-month period. If one payment of an installment loan is delinquent, that one payment is considered defaulted. If more than one installment payment is delinquent at any time, the entire loan is considered defaulted.

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CREDIT SERVICE ALLOWANCE FOR LOSSES: We also provide an allowance for losses we expect to incur under letters of credit for loans that have not yet matured. The allowance is based on recent loan default experience adjusted for seasonal variations. It includes all amounts we expect to pay to the unaffiliated lenders upon loan default, including loan principal, accrued interest, and insufficient funds fees, net of the amounts we expect to collect from borrowers (Expected LOC Losses). Changes in the allowance are charged to signature loan bad debt expense. We include the balance of Expected LOC Losses in Accounts payable and other accrued expenses on our balance sheet. At December 31, 2007, the allowance for Expected LOC Losses was $1.3 million. At that date, our maximum exposure for losses on letters of credit, if all brokered loans defaulted and none was collected, was $29.2 million. This amount includes principal, interest, and insufficient funds fees. Based on the expected loss and collection percentages, we also provide an allowance for the credit service fees we expect not to collect, and charge changes in this allowance to signature loan fee revenue.

PAYDAY LOAN REVENUE RECOGNITION: We accrue fees on the percentage of payday loans we believe to be collectible. Accrued fees related to defaulted loans reduce fee revenue upon loan default, and increase fee revenue upon collection. Payday loan fee revenue is included in Signature loan fees on our statements of operations. Loan terms are generally less than 30 days, averaging about 20 days.

PAYDAY LOAN BAD DEBT: We consider a loan defaulted if it has not been repaid or renewed by the maturity date. Although defaulted loans may be collected later, we charge the loan principal to signature loan bad debt upon default, leaving only active loans in the reported balance. We record collections of principal as a reduction of signature loan bad debt when collected. After attempting collection of bad debts internally for 60 days, we generally sell them to an unaffiliated company on a weekly basis as another method of recovery. We account for the sale of defaulted loans in the same manner as internal collections of defaulted loans.

PAYDAY LOAN ALLOWANCE FOR LOSSES: We also provide an allowance for losses on payday loans that have not yet matured and related fees receivable, based on recent loan default experience adjusted for seasonal variations. We charge any changes in the principal valuation allowance to signature loan bad debt. We record changes in the fee receivable valuation allowance to signature loan fee revenue.

INVENTORY: If a pawn loan is not redeemed, we record the forfeited collateral at cost. We do not record loan loss allowances or charge-offs on the principal portion of pawn loans, as they are fully collateralized. In order to state inventory at the lower of cost (specific identification) or market (net realizable value), we record an allowance for shrinkage and excess, obsolete, or slow-moving inventory. The allowance is based on the type and age of merchandise and recent sales trends and margins. At December 31, 2007, the inventory valuation allowance was $4.1 million, or 8.9% of gross inventory. We record changes in the inventory valuation allowance as cost of goods sold.

INTANGIBLE ASSETS: Goodwill and other intangible assets having indefinite lives are not subject to amortization. They are tested for impairment each July 1st, or more frequently if events or changes in circumstances indicate that they might be impaired. We recognized no impairment of our intangible assets in the current or prior year quarter. We amortize intangible assets with definite lives over their estimated useful lives, using the straight-line method.

PROPERTY AND EQUIPMENT: Property and equipment is shown net of accumulated depreciation of $87.0 million at December 31, 2007.

VALUATION OF TANGIBLE LONG-LIVED ASSETS: We assess the impairment of tangible long-lived assets whenever events or changes in circumstances indicate that the net recorded amount may not be recoverable. The following factors could trigger an impairment review: significant underperformance relative to historical or projected future cash flows; significant changes in the manner of use of the assets or the strategy for the overall business; or significant negative industry trends. When we determine that the net recorded amount of tangible long-lived assets may not be recoverable, we measure impairment based on the excess of the assets net recorded amount over the estimated fair value. No impairment of tangible long-lived assets was recognized in the current or prior year quarter.

INCOME TAXES: We calculate the provision for federal income taxes based on our estimate of the effective tax rate for the full fiscal year. As part of the process of preparing the financial statements, we estimate income taxes in each jurisdiction in which we operate. This involves estimating the actual current tax liability and assessing temporary differences in recognition of income for tax and accounting purposes. These differences result in deferred tax assets and liabilities that we include in our balance sheet. We must then assess the likelihood that the deferred tax assets will be recovered from future taxable income. If we determined we would not be able to realize all or part of our net deferred tax assets in the future, an increase to the valuation allowance would be charged to the income tax provision in that period. Likewise, if we determined we would be able to realize our deferred tax assets in the future in excess of the net recorded amount, a decrease to the valuation allowance would decrease the tax provision in that period. We assess the need for a deferred tax asset valuation allowance quarterly. Our valuation allowance was unchanged from the prior year quarter at $0.4 million at December 31, 2007.

Effective October 1, 2007, we adopted Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). See Note K for further discussion and related disclosures.

SHARE-BASED COMPENSATION: We account for share-based compensation in accordance with the fair value recognition provisions of SFAS No. 123(R), Share-based Payment. We estimate the grant-date fair value of options using the Black-Scholes-Merton option-pricing model and amortize that fair value to compensation expense on a straight-line basis over the options vesting periods.

SEGMENTS: We account for our operations in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. We manage our business operations and internal reporting as three reportable segments. Prior to October 1, 2007, we had two reportable segments. Effective October 1, 2007, we reorganized as three reportable segments. See Note L for further discussion and separate data for each segment.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS: In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements. Among other requirements, SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about the use of fair value to measure assets and liabilities. We must adopt SFAS No. 157 in our fiscal year ending September 30, 2009. We are currently evaluating the impact, if any, of SFAS No. 157 on our financial position and results of operations. It will not impact our cash flows.

Note C: Acquisitions

On October 22, 2007, we completed the acquisition of twenty Mexico pawnshops from MMFS Intl., S.A. de C.V, a subsidiary of Mister Money Holdings, Inc. for $15.3 million cash and direct transaction costs. The estimated fair values of the assets acquired and liabilities assumed are preliminary, and may be refined within a year of the acquisition. The purchase price was preliminarily allocated as follows *(in thousands)*:

Current assets:	
Pawn loans	$ 3,230
Pawn service charges receivable, net	224
Inventory, net	940
Deferred tax asset	41
Prepaid expenses and other assets	40
Total current assets	4,475
Property and equipment	800
Non-compete agreement	1,600
Goodwill	8,433
Other assets, net	131
Total assets	$ 15,439
Liabilities:	
Accrued liabilities	$ (30)

Customer deposits	(65)
Total liabilities	(95)
Net assets acquired	$ 15,344

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The results of the acquired stores have been consolidated with our results since their acquisition. Pro forma results of operations have not been presented because the acquisition was not material in relation to our consolidated financial position or results of operations.

Note D: Earnings Per Share

We compute basic earnings per share on the basis of the weighted average number of shares of common stock outstanding during the period. We compute diluted earnings per share on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options, warrants and restricted stock awards.

Components of basic and diluted earnings per share are as follows (*in thousands, except per share amounts*):

	Three Months Ended December 31,	
	2007	2006
Net income (A)	$ 12,555	$ 9,761
Weighted average outstanding shares of common stock (B)	41,339	40,549
Dilutive effect of stock options, warrants, and restricted stock	1,934	2,757
Weighted average common stock and common stock equivalents (C)	43,273	43,306
Basic earnings per share (A/B)	$ 0.30	$ 0.24
Diluted earnings per share (A/C)	$ 0.29	$ 0.23

Anti-dilutive options, warrants and restricted stock grants have been excluded from the computation of diluted earnings per share because the assumed proceeds upon exercise, as defined by SFAS No. 123(R), were greater than the cost to re-acquire the same number of shares at the average market price, and therefore the effect would be anti-dilutive.

Note E: Investment in Unconsolidated Affiliate

At December 31, 2007, we owned 16,298,875 common shares of Albemarle & Bond Holdings, plc (A&B), or approximately 29.95% of A&B s total outstanding shares. The investment is accounted for using the equity method. Since A&B s fiscal year ends three months prior to ours, we report the income from this investment on a three-month lag. A&B files interim and annual financial reports for its fiscal periods ending December 31 and June 30. The income reported for our quarter ended December 31, 2007 represents our percentage interest in the estimated results of A&B s operations from July 1, 2007 to September 30, 2007. On July 12, 2007, A&B acquired 26 locations from a competitor, but has not yet released its results of operations from those recently acquired stores. Included in our estimate of A&B s results of operations for the quarter ended September 30, 2007 is our estimate of results for the acquired stores based on A&B s previous public release of the acquired stores historical operating profit, an estimate of the additional interest expense arising from A&B s financing of the acquisition, A&B s typical income tax rate, and other estimates we feel are reasonable.

Below is summarized financial information for A&B s most recently reported results (*using average exchange rates for the periods indicated*):

	Years ended June 30,	
	2007	2006
	(in thousands)	

Turnover (gross revenues)	$ 64,064	$ 52,461
Gross profit	48,061	38,574
Profit after tax (net income)	10,379	8,484

Note F: Contingencies

Currently and from time to time, we are defendants in legal and regulatory actions. While we cannot determine the ultimate outcome of these actions, after consultation with counsel, we believe their resolution will not have a material adverse effect on our financial condition, results of operations or liquidity. However, we cannot give any assurance as to their ultimate outcome.

In May 2007, the State of Texas filed suit against EZCORP, Inc. and our Texas affiliates in state district court in Bexar County alleging violations of the Texas Identity Theft statute, Deceptive Trade Practices Act, and a provision of the Business and Commerce Code by allegedly failing to safeguard and properly dispose of customers sensitive personal information. In late May 2007, we voluntarily entered into an Agreed Temporary Injunction regarding the safeguarding and disposal of the information. We have reviewed and enhanced our information security polices to address the State s concerns. We are currently in discussions with the State to reach an amicable resolution of this matter, but can give no assurance that an amicable resolution will be reached prior to the October 20, 2008 scheduled jury trial date.

The Florida Office of Financial Regulation has filed an administrative action against us alleging that our Florida CSO business model violates state usury law. A hearing was held before an administrative law judge in January 2008, and a decision is expected in the quarter ending March 31, 2008. We cannot give any assurance as to the ultimate outcome of this hearing.

Note G: Comprehensive Income

Comprehensive income includes net income and other revenues, expenses, gains and losses that are excluded from net income but are included as a component of total stockholders equity. Comprehensive income for the quarters ended December 31, 2007 and 2006 was $12.9 million and $10.2 million. The difference between comprehensive income and net income results primarily from the effect of foreign currency translation adjustments determined in accordance with SFAS No. 52, Foreign Currency Translation. At December 31, 2007, the accumulated balance of foreign currency activity excluded from net income was $4.6 million, net of tax of $1.6 million. The net $3.0 million is presented as Accumulated other comprehensive income in the current quarter balance sheet.

Note H: Long-term Debt

While we had no debt at December 31, 2007 and 2006, we have a $40.0 million revolving credit facility secured by our assets, which matures October 1, 2009. For any borrowed funds, we may choose a Eurodollar rate plus 100 to 200 basis points (depending on the leverage ratio) or the agent bank s base rate. On the unused amount of the revolving facility, we pay a commitment fee of 25 to 30 basis points depending on the leverage ratio calculated at the end of each quarter. Terms of the agreement require, among other things, that we meet certain financial covenants. We were in compliance with all covenants at December 31, 2007. Payment of dividends and additional debt are allowed but restricted.

Note I: Goodwill and Other Intangible Assets

The following table presents the balance of each major class of indefinite-lived intangible asset at the specified dates:

	December 31, 2007	December 31, 2006	September 30, 2007
		(In thousands)	
Pawn licenses	$ 1,549	$ 1,549	$ 1,549
Goodwill	24,591	768	16,211
Total	$ 26,140	$ 2,317	$ 17,760

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

	December 31, 2007		December 31, 2006		September 30, 2007	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
	(In thousands)					
License application fees	$ 345	$ (296)	$ 345	$ (265)	$ 345	$ (288)
Real estate finders fees	556	(332)	556	(315)	556	(327)
Non-compete agreements	2,506	(420)	398	(283)	898	(324)
Total	$ 3,407	$ (1,048)	$ 1,299	$ (863)	$ 1,799	$ (939)

Total amortization expense from definite-lived intangible assets was approximately $116,000 and $18,000 in the quarters ended December 31, 2007 and 2006. The following table presents our estimate of amortization expense for definite-lived intangible assets for each of the five succeeding fiscal years as of October 1, 2007 *(in thousands):*

Fiscal Year	Amortization Expense
2008	$ 476
2009	$ 481
2010	$ 466
2011	$ 459
2012	$ 427
Thereafter	$ 159

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

Note J: Common Stock, Warrants, Options, and Share-based Compensation

Our income includes the following share-based compensation expense, determined in accordance with the fair value provisions of SFAS No. 123(R):

	Three Months Ended December 31,	
	2007	2006
	(in thousands)	
Gross compensation cost	$ 856	$ 751
Income tax benefit	(268)	(221)
Share-based compensation cost, net of tax benefit	$ 588	$ 530