WORLD ACCEPTANCE CORP
Form 10-Q
November 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-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 September 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT of 1934

For the transition period from ______________ to ______________

Commission File Number: 000-19599

WORLD ACCEPTANCE CORPORATION
(Exact name of registrant as specified in its charter.)

South Carolina	57-0425114
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

108 Frederick Street
Greenville, South Carolina 29607
(Address of principal executive offices)
(Zip Code)
(864) 298-9800
(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 shorter period than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically 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 ¨

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

If an emerging growth company, indicate by check mark if 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 ¨No x

The number of outstanding shares of the issuer’s no par value common stock as of November 1, 2018 was 9,865,424.

WORLD ACCEPTANCE CORPORATION
FORM 10-Q

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Introductory Note: As used herein, the "Company," "we," "our," "us," or similar formulations include World Acceptance Corporation and each of its subsidiaries, unless otherwise expressly noted or the context otherwise requires that it include only World Acceptance Corporation. All references in this report to "fiscal 2019" are to the Company's fiscal year ending March 31, 2019; all references in this report to "fiscal 2018" are to the Company's fiscal year ended March 31, 2018; and all references to "fiscal 2017" are to the Company's fiscal year ended March 31, 2017.

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GLOSSARY OF DEFINED TERMS

The following terms may be used throughout this Report, including consolidated financial statements and related notes.

Term	Definition
ASU	Accounting Standards Update
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFPB	U.S. Consumer Financial Protection Bureau
Compensation Committee	Compensation and Stock Option Committee
DOJ	U.S. Department of Justice
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FCPA	U.S. Foreign Corrupt Practices Act of 1977, as amended
G&A	General and administrative
GAAP	U.S. generally accepted accounting principles
IRS	U.S. Internal Revenue Service
LIBOR	London Interbank Offered Rate
Option Measurement Period	The 6.5 year performance period beginning on September 30, 2018 and ending on March 31, 2025 over which the Performance Options are eligible to vest, following certification by the Compensation Committee of achievement
Purchasers	Jointly, Astro Wealth S.A. de C.V. and Astro Assets S.A. de C.V.
Performance Share Measurement Period	The 6.5 year performance period beginning on September 30, 2018 and ending on March 31, 2025 over which the Performance Shares are eligible to vest, following certification by the Compensation Committee of achievement
Performance Options	Performance-based stock options
Performance Shares	Service- and performance-based restricted stock awards
Restricted Stock	Service-based restricted stock awards
SEC	U.S. Securities and Exchange Commission
Sellers	Collectively, World Acceptance Corporation, WFC Services Inc., and WAC Mexico Holdings LLC
Service Options	Service-based stock options
SWAC	Servicios World Acceptance Corporation de México, S. de R.L. de C.V, a former subsidiary of World Acceptance Corporation
TCJA	Tax Cuts and Jobs Act
Transition Tax	Tax amount associated with a one-time repatriation tax on deferred foreign income
WAC de Mexico	WAC de México, S.A. de C.V., SOFOM, E.N.R., a former subsidiary of World Acceptance Corporation

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PART I. FINANCIAL INFORMATION

WORLD ACCEPTANCE CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2018	March 31, 2018
ASSETS		
Cash and cash equivalents	$5,595,711	$12,473,833
Gross loans receivable	1,126,792,196	1,004,233,159
Less:		
Unearned interest, insurance and fees	(297,698,553)	(258,991,492)
Allowance for loan losses	(79,310,375)	(66,088,139)
Loans receivable, net	749,783,268	679,153,528
Property and equipment, net	23,816,135	22,785,951
Deferred income taxes, net	22,892,445	20,175,148
Other assets, net	20,970,694	13,244,416
Goodwill	7,034,463	7,034,463
Intangible assets, net	8,856,698	6,644,301
Assets of discontinued operations (Note 2)	—	79,475,397
Total assets	$838,949,414	$840,987,037
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities:		
Senior notes payable	$230,190,000	$244,900,000
Income taxes payable	13,565,183	14,097,419
Accounts payable and accrued expenses	30,203,556	33,503,335
Liabilities of discontinued operations (Note 2)	—	7,378,431
Total liabilities	273,958,739	299,879,185
Commitments and contingencies (Note 11)	—	—
Shareholders' equity:		
Preferred stock, no par value Authorized 5,000,000, no shares issued or outstanding	—	—
Common stock, no par value Authorized 95,000,000 shares; issued and outstanding 9,153,145 and 9,119,443 shares at September 30, 2018 and March 31, 2018, respectively	—	—
Additional paid-in capital	180,680,619	175,887,227
Retained earnings	384,310,056	391,275,705
Accumulated other comprehensive loss	—	(26,055,080)
Total shareholders' equity	564,990,675	541,107,852
Total liabilities and shareholders' equity	$838,949,414	$840,987,037

See accompanying notes to consolidated financial statements.

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WORLD ACCEPTANCE CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Continuing operations				
Revenues:				
Interest and fee income	$113,490,097	$106,317,687	$221,934,475	$209,685,171
Insurance income, net and other income	13,625,666	12,611,364	27,971,273	25,882,246
Total revenues	127,115,763	118,929,051	249,905,748	235,567,417
Expenses:				
Provision for loan losses	40,358,696	32,824,398	70,949,315	60,534,025
General and administrative expenses:				
Personnel	39,694,543	38,198,950	81,263,890	79,242,753
Occupancy and equipment	10,365,759	9,714,602	20,417,862	19,242,486
Advertising	5,116,510	5,041,454	9,966,595	9,678,910
Amortization of intangible assets	275,496	275,447	538,948	461,269
Other	9,483,540	9,536,959	20,525,908	20,350,180
Total general and administrative expenses	64,935,848	62,767,412	132,713,203	128,975,598
Interest expense	4,157,999	4,790,744	8,383,000	9,037,446
Total expenses	109,452,543	100,382,554	212,045,518	198,547,069
Income from continuing operations before income taxes	17,663,220	18,546,497	37,860,230	37,020,348
Income taxes	3,604,153	6,510,886	8,163,498	13,776,282
Income from continuing operations	14,059,067	12,035,611	29,696,732	23,244,066
Discontinued operations (Note 2)				
Income (loss) from discontinued operations before disposal of discontinued operations and income taxes	—	(2,216,433)	2,341,825	215,290
Gain (loss) on disposal of discontinued operations	628,921	—	(38,377,623)	—
Income taxes	150,343	19,833	626,583	592,325
Income (loss) from discontinued operations	478,578	(2,236,266)	(36,662,381)	(377,035)
Net income (loss)	$14,537,645	$9,799,345	$(6,965,649)	$22,867,031
Net income per common share from continuing operations:				
Basic	$1.55	$1.38	$3.28	$2.67
Diluted	$1.51	$1.35	$3.20	$2.62
Net income (loss) per common share from discontinued operations:				

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Basic	$ 0.05	$ (0.26)	$ (4.05)	$ (0.04)
Diluted	$ 0.05	$ (0.25)	$ (3.95)	$ (0.04)
Net income (loss) per common share:				
Basic	$ 1.60	$ 1.12	$ (0.77)	$ 2.63
Diluted	$ 1.56	$ 1.10	$ (0.75)	$ 2.58
Weighted average common shares outstanding:				
Basic	9,072,160	8,713,638	9,063,524	8,700,489
Diluted	9,292,886	8,895,274	9,273,104	8,861,007

See accompanying notes to consolidated financial statements.

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WORLD ACCEPTANCE CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$14,537,645	$9,799,345	$(6,965,649)	$22,867,031
Foreign currency translation adjustments	—	(819,978)	(5,235,838)	1,658,641
Reclassification of cumulative foreign currency translation adjustments due to sale of Mexico business	31,290,918	—	31,290,918	—
Comprehensive income (loss)	$45,828,563	$8,979,367	$19,089,431	$24,525,672

See accompanying notes to consolidated financial statements.

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WORLD ACCEPTANCE CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances at March 31, 2017	$144,241,105	344,605,347	(27,782,875)	461,063,577
Proceeds from exercise of stock options (389,888 shares)	25,323,531	—	—	25,323,531
Common stock repurchases (58,728 shares)	—	(4,614,331)	—	(4,614,331)
Restricted common stock expense under stock option plan, net of cancellations ($1,517,357)	1,564,048	—	—	1,564,048
Stock option expense	2,353,214	—	—	2,353,214
ASU 2016-09 adoption	2,405,329	(2,405,329)	—	—
Other comprehensive income	—	—	1,727,795	1,727,795
Net income	—	53,690,018	—	53,690,018
Balances at March 31, 2018	$175,887,227	391,275,705	(26,055,080)	541,107,852
Proceeds from exercise of stock options (25,276 shares)	1,815,406	—	—	1,815,406
Restricted common stock expense under stock option plan	1,914,349	—	—	1,914,349
Stock option expense	1,063,637	—	—	1,063,637
Other comprehensive loss	—	—	(5,235,838)	(5,235,838)
Reclassification of cumulative foreign currency translation adjustments due to sale of Mexico business			31,290,918	31,290,918
Net loss	—	(6,965,649)	—	(6,965,649)
Balances at September 30, 2018	$180,680,619	384,310,056	—	564,990,675

See accompanying notes to consolidated financial statements.

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WORLD ACCEPTANCE CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

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	Six months ended September 30, 2018	2017
Cash flow from operating activities:		
Net income (loss)	$(6,965,649)	$22,867,031
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Loss on sale of discontinued operations	38,377,623	—
Amortization of intangible assets	538,948	461,269
Amortization of debt issuance costs	320,588	447,884
Provision for loan losses	70,949,315	69,816,030
Depreciation	3,296,860	3,609,047
Loss on sale of property and equipment	123,852	174,034
Deferred income tax benefit	(2,717,297)	(7,674,970)
Compensation related to stock option and restricted stock plans, net of taxes and adjustments	2,977,986	2,412,345
Change in accounts:		
Other assets, net	(7,806,866)	175,253
Income taxes payable	(532,236)	(461,044)
Accounts payable and accrued expenses	(3,299,779)	2,147,872
Net cash provided by operating activities	95,263,345	93,974,751
Cash flows from investing activities:		
Increase in loans receivable, net	(132,314,528)	(103,599,118)
Net assets acquired from branch acquisitions, primarily loans	(9,264,527)	(8,566,874)
Increase in intangible assets from acquisitions	(2,751,345)	(1,795,581)
Purchases of property and equipment	(4,609,927)	(3,972,237)
Proceeds from sale of property and equipment	159,031	109,842
Proceeds from sale of Mexico business	37,494,505	—
Net cash used in investing activities	(111,286,791)	(117,823,968)
Cash flow from financing activities:		
Borrowings from senior notes payable	130,190,000	133,663,800
Payments on senior notes payable	(144,900,000)	(108,050,000)
Debt issuance costs associated with senior notes payable	(240,000)	(420,000)
Proceeds from exercise of stock options	1,815,406	6,765,046
Repurchase of common stock	—	(4,614,331)
Net cash provided by (used in) financing activities	(13,134,594)	27,344,515
Effects of foreign currency fluctuations on cash and cash equivalents	2,667,447	84,569
Net change in cash and cash equivalents	(26,490,593)	3,579,867
Cash and cash equivalents at beginning of period from continuing operations	12,473,833	11,581,936
Cash and cash equivalents at beginning of period from discontinued operations	19,612,471	3,618,474
Cash and cash equivalents at end of period	$5,595,711	$18,780,277
Cash and cash equivalents at end of period from continuing operations	5,595,711	13,337,686
Cash and cash equivalents at end of period from discontinued operations	—	5,442,591
Supplemental Disclosures:		
Interest paid during the period	$7,878,609	$8,138,988
Income taxes paid during the period	$12,261,977	$22,498,725

See accompanying notes to consolidated financial statements.

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WORLD ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – BASIS OF PRESENTATION

The consolidated financial statements of the Company at September 30, 2018, and for the three and six months then ended were prepared in accordance with the instructions for Form 10-Q and are unaudited; however, in the opinion of management all adjustments (consisting only of items of a normal, recurring nature) necessary for a fair presentation of the financial position at September 30, 2018, and the results of operations and cash flows for the periods ended September 30, 2018 and 2017, have been included. The results for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements do not include all disclosures required by GAAP and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the fiscal year ended March 31, 2018, included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2018, as filed with the SEC.

NOTE 2 – DISCONTINUED OPERATIONS

As previously disclosed, the Company sold all of the issued and outstanding capital stock and equity interest of WAC de Mexico and SWAC to the Purchasers, effective as of July 1, 2018, for a purchase price of approximately USD$44.36 million. The Company has provided, and may continue to provide, limited accounting assistance to the Purchasers, as requested. The Company has not and will not have any other involvement with the Mexico operating segment subsequent to the sale's effective date.

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The following table reconciles the major classes of assets and liabilities of discontinued operations to the amounts presented in the Consolidated Balance Sheet for March 31, 2018:

	March 31, 2018
Assets of discontinued operations:	
Cash and cash equivalents	$ 19,612,471
Loans receivable, net	46,027,200
Property and equipment, net	2,805,467
Deferred income taxes, net	10,064,489
Other assets, net	965,770
Total assets of discontinued operations	$ 79,475,397
Liabilities of discontinued operations:	
Income taxes payable	437,551
Accounts payable and accrued expenses	6,940,880
Total liabilities of discontinued operations	$ 7,378,431

The following table reconciles the major classes of line items constituting pre-tax income (loss) of discontinued operations to the amounts presented in the Consolidated Statements of Operations:

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Revenues	—	12,076,480	9,693,367	24,347,537
Provision for loan losses	—	6,151,574	1,809,059	9,282,005
General and administrative expenses	—	8,141,339	5,542,483	14,850,242
Income from discontinued operations before disposal of discontinued operations and income taxes	—	(2,216,433)	2,341,825	215,290
Gain (loss) on disposal of discontinued operations	628,921	—	(38,377,623)	—
Income taxes	150,343	19,833	626,583	592,325
Income (loss) from discontinued operations	478,578	(2,236,266)	(36,662,381)	(377,035)

The following table presents operating, investing and financing cash flows for the Company’s discontinued operations:

	Six months ended September 30,	
	2018	2017
Cash provided by operating activities:	$3,553,854	$10,860,701
Cash provided by (used in) investing activities:	1,138,084	(9,121,157)
Cash provided by (used in) financing activities:	$(17,126,000)	$—

NOTE 3 – SUMMARY OF SIGNIFICANT POLICIES

Nature of Operations

The Company is a small-loan consumer finance company headquartered in Greenville, South Carolina that offers short-term small loans, medium-term larger loans, related credit insurance products and ancillary products and services to individuals who have

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limited access to other sources of consumer credit. In U.S. branches, the Company offers income tax return preparation services to its loan customers and other individuals.

Seasonality

The Company's loan volume and corresponding loans receivable follow seasonal trends. The Company's highest loan demand generally occurs from October through December, its third fiscal quarter. Loan demand is generally lowest and loan repayment highest from January to March, its fourth fiscal quarter. Loan volume and average balances remain relatively level during the remainder of the year. Consequently, the Company experiences significant seasonal fluctuations in its operating results and cash needs. Operating results for the Company's third fiscal quarter are generally lower than in other quarters and operating results for its fourth fiscal quarter are generally higher than in other quarters.

Recently Adopted Accounting Standards

Scope of Modification Accounting

In May 2017, the FASB issued ASU 2017-09, Scope of Modification Accounting. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. According to ASU 2017-09 an entity should account for the effects of a modification unless all the following are met:

1. The fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified.
2. The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified.
3. The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified.

The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company adopted ASU 2017-09 on its effective date, April 1, 2018. Management has reviewed the provisions of ASU 2017-09 and has determined that there is no financial statement impact during the period since this is a clarification to current guidance. The Company will apply the clarified guidance on any future change to terms and conditions of share-based payment awards.

Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing

In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing. The amendments clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. Public entities should apply the amendments for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein. The Company adopted ASU 2016-10 on its effective date, April 1, 2018. Management has concluded that the new standard did not have a material impact on the Company's consolidated financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Public entities should apply the amendments for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein. The Company adopted ASU 2016-01 on its effective date, April 1, 2018. The Company's current disclosures around financial instruments reflect the instruments' estimated fair market value or exit price. Based on this, management has determined that the provisions of ASU 2016-01 had no financial statement impact during the period of adoption.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, which supersedes the revenue recognition requirements Topic 605 (Revenue Recognition), and most industry-specific guidance. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments

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and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09, as amended by ASU 2015-14, ASU 2016-20, ASU 2017-13, is effective for fiscal years, and interim periods, beginning after December 15, 2017. The Company adopted this new guidance on its effective date, April 1, 2018, using the modified retrospective method where prior periods are not restated. Management has evaluated revenue from contracts with customers and has concluded that the new standard did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. ASU 2017-04 eliminates Step 2 from the goodwill impairment test. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU 2017-04 also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. The amendments in this update are effective for public entities who are SEC filers for fiscal years beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. The amendment seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements. The adoption of this ASU could have a material impact on the provision for loan losses in the consolidated statements of operations and allowance for loan losses in the consolidated balance sheets.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The ASU 2016-02, as amended by ASU 2018-01, and ASU 2018-10, will require lessees to recognize assets and liabilities on leases with terms greater than 12 months and to disclose information related to the amount, timing and uncertainty of cash flows arising from leases, including various qualitative and quantitative requirements. The amendments of this ASU become effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements. We expect the standard to have an impact on our assets and liabilities for the addition of right-of-use assets and lease liabilities, but we do not expect it to have a material impact to our results of operations or liquidity.

In July of 2018, the FASB issued ASU 2018-11, Leases: Targeted Improvements, which allows for a transition option to adopt the standard on the date of initial application as opposed to the modified retrospective approach. We plan to make the election to adopt the standard using this transition relief.

We reviewed all other newly issued accounting pronouncements and concluded that they are either not applicable to our business or are not expected to have a material effect on the consolidated financial statements as a result of future adoption.

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NOTE 4 – FAIR VALUE

Fair Value Disclosures

The Company may carry certain financial instruments and derivative assets and liabilities measured at fair value on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Company determines the fair values of its financial instruments based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Financial assets and liabilities measured at fair value are grouped in three levels. The levels prioritize the inputs used to measure the fair value of the assets or liabilities. These levels are:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices that are observable for assets and liabilities, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in market that are less active.
- Level 3 – Unobservable inputs for assets or liabilities reflecting the reporting entity’s own assumptions.

The Company’s financial instruments measured at fair value on a recurring basis for the periods reported consist of the following: cash and cash equivalents, loans receivable, and senior notes payable. Fair value approximates carrying value for all of these instruments. Loans receivable are originated at prevailing market rates and have an average life of approximately eight months. Given the short-term nature of these loans, they are continually repriced at current market rates. The Company’s revolving credit facility has a variable rate based on a margin over LIBOR and reprices with any changes in LIBOR. The Company also considers its creditworthiness in its determination of fair value.

The carrying amounts and estimated fair values of amounts the Company measures at fair value on a recurring basis are summarized below.

		September 30, 2018		March 31, 2018	
	Input Level	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
ASSETS					
Cash and cash equivalents	1	$5,595,711	5,595,711	$12,473,833	12,473,833
Loans receivable, net	3	749,783,268	749,783,268	679,153,528	679,153,528
LIABILITIES					
Senior notes payable	3	230,190,000	230,190,000	244,900,000	244,900,000

There were no significant assets or liabilities measured at fair value on a non-recurring basis as of September 30, 2018 or March 31, 2018.

NOTE 5 – FINANCE RECEIVABLES AND ALLOWANCE FOR LOAN LOSSES

The following is a summary of gross loans receivable as of:

	September 30, 2018	March 31, 2018	September 30, 2017
Small loans	$762,822,428	$670,189,211	$696,586,798

Large loans	363,969,159	334,041,731	327,325,734
Sales finance loans[1]	609	2,217	12,218
Total gross loans	$1,126,792,196	$1,004,233,159	$1,023,924,750

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(1) The Company decided to wind down the World Class Buying Club program during the third quarter of fiscal 2015. As of March 31, 2015, the Company is no longer financing the purchase of products through the program; however, the Company will continue to service the outstanding retail installment sales contracts.

The following is a summary of the changes in the allowance for loan losses for the periods indicated:

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Balance at beginning of period	$68,029,622	63,297,884	$66,088,139	$60,644,365
Provision for loan losses	40,358,696	32,824,398	70,949,315	60,534,025
Loan losses	(32,572,205)	(28,437,598)	(65,013,346)	(57,496,635)
Recoveries	3,494,262	3,487,993	7,286,267	7,490,922
Balance at end of period	$79,310,375	$71,172,677	$79,310,375	$71,172,677

The following is a summary of loans individually and collectively evaluated for impairment for the period indicated:

September 30, 2018	Loans individually evaluated for impairment (impaired loans)	Loans collectively evaluated for impairment	Total
Gross loans in bankruptcy, excluding contractually delinquent	$5,002,410	—	5,002,410
Gross loans contractually delinquent	54,677,031	—	54,677,031
Loans not contractually delinquent and not in bankruptcy	—	1,067,112,755	1,067,112,755
Gross loan balance	59,679,441	1,067,112,755	1,126,792,196
Unearned interest and fees	(12,519,916)	(285,178,637)	(297,698,553)
Net loans	47,159,525	781,934,118	829,093,643
Allowance for loan losses	(42,369,717)	(36,940,658)	(79,310,375)
Loans, net of allowance for loan losses	$4,789,808	744,993,460	749,783,268

March 31, 2018	Loans individually evaluated for impairment (impaired loans)	Loans collectively evaluated for impairment	Total
Gross loans in bankruptcy, excluding contractually delinquent	$4,627,599	—	4,627,599
Gross loans contractually delinquent	50,019,567	—	50,019,567
Loans not contractually delinquent and not in bankruptcy	—	949,585,993	949,585,993
Gross loan balance	54,647,166	949,585,993	1,004,233,159
Unearned interest and fees	(11,433,666)	(247,557,826)	(258,991,492)
Net loans	43,213,500	702,028,167	745,241,667

Allowance for loan losses	(38,782,574)	(27,305,565)	(66,088,139)
Loans, net of allowance for loan losses	$4,430,926	674,722,602	679,153,528

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September 30, 2017	Loans individually evaluated for impairment (impaired loans)	Loans collectively evaluated for impairment	Total
Gross loans in bankruptcy, excluding contractually delinquent	$5,121,074	—	5,121,074
Gross loans contractually delinquent	49,683,327	—	49,683,327
Loans not contractually delinquent and not in bankruptcy	—	969,120,349	969,120,349
Gross loan balance	54,804,401	969,120,349	1,023,924,750
Unearned interest and fees	(11,330,664)	(257,511,525)	(268,842,189)
Net loans	43,473,737	711,608,824	755,082,561
Allowance for loan losses	(38,570,309)	(32,602,368)	(71,172,677)
Loans, net of allowance for loan losses	$4,903,428	679,006,456	683,909,884

The average net balance of impaired loans was $44.2 million and $40.0 million, respectively, for the six month periods ended September 30, 2018, and 2017. It is not practical to compute the amount of interest earned on impaired loans.

The following is an assessment of the credit quality for the period indicated:

	September 30, 2018	March 31, 2018	September 30, 2017
Credit risk			
Consumer loans- non-bankrupt accounts	$1,120,466,940	$998,299,051	$1,017,563,556
Consumer loans- bankrupt accounts	6,325,256	5,934,108	6,361,194
Total gross loans	$1,126,792,196	$1,004,233,159	$1,023,924,750
Consumer credit exposure			
Credit risk profile based on payment activity, performing	$1,042,501,191	$929,400,862	948,326,694
Contractual non-performing, 60 or more days delinquent (1)	84,291,005	74,832,297	75,598,056
Total gross loans	$1,126,792,196	$1,004,233,159	$1,023,924,750
Credit risk profile based on customer type			
New borrower	$130,010,547	$104,762,628	$103,241,227
Former borrower	134,554,113	104,281,551	124,266,410
Refinance	843,003,017	778,115,097	777,540,110
Delinquent refinance	19,224,519	17,073,883	18,877,003
Total gross loans	$1,126,792,196	$1,004,233,159	$1,023,924,750

(1) Loans in non-accrual status.

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The following is a summary of the past due receivables as of:

	September 30, 2018	March 31, 2018	September 30, 2017
Contractual basis:			
30-59 days past due	$44,729,889	32,959,151	39,505,786
60-89 days past due	29,613,974	24,812,730	25,914,729
90 days or more past due	54,677,031	50,019,567	49,683,327
Total	$129,020,894	107,791,448	115,103,842
Percentage of period-end gross loans receivable	11.5 %	10.7 %	11.2 %

NOTE 6 – AVERAGE SHARE INFORMATION

The following is a summary of the basic and diluted average common shares outstanding:

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Basic:				
Weighted average common shares outstanding (denominator)	9,072,160	8,713,638	9,063,524	8,700,489
Diluted:				