

WORLD ACCEPTANCE CORP  
Form 10-Q  
November 02, 2012

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 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 September 30, 2012

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: 0-19599

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

South Carolina  
(State or other jurisdiction of incorporation or organization)

57-0425114  
(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  No

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

Edgar Filing: WORLD ACCEPTANCE CORP - Form 10-Q

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):

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

Accelerated Filer   
Smaller reporting company

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

The number of outstanding shares of the issuer’s no par value common stock as of October 29, 2012 was 12,925,134.

---

---

---

WORLD ACCEPTANCE CORPORATION  
AND SUBSIDIARIES

## TABLE OF CONTENTS

## PART I - FINANCIAL INFORMATION

	Page
Item 1.	Consolidated Financial Statements (unaudited):
	<u>Consolidated Balance Sheets as of September 30, 2012 and March 31, 2012</u>
	<u>Consolidated Statements of Operations for the three and six months ended September 30, 2012 and September 30, 2011</u> 4
	<u>Consolidated Statements of Comprehensive Income for the three and six months ended September 30, 2012 and September 30, 2011</u> 5
	<u>Consolidated Statements of Shareholders' Equity for the year ended March 31, 2012 and the six months ended September 30, 2012</u> 6
	<u>Consolidated Statements of Cash Flows for the six months ended September 30, 2012 and September 30, 2011</u> 7
	<u>Notes to Consolidated Financial Statements</u> 8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 19
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u> 24
Item 4.	<u>Controls and Procedures</u> 25
PART II - OTHER INFORMATION	
Item 1.	<u>Legal Proceedings</u> 26
Item 1A.	<u>Risk Factors</u> 26
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 26
Item 5.	<u>Other Information</u> 26
Item 6.	<u>Exhibits</u> 27
	<u>Signatures</u> 29

Introductory Note: As used herein, the “Company,” “we,” “our,” “us,” or similar formulations include World Acceptance Corporation and each of its subsidiaries, except that unless otherwise expressly noted or the context otherwise requires, when used with reference to the common stock or other securities described herein and in describing the positions held by management or agreements of the Company, it includes only World Acceptance Corporation. All references in this report to “fiscal 2013” are to the Company’s fiscal year ended March 31, 2013.

Table of Contents

WORLD ACCEPTANCE CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	September 30, 2012	March 31, 2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 12,704,365	10,768,176
Gross loans receivable	1,087,901,711	972,722,764
Less:		
Unearned interest and fees	(297,406,536 )	(257,637,819 )
Allowance for loan losses	(61,328,777 )	(54,507,299 )
Loans receivable, net	729,166,398	660,577,646
Property and equipment, net	24,319,436	23,485,435
Deferred income taxes	25,598,948	18,473,998
Other assets, net	10,348,397	10,527,420
Goodwill	5,896,288	5,690,934
Intangible assets, net	4,927,477	5,479,490
Total assets	\$ 812,961,309	735,003,099
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Senior notes payable	386,600,000	229,250,000
Junior subordinated note payable	-	50,000,000
Income taxes payable	6,626,266	11,528,236
Accounts payable and accrued expenses	22,345,114	25,349,850
Total liabilities	415,571,380	316,128,086
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 12,924,334 and 13,898,265 shares at September 30, 2012 and March 31, 2012, respectively	-	-
Additional paid-in capital	73,895,896	65,630,753
Retained earnings	326,355,956	355,980,694
Accumulated other comprehensive loss	(2,861,923 )	(2,736,434 )
Total shareholders' equity	397,389,929	418,875,013
Commitments and contingencies		
Total liabilities and shareholders' equity	\$ 812,961,309	735,003,099

See accompanying notes to consolidated financial statements



Table of Contents

## WORLD ACCEPTANCE CORPORATION

## AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2012	2011	2012	2011
<b>Revenues:</b>				
Interest and fee income	\$121,817,856	116,232,521	237,117,052	223,581,026
Insurance commissions and other income	17,580,470	15,906,450	35,117,158	31,714,007
Total revenues	139,398,326	132,138,971	272,234,210	255,295,033
<b>Expenses:</b>				
Provision for loan losses	32,401,664	30,057,269	56,016,554	52,896,383
<b>General and administrative expenses:</b>				
Personnel	44,669,605	40,742,200	93,082,624	85,377,423
Occupancy and equipment	9,138,637	8,719,513	17,781,286	16,938,624
Advertising	2,801,011	2,698,483	5,445,646	5,481,742
Amortization of intangible assets	339,040	434,208	707,720	866,997
Other	9,209,731	8,869,095	18,299,859	17,312,004
Total general and administrative expenses	66,158,024	61,463,499	135,317,135	125,976,790
Interest expense	4,066,038	3,947,066	7,992,192	7,330,936
Total expenses	102,625,726	95,467,834	199,325,881	186,204,109
Income before income taxes	36,772,600	36,671,137	72,908,329	69,090,924
Income taxes	13,871,151	13,367,213	27,391,882	25,604,902
Net income	\$22,901,449	23,303,924	45,516,447	43,486,022
<b>Net income per common share:</b>				
Basic	\$1.76	1.56	3.42	2.86
Diluted	\$1.72	1.52	3.35	2.78
<b>Weighted average common shares outstanding:</b>				
Basic	12,985,345	14,915,026	13,298,372	15,196,871
Diluted	13,287,278	15,327,695	13,596,244	15,618,842

See accompanying notes to consolidated financial statements.

Table of Contents

WORLD ACCEPTANCE CORPORATION

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2012	2011	2012	2011
Net income	\$22,901,449	23,303,924	45,516,447	43,486,022
Foreign currency translation adjustments	2,122,742	(5,524,250 )	(125,489 )	(5,083,455 )
Comprehensive income	25,024,191	17,779,674	45,390,958	38,402,567

See accompanying notes to consolidated financial statements.



Table of Contents

## WORLD ACCEPTANCE CORPORATION

## and SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Total Shareholders' Equity
Balances at March 31, 2011	\$47,352,738	395,086,232	136,199	442,575,169
Proceeds from exercise of stock options (324,140 shares), including tax benefits of \$2,072,030	11,660,188	-	-	11,660,188
Common stock repurchases (2,181,045 shares)	-	(139,799,981)	-	(139,799,981)
Issuance of restricted common stock under stock option plan (60,416 shares)	1,750,596	-	-	1,750,596
Stock option expense	4,867,231	-	-	4,867,231
Other comprehensive income	-	-	(2,872,633 )	(2,872,633 )
Net income	-	100,694,443	-	100,694,443
Balances at March 31, 2012	\$65,630,753	355,980,694	(2,736,434 )	418,875,013
Proceeds from exercise of stock options (117,555 shares), including tax benefits of \$1,099,228	4,454,923	-	-	4,454,923
Common stock repurchases (1,093,740 shares)	-	(75,141,185 )	-	(75,141,185 )
Issuance of restricted common stock under stock option plan (10,000 shares)	1,317,205	-	-	1,317,205
Stock option expense	2,493,015	-	-	2,493,015
Other comprehensive income	-	-	(125,489 )	(125,489 )
Net income	-	45,516,447	-	45,516,447
Balances at September 30, 2012	\$73,895,896	326,355,956	(2,861,923 )	397,389,929

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Six months ended September 30,	
	2012	2011
Cash flow from operating activities:		
Net income	\$45,516,447	43,486,022
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	707,720	866,997
Amortization of loan costs and discounts	431,437	248,462
Provision for loan losses	56,016,554	52,896,383
Amortization of convertible note discount	-	1,819,600
Depreciation	3,083,921	3,210,782
Deferred income tax benefit	(7,130,570 )	(3,786,627 )
Compensation related to stock option and restricted stock plans	3,810,220	3,070,440
Unrealized gains on interest rate swap	-	(210,260 )
Change in accounts:		
Other assets, net	(292,766 )	1,162,445
Income taxes payable	(4,963,192 )	(2,392,532 )
Accounts payable and accrued expenses	(2,985,014 )	(2,468,123 )
Net cash provided by operating activities	94,194,757	97,903,589
Cash flows from investing activities:		
Increase in loans receivable, net	(123,603,259 )	(109,594,808 )
Net assets acquired from office acquisitions, primarily loans	(1,045,264 )	(1,794,118 )
Increase in intangible assets from acquisitions	(361,061 )	(386,991 )
Purchases of property and equipment	(3,939,867 )	(3,474,906 )
Net cash used in investing activities	(128,949,451 )	(115,250,823 )
Cash flow from financing activities:		
Proceeds from senior revolving notes payable, net	157,350,000	150,350,000
Increase in restricted cash	-	(77,000,000 )
(Payments on)/proceeds from junior subordinated note payable	(50,000,000 )	20,000,000
Proceeds from exercise of stock options	3,355,695	2,070,760
Repurchase of common stock	(75,141,185 )	(73,062,561 )
Excess tax benefits from exercise of stock options	1,099,228	462,974
Net cash provided by financing activities	36,663,738	22,821,173
Increase in cash and cash equivalents	1,909,044	5,473,939
Effects of foreign currency fluctuations on cash	27,145	(443,616 )

Cash and cash equivalents at beginning of period	10,768,176	8,030,580
Cash and cash equivalents at end of period	\$ 12,704,365	13,060,903

See accompanying notes to consolidated financial statements.

Table of Contents

WORLD ACCEPTANCE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012 and 2011  
(Unaudited)

NOTE 1 – BASIS OF PRESENTATION

The consolidated financial statements of the Company at September 30, 2012, and for the 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, 2012, and the results of operations and cash flows for the periods ended September 30, 2012 and 2011, 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 U.S. generally accepted accounting principles (“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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements do not include all disclosures required by U.S. 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, 2012, included in the Company’s 2012 Annual Report to Shareholders.

NOTE 2 – SUMMARY OF SIGNIFICANT POLICIES

New Accounting Pronouncements Adopted

Fair Value Measurement

In May 2011, the FASB issued an accounting pronouncement (ASU 2011-04) related to fair value measurement (FASB ASC Topic 820), which amends current guidance to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. The amendments generally represent clarification of FASB ASC Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company adopted this pronouncement for our fiscal year beginning April 1, 2012. The adoption did not have a material effect on our consolidated financial statements.

Comprehensive Income

ASU 2011-05, “Comprehensive Income (Topic 220) — Presentation of Comprehensive Income” (“ASU 2011-05”) amends Topic 220, “Comprehensive Income,” to require that all non-owner changes in stockholders’ equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity was eliminated. ASU 2011-05 is effective for annual and interim periods beginning after December 15, 2011; however certain

provisions related to the presentation of reclassification adjustments have been deferred by ASU 2011-12 “Comprehensive Income (Topic 820) — Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.” ASU 2011-05 is not expected to have a significant impact on our financial statements. The Company adopted this pronouncement for our annual and interim reporting beginning April 1, 2012.

#### Testing Goodwill for Impairment

ASU 2011-08, “Testing Goodwill for Impairment,” permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption did not have any impact on the Company’s consolidated financial statements. The Company adopted this pronouncement for our fiscal year beginning April 1, 2012.

Table of Contents

## Accounting Standards to be Adopted

We reviewed significant newly issued accounting pronouncements and concluded that they are either not applicable to our business or that no material effect is expected on the financial statements as a result of future adoption.

## NOTE 3 – FAIR VALUE

## Fair Value Disclosures

The Company carries certain financial instruments, derivative assets and liabilities, at fair value on a recurring basis. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or 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 interest rate swap, which expired on December 8, 2011, was valued using the “income approach” valuation technique. This method used valuation techniques to convert future amounts to a single present amount. The measurement was based on the value indicated by current market expectations about those future amounts. As of September 30 and March 31, 2012, the Company had no financial assets or liabilities that were measured at fair market value.

## Fair Value of Long-Term Debt

The book value and estimated fair value of our long-term debt was as follows (in thousands):

	September 30, 2012	March 31, 2012
Book value:		
Senior notes payable	\$ 386,600	229,250
Junior subordinated note payable	-	50,000
	\$ 386,600	279,250
Estimated fair value:		
Senior notes payable	\$ 386,600	229,250
Junior subordinated note payable	-	50,000

\$ 386,600 279,250

The carrying value of the senior notes payable and the junior subordinated note payable approximated their fair value, as the notes payable are at a variable interest rate.

9

---

Table of Contents

## Other

There were no assets or liabilities measured at fair value on a non-recurring basis as of September 30, 2012 or March 31, 2012.

## NOTE 4 – ALLOWANCE FOR LOAN LOSSES

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

	Three months ended September 30,		Six months ended September 30,	
	2012	2011	2012	2011
Balance at beginning of period	\$55,670,131	50,419,957	54,507,299	48,354,994
Provision for loan losses	32,401,664	30,057,269	56,016,554	52,896,383
Loan losses	(29,711,502)	(28,249,131)	(54,918,604)	(51,405,944)
Recoveries	2,785,824	2,398,885	5,721,438	4,748,215
Translation adjustment	182,660	(462,507 )	2,090	(429,175 )
Balance at end of period	\$61,328,777	54,164,473	61,328,777	54,164,473

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

September 30, 2012	Loans individually evaluated for impairment (impaired loans)	Loans collectively evaluated for impairment	Total
Bankruptcy, gross loans	\$ 6,688,992	-	6,688,992
91 days or more delinquent, excluding bankruptcy	22,281,854	-	22,281,854
Loans less than 91 days delinquent and not in bankruptcy	-	1,058,930,865	1,058,930,865
Gross loan balance	28,970,846	1,058,930,865	1,087,901,711
Unearned interest and fees	(5,745,076 )	(291,661,460 )	(297,406,536 )
Net loans	23,225,770	767,269,405	790,495,175
Allowance for loan losses	(22,914,103 )	(38,414,674 )	(61,328,777 )
Loans, net of allowance for loan losses	\$ 311,667	728,854,731	729,166,398

March 31, 2012	Loans individually evaluated for impairment (impaired loans)	Loans collectively evaluated for impairment	Total
Bankruptcy, gross loans	\$ 5,646,956	-	5,646,956
91 days or more delinquent, excluding bankruptcy	20,882,907	-	20,882,907
Loans less than 91 days delinquent and not in bankruptcy	-	946,192,901	946,192,901
Gross loan balance	26,529,863	946,192,901	972,722,764
Unearned interest and fees	(7,085,222 )	(250,552,597 )	(257,637,819)
Net loans	19,444,641	695,640,304	715,084,945
Allowance for loan losses	(19,444,641 )	(35,062,658 )	(54,507,299 )
Loans, net of allowance for loan losses	\$ -	660,577,646	660,577,646





Table of Contents

September 30, 2011	Loans individually evaluated for impairment (impaired loans)	Loans collectively evaluated for impairment	Total
Bankruptcy, gross loans	\$ 6,573,737	-	6,573,737
91 days or more delinquent, excluding bankruptcy	18,366,885	-	18,366,885
Loans less than 91 days delinquent and not in bankruptcy	-	940,014,840	940,014,840
Gross loan balance	24,940,622	940,014,840	964,955,462
Unearned interest and fees	(4,261,310 )	(254,222,945 )	(258,484,255)
Net loans	20,679,312	685,791,895	706,471,207
Allowance for loan losses	(18,954,411 )	(35,210,062 )	(54,164,473 )
Loans, net of allowance for loan losses	\$ 1,724,901	650,581,833	652,306,734

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

	September 30, 2012	March 31, 2012
Credit risk		
Consumer loans- non-bankrupt accounts	\$ 1,081,212,719	967,075,808
Consumer loans- bankrupt accounts	6,688,992	5,646,956
Total	\$ 1,087,901,711	972,722,764
Consumer credit exposure		
Credit risk profile based on payment activity Performing	\$ 1,041,729,308	934,095,598
Contractual non-performing, 61 or more days delinquent	46,172,403	38,627,166
Total	\$ 1,087,901,711	972,722,764
Delinquent renewals	\$ 21,789,534	21,013,742
Credit risk profile based on customer type		
New borrower	\$ 120,930,075	110,362,853
Former borrower	100,446,957	79,712,646
Refinance	844,735,145	761,633,523
Delinquent refinance	21,789,534	21,013,742
Total	\$ 1,087,901,711	972,722,764

Table of Contents

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

	September 30, 2012	March 31, 2012	September 30, 2011
Recency basis:			
30-60 days past due	\$ 37,330,812	22,457,591	31,696,312
61-90 days past due	19,439,858	13,381,637	18,683,495
91 days or more past due	12,147,821	10,569,627	10,257,771
Total	\$ 68,918,491	46,408,855	60,637,578
Percentage of period-end gross loans receivable	6.3 %	4.8 %	6.3 %
Contractual basis:			
30-60 days past due	\$ 44,956,309	24,853,508	35,664,457
61-90 days past due	23,542,582	17,320,264	22,243,803
91 days or more past due	22,629,821	21,306,902	18,675,027
Total	\$ 91,128,712	63,480,674	76,583,287
Percentage of period-end gross loans receivable	8.4 %	6.5 %	7.9 %

## NOTE 5 – 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,	
	2012	2011	2012	2011
Basic:				
Weighted average common shares outstanding (denominator)	12,985,345	14,915,026	13,298,372	15,196,871
Diluted:				
Weighted average common shares outstanding	12,985,345	14,915,026	13,298,372	15,196,871
Dilutive potential common shares Stock options	301,933	403,060	297,872	404,051
Conversion premium on convertible notes	-	9,609	-	17,920
Weighted average diluted shares outstanding (denominator)	13,287,278	15,327,695	13,596,244	15,618,842

Options to purchase 215,300 shares of common stock at various prices were outstanding during the three months ended September 30, 2012, but were not included in the computation of diluted EPS because the option exercise price was antidilutive. During the three months ended September 30, 2011 there were no anti-dilutive shares.

Options to purchase 215,655 shares of common stock at various prices were outstanding during the six months ended September 30, 2012, but were not included in the computation of diluted EPS because the options were anti-dilutive. During the six months ended September 30, 2011 there were no anti-dilutive shares.

During the six months ended September 30, 2011, the warrants related to the Company's former convertible notes payable were not included in the computation of dilutive earnings per share because the effect of such instruments was anti-dilutive. The warrants, which expired on February 9, 2012, had a strike price of \$73.97 and were generally exercisable at any time through February 9, 2012. The Company issued and sold the warrants in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of section 4(2) thereof. There were no underwriting commissions or discounts in connection with the sale of the warrants.

Table of Contents

## NOTE 6 – STOCK-BASED COMPENSATION

## Stock Option Plans

The Company has a 2002 Stock Option Plan, a 2005 Stock Option Plan, a 2008 Stock Option Plan, and a 2011 Stock Option Plan for the benefit of certain directors, officers, and key employees. Under these plans, 4,100,000 shares of authorized common stock have been reserved for issuance pursuant to grants approved by the Compensation and Stock Option Committee of the Board of Directors. Stock options granted under these plans have a maximum duration of 10 years, may be subject to certain vesting requirements, which are generally one year for directors and five years for officers and key employees, and are priced at the market value of the Company's common stock on the date of grant of the option. At September 30, 2012, there were 1,459,138 shares available for grant under the plans.

Stock based compensation is recognized as provided under FASB ASC Topic 718-10 and FASB ASC Topic 505-50. FASB ASC Topic 718-10 requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense over the requisite service period (generally the vesting period) in the consolidated financial statements based on their fair values. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized. Stock option compensation is recognized as an expense over the unvested portion of all stock option awards granted based on the fair values estimated at grant date in accordance with the provisions of FASB ASC Topic 718-10. The Company has applied the Black-Scholes valuation model in determining the fair value of the stock option awards. Compensation expense is recognized only for those options expected to vest, with forfeitures estimated based on historical experience and future expectations.

There were no option grants during the six months ended September 30, 2012 or September 30, 2011.

Option activity for the six months ended September 30, 2012 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, beginning of year	1,041,500	\$37.95		
Granted	-	-		
Exercised	(117,555 )	28.55		
Forfeited	(6,400 )	48.85		
Expired	(300 )	43.04		
Options outstanding, end of period	917,245	\$39.08	6.93	\$26,080,188
Options exercisable, end of period	173,935	\$26.84	3.62	\$7,063,947

The aggregate intrinsic value reflected in the table above represents the total pre-tax intrinsic value (the difference between the closing stock price on September 30, 2012 and the exercise price, multiplied by the number of in-the-money options) that would have been received by option holders had all option holders exercised their options as of September 30, 2012. This amount will change as the stock's market price changes. The total intrinsic value of options exercised during the periods ended September 30, 2012 and 2011 was as follows:

	September 30, 2012	September 30, 2011
Three months ended	\$ 2,210,159	\$ 823,957

Edgar Filing: WORLD ACCEPTANCE CORP - Form 10-Q

Six months ended

\$ 4,949,689 \$ 2,400,422

As of September 30, 2012, total unrecognized stock-based compensation expense related to non-vested stock options amounted to approximately \$9.3 million, which is expected to be recognized over a weighted-average period of approximately 3.4 years.

13

---

Table of Contents

## Restricted Stock

On April 30, 2012, the Company granted 10,000 shares of restricted stock (which are equity classified) with a grant date fair value of \$66.51 per share to its independent directors. All of the shares granted vested immediately.

On November 7, 2011, the Company granted 15,077 shares of restricted stock (which are equity classified), with a grant date fair value of \$67.70 per share, to certain executive officers. One-third of the restricted stock vested immediately and one-third will vest on November 7, 2012 and 2013, respectively. On that same date, the Company granted an additional 24,200 shares of restricted stock (which are equity classified), with a grant date fair value of \$67.70 per share, to certain officers. One-third of the restricted stock will vest on November 7, 2012, 2013 and 2014, respectively. On that same date, the Company granted an additional 11,139 shares of restricted stock (which are equity classified), with a grant date fair value of \$67.70 per share, to certain executive officers. The 11,139 shares will vest on April 30, 2014 based on the Company's compounded annual EPS growth according to the following schedule:

Vesting Percentage	Compounded Annual EPS Growth
100%	15% or higher
67%	12% - 14.99%
33%	10% - 11.99%
0%	Below 10%

On April 29, 2011, the Company granted 10,000 shares of restricted stock (which are equity classified) with a grant date fair value of \$67.95 per share to its independent directors. All of the shares granted vested immediately.

On November 8, 2010, the Company granted 29,080 shares of restricted stock (which are equity classified), with a grant date fair value of \$43.04 per share, to certain officers. One-third of the restricted stock vested immediately, one-third vested on November 8, 2011 and the final third is scheduled to vest on November 8, 2012, respectively. On that same date, the Company granted an additional 15,871 shares of restricted stock (which are equity classified), with a grant date fair value of \$43.04 per share, to certain executive officers. The 15,871 shares will vest on April 30, 2013 based on the Company's compounded annual EPS growth according to the following schedule:

Vesting Percentage	Compounded Annual EPS Growth
100%	15% or higher
67%	12% - 14.99%
33%	10% - 11.99%
0%	Below 10%

Compensation expense related to restricted stock is based on the number of shares expected to vest and the fair market value of the common stock on the grant date. The Company recognized approximately \$577,000 and \$364,000, respectively, of compensation expense for the three months ended September 30, 2012 and 2011 and recognized approximately \$1.8 million and \$1.4 million, respectively, for the six months ended September 30, 2012 and 2011 related to restricted stock, which is included as a component of general and administrative expenses in the Company's Consolidated Statements of Operations. For purposes of accruing the expense, all shares are expected to vest.

As of September 30, 2012, there was approximately \$1.6 million of unrecognized compensation cost related to unvested restricted stock awards granted, which is expected to be recognized over the next 1.6 years.



Table of Contents

A summary of the status of the Company's restricted stock as of September 30, 2012, and changes during the six months ended September 30, 2012, are presented below:

	Shares	Weighted Average Fair Value at Grant Date
Outstanding at March 31, 2012	93,999	\$ 50.90
Granted during the period	10,000	66.51
Vested during the period, net of cancellations	(25,413 )	42.38
Cancelled during the period	(7,746 )	26.73
Outstanding at September 30, 2012	70,840	\$ 58.81

Total share-based compensation included as a component of net income during the three months and six months ended September 30, 2012 and 2011 was as follows:

	Three months ended September 30,		Six months ended September 30,	
	2012	2011	2012	2011
Share-based compensation related to equity classified units:				
Share-based compensation related to stock options	\$ 1,270,993	797,692	2,493,015	1,665,962
Share-based compensation related to restricted stock units	576,507	364,470	1,832,391	1,404,478
Total share-based compensation related to equity classified awards	\$ 1,847,500	1,162,162	4,325,406	3,070,440

## NOTE 7 – ACQUISITIONS

The Company evaluates each acquisition to determine if the acquired enterprise meets the definition of a business. Those acquired enterprises that meet the definition of a business are accounted for as a business combination under FASB ASC Topic 805-10 and all other acquisitions are accounted for as asset purchases. All acquisitions have been from independent third parties.

Table of Contents

The following table sets forth the acquisition activity of the Company for the six months ended September 30, 2012 and 2011:

	2012	2011
Number of business combinations	3	1
Number of asset purchases	3	11
Total acquisitions	6	12
Purchase Price	\$ 1,406,325	2,181,109
Tangible assets:		
Net loans	1,037,264	1,786,618
Furniture, fixtures & equipment	8,000	7,500
	1,045,264	1,794,118
Excess of purchase prices over carrying value of net tangible assets	\$ 361,061	386,991
Customer lists	125,707	336,991
Non-compete agreements	30,000	50,000
Goodwill	205,354	-
Total intangible assets	\$ 361,061	386,991

When the acquisition results in a new office, the Company records the transaction as a business combination, since the office acquired will continue to generate loans. The Company typically retains the existing employees and the office location. The purchase price is allocated to the estimated fair value of the tangible assets acquired and to the estimated fair value of the identified intangible assets acquired (generally non-compete agreements and customer lists). The remainder is allocated to goodwill. During the six months ended September 30, 2012, three acquisitions were recorded as business combinations.

When the acquisition is of a portfolio of loans only, the Company records the transaction as an asset purchase. In an asset purchase, no goodwill is recorded. The purchase price is allocated to the estimated fair value of the tangible and intangible assets acquired. There were three acquisitions recorded as asset acquisitions during the six months ended September 30, 2012.

The Company's acquisitions include tangible assets (generally loans and furniture and equipment) and intangible assets (generally non-compete agreements, customer lists, and goodwill), both of which are recorded at their fair values, which are estimated pursuant to the processes described below.

Acquired loans are valued at the net loan balance. Given the short-term nature of these loans, generally four months, and that these loans are subject to continual repricing at current rates, management believes the net loan balances approximate their fair value.

Furniture and equipment are valued at the specific purchase price as agreed to by both parties at the time of acquisition, which management believes approximates their fair values.

Non-compete agreements are valued at the stated amount paid to the other party for these agreements, which the Company believes approximates the fair value. The fair value of the customer lists is based on a valuation model that

utilizes the Company's historical data to estimate the value of any acquired customer lists. In a business combination the remaining excess of the purchase price over the fair value of the tangible assets, customer list, and non-compete agreements is allocated to goodwill. The offices the Company acquires are small privately owned offices, which do not have sufficient historical data to determine attrition. The Company believes that the customers acquired have the same characteristics and perform similarly to its customers. Therefore, the Company utilized the attrition patterns of its customers when developing the method. This method is re-evaluated periodically.

Customer lists are allocated at an office level and are evaluated for impairment at an office level when a triggering event occurs, in accordance with FASB ASC Topic 360-10-05. If a triggering event occurs, the impairment loss to the customer list is generally the remaining unamortized customer list balance. In most acquisitions, the original fair value of the customer list allocated to an office is less than \$100,000, and management believes that in the event a triggering event were to occur, the impairment loss to an unamortized customer list would be immaterial.

Table of Contents

The results of all acquisitions have been included in the Company's consolidated financial statements since the respective acquisition dates. The pro forma impact of these purchases as though they had been acquired at the beginning of the periods presented would not have a material effect on the consolidated results of operations as reported.

**NOTE 8 – DEBT**

The Company's notes payable consist of a \$483.0 million senior notes payable revolving credit facility. This facility provides for borrowings of up to \$483.0 million with \$386.6 million outstanding at September 30, 2012, subject to a borrowing base formula. The Company may borrow at the rate of LIBOR plus 3.0% with a minimum of 4.0%. At September 30, 2012 and March 31, 2012, the Company's effective interest rate, including the commitment fee, was 4.4%, and the unused amount available under the revolver at September 30, 2012 was \$96.4 million. The revolving credit facility has a commitment fee of 0.40% per annum on the unused portion of the commitment. Borrowings under the revolving credit facility mature on August 31, 2014.

Substantially all of the Company's assets are pledged as collateral for borrowings under the revolving credit agreement.

**NOTE 9 – DERIVATIVE FINANCIAL INSTRUMENTS**

On December 8, 2008, the Company entered into an interest rate swap with a notional amount of \$20 million to economically hedge a portion of the cash flows from its floating rate revolving credit facility. Under the terms of the interest rate swap, the Company paid a fixed rate of 2.4% on the \$20 million notional amount and received payments from a counterparty based on the 1 month LIBOR rate for a term that ended December 8, 2011. Interest rate differentials paid or received under the swap agreement were recognized as adjustments to interest expense.

The (losses) gains recognized in the Company's Consolidated Statements of Operations as a result of the interest rate swaps are as follows:

	Three months ended September 30, 2011	Six months ended September 30, 2011
Realized losses		
Interest rate swaps - included as a component of interest expense	\$ (112,340 )	(222,743 )
Unrealized gains		
Interest rate swaps - included as a component of other income	\$ 110,947	210,260

The Company does not enter into derivative financial instruments for trading or speculative purposes. The purpose of these instruments is to reduce the exposure to variability in future cash flows attributable to a portion of its LIBOR-based borrowings. The Company is currently not accounting for these derivative instruments using the cash flow hedge accounting provisions of FASB ASC Topic 815-10-15; therefore, the changes in fair value of the swaps are included in earnings as other income or expenses.

By using derivative instruments, the Company is exposed to credit and market risk. Credit risk, which is the risk that a counterparty to a derivative instrument will fail to perform, exists to the extent of the fair value gain in a derivative. Market risk is the adverse effect on the financial instruments from a change in interest rates. The Company manages the market risk associated with interest rate contracts by establishing and monitoring limits as to

the types and degree of risk that may be undertaken. The market risk associated with derivatives used for interest rate risk management activities is fully incorporated in the Company's market risk sensitivity analysis.

Table of Contents

NOTE 10 – INCOME TAXES

The Company is required to assess whether the earnings of our two Mexican foreign subsidiaries, Servicios World Acceptance Corporation de México, S. de R.L. de C.V. (“SWAC”) and WAC de México, S.A. de C.V., SOFOM ENR (“WAC de Mexico”), will be permanently reinvested in the respective foreign jurisdiction or if previously untaxed foreign earnings of the Company will no longer be permanently reinvested and thus become taxable in the United States. If these earnings were ever repatriated to the United States, the Company would be required to accrue and pay taxes on the cumulative undistributed earnings. As of September 30, 2012, the Company has determined that approximately \$1.1 million of cumulative undistributed net earnings of SWAC and approximately \$6.0 million of cumulative undistributed net earnings of WAC de México, as well as the future net earnings and losses of both foreign subsidiaries, will be permanently reinvested.

The Company adopted the provision of FASB ASC Topic 740-10 on April 1, 2007. As of September 30, 2012 and March 31, 2012, the Company had \$3.2 million and \$2.9 million, respectively, of total gross unrecognized tax benefits including interest. Approximately \$1.63 million and \$1.46 million, respectively, represent the amount of net unrecognized tax benefits that are permanent in nature and, if recognized, would affect the annual effective tax rate. At September 30, 2012, approximately \$141,000 of gross unrecognized tax benefits are expected to be resolved during the next 12 months through the expiration of the statute of limitations and the settlement of state tax liabilities. The Company’s continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. As of September 30, 2012, the Company had \$360,000 accrued for gross interest, of which \$122,000 was a current period expense.

The Company is subject to U.S. and Mexican income taxes, as well as various other state and local jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2008, although carryforward attributes that were generated prior to 2008 may still be adjusted upon examination by the taxing authorities if they either have been or will be used in a future period.

NOTE 11 – LITIGATION

At September 30, 2012, the Company and certain of its subsidiaries have been named as defendants or are otherwise involved in various legal actions and proceedings arising from their normal business activities, including matters in which damages in various amounts are claimed. In view of the inherent difficulty in predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, the matters present novel legal theories, potentially involve a large number of parties or are in the early stages, the Company generally cannot predict the eventual outcome of these pending matters, nor the timing of the ultimate resolution of such matters or the eventual loss, fines, penalties, settlement or other impact, if any, related to such matters. The Company does not believe, however, that any reasonably possible losses arising from any currently pending legal matters will be material to the Company’s financial statements.

Table of Contents

WORLD ACCEPTANCE CORPORATION  
AND SUBSIDIARIES  
PART I. FINANCIAL INFORMATION

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

## Results of Operations

The following table sets forth certain information derived from the Company's consolidated statements of operations and balance sheets, as well as operating data and ratios, for the periods indicated (unaudited):

	Three months ended September 30,		Six months ended September 30,	
	2012	2011	2012	2011
	(Dollars in thousands)			
Average gross loans receivable <sup>1</sup>	\$ 1,063,271	957,903	1,032,306	931,122
Average net loans receivable <sup>2</sup>	773,450	699,978	753,254	682,096
Expenses as a % of total revenue:				
Provision for loan losses	23.2	% 22.7	% 20.6	% 20.7
General and administrative	47.5	% 46.5	% 49.7	% 49.3
Total interest expense	2.9	% 3.0	% 2.9	% 2.9
Operating margin <sup>3</sup>	29.3	% 30.7	% 29.7	% 29.9
Return on average assets (trailing 12 months)	13.4	% 13.7	% 13.4	% 13.7
Offices opened or acquired, net	28	21	36	41
Total offices (at period end)	1,173	1,108	1,173	1,108

(1) Average gross loans receivable have been determined by averaging month-end gross loans receivable over the indicated period.

(2) Average loans receivable have been determined by averaging month-end gross loans receivable less unearned interest and deferred fees over the indicated period.

(3) Operating margin is computed as total revenues less provision for loan losses and general and administrative expenses, as a percentage of total revenues.

Comparison of Three Months Ended September 30, 2012 Versus  
Three Months Ended September 30, 2011

Net income decreased to \$22.9 million for the three months ended September 30, 2012, or 1.7%, from the three month period ended September 30, 2011. Operating income (revenues less provision for loan losses and general and administrative expenses) increased, approximately \$220,000, or 0.5%; interest expense increased by approximately \$119,000, or 3.0%, and income tax expense increased by \$504,000, or 3.8%.

Total revenues rose to \$139.4 million during the quarter ended September 30, 2012, a 5.5% increase over the \$132.1 million for the corresponding quarter of the previous year. This increase was attributable to new offices and an increase in revenues from offices open throughout both quarterly periods. Revenues from the 1,064 offices open throughout both quarterly periods increased by approximately 3.1%. At September 30, 2012, the Company had 1,173 offices in operation, an increase of 36 offices from March 31, 2012.

Interest and fee income for the quarter ended September 30, 2012 increased by \$5.6 million, or 4.8%, over the same period of the prior year. This increase resulted from a \$73.5 million increase, or 10.5%, in average net loans receivable over the two corresponding periods. As previously disclosed and consistent with our historical practice, the Company calculates interest revenue on its loans using the rule of 78s, and recognizes the interest revenue using the collection method, which is a cash method of recognizing the revenue. The Company believes that the combination of these two methods does not differ materially from the effective interest method, which is an accrual method for recognizing the revenue. While we do see substantial fluctuations in the amount of cash collected on a month to month basis depending on the number of business days in a month, these fluctuations generally level off during a given quarter. However, every so often, as occurred this quarter, the last two days of the quarter fell on a weekend. The last time it occurred was September 30, 2007 and, the time before that, September 30, 2001. We believe this timing issue has and will result in a shift of interest and fee revenue, currently estimated to be between \$2.0 and \$2.5 million dollars, from the second quarter to the third quarter of the fiscal year.



Table of Contents

Insurance commissions and other income increased by approximately \$1.7 million, or 10.5%, between the two quarterly periods. Insurance commissions increased by approximately \$1.5 million, or 13.4%, during the most recent quarter when compared to the prior year quarter due to the increase in loans in those states where credit insurance is sold in conjunction with the loan. Other income increased by approximately \$147,000, or 3.3%.

The provision for loan losses during the three months ended September 30, 2012 increased by \$2.3 million, or 7.8% due to an 11.9% increase in net loans, from the same quarter last year. This increase was offset by a decrease in our net charge-offs as a percentage of average net loans, which decreased from 14.8% to 13.9% (annualized) when comparing the two quarter end periods. Over the last ten years, charge-off ratios during the second fiscal quarter have ranged from a high of 17.0% in fiscal 2008 to a low of 14.0% in fiscal 2006, excluding the current quarter, which was an all-time low of 13.9%. Accounts that were 61+ days past due decreased from 3.0% to 2.9% of gross loans on a recency basis and remained flat at 4.2% on a contractual basis when comparing the two quarter end statistics.

General and administrative expenses for the quarter ended September 30, 2012 increased by \$4.7 million, or 7.6% over the same quarter of fiscal 2012. Of the total increase, approximately, \$2.1 million related to salary expense, the majority of which was attributable to the year over year increase in our branch network and normal merit increases to employees. In addition, health insurance cost for employees increased approximately \$1.0 million when comparing the two quarterly periods. Overall, general and administrative expenses, when divided by average open offices, increased by approximately 2.0% when comparing the two periods. The total general and administrative expense as a percent of total revenues was 47.5% for the three months ended September 30, 2012 and was 46.5% for the three months ended September 30, 2011.

Interest expense increased by approximately \$119,000 when comparing the two corresponding quarterly periods as a result of a 41.8% increase in the average debt balance, offset by a decrease in the effective interest rate. The effective interest rate decreased from 6.0% to 4.4% during the current quarter.

The Company's effective income tax rate increased to 37.7% for the quarter ended September 30, 2012 compared to 36.5% for the prior year quarter. The increase was primarily due to the effects of a discrete event in the prior year quarter resulting from the release of a reserve related to a state refund.

Comparison of Six Months Ended September 30, 2012 Versus  
Six Months Ended September 30, 2011

Net income increased to \$45.5 million for the six months ended September 30, 2012, an increase of 4.7%, from the six month period ended September 30, 2011. Operating income increased approximately \$4.5 million, or 5.9%; interest expense increased by 9.0% and income taxes increased by 7.0%.

Total revenues rose to \$272.2 million during the six months ended September 30, 2012, a 6.6% increase over the \$255.3 million for the corresponding six months of the previous year. This increase was attributable to new offices and an increase in revenues from offices open throughout both quarterly periods. Revenues from the 1,064 offices open throughout both six month periods increased by approximately 4.5%.

Interest and fee income for the six months ended September 30, 2012 increased by \$13.5 million, or 6.1%, over the same period of the prior year. This increase resulted from a \$71.2 million increase, or 10.4%, in average net loans receivable over the two corresponding periods.

Insurance commissions and other income increased by approximately \$3.4 million, or 10.7%, between the two six month periods. Insurance commissions increased by approximately \$2.9 million, or 13.0%, during the most recent six months when compared to the same period in the prior year due to the increase in loans in those states where credit

insurance is sold in conjunction with the loan. Other income increased by approximately \$483,000, or 5.2%, over the corresponding six months.

The provision for loan losses during the six months ended September 30, 2012 increased by \$3.1 million, or 5.9% due to loan growth, from the same period of the prior year. Accounts that were 61+ days past due decreased from 3.0% to 2.9% of gross loans on a recency basis and remained flat at 4.2% on a contractual basis when comparing the two quarter end statistics. Net charge-offs as a percentage of average net loans decreased from 13.7% to 13.1% (annualized) when comparing the two six month periods.

## Table of Contents

General and administrative expenses for the six months ended September 30, 2012 increased by \$9.3 million, or 7.4% over the same period of fiscal 2012. Overall, general and administrative expenses, when divided by average open offices, increased by approximately 1.5% when comparing the two periods. During the first six months of fiscal 2013, the Company opened or acquired 36 branches compared to 41 branches opened or acquired in the first six months of fiscal 2012. The total general and administrative expense as a percent of total revenues increased from 49.3% for the six months ended September 30, 2011 to 49.7% for the six months ended September 30, 2012.

Interest expense increased by approximately \$661,000 when comparing the two corresponding six month periods as a result of a 43.7% increase in the average debt balance, offset by a decrease in the effective interest rate. The effective interest rate decreased from 6.2% to 4.7% during the current six month period.

The Company's effective income tax rate increased to 37.6% for the six months ended September 30, 2012 compared to 37.1% for the first six months of the prior year. The increase was primarily the result of the state refund settlement in the prior year period as described above.

## Regulatory Matters

As previously disclosed, proponents of a ballot initiative to limit consumer loan annual interest rates in Missouri to 36% had sought to have this initiative included on Missouri's November 2012 general election ballot. In August 2012, the Missouri Secretary of State ruled that the proponents of the ballot initiative had failed to gather the requisite number of signatures to have the initiative included on the November 2012 ballot. Although the proponents filed a lawsuit to challenge the Secretary of State's ruling, in September 2012 they abandoned their effort to overturn the Secretary of State's ruling. Accordingly, this initiative will not be on this year's general election ballot in Missouri. This outcome does not prohibit the proponents from commencing an identical or a new ballot initiative after the November elections. As discussed further in the Company's report on Form 10-K for the fiscal year ended March 31, 2012, the Company's operations are subject to extensive state and federal laws and regulations, and changes in those laws or regulations or their application could have a material adverse effect on the Company's business, results of operations, prospects or ability to continue operations in the jurisdictions affected by these changes. See Part I, Item 1, "Description of Business—Government Regulation" and Part I, Item 1A, "Risk Factors" in the Company's report on Form 10-K for the fiscal year ended March 31, 2012 for more information regarding these regulations and related risks.

## Critical Accounting Policies

The Company's accounting and reporting policies are in accordance with U. S. GAAP and conform to general practices within the finance company industry. Certain accounting policies involve significant judgment by the Company's management, including the use of estimates and assumptions which affect the reported amounts of assets, liabilities, revenues, and expenses. As a result, changes in these estimates and assumptions could significantly affect the Company's financial position and results of operations. The Company considers its policies regarding the allowance for loan losses, share-based compensation and income taxes to be its most critical accounting policies due to the significant degree of management judgment involved.

## Allowance for Loan Losses

The Company has developed policies and procedures for assessing the adequacy of the allowance for loan losses that take into consideration various assumptions and estimates with respect to the loan portfolio. The Company's assumptions and estimates may be affected in the future by changes in economic conditions, among other factors. Additional information concerning the allowance for loan losses is discussed under "Management's Discussion and Analysis of Financial Conditions and Results of Operations - Credit Quality" in the Company's report on Form

10-K for the fiscal year ended March 31, 2012.

### Share-Based Compensation

The Company measures compensation cost for share-based awards at fair value and recognizes compensation over the service period for awards expected to vest. The fair value of restricted stock is based on the number of shares granted and the quoted price of the Company's common stock, and the fair value of stock options is determined using the Black-Scholes valuation model. The Black-Scholes model requires the input of highly subjective assumptions, including expected volatility, risk-free interest rate and expected life, changes to which can materially affect the fair value estimate. In addition, the estimation of share-based awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from the Company's current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards and historical experience. Actual results, and future changes in estimates, may differ substantially from the Company's current estimates.

## Table of Contents

### Income Taxes

Management uses certain assumptions and estimates in determining income taxes payable or refundable, deferred income tax liabilities and assets for events recognized differently in its financial statements and income tax returns, and income tax expense. Determining these amounts requires analysis of certain transactions and interpretation of tax laws and regulations. Management exercises considerable judgment in evaluating the amount and timing of recognition of the resulting income tax liabilities and assets. These judgments and estimates are re-evaluated on a periodic basis as regulatory and business factors change.

No assurance can be given that either the tax returns submitted by management or the income tax reported on the Consolidated Financial Statements will not be adjusted by either adverse rulings by the U.S. Tax Court, changes in the tax code, or assessments made by the Internal Revenue Service ("IRS"), state taxing authorities, or Mexico taxing authorities. The Company is subject to potential adverse adjustments, including but not limited to: an increase in the statutory federal or state income tax rates, the permanent non-deductibility of amounts currently considered deductible either now or in future periods, and the dependency on the generation of future taxable income, including capital gains, in order to ultimately realize deferred income tax assets.

The Company adopted FASB ASC Topic 740 on April 1, 2007. Under FASB ASC Topic 740, the Company will include the current and deferred tax impact of its tax positions in the financial statements when it is more likely than not (likelihood of greater than 50%) that such positions will be sustained by taxing authorities, with full knowledge of relevant information, based on the technical merits of the tax position. While the Company supports its tax positions by unambiguous tax law, prior experience with the taxing authority, and analysis of what it considers to be all relevant facts, circumstances and regulations, management must still rely on assumptions and estimates to determine the overall likelihood of success and proper quantification of a given tax position.

### Liquidity and Capital Resources

The Company has financed and continues to finance its operations, acquisitions and office expansion through a combination of cash flows from operations and borrowings from its institutional lenders. The Company has generally applied its cash flows from operations to fund its increasing loan volume, fund acquisitions, repay long-term indebtedness, and repurchase its common stock. As the Company's gross loans receivable increased from \$671.2 million at March 31, 2009 to \$972.7 million at March 31, 2012, net cash provided by operating activities for fiscal years 2012, 2011 and 2010 was \$219.4 million, \$199.8 million and \$183.6 million, respectively.

The Company believes stock repurchases to be a viable component of the Company's long-term financial strategy and an excellent use of excess cash when the opportunity arises. Subject to appropriate authorizations, the Company may use a substantial portion of recent and any future increases under its revolving credit facility (described further below) to fund additional stock repurchases. As of November 2, 2012, the Company has \$25.3 million in aggregate remaining repurchase capacity under all of the Company's outstanding stock repurchase authorizations.

The Company plans to open or acquire at least 60 branches in the United States and 10 branches in Mexico during fiscal 2013. Expenditures by the Company to open and furnish new offices averaged approximately \$25,000 per office during fiscal 2012. New offices have also required from \$100,000 to \$400,000 to fund outstanding loans receivable originated during their first 12 months of operation.

The Company acquired six loan portfolios during the first six months of fiscal 2013. Gross loans receivable purchased in these transactions were approximately \$1.3 million in the aggregate at the date of purchase. The Company believes that attractive opportunities to acquire new offices or receivables from its competitors or to acquire offices in communities not currently served by the Company will continue to become available as conditions in local economies

and the financial circumstances of owners change.

The Company has a \$483.0 million base credit facility with a syndicate of banks. The credit facility will expire on August 31, 2014. Funds borrowed under the revolving credit facility bear interest at the LIBOR rate plus 3.0% per annum with a minimum 4.0% interest rate. During the six months ended, September 30, 2012, the effective interest rate, including the commitment fee, on borrowings under the revolving credit facility was 4.4%. The Company pays a commitment fee equal to 0.40% per annum of the daily unused portion of the revolving credit facility. Amounts outstanding under the revolving credit facility may not exceed specified percentages of eligible loans receivable. On September 30, 2012, \$386.6 million was outstanding under this facility, and there was \$96.4 million of unused borrowing availability under the borrowing base limitations.

## Table of Contents

The Company's credit agreements contain a number of financial covenants, including minimum net worth and fixed charge coverage requirements. The credit agreements also contain certain other covenants, including covenants that impose limitations on the Company with respect to (i) declaring or paying dividends or making distributions on or acquiring common or preferred stock or warrants or options; (ii) redeeming or purchasing or prepaying principal or interest on subordinated debt; (iii) incurring additional indebtedness; and (iv) entering into a merger, consolidation or sale of substantial assets or subsidiaries. The Company believes that it was in compliance with these agreements as of September 30, 2012, and does not believe that these agreements will materially limit its business and expansion strategy.

The Company believes that cash flow from operations and borrowings under its revolving credit facility or other sources will be adequate to fund the expected cost of opening or acquiring new offices, including funding initial operating losses of new offices and funding loans receivable originated by those offices and the Company's other offices and the scheduled repayment of the other notes payable (for the next 12 months and for the foreseeable future beyond that). Except as otherwise discussed in this report and in Part 1, Item 1A, "Risk Factors" in the Company's Form 10-K for the year ended March 31, 2012 (as supplemented by any subsequent disclosures in information the Company files with or furnishes to the SEC from time to time, including, but not limited to, any disclosures in Part II, Item 1A, "Risk Factors" in any of the Company's Forms 10-Q for quarters ended during fiscal 2013), management is not currently aware of any trends, demands, commitments, events or uncertainties that it believes will or could result in, or are or could be reasonably likely to result in, the Company's liquidity increasing or decreasing in any material way. From time to time, the Company has needed and obtained, and expects that it will continue to need on a periodic basis, an increase in the borrowing limits under its revolving credit facility. The Company has successfully obtained such increases in the past and anticipates that it will be able to do so in the future as the need arises; however, there can be no assurance that this additional funding will be available (or available on reasonable terms) if and when needed.

## Inflation

The Company does not believe that inflation, within reasonably anticipated rates, will have a material adverse effect on its financial condition. Although inflation would increase the Company's operating costs in absolute terms, the Company expects that the same decrease in the value of money would result in an increase in the size of loans demanded by its customer base. It is reasonable to anticipate that such a change in customer preference would result in an increase in total loan receivables and an increase in absolute revenues to be generated from that larger amount of loans receivable. That increase in absolute revenues should offset any increase in operating costs. In addition, because the Company's loans are relatively short in both contractual term and average life, it is unlikely that loans made at any given point in time will be repaid with significantly inflated dollars.

## Quarterly Information and Seasonality

The Company's loan volume and corresponding loans receivable follow seasonal trends. The Company's highest loan demand occurs each year from October through December, its third fiscal quarter. Loan demand is generally the lowest and loan repayment is highest from January to March, its fourth fiscal quarter. Loan volume and average balances remain relatively level during the remainder of the year. This seasonal trend causes fluctuations in the Company's cash needs and quarterly operating performance through corresponding fluctuations in interest and fee income and insurance commissions earned, since unearned interest and insurance income are accreted to income on a collection method. Consequently, operating results for the Company's third fiscal quarter are significantly lower than in other quarters and operating results for its fourth fiscal quarter are generally higher than in other quarters.

## Recently Adopted Accounting Pronouncements

See Note 2 to our accompanying unaudited Consolidated Financial Statements.

## Forward-Looking Information

This report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains various “forward-looking statements,” within the meaning of Section 21E of the Securities Exchange Act of 1934, that are based on management’s belief and assumptions, as well as information currently available to management. Statements other than those of historical fact, as well as those identified by the words “anticipate,” “estimate,” “intend,” “plan,” “expect,” “believe,” “may,” “will,” and “should” any variation of the foregoing and expressions are forward-looking statements. Although the Company believes that the expectations reflected in any such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Any such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Company’s actual financial results, performance or financial condition may vary materially from those anticipated, estimated or expected. Among the key factors that could cause the Company’s actual financial results, performance or condition to differ from the expectations expressed or implied in such forward-looking statements are the following: recently enacted, proposed or future legislation and the manner in which it is implemented; the nature and scope of regulatory authority, particularly discretionary authority, that may be exercised by regulators having jurisdiction over the Company’s business or consumer financial transactions generically; changes in interest rates; risks related to expansion and foreign operations; risks inherent in making loans, including repayment risks and value of collateral; the timing and amount of revenues that may be recognized by the Company; changes in current revenue and expense trends (including trends affecting delinquencies and charge-offs); changes in the Company’s markets and general changes in the economy (particularly in the markets served by the Company); the unpredictable nature of litigation; and other matters discussed in this report and in Part I, Item 1A, “Risk Factors” in the Company’s most recent annual report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) and the Company’s other reports filed with, or furnished to, the SEC from time to time. The Company does not undertake any obligation to update any forward-looking statements it makes.



Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

The Company's financial instruments 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 four months. Given the short-term nature of these loans, they are continually repriced at current market rates. The Company's outstanding debt under its revolving credit facility was \$386.6 million at September 30, 2012. At September 30, 2012, interest on borrowings under this facility was based on LIBOR plus 3.0%, with a minimum of 4.0% per annum.

Based on the outstanding balance at September 30, 2012, a change of 1.0% in the interest rates would cause a change in interest expense of approximately \$828,000 on an annual basis.

Foreign Currency Exchange Rate Risk

In September 2005 the Company began opening offices in Mexico, where its local businesses utilize the Mexican peso as their functional currency. The consolidated financial statements of the Company are denominated in U.S. dollars and are therefore subject to fluctuation as the U.S. dollar and Mexican peso foreign exchange rates change. International revenues from our non-U.S. operations accounted for approximately 7.0% of total revenues during the six month period ended September 30, 2012 and 2011. There have been, and there may continue to be, period-to-period fluctuations in the relative portions of our international revenues to total consolidated revenues.

Our international operations are subject to risks, including but not limited to differing economic conditions, changes in political climate, social unrest, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, our future consolidated financial position as well as our consolidated results of operations results could be adversely affected by changes in these or other factors. Foreign exchange rate fluctuations may adversely impact our financial position as the assets and liabilities of our foreign operations are translated into U.S. dollars in preparing our consolidated balance sheet. Our exposure to foreign exchange rate fluctuations arises in part from balances in our intercompany accounts included on our subsidiary balance sheets. These intercompany accounts are denominated in the functional currency of the foreign subsidiaries and are translated to U.S. dollars at each reporting period end. Additionally, foreign exchange rate fluctuations may impact our consolidated results from operations as exchange rate fluctuations will impact the amounts reported in our consolidated statement of income. The effect of foreign exchange rate fluctuations on our consolidated financial position is recognized within shareholders' equity through accumulated other comprehensive income (loss). The net translation adjustment for the six months ended September 30, 2012 was a loss of approximately \$0.1 million. The Company's foreign currency exchange rate exposures may change over time as business practices evolve and could have a material effect on the Company's financial results. The Company will continue to monitor and assess the effect of foreign currency fluctuations and may institute hedging strategies.

The Company performs a foreign exchange sensitivity analysis on a quarterly basis which assumes a hypothetical 10% increase and decrease in the value of the U.S. dollar relative to the Mexican Peso. The foreign exchange risk sensitivity of both net loans receivable and consolidated net income is assessed using hypothetical scenarios and assumes that earnings in Mexican pesos are recognized evenly throughout a period. The actual results may differ from the results noted in the tables below particularly due to assumptions utilized or if events occur that were not included in the methodology.



Table of Contents

The foreign exchange risk sensitivity of net loans denominated in Mexican pesos and translated into US dollars, which were approximately \$43.1 million and \$32.5 million at September 30, 2012 and 2011, respectively, on the reported net loans receivable amount is summarized in the following table:

## Foreign Exchange Sensitivity Analysis of Loans Receivable, Net of Unearned Amounts

	For the Period Ended September 30, 2012		
Foreign exchange spot rate, U.S. dollars to Mexican pesos	-10%	0%	10%
Loans receivable, net of unearned	\$786,579,265	\$790,495,175	\$795,281,287
% change from base amount	(0.50 ) %	— %	0.61 %
\$ change from base amount	\$(3,915,910 )	\$—	\$4,786,112
	For the Period Ended September 30, 2011		
Foreign exchange spot rate, U.S. dollars to Mexican pesos	-10%	0%	10%
Loans receivable, net of unearned	\$703,515,855	706,471,207	\$710,083,288
% change from base amount	(0.42 ) %	— %	0.51 %
\$ change from base amount	\$(2,955,352 )	\$—	\$3,612,081

The following table summarizes the results of the foreign exchange risk sensitivity analysis on reported net income as of the dates indicated below:

## Foreign Exchange Sensitivity Analysis of Net Income

	For the six months ended September 30, 2012		
Foreign exchange spot rate, U.S. dollars to Mexican pesos	-10%	0%	10%
Net Income	\$45,316,091	\$45,516,447	\$45,761,325
% change from base amount	(0.44 ) %	— %	0.54 %
\$ change from base amount	\$(200,356 )	\$—	\$244,878
	For the six months ended September 30, 2011		
Foreign exchange spot rate, U.S. dollars to Mexican pesos	-10%	0%	10%
Net Income	\$43,398,845	\$43,486,022	\$43,592,564
% change from base amount	(0.20 ) %	— %	0.25 %
\$ change from base amount	\$(87,177 )	\$—	\$106,542

## Item 4.

## Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures as of September 30, 2012. Based on that evaluation, the Company's management, including the CEO and CFO, has concluded that the Company's disclosure controls and procedures are

effective as of September 30, 2012. During the second quarter of fiscal 2013, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

From time to time the Company is involved in routine litigation relating to claims arising out of its operations in the normal course of business. While the outcome of litigation is by its nature uncertain, based on current knowledge the Company does not believe that it is presently a party to any such pending legal proceedings that would have a material adverse effect on its financial condition. See Note 11 of the unaudited consolidated financial statements.

## Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed under Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended March 31, 2012.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company's credit agreements contain certain restrictions on the payment of cash dividends on its capital stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.

On August 1, 2012, the Board of Directors authorized the Company to repurchase up to \$25 million of the Company's common stock. This repurchase authorization follows, and is in addition to, a similar repurchase authorization of \$25 million announced on June 11, 2012. After taking into account all shares repurchased through November 2, 2012, the Company has \$25.3 million in aggregate remaining repurchase capacity under all of the Company's outstanding repurchase authorizations. The timing and actual number of shares repurchased will depend on a variety of factors, including the stock price, corporate and regulatory requirements and other market and economic conditions. Although the repurchase authorizations above have no stated expiration date, the Company's stock repurchase program may be suspended or discontinued at any time. The following table provides information with respect to purchases made by the Company of shares of the Company's common stock during the six month period ended September 30, 2012:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Dollar Value of Shares Purchased as part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs
July 1 through July 31, 2012	-	\$-	-	\$ 13,691,052
August 1 through August 31, 2012	185,963	72.11	13,409,391	25,281,661
September 1 through September 30, 2012	-	-	-	25,281,661
<b>Total for the quarter</b>	<b>185,963</b>	<b>\$72.11</b>	<b>13,409,391</b>	

\*On August 1, 2012, the Board of Directors authorized the Company to repurchase up to \$25 million of the Company's common stock. This repurchase authorization follows, and is in addition to, a similar repurchase authorization of \$25 million announced on June 11, 2012.

## Item 5. Other Information

None.

26

---

Table of ContentsWORLD ACCEPTANCE CORPORATION  
AND SUBSIDIARIES

## PART II. OTHER INFORMATION, CONTINUED

Item 6.	Exhibits	Previous Exhibit Number	Company Registration No. or Report
Exhibit Number	Description		
3.1	Second Amended and Restated Articles of Incorporation of the Company, as amended	3.1	333-107426
3.2	Fourth Amended and Restated Bylaws of the Company	99.1	8-03-07 8-K
4.1	Specimen Share Certificate	4.1	33-42879
4.2	Articles 3, 4 and 5 of the Form of Company's Second Amended and Restated Articles of Incorporation (as amended)	3.1	333-107426
4.3	Article II, Section 9 of the Company's Fourth Amended and Restated Bylaws	99.1	8-03-07 8-K
4.4	Amended and Restated Revolving Credit Agreement, dated September 17, 2010	10.1	9-21-10 8-K
4.5	First Amendment to the Amended and Restated Revolving Credit Agreement dated September 17, 2010	10.1	9-1-11 8-K
4.6	Second Amendment to the Amended and Restated Revolving Credit Agreement dated September 17, 2010	10.1	5-1-12 8-K
4.7	Amended and Restated Company Security Agreement, Pledge and Indenture of Trust, dated as of September 17, 2010	10.2	9-21-10 8-K
4.8	Amended and Restated Subsidiary Security Agreement, Pledge and Indenture of Trust, dated as of September 17, 2010 (i.e. Subsidiary Security Agreement)	10.3	9-21-10 8-K
4.9	September 17, 2010 (i.e., Subsidiary Guaranty Agreement)	10.4	9-21-10 8-K
<u>31.1</u>	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	*	
<u>31.2</u>	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	*	
<u>32.1</u>	Section 1350 Certification of Chief Executive Officer	*	
<u>32.2</u>	Section 1350 Certification of Chief Financial Officer	*	





Table of Contents

Exhibit Number	Description	Previous Company Exhibit Registration Number No. or Report
101.1	The following materials from the Company's Quarterly Report For the fiscal quarter ended September 30, 2012, formatted in XBRL:	*
(i)	Consolidated Balance Sheets as of September 30, 2012 and March 31, 2012;	
(ii)	Consolidated Statements of Operations for the three and six months ended September 30, 2012 and September 30, 2011;	
(iii)	Consolidated Statements of Comprehensive Income for the three and six months ended September 30, 2012 and September 30, 2011;	
(iv)	Consolidated Statements of Shareholder's Equity for the year ended March 31, 2012 and the six months ended September 30, 2012;	
(v)	Consolidated Statements of Cash Flows for the six months ended September 30, 2012 and September 30, 2011; and	
(vi)	Notes to the Consolidated Financial Statements.	

\* Filed or furnished herewith.

Table of Contents

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.

WORLD ACCEPTANCE CORPORATION

By: /s/ A. Alexander McLean, III  
A. Alexander McLean, III, Chief  
Executive Officer  
Date: November 2, 2012

By: /s/ Kelly M. Malson  
Kelly M. Malson, Senior Vice  
President and  
Chief Financial Officer  
Date: November 2, 2012