WORLD ACCEPTANCE CORP
Form 10-Q
August 05, 2008

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

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

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 x No ¨

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

The number of outstanding shares of the issuer's no par value common stock as of August 5, 2008 was 16,364,043.

WORLD ACCEPTANCE CORPORATION
AND SUBSIDIARIES

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WORLD ACCEPTANCE CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unudited)

		June 30, 2008	March 31, 2008
ASSETS			
Cash and cash equivalents	$	**8,098,525**	7,589,575
Gross loans receivable		**632,715,266**	599,508,969
Less:			
Unearned interest and fees		**(165,208,801)**	(154,418,105)
Allowance for loan losses		**(35,288,061)**	(33,526,147)
Loans receivable, net		**432,218,404**	411,564,717
Property and equipment, net		**20,100,045**	18,654,010
Deferred tax benefit		**18,047,487**	22,134,066
Other assets, net		**10,538,303**	10,818,057
Goodwill		**5,379,008**	5,352,675
Intangible assets, net		**10,275,201**	9,997,327
Total assets	$	**504,656,973**	486,110,427
LIABILITIES & SHAREHOLDERS' EQUITY			
Liabilities:			
Senior notes payable		**116,900,000**	104,500,000
Convertible senior subordinated notes payable		**110,000,000**	110,000,000
Other notes payable		**200,000**	400,000
Income taxes payable		**11,661,721**	18,039,242
Accounts payable and accrued expenses		**15,960,797**	18,865,913
Total liabilities		**254,722,518**	251,805,155
Shareholders' equity:			
Preferred stock, no par value			
Authorized 5,000,000 shares, no shares issued or outstanding		**-**	-
Common stock, no par value			
Authorized 95,000,000 shares; issued and outstanding 16,360,543 and 16,278,684 shares at June 30, 2008 and March 31, 2008, respectively		**-**	-
Additional paid-in capital		**4,439,016**	1,323,001
Retained earnings		**244,864,508**	232,812,768
Accumulated other comprehensive income		**630,931**	169,503
Total shareholders' equity		**249,934,455**	234,305,272
Commitments and contingencies			
	$	**504,656,973**	486,110,427

See accompanying notes to consolidated financial statements.

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

		Three months ended June 30,	
		2008	2007
Revenues:			
Interest and fee income	$	**76,349,486**	65,389,322
Insurance and other income		**12,071,545**	10,999,774
Total revenues		**88,421,031**	76,389,096
Expenses:			
Provision for loan losses		**17,856,913**	14,216,510
General and administrative expenses:			
Personnel		**33,315,775**	28,856,263
Occupancy and equipment		**6,053,650**	4,933,090
Data processing		**589,447**	549,805
Advertising		**2,709,965**	2,451,389
Amortization of intangible assets		**600,347**	614,687
Other		**5,520,671**	4,784,836
		48,789,855	42,190,070
Interest expense		**2,480,161**	2,336,387
Total expenses		**69,126,929**	58,742,967
Income before income taxes		**19,294,102**	17,646,129
Income taxes		**7,242,362**	6,795,121
Net income	$	**12,051,740**	10,851,008
Net income per common share:			
Basic	$	**0.74**	0.62
Diluted	$	**0.73**	0.61
Weighted average common equivalent shares outstanding:			
Basic		**16,270,939**	17,510,229
Diluted		**16,573,100**	17,916,288

See accompanying notes to consolidated financial statements.

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

		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss),	Total Shareholders' Equity	Total Comprehensive Income
Balances at March 31, 2007	$	5,770,665	209,769,808	(47,826)	215,492,647	
Cumulative effect of FIN 48		-	(550,000)	-	(550,000)	
Proceeds from exercise of stock options (116,282 shares), including tax benefits of $1,110,598		2,724,938	-	-	2,724,938	
Common stock repurchases (1,375,100 shares)		(12,458,946)	(29,403,198)	-	(41,862,144)	
Issuance of restricted common stock under stock option plan (44,981 shares)		1,348,419	-	-	1,348,419	
Stock option expense		3,937,925	-	-	3,937,925	
Other comprehensive income		-	-	217,329	217,329	217,329
Net income		-	52,996,158	-	52,996,158	52,996,158
Total comprehensive income		-	-	-	-	53,213,487
Balances at March 31, 2008	$	1,323,001	232,812,768	169,503	234,305,272	
Proceeds from exercise of stock options (70,183 shares), including tax benefits of $520,763		**1,668,695**	**-**	**-**	**1,668,695**	
Issuance of restricted common stock under stock option plan (12,000 shares)		**497,175**	**-**	**-**	**497,175**	
Stock option expense		**950,145**	**-**	**-**	**950,145**	
Other comprehensive income		**-**	**-**	**461,428**	**461,428**	**461,428**
Net income		**-**	**12,051,740**	**-**	**12,051,740**	**12,051,740**
Total comprehensive income		**-**	**-**	**-**	**-**	**12,513,168**
Balances at June 30, 2008	**$**	**4,439,016**	**244,864,508**	**630,931**	**249,934,455**	

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30, 2008	2007
Cash flows from operating activities:		
Net income	$ **12,051,740**	10,851,008
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	**600,347**	614,687
Amortization of loan costs and discounts	**190,816**	190,816
Provision for loan losses	**17,856,913**	14,216,510
Depreciation	**1,053,303**	841,573
Deferred tax expense (benefit)	**4,086,579**	(303,627)
Compensation related to stock option and restricted stock plans	**1,447,320**	1,350,035
Unrealized gains on interest rate swap	**(830,884)**	(388,460)
Change in accounts:		
Other assets, net	**550,816**	(197,473)
Income taxes payable	**(6,377,521)**	(3,982,585)
Accounts payable and accrued expenses	**(2,074,232)**	(2,681,661)
Net cash provided by operating activities	**28,555,197**	20,510,823
Cash flows from investing activities:		
Increase in loans receivable, net	**(32,158,828)**	(35,886,826)
Assets acquired from office acquisitions, primarily loans	**(6,380,722)**	(1,828,907)
Increase in intangible assets from acquisitions	**(904,554)**	(1,340,306)
Purchases of property and equipment, net	**(2,470,838)**	(1,984,927)
Net cash used in investing activities	**(41,914,942)**	(41,040,966)
Cash flows from financing activities:		
Net change in bank overdraft	**-**	(125,911)
Proceeds of senior revolving notes payable, net	**12,400,000**	21,950,000
Repayment of other notes payable	**(200,000)**	(200,000)
Proceeds from exercise of stock options	**1,147,932**	377,254
Excess tax benefit from exercise of stock options	**520,763**	137,051
Net cash provided by financing activities	**13,868,695**	22,138,394
Increase in cash and cash equivalents	**508,950**	1,608,251
Cash and cash equivalents at beginning of period	**7,589,575**	5,779,032
Cash and cash equivalents at end of period	$ **8,098,525**	7,387,283

See accompanying notes to consolidated financial statements.

WORLD ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008 and 2007
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The consolidated financial statements of the Company at June 30, 2008, and for the three 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 June 30, 2008, and the results of operations and cash flows for the periods ended June 30, 2008 and 2007, 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.

Certain reclassification entries have been made for fiscal 2008 to conform with fiscal 2009 presentation. These reclassifications had no impact on shareholders' equity and comprehensive income or net income.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

These consolidated financial statements do not include all disclosures required by U.S. generally accepted accounting principles and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the fiscal year ended March 31, 2008, included in the Company's 2008 Annual Report to Shareholders.

NOTE 2 – SUMMARY OF SIGNIFICANT POLICIES

Effective April 1, 2008, the first day of fiscal 2009, the Company adopted Statement of Financial Accounting Standards No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value reporting option for any assets and liabilities not previously recorded at fair value.

Effective April 1, 2008, the first day of fiscal 2009, the Company adopted the provisions of Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements" for financial assets and liabilities, as well as any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements in which the Financial Accounting Standards Board ("FASB") has previously concluded that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. The Company applied the provisions of FSP FAS 157-2, "Effective Date of FASB Statement 157," which defers the provisions of SFAS 157 for nonfinancial assets and liabilities to the first fiscal period beginning after November 15, 2008. The deferred nonfinancial assets and liabilities include items such as goodwill and other nonamortizable intangibles. The Company is required to adopt SFAS 157 for nonfinancial assets and liabilities in the first quarter of fiscal 2010 and the Company's management is still evaluating the impact on the Company's Condensed Consolidated Financial Statements.

Our 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 following financial liabilities were measured at fair value on a recurring basis during the three months ended June 30, 2008:

		Fair Value Measurements Using		
	June 30, 2008	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Interest rate swap	$ (839,734)	$ -	$ (839,734)	$ -

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There have been no other material changes to the Company's significant accounting policies and estimates from the information provided in Note 1 of the Company's Consolidated Financial Statements included in the Form 10-K for the fiscal year ended March 31, 2008.

NOTE 3 – COMPREHENSIVE INCOME

The Company applies the provisions of Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 130 "*Reporting Comprehensive Income*." The following summarizes accumulated other comprehensive income (loss) as of June 30:

		2008		2007
Balance at beginning of year	$	169,503	$	(47,826)
Unrealized gain from foreign exchange translation adjustment	$	461,428	$	55,041
Total accumulated other comprehensive income	$	630,931	$	7,215

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 June 30,	
		2008	2007
Balance at beginning of period	$	33,526,147	27,840,239
Provision for loan losses		17,856,913	14,216,510
Loan losses		(18,173,143)	(13,982,867)
Recoveries		1,748,113	1,560,803
Allowance on acquired loans		330,031	47,596
Balance at end of period	$	35,288,061	29,682,281

The Company adopted Statement of Position No. 03-3 ("SOP 03-3"), "*Accounting for Certain Loans or Debt Securities Acquired in a Transfer*," which prohibits carry over or creation of valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of this SOP. The Company believes that a loan has shown deterioration if it is over 60 days delinquent. The Company believes that loans acquired since the adoption of SOP 03-3 have not shown evidence of deterioration of credit quality since origination, and therefore, are not within the scope of SOP 03-3 because the Company did not pay consideration for, or record, acquired loans over 60 days delinquent. Loans acquired that are more than 60 days past due are included in the scope of SOP 03-3 and therefore, subsequent refinances or restructures of these loans would not be accounted for as a new loan.

For the quarters ended June 30, 2008 and 2007, the Company recorded adjustments of approximately $330,000 and $48,000, respectively, to the allowance for loan losses in connection with acquisitions in accordance with generally accepted accounting principles. These adjustments represent the allowance for loan losses on acquired loans which do not meet the scope of SOP 03-3.

NOTE 5 – AVERAGE SHARE INFORMATION

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

Three months ended June 30,

	2008	2007
Basic:		
Average common shares outstanding (denominator)	16,270,939	17,510,229
Diluted:		
Average common shares outstanding	16,270,939	17,510,229
Dilutive potential common shares	302,161	406,059
Average diluted shares outstanding (denominator)	16,573,100	17,916,288

Options to purchase 38,639 and 74,841 shares of common stock at various prices were outstanding during the three months ended June 30, 2008 and 2007, respectively, but were not included in the computation of diluted EPS because the options are antidilutive. The shares related to the convertible senior notes payable (1,762,519) and related warrants were also not included in the computation of diluted EPS because the effect of such instruments was antidilutive.

NOTE 6 – STOCK-BASED COMPENSATION

Stock Option Plans

The Company has a 1992 Stock Option Plan, a 1994 Stock Option Plan, a 2002 Stock Option Plan and a 2005 Stock Option Plan for the benefit of certain directors, officers, and key employees. Under these plans, 5,010,000 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 between two 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 June 30, 2008, there were 222,123 shares available for grant under the plans.

Effective April 1, 2006, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 123 (Revised 2004), “Share-Based Payment” (“SFAS” 123-R), using the modified prospective transition method, and did not retroactively adjust results from prior periods. Under this transition method, stock option compensation is recognized as an expense over the remaining unvested portion of all stock option awards granted prior to April 1, 2006, based on the fair values estimated at grant date in accordance with the original provisions of SFAS 123. 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 quarter ended June 30, 2008. The weighted-average fair value at the grant date for options issued during the three months ended June 30, 2007 was $22.35. This fair value was estimated at grant date using the weighted-average assumptions listed below.

	Three months ended June 30, 2007
Dividend yield	0%
Expected volatility	42.90%
Average risk-free interest rate	4.78%
Expected life	6.89 years
Vesting period	5 years

The expected stock price volatility is based on the historical volatility of the Company’s stock for a period approximating the expected life. The expected life represents the period of time that options are expected to be outstanding after their grant date. The risk-free interest rate reflects the interest rate at grant date on zero-coupon U.S. governmental bonds having a remaining life similar to the expected option term.

Option activity for the three months ended June 30, 2008 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregated Intrinsic Value
Options outstanding, beginning of year	**1,274,217**	**$ 25.33**		
Granted	**-**	**-**		