

WORLD ACCEPTANCE CORP  
Form 10-Q  
November 10, 2014

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, 2014  
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

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

Edgar Filing: WORLD ACCEPTANCE CORP - Form 10-Q

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 November 6, 2014 was 9,460,555.

---

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, 2014 and March 31, 2014</u>   | <u>3</u>  |
| <u>Consolidated Statements of Operations for the three and six months ended September 30, 2014 and September 30, 2013</u>            | <u>4</u>  |
| <u>Consolidated Statements of Comprehensive Income for the three and six months ended September 30, 2014 and September 30, 2013</u>  | <u>5</u>  |
| <u>Consolidated Statements of Shareholders' Equity for the year ended March 31, 2014 and the six months ended September 30, 2014</u> | <u>6</u>  |
| <u>Consolidated Statements of Cash Flows for the six months ended September 30, 2014 and September 30, 2013</u>                      | <u>7</u>  |
| <u>Notes to Consolidated Financial Statements</u>  | <u>8</u>  |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                 | <u>18</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>  | <u>25</u> |
| Item 4. <u>Controls and Procedures</u>   | <u>27</u> |
| PART II - OTHER INFORMATION  |           |
| Item 1. <u>Legal Proceedings</u>   | <u>28</u> |
| Item 1A. <u>Risk Factors</u>   | <u>28</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | <u>28</u> |
| Item 5. <u>Other Information</u>   | <u>28</u> |
| Item 6. <u>Exhibits</u>  | <u>29</u> |
| <u>Signatures</u>  | <u>30</u> |

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 2015” are to the Company’s fiscal year ending March 31, 2015.



Table of Contents

WORLD ACCEPTANCE CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

|  | September 30, 2014 | March 31, 2014 |
|--|--------------------|----------------|
| <b>ASSETS</b>  |                    |                |
| Cash and cash equivalents  | \$ 14,631,616      | 19,569,683     |
| Gross loans receivable   | 1,194,039,694      | 1,112,307,335  |
| Less:  |                    |                |
| Unearned interest and fees   | (321,794,326       | ) (298,387,520 |
| Allowance for loan losses  | (81,817,578        | ) (63,254,940  |
| Loans receivable, net  | 790,427,790        | 750,664,875    |
| Property and equipment, net  | 25,810,308         | 24,826,238     |
| Deferred income taxes, net   | 36,902,365         | 33,514,189     |
| Other assets, net  | 12,693,015         | 11,707,639     |
| Goodwill   | 5,967,127          | 5,967,127      |
| Intangible assets, net   | 3,543,769          | 3,777,810      |
| Total assets   | \$ 889,975,990     | 850,027,561    |
| <b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>  |                    |                |
| Liabilities:   |                    |                |
| Senior notes payable   | 559,700,000        | 505,500,000    |
| Income taxes payable   | 7,691,545          | 9,521,285      |
| Accounts payable and accrued expenses  | 28,977,703         | 27,650,955     |
| Total liabilities  | 596,369,248        | 542,672,240    |
| Commitments and contingencies  |                    |                |
| Shareholders' equity:  |                    |                |
| Preferred stock, no par value Authorized 5,000,000, no shares issued or outstanding  | —                  | —              |
| Common stock, no par value Authorized 95,000,000 shares; issued and outstanding 9,453,505 and 10,262,384 shares at September 30, 2014 and March 31, 2014, respectively | —                  | —              |
| Additional paid-in capital   | 126,434,155        | 118,365,503    |
| Retained earnings  | 173,518,224        | 193,095,944    |
| Accumulated other comprehensive loss, net  | (6,345,637         | ) (4,106,126   |
| Total shareholders' equity   | 293,606,742        | 307,355,321    |
| Total liabilities and shareholders' equity   | \$ 889,975,990     | 850,027,561    |

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, |             |
|---|----------------------------------|-------------|--------------------------------|-------------|
|   | 2014                             | 2013        | 2014                           | 2013        |
| Revenue:                                    |                                  |             |                                |             |
| Interest and fee income                     | \$ 136,477,410                   | 133,010,377 | \$ 270,893,217                 | 260,988,298 |
| Insurance commissions and other income      | 16,077,229                       | 16,953,202  | 31,973,397                     | 34,240,408  |
| Total revenue                               | 152,554,639                      | 149,963,579 | 302,866,614                    | 295,228,706 |
| Expenses:                                   |                                  |             |                                |             |
| Provision for loan losses                   | 36,160,733                       | 38,187,649  | 67,053,998                     | 66,890,842  |
| General and administrative expenses:        |                                  |             |                                |             |
| Personnel                                   | 50,943,037                       | 49,134,111  | 105,182,329                    | 102,443,786 |
| Occupancy and equipment                     | 10,372,901                       | 9,692,239   | 20,436,795                     | 19,071,209  |
| Advertising                                 | 3,428,847                        | 3,049,386   | 6,590,513                      | 5,772,641   |
| Amortization of intangible assets           | 188,417                          | 265,665     | 390,174                        | 577,167     |
| Other                                       | 11,113,739                       | 9,846,790   | 21,158,273                     | 19,360,474  |
| Total general and administrative expenses   | 76,046,941                       | 71,988,191  | 153,758,084                    | 147,225,277 |
| Interest expense                            | 6,026,395                        | 5,280,791   | 11,590,850                     | 9,957,245   |
| Total expenses                              | 118,234,069                      | 115,456,631 | 232,402,932                    | 224,073,364 |
| Income before income taxes                  | 34,320,570                       | 34,506,948  | 70,463,682                     | 71,155,342  |
| Income taxes                                | 13,047,229                       | 12,941,679  | 26,635,005                     | 26,478,372  |
| Net income                                  | \$ 21,273,341                    | 21,565,269  | \$ 43,828,677                  | 44,676,970  |
| Net income per common share:                |                                  |             |                                |             |
| Basic                                       | \$ 2.34                          | 1.95        | \$ 4.70                        | 3.97        |
| Diluted                                     | \$ 2.30                          | 1.91        | \$ 4.62                        | 3.88        |
| Weighted average common shares outstanding: |                                  |             |                                |             |
| Basic                                       | 9,087,825                        | 11,082,741  | 9,316,709                      | 11,265,575  |
| Diluted                                     | 9,263,137                        | 11,312,232  | 9,482,642                      | 11,500,521  |

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, |              |
|--|----------------------------------|--------------|--------------------------------|--------------|
|  | 2014                             | 2013         | 2014                           | 2013         |
| Net income                               | \$21,273,341                     | 21,565,269   | \$43,828,677                   | 44,676,970   |
| Foreign currency translation adjustments | (2,831,616                       | ) (1,004,977 | ) (2,239,511                   | ) (4,024,723 |
| Comprehensive income, net                | \$18,441,725                     | 20,560,292   | \$41,589,166                   | 40,652,247   |

See accompanying notes to consolidated financial statements.

Table of Contents

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

|   | Additional<br>Paid-in Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss),<br>net | Total<br>Shareholders'<br>Equity |
|---|-------------------------------|----------------------|--|----------------------------------|
| Balances at March 31, 2013  | \$ 89,789,789                 | 277,024,787          | (418,317 )   | 366,396,259                      |
| Proceeds from exercise of stock options (265,365 shares), including tax benefits of \$2,867,621 | 13,662,510                    | —                    | —  | 13,662,510                       |
| Common stock repurchases (2,091,699 shares)   | —                             | (190,536,775 )       | —  | (190,536,775 )                   |
| Restricted common stock expense under stock option plan, net of cancellations                   | 5,234,480                     | —                    | —  | 5,234,480                        |
| Stock option expense  | 9,678,724                     | —                    | —  | 9,678,724                        |
| Other comprehensive loss  | —                             | —                    | (3,687,809 )   | (3,687,809 )                     |
| Net income  | —                             | 106,607,932          | —  | 106,607,932                      |
| Balances at March 31, 2014  | \$ 118,365,503                | 193,095,944          | (4,106,126 )   | 307,355,321                      |
| Proceeds from exercise of stock options (8,800 shares), including tax benefits of \$107,821     | 354,921                       | —                    | —  | 354,921                          |
| Common stock repurchases (800,291 shares)   | —                             | (63,406,397 )        | —  | (63,406,397 )                    |
| Restricted common stock expense under stock option plan, net of cancellations                   | 3,820,514                     | —                    | —  | 3,820,514                        |
| Stock option expense  | 3,893,217                     | —                    | —  | 3,893,217                        |
| Other comprehensive loss  | —                             | —                    | (2,239,511 )   | (2,239,511 )                     |
| Net income  | —                             | 43,828,677           | —  | 43,828,677                       |
| Balances at September 30, 2014  | \$ 126,434,155                | 173,518,224          | (6,345,637 )   | 293,606,742                      |

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, |               |
|---|--------------------------------|---------------|
|   | 2014                           | 2013          |
| Cash flow from operating activities:  |                                |               |
| Net income  | \$43,828,677                   | 44,676,970    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                |               |
| Amortization of intangible assets   | 390,174                        | 577,167       |
| Amortization of loan costs and discounts  | 195,377                        | 227,820       |
| Provision for loan losses   | 67,053,998                     | 66,890,842    |
| Depreciation  | 3,246,149                      | 3,173,420     |
| Deferred income tax benefit   | (3,610,518)                    | (7,204,662)   |
| Compensation related to stock option and restricted stock plans                   | 7,713,731                      | 8,774,815     |
| Change in accounts:   |                                |               |
| Other assets, net   | (1,241,553)                    | 252,764       |
| Income taxes payable  | (1,799,893)                    | (7,863,237)   |
| Accounts payable and accrued expenses   | 1,443,158                      | (3,496,040)   |
| Net cash provided by operating activities   | 117,219,300                    | 106,009,859   |
| Cash flows from investing activities:   |                                |               |
| Increase in loans receivable, net   | (107,800,236)                  | (121,930,478) |
| Net assets acquired from office acquisitions, primarily loans                     | (844,742)                      | (717,063)     |
| Increase in intangible assets from acquisitions                                   | (156,133)                      | (276,437)     |
| Purchases of property and equipment   | (4,358,977)                    | (3,424,236)   |
| Net cash used in investing activities   | (113,160,088)                  | (126,348,214) |
| Cash flow from financing activities:  |                                |               |
| Borrowings from senior note payable   | 172,334,100                    | 195,940,000   |
| Payments on senior note payable   | (118,134,100)                  | (109,340,000) |
| Proceeds from exercise of stock options   | 247,100                        | 1,451,678     |
| Repurchase of common stock  | (63,406,397)                   | (65,058,684)  |
| Excess tax benefits from exercise of stock options                                | 107,821                        | 509,408       |
| Net cash (used in) provided by financing activities                               | (8,851,476)                    | 23,502,402    |
| Effects of exchange-rate changes on cash and cash equivalents                     | (145,803)                      | (300,179)     |
| Net change in cash and cash equivalents   | (4,938,067)                    | 2,863,868     |
| Cash and cash equivalents at beginning of period                                  | 19,569,683                     | 11,625,365    |
| Cash and cash equivalents at end of period  | \$14,631,616                   | 14,489,233    |

See accompanying notes to consolidated financial statements.

7

---

Table of Contents

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

NOTE 1 – BASIS OF PRESENTATION

The consolidated financial statements of the Company at September 30, 2014, and for the three and six months 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, 2014, and the results of operations and cash flows for the periods ended September 30, 2014 and 2013, 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements do not include all disclosures required by 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, 2014, included in the Company’s 2014 Annual Report to Shareholders.

NOTE 2 – SUMMARY OF SIGNIFICANT POLICIES

Accounting Standards to be Adopted

Revenue from Contracts with Customers.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2014-09 which supersedes the revenue recognition requirements Topic 605 (Revenue Recognition), and most industry-specific guidance. ASU No. 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The guidance allows for either a "full retrospective" adoption or a "modified retrospective" adoption; however early adoption is not permitted. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements.

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

NOTE 3 – FAIR VALUE

Fair Value Disclosures

The Company may carry certain financial instruments and derivative assets and liabilities at fair value on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an

orderly transaction between market participants on the measurement date. The Company determines the fair values of its financial instruments based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

8

---

Table of Contents

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

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

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

The carrying amount and estimated fair values of the Company’s financial instruments summarized by level are as follows:

|                           | September 30, 2014 |                      | March 31, 2014 |                      |
|---------------------------|--------------------|----------------------|----------------|----------------------|
|                           | Carrying Value     | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| <b>ASSETS</b>             |                    |                      |                |                      |
| Level 1 inputs            |                    |                      |                |                      |
| Cash and cash equivalents | \$ 14,631,616      | \$ 14,631,616        | \$ 19,569,683  | \$ 19,569,683        |
| Level 3 inputs            |                    |                      |                |                      |
| Loans receivable, net     | 790,427,790        | 790,427,790          | 750,664,875    | 750,664,875          |
| <b>LIABILITIES</b>        |                    |                      |                |                      |
| Level 3 inputs            |                    |                      |                |                      |
| Senior notes payable      | 559,700,000        | 559,700,000          | 505,500,000    | 505,500,000          |

There were no significant assets or liabilities measured at fair value on a non-recurring basis as of September 30, 2014 or March 31, 2014.

**NOTE 4 – ALLOWANCE FOR LOAN LOSSES**

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

|                                | Three months ended September 30, |               | Six months ended September 30, |               |
|--------------------------------|----------------------------------|---------------|--------------------------------|---------------|
|                                | 2014                             | 2013          | 2014                           | 2013          |
| Balance at beginning of period | \$67,885,227                     | 61,630,967    | \$63,254,940                   | 59,980,842    |
| Provision for loan losses      | 36,160,733                       | 38,187,649    | 67,053,998                     | 66,890,842    |
| Loan losses                    | (25,411,876 )                    | (35,261,797 ) | (55,232,423 )                  | (65,375,871 ) |
| Recoveries                     | 3,514,172                        | 3,135,796     | 7,026,970                      | 6,447,978     |
| Translation adjustment         | (330,678 )                       | (84,610 )     | (285,907 )                     | (335,786 )    |
| Balance at end of period       | \$81,817,578                     | 67,608,005    | \$81,817,578                   | 67,608,005    |

Table of Contents

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

|  | Loans individually<br>evaluated for<br>impairment<br>(impaired loans) | Loans collectively<br>evaluated for<br>impairment | Total            |
|--|---|---|------------------|
| September 30, 2014                                       |   |   |                  |
| Bankruptcy, gross loans                                  | \$6,721,814   | —   | 6,721,814        |
| 91 days or more delinquent, excluding bankruptcy         | 52,590,391  | —   | 52,590,391       |
| Loans less than 91 days delinquent and not in bankruptcy | —   | 1,134,727,489                                     | 1,134,727,489    |
| Gross loan balance                                       | 59,312,205  | 1,134,727,489                                     | 1,194,039,694    |
| Unearned interest and fees                               | (15,286,809   | ) (306,507,517                                    | ) (321,794,326 ) |
| Net loans  | 44,025,396  | 828,219,972                                       | 872,245,368      |
| Allowance for loan losses                                | (44,025,396   | ) (37,792,182                                     | ) (81,817,578 )  |
| Loans, net of allowance for loan losses                  | \$—   | 790,427,790                                       | 790,427,790      |
| March 31, 2014   |   |   |                  |
| Bankruptcy, gross loans                                  | \$5,878,825   | —   | 5,878,825        |
| 91 days or more delinquent, excluding bankruptcy         | 28,186,637  | —   | 28,186,637       |
| Loans less than 91 days delinquent and not in bankruptcy | —   | 1,078,241,873                                     | 1,078,241,873    |
| Gross loan balance                                       | 34,065,462  | 1,078,241,873                                     | 1,112,307,335    |
| Unearned interest and fees                               | (7,269,147  | ) (291,118,373                                    | ) (298,387,520 ) |
| Net loans  | 26,796,315  | 787,123,500                                       | 813,919,815      |
| Allowance for loan losses                                | (26,796,315   | ) (36,458,625                                     | ) (63,254,940 )  |
| Loans, net of allowance for loan losses                  | \$—   | 750,664,875                                       | 750,664,875      |
| September 30, 2013                                       |   |   |                  |
| Bankruptcy, gross loans                                  | \$6,437,259   | —   | 6,437,259        |
| 91 days or more delinquent, excluding bankruptcy         | 28,646,649  | —   | 28,646,649       |
| Loans less than 91 days delinquent and not in bankruptcy | —   | 1,128,153,780                                     | 1,128,153,780    |
| Gross loan balance                                       | 35,083,908  | 1,128,153,780                                     | 1,163,237,688    |
| Unearned interest and fees                               | (7,900,928  | ) (313,079,173                                    | ) (320,980,101 ) |
| Net loans  | 27,182,980  | 815,074,607                                       | 842,257,587      |
| Allowance for loan losses                                | (27,182,980   | ) (40,425,025                                     | ) (67,608,005 )  |
| Loans, net of allowance for loan losses                  | \$—   | 774,649,582                                       | 774,649,582      |

Table of Contents

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

|   | September 30,<br>2014 | March 31,<br>2014 | September 30,<br>2013 |
|---|-----------------------|-------------------|-----------------------|
| Credit risk   |                       |                   |                       |
| Consumer loans- non-bankrupt accounts                     | \$ 1,187,317,880      | 1,106,428,510     | 1,156,800,429         |
| Consumer loans- bankrupt accounts                         | 6,721,814             | 5,878,825         | 6,437,259             |
| Total gross loans   | \$ 1,194,039,694      | 1,112,307,335     | 1,163,237,688         |
| Consumer credit exposure                                  |                       |                   |                       |
| Credit risk profile based on payment activity, performing | \$ 1,110,982,990      | 1,053,037,073     | 1,101,669,295         |
| Contractual non-performing, 61 or more days delinquent    | 83,056,704            | 59,270,262        | 61,568,393            |
| Total gross loans   | \$ 1,194,039,694      | 1,112,307,335     | 1,163,237,688         |
| Delinquent refinance                                      | \$ 26,112,606         | 22,907,734        | 23,170,833            |
| Credit risk profile based on customer type                |                       |                   |                       |
| New borrower  | \$ 163,470,487        | 151,025,603       | 143,398,274           |
| Former borrower   | 129,562,132           | 102,514,264       | 113,787,457           |
| Refinance   | 874,894,469           | 835,859,734       | 882,881,124           |
| Delinquent refinance                                      | 26,112,606            | 22,907,734        | 23,170,833            |
| Total gross loans   | \$ 1,194,039,694      | 1,112,307,335     | 1,163,237,688         |

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

|   | September 30,<br>2014 | March 31,<br>2014 | September 30,<br>2013 |   |
|---|-----------------------|-------------------|-----------------------|---|
| Contractual basis:                              |                       |                   |                       |   |
| 30-60 days past due                             | \$ 52,502,067         | 37,713,414        | 46,063,021            |   |
| 61-90 days past due                             | 29,757,397            | 30,607,515        | 32,552,615            |   |
| 91 days or more past due                        | 53,299,307            | 28,662,747        | 29,015,778            |   |
| Total   | \$ 135,558,771        | 96,983,676        | 107,631,414           |   |
| Percentage of period-end gross loans receivable | 11.4                  | % 8.7             | % 9.3                 | % |

## NOTE 5 – AVERAGE SHARE INFORMATION

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

|   | Three months ended<br>September 30, |            | Six months ended<br>September 30, |            |
|---|-------------------------------------|------------|-----------------------------------|------------|
|   | 2014                                | 2013       | 2014                              | 2013       |
| Basic:  |                                     |            |                                   |            |
| Weighted average common shares outstanding (denominator)  | 9,087,825                           | 11,082,741 | 9,316,709                         | 11,265,575 |
| Diluted:  |                                     |            |                                   |            |
| Weighted average common shares outstanding                | 9,087,825                           | 11,082,741 | 9,316,709                         | 11,265,575 |
| Dilutive potential restricted stock and stock options     | 175,312                             | 229,491    | 165,933                           | 234,946    |
| Weighted average diluted shares outstanding (denominator) | 9,263,137                           | 11,312,232 | 9,482,642                         | 11,500,521 |



Table of Contents

Options to purchase 469,453 and 347,834 shares of common stock at various prices were outstanding during the three months ended September 30, 2014 and 2013 respectively, but were not included in the computation of diluted EPS because the option exercise price was antidilutive.

Options to purchase 573,784 and 556,010 shares of common stock at various prices were outstanding during the six months ended September 30, 2014 and 2013 respectively, but were not included in the computation of diluted EPS because the option exercise price was antidilutive.

In connection with the preparation of the consolidated financial statements for the three and six month periods ended September 30, 2014, errors in the computation and disclosure of earnings per share were identified. These errors resulted from the inclusion of restricted stock as outstanding in the basic weighted average common shares outstanding, as well as the inclusion of performance based restricted stock that had not met the necessary performance conditions as of the end of the reporting period as dilutive in the calculation of weighted average diluted shares outstanding.

The Company evaluated the materiality of these errors in accordance with SEC Staff Accounting Bulletin No. 99, Materiality, and SEC Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements, and Accounting Standards Codification 250, Accounting for Changes and Error Corrections, and concluded that these errors, individually and in the aggregate, were immaterial to all prior periods impacted. While the adjustments were immaterial, the Company has elected to revise its previously reported basic and diluted earnings per share as shown in the following table:

|   | Three months ended<br>September 30, 2013 |            | Six months ended<br>September 30, 2013 |            | Year Ended March 31, 2014 |             |
|---|--|------------|--|------------|---------------------------|-------------|
|   | As Reported                              | As Revised | As Reported                            | As Revised | As Reported               | As Revised  |
| Net income<br>(numerator)   | 21,565,269                               | 21,565,269 | 44,676,970                             | 44,676,970 | 106,607,932               | 106,607,932 |
| Basic:  |  |            |  |            |                           |             |
| Weighted average<br>common shares<br>outstanding<br>(denominator) | 11,629,326                               | 11,082,741 | 11,814,675                             | 11,265,575 | 11,391,706                | 10,876,557  |
| Diluted:  |  |            |  |            |                           |             |
| Weighted average<br>common shares<br>outstanding                  | 11,629,326                               | 11,082,741 | 11,814,675                             | 11,265,575 | 11,391,706                | 10,876,557  |
| Dilutive potential<br>restricted stock and<br>stock options       | 350,613                                  | 229,491    | 345,084                                | 234,946    | 349,599                   | 229,153     |
| Weighted average<br>common shares<br>outstanding<br>(denominator) | 11,979,939                               | 11,312,232 | 12,159,759                             | 11,500,521 | 11,741,305                | 11,105,710  |
| Net income per<br>common share:                                   |  |            |  |            |                           |             |
| Basic   | 1.85                                     | 1.95       | 3.78                                   | 3.97       | 9.36                      | 9.80        |
| Diluted   | 1.80                                     | 1.91       | 3.67                                   | 3.88       | 9.08                      | 9.60        |

The corrections have no impact on the Company's consolidated balance sheets, net income, consolidated statement of comprehensive income, consolidated statements of shareholders equity, or consolidated statements of cash flows.

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, a total of 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 five years for officers, directors, 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, 2014, there were a total of 377,793 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 grant date fair values. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized. The Company has applied the Black-Scholes valuation model in determining the grant date 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.

The weighted-average fair value at the grant date for options issued during the three and six months ended September 30, 2014 was \$43.93. There were no grants for the three and six months ended September 30, 2013. This fair value was estimated at grant date using the weighted-average assumptions listed below.

|                        | Three months ended<br>September 30, |           | Six months ended<br>September 30, |           |
|------------------------|-------------------------------------|-----------|-----------------------------------|-----------|
|                        | 2014                                | 2013      | 2014                              | 2013      |
| Dividend Yield         | —%                                  | —%        | —%                                | —%        |
| Expected Volatility    | 53.34%                              | —%        | 53.34%                            | —%        |
| Average risk-free rate | 1.97%                               | —%        | 1.97%                             | —%        |
| Expected Life          | 7.0 years                           | 0.0 years | 7.0 years                         | 0.0 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 the grant date. The risk-free 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 six months ended September 30, 2014 was as follows:

|  | Shares    | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic Value |
|--|-----------|--|---|------------------------------|
| Options outstanding, beginning of period | 1,096,000 | \$63.81                                  |   |                              |
| Granted during period                    | 3,000     | 79.57                                    |   |                              |
| Exercised during period                  | (8,800)   | ) 28.08                                  |   |                              |
| Forfeited during period                  | (18,750)  | ) 67.45                                  |   |                              |
| Expired during period                    | (750)     | ) 67.31                                  |   |                              |
| Options outstanding, end of period       | 1,070,700 | \$64.09                                  | 7.14  | \$9,926,286                  |

Edgar Filing: WORLD ACCEPTANCE CORP - Form 10-Q

|                                    |         |         |      |             |
|------------------------------------|---------|---------|------|-------------|
| Options exercisable, end of period | 227,440 | \$44.74 | 4.54 | \$5,508,007 |
|------------------------------------|---------|---------|------|-------------|

Table of Contents

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, 2014 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, 2014. This amount will change as the stock's market price changes. The total intrinsic value of options exercised during the periods ended September 30, 2014 and 2013 was as follows:

|                    | September 30,<br>2014 | September 30,<br>2013 |
|--------------------|-----------------------|-----------------------|
| Three months ended | \$241,819             | \$1,107,812           |
| Six months ended   | \$439,479             | \$2,151,214           |

As of September 30, 2014, total unrecognized stock-based compensation expense related to non-vested stock options amounted to approximately \$16.5 million, which is expected to be recognized over a weighted-average period of approximately 3.1 years.

## Restricted Stock

During Fiscal 2014 and 2013 the Company granted 8,590 and 70,800 Group A performance based restricted stock awards to certain officers. As of September 30, 2014, 60,390 remain unforfeited. Group A awards will vest on April 30, 2015 based on the Company's achievement of the following performance goals as of March 31, 2015:

| EPS Target     | Restricted Shares Eligible for Vesting (Percentage of Award) |
|----------------|--|
| \$10.29        | 100%   |
| \$9.76         | 67%  |
| \$9.26         | 33%  |
| \$9.25 or less | 0%   |

During Fiscal 2014 and 2013 the Company granted 56,660 and 443,700 Group B performance based restricted stock awards to certain officers. As of September 30, 2014, 373,360 remain unforfeited. Group B awards will vest as follows, if the Company achieves the following performance goals during any successive trailing four quarters during the measurement period ending on March 31, 2017:

| Trailing 4 quarter EPS Target | Restricted Shares Eligible for Vesting (Percentage of Award) |
|-------------------------------|--|
| \$13.00                       | 25%  |
| \$14.50                       | 25%  |
| \$16.00                       | 25%  |
| \$18.00                       | 25%  |

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, one-third vested on November 7, 2012, and 3,249 vested on November 7, 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 vested on November 7, 2012, and one-third of the restricted stock vested on November 7, 2013 and one-third of the restricted stock will vest on November 7, 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 remaining unforfeited 5,223 shares vested 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%  
67%  
33%  
0%

15% or higher  
12% - 14.99%  
10% - 11.99%  
Below 10%

14

---

Table of Contents

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 \$2.1 million and \$1.9 million of compensation expense for the three months ended September 30, 2014 and September 30, 2013, respectively, and recognized approximately \$4.0 million and \$4.1 million, respectively, for the six months ended September 30, 2014 and September 30, 2013 which is included as a component of general and administrative expenses in the Company's Consolidated Statements of Operations.

As of September 30, 2014, there was approximately \$14.1 million of unrecognized compensation cost related to unvested restricted stock awards granted, which is expected to be recognized over the next 2.1 years. In addition there was approximately \$6.7 million of unrecognized compensation cost related to unvested restricted stock awards granted, which are not expected to vest based on current estimates. If these estimates change the \$6.7 million could be expensed in future periods.

A summary of the status of the Company's restricted stock as of September 30, 2014, and changes during the six months ended September 30, 2014, are presented below:

|                                   | Shares  | Weighted Average Fair Value at Grant Date |
|-----------------------------------|---------|---|
| Outstanding at March 31, 2014     | 461,959 | \$76.49                                   |
| Granted during the period         | —       | —   |
| Vested during the period          | (5,223  | ) 67.70                                   |
| Forfeited during the period       | (15,594 | ) 73.84                                   |
| Outstanding at September 30, 2014 | 441,142 | \$76.69                                   |

Total share-based compensation included as a component of net income during the three and six months ended September 30, 2014 and 2013 was as follows:

|  | Three months ended<br>September 30, |           | Six months ended<br>September 30, |           |
|--|-------------------------------------|-----------|-----------------------------------|-----------|
|  | 2014                                | 2013      | 2014                              | 2013      |
| Share-based compensation related to equity classified awards:      |                                     |           |                                   |           |
| Share-based compensation related to stock options                  | \$2,000,396                         | 2,643,855 | \$3,893,217                       | 5,139,768 |
| Share-based compensation related to restricted stock units         | 2,147,942                           | 1,917,730 | 3,950,758                         | 4,106,716 |
| Total share-based compensation related to equity classified awards | \$4,148,338                         | 4,561,585 | \$7,843,975                       | 9,246,484 |

Table of Contents

## 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.

The following table sets forth the acquisition activity of the Company for the six months ended September 30, 2014 and 2013:

|  |              |         |
|--|--------------|---------|
|  | 2014         | 2013    |
| Number of business combinations                                      | —            | 1       |
| Number of asset purchases  | 2            | 5       |
| Total acquisitions   | 2            | 6       |
| Purchase Price   | \$ 1,000,875 | 993,500 |
| Tangible assets:   |              |         |
| Net loans  | 844,742      | 715,563 |
| Furniture, fixtures & equipment                                      | —            | 1,500   |
|  | 844,742      | 717,063 |
| Excess of purchase prices over carrying value of net tangible assets | \$ 156,133   | 276,437 |
| Customer lists   | 146,133      | 175,598 |
| Non-compete agreements   | 10,000       | 30,000  |
| Goodwill   | —            | 70,839  |
| Total intangible assets  | \$ 156,133   | 276,437 |

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, 2014, no acquisitions were recorded as a business combination.

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 two acquisitions recorded as asset acquisitions during the six months ended September 30, 2014.

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 eight months, and that these loans are priced 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.

## Table of Contents

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 360-10-5. 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.

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 \$680.0 million senior notes payable revolving credit facility with borrowings of \$559.7 million outstanding on the borrowing facility and a \$380,000 standby letter of credit related to workers compensation is outstanding at September 30, 2014. To the extent that the letter of credit is drawn upon, the disbursement will be funded by the credit facility. There are no amounts due related to the letter of credit as of September 30, 2014 and it expires on December 31, 2014. 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, 2014 and March 31, 2014, the Company's effective interest rate, including the commitment fee, was 4.3% and 4.4%, respectively, and the unused amount available under the revolver at September 30, 2014 was \$60.4 million, and reflects a reduction in the available borrowings for the full face amount of the standby letter of credit. The Company also had \$59.5 million that may become available under the revolving credit facility if it grows the net eligible finance receivables. 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 November 19, 2015.

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

### NOTE 9 – 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, 2014, the Company has determined that approximately \$1.6 million of cumulative undistributed net earnings of SWAC and approximately \$16.0 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.

As of September 30, 2014 and March 31, 2014, the Company had \$7.5 million and \$6.4 million, respectively, of total gross unrecognized tax benefits including interest. Approximately \$5.5 million and \$4.6 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, 2014, approximately \$4.5 million of gross unrecognized tax benefits are expected to be resolved during the next twelve months through the expiration of the statute of limitations and settlement with taxing authorities. The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. As of September 30, 2014, the Company had \$852,000 accrued for gross interest, of which \$237,000 was a current period end expense.

The Company is subject to U.S. and Mexican income taxes as well as income taxation by 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 2010, although carry forward attributes that were generated prior to 2010 may still be adjusted upon examination by the taxing authorities if they either have been or will be used in a future period.

Table of Contents

NOTE 10 – COMMITMENT AND CONTINGENCIES

See Part 1, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Regulatory Matters-CFPB Investigation,” for information regarding the Company’s previously disclosed receipt of a Civil Investigative Demand (“CID”) from the Consumer Financial Protection Bureau (“CFPB”) on March 12, 2014 and the Company’s response thereto.

As previously disclosed, on April 22, 2014, a shareholder filed a putative class action complaint, *Edna Selan Epstein v. World Acceptance Corporation et al.*, in the United States District Court for the District of South Carolina (case number 6:14-cv-01606), against the Company and certain of its current and former officers on behalf of all persons who purchased or otherwise acquired the Company’s common stock between April 25, 2013 and March 12, 2014. The complaint alleges that the Company made false and misleading statements in various SEC reports and other public statements in violation of federal securities laws preceding the Company’s disclosure in a Form 8-K filed March 13, 2014 that it had received above-referenced CID from the CFPB. The complaint seeks class certification, unspecified monetary damages, costs and attorneys’ fees. The Company believes the complaint is without merit and intends to vigorously defend itself in the matter. On June 25, 2014, the Company filed a motion to dismiss the complaint. On August 12, 2014, lead plaintiff Operating Engineers Construction Industry and Miscellaneous Pension Fund filed an amended complaint. The amended complaint contains similar allegations to the original complaint, but expands the class period and includes additional allegations that the Company’s loan growth and volume figures were inflated because of a weakness in the Company’s internal controls relating to its accounting treatment of certain small-dollar loan re-financings. The Company filed a motion to dismiss the amended complaint on September 16, 2014. On October 21, 2014, the Plaintiff filed a response in opposition to the Company’s motion to dismiss the amended complaint. The Company will file a reply brief in support of its motion to dismiss on or before November 17, 2014, and the Company’s motion to dismiss the amended complaint will be decided by the Court sometime thereafter.

In addition, from time to time the Company is involved in routine litigation matters relating to claims arising out of its operations in the normal course of business, including matters in which damages in various amounts are claimed.

Estimating an amount or range of possible losses resulting from litigation, government actions and other legal proceedings is inherently difficult and requires an extensive degree of judgment, particularly where the matters involve indeterminate claims for monetary damages, may involve fines, penalties or damages that are discretionary in amount, involve a large number of claimants or significant discretion by regulatory authorities, represent a change in regulatory policy or interpretation, present novel legal theories, are in the early stages of the proceedings, are subject to appeal or could result in a change in business practices. In addition, because most legal proceedings are resolved over extended periods of time, potential losses are subject to change due to, among other things, new developments, changes in legal strategy, the outcome of intermediate procedural and substantive rulings and other parties’ settlement posture and their evaluation of the strength or weakness of their case against us. For these reasons, we are currently unable to predict the ultimate timing or outcome of, or reasonably estimate the possible losses or a range of possible losses resulting from, the matters described above. Based on information currently available, the Company does not believe that any reasonably possible losses arising from currently pending legal matters will be material to the Company’s results of operations or financial condition. However, in light of the inherent uncertainties involved in such matters, an adverse outcome in one or more of these matters could materially and adversely affect the Company’s financial condition, results of operations or cash flows in any particular reporting period.

Table of Contents

WORLD ACCEPTANCE CORPORATION  
AND SUBSIDIARIES  
PART 1. 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<br>September 30, |             | Six months ended September 30, |             |   |
|---|-------------------------------------|-------------|--------------------------------|-------------|---|
|   | 2014                                | 2013        | 2014                           | 2013        |   |
|   | (Dollars in thousands)              |             |                                |             |   |
| Average gross loans receivable <sup>1</sup>   | \$1,187,531                         | \$1,150,564 | \$1,161,288                    | \$1,121,423 |   |
| Average net loans receivable <sup>2</sup>     | 865,564                             | 833,032     | 847,123                        | 814,733     |   |
| Expenses as a % of total revenue:             |                                     |             |                                |             |   |
| Provision for loan losses                     | 23.7                                | % 25.5      | % 22.1                         | % 22.7      | % |
| General and administrative                    | 49.8                                | % 48.0      | % 50.8                         | % 49.9      | % |
| Total interest expense                        | 4.0                                 | % 3.5       | % 3.8                          | % 3.4       | % |
| Operating income <sup>3</sup>                 | 26.4                                | % 26.5      | % 27.1                         | % 27.5      | % |
| Return on average assets (trailing 12 months) | 11.9                                | % 12.2      | % 11.9                         | % 12.2      | % |
| Offices opened or acquired, net               | 22                                  | 20          | 22                             | 27          |   |
| Total offices (at period end)                 | 1,293                               | 1,230       | 1,293                          | 1,230       |   |

(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 income is computed as total revenue less provision for loan losses and general and administrative expenses.

Comparison of three months ended September 30, 2014 Versus  
three months ended September 30, 2013

Net income decreased by \$0.3 million for the three months ended September 30, 2014, or 1.4%, from the three month period ended September 30, 2013. Operating income (revenue less provision for loan losses and general and administrative expenses) increased approximately \$0.6 million, or 1.4%, interest expense increased by approximately \$0.7 million, or 14.1%, and income tax expense increased by \$0.1 million, or 0.8%.

Total revenue rose to \$152.6 million during the quarter ended September 30, 2014, a 1.7% increase over the \$150.0 million for the corresponding quarter of the previous year. This increase was primarily driven by the 3.9% increase in average net loans. Revenue from the 1,193 offices open throughout both quarterly periods increased by approximately

1.1%.

Interest and fee income for the quarter ended September 30, 2014 increased by \$3.5 million, or 2.6%, over the same period of the prior year. This increase primarily resulted from a \$32.5 million, or 3.9%, in average net loans receivable over the two corresponding periods. The interest and fees recognized on our average net loans receivable was negatively impacted during the quarter by an increase in loans 60 days or more past due. The accrual of interest is discontinued when a loan is 60 days past the contractual due date and all unpaid accrued interest is reversed against interest income.

19

---

Table of Contents

Insurance commissions and other income decreased by approximately \$0.9 million, or 5.2%, between the two quarterly periods. Insurance commissions decreased by approximately \$415,000, or 3.3%, during the three months when compared to the same period in the prior year. Other income decreased by approximately \$461,000, or 10.8%. This decrease resulted primarily from a decrease in the sales of motor club of \$181,000 and a decrease in Paradata revenue of \$165,000. Further, the Company has decided to wind down the World Class Buying Club ("WCBC") product over the next several months. The Company will continue to offer the WCBC product until our current inventory is depleted and will continue to service the WCBC receivables outstanding. The WCBC product contributed \$1.0 million dollars to other income during the quarter and \$3.9 million for the year ended March 31, 2014.

The provision for loan losses during the three months ended September 30, 2014 decreased by \$2.0 million, or 5.3%. This decrease is primarily due to a \$1.5 million qualitative increase to the provision recorded in the second quarter of fiscal 2014 as well as slower loan growth from June 30, 2014 to September 30, 2014 compared to the same period in the prior year. The impact of the increase in loans 90 days or more past due on the provision was largely offset by the decrease in net charge-offs when comparing the two periods. The percent of loans delinquent 91 days or more on a recency basis as a percent of gross loans also increased from 1.3% as of September 30, 2013 to 3.1% at September 30, 2014. Since the majority of loans 91 days or more past due on a recency basis are reserved 100%, this increase resulted in an increase to the provision expense. Net charge-offs as a percentage of average net loans decreased from 15.4% to 10.1% (annualized) when comparing the two quarter end periods. The Company's delinquencies and net charge-off ratios were significantly impacted by a change to the branch level incentive plan that became effective July 1, 2014. The change will allow managers to continue collection efforts on accounts that are 90 days or more past due, without having their monthly bonus negatively impacted. As expected, this resulted in an increase in accounts 90 days or more past due and lower charge-offs during the current quarter. The Company's policy of charging off loans where we have not received a full contractual payment in 180 days has not changed. Accounts that were 61+ days past due increased from 3.6% to 5.2% of gross loans on a recency basis and increased from 5.3% to 7.0% on a contractual basis when comparing the two quarter-end statistics. When excluding the impact of payroll deduct loans in Mexico, the accounts 61+ days past due were 4.7% on a recency basis and 6.3% on a contractual basis.

General and administrative expenses for the quarter ended September 30, 2014 increased by \$4.1 million, or 5.8% over the same quarter of fiscal 2014. Overall, general and administrative expenses, when divided by average open offices, increased by approximately 0.6% when comparing the two periods. General and administrative expense was negatively impacted during the current quarter due to a \$1.2 million loss that was the result of a fraud discovered in one of our branches. The total general and administrative expense as a percent of total revenue was 49.8% for the three months ended September 30, 2014 and was 48.0% for the three months ended September 30, 2013.

Interest expense increased by approximately \$0.7 million when comparing the two corresponding quarterly periods as a result of a 18.4% increase in the average debt balance. The effective interest rate was 4.3% and 4.5% for the quarters ended September 30, 2014 and September 30, 2013.

The Company's effective income tax rate increased to 38.0% for the quarter ended September 30, 2014 compared to 37.5% for the prior year quarter. The increase was primarily due to the increase in reserves related to Mexican Subpart F income and state refund claims in the current period.

As mentioned above, management made a decision to wind down the WCBC product during the quarter. The Company will continue to service the existing WCBC loan portfolio and originate new WCBC loans to the extent that we have remaining inventory. The WCBC loans contributed \$500,000 to interest and fees and resulted in net charge-offs of \$730,000 for the quarter ended September 30, 2014 and \$2.3 million and \$4.4 million, respectively, for the year ended March 31, 2014. There was approximately \$1.7 million in inventory remaining at September 30, 2014.

Comparison of six months ended September 30, 2014 Versus

six months ended September 30, 2013

Net income decreased to \$43.8 million for the six months ended September 30, 2014, or 1.9%, from the six month period ended September 30, 2013. Operating income increased approximately \$0.9 million, or 1.2%, interest expense increased by approximately \$1.6 million, or 16.4%, and income tax expense increased by \$0.2 million, or 0.6%.

Total revenue rose to \$302.9 million during the six month period ended September 30, 2014, a 2.6% increase over the \$295.2 million for the corresponding period of the previous year. This increase was primarily driven by the 4.0% increase in average net loans. Revenue from the 1,193 offices open throughout both six month periods increased by approximately 1.9%.

Table of Contents

Interest and fee income for the six months ended September 30, 2014 increased by \$9.9 million, or 3.8%, over the same period of the prior year. This increase resulted from a \$32.4 million increase, or 4.0%, in average net loans receivable over the two corresponding periods.

Insurance commissions and other income decreased by approximately \$2.3 million, or 6.6%, between the two six month periods. Insurance commissions decreased by approximately \$1.1 million, or 4.2%, during the six months when compared to the same period in the prior year. Other income decreased by approximately \$1.2 million, or 13.3%. This decrease resulted primarily from a decrease in the sales of motor club of \$380,000, and a decrease in revenue from Paradata of \$341,000.

The provision for loan losses during the six months ended September 30, 2014 increased by \$0.2 million, or 0.2%. This increase resulted from an increase in the amount of loans 90 days or more past due partially offset by lower charge-offs and lower growth in the the period ended September 30, 2014. The period ended September 30, 2013 also included a \$1.5 million qualitative adjustment. Net charge-offs as a percentage of average net loans decreased from 14.5% to 11.4% (annualized) when comparing the two six month periods. Delinquencies and net charge-offs were impacted by a change in branch level incentives as discussed above.

General and administrative expenses for the six months ended September 30, 2014 increased by \$6.5 million, or 4.4% over the same period of fiscal 2014. Overall, general and administrative expenses, when divided by average open offices, decreased by approximately 0.8% when comparing the two periods. The total general and administrative expense as a percent of total revenue was 50.8% for the six months ended September 30, 2014 and was 49.9% for the six months ended September 30, 2013. General and administrative expense was negatively impacted during the current quarter due to a \$1.2 million loss that was the result of a fraud discovered in one of our branches.

Interest expense increased by approximately \$1.6 million when comparing the two corresponding six month periods as a result of a 21.0% increase in the average debt balance, partially offset by a decrease in the effective interest rate. The effective interest rate decreased from 4.5% to 4.3% during the current period.

The Company's effective income tax rate increased to 37.8% for the six months ended September 30, 2014 compared to 37.2% for the prior year period. The increase was primarily due to the increase in reserves related to Mexican Subpart F income and state refund claims in the current period.

Regulatory Matters - CFPB Investigation

As previously disclosed, on March 12, 2014, the Company received a Civil Investigative Demand ("CID") from the Consumer Financial Protection Bureau (the "CFPB"). The CID states that "[t]he purpose of this investigation is to determine whether finance companies or other unnamed persons have been or are engaging in unlawful acts or practices in connection with the marketing, offering, or extension of credit in violation of Sections 1031 and 1036 of the Consumer Financial Protection Act, 12 U.S.C. §§ 5531, 5536, the Truth in Lending Act, 15 U.S.C. §§ 1601, et seq., Regulation Z, 12 C.F.R. pt. 1026, or any other Federal consumer financial law" and "also to determine whether Bureau action to obtain legal or equitable relief would be in the public interest." The CID contains broad requests for production of documents, answers to interrogatories and written reports related to loans made by the Company and numerous other aspects of the Company's business. The Company has provided all of the information it believes was requested by the CID within the deadlines specified by the CID. While the Company has received no formal response from the CFPB to date, outside counsel for the Company has been in communication with the CFPB staff, who have confirmed that our information remains under review and at this time the CFPB does not require any other documentation. While the Company believes its marketing and lending practices are lawful, there can be no assurance that the CFPB's ongoing investigation or future exercise of its enforcement, regulatory, discretionary or other powers

will not result in findings or alleged violations of federal consumer financial protection laws that could lead to enforcement actions, proceedings or litigation and the imposition of damages, fines, penalties, restitution, other monetary liabilities, sanctions, settlements or changes to the Company's business practices or operations that could have a material adverse effect on the Company's business, financial condition or results of operations or eliminate altogether the Company's ability to operate its business profitably or on terms substantially similar to those on which it currently operates. See Part I, Item 1, "Business- Government Regulation-Federal legislation" in the Company's Form 10-K for the year ended March 31, 2014 for a further discussion of these matters and federal regulations to which the Company's operations are subject.

## Table of Contents

### 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, revenue, 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 process 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 Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Credit Quality" in the Company's report on Form 10-K for the fiscal year ended March 31, 2014.

### 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.

### 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, or foreign 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.

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.

## Table of Contents

### 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 loan volume, fund acquisitions, repay long-term indebtedness, and repurchase its common stock. As the Company's gross loans receivable increased from \$875.0 million at March 31, 2011 to \$1.1 billion at March 31, 2014, net cash provided by operating activities for fiscal years 2014, 2013 and 2012 was \$246.0 million, \$232.0 million and \$219.4 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 6, 2014, the Company has \$13.4 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 50 branches in the United States and 20 branches in Mexico during fiscal 2015. Expenditures by the Company to open and furnish new offices averaged approximately \$25,000 per office during fiscal 2014. 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 completed two acquisition during the first six months of fiscal 2015. Gross loans receivable purchased in these transaction were approximately \$1.1 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 \$680.0 million base credit facility with a syndicate of banks. The credit facility was amended September 2013 to extend its term through November 19, 2015. 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, 2014, the effective interest rate, including the commitment fee, on borrowings under the revolving credit facility was 4.3%. The Company pays a commitment fee equal to 0.40% per annum of the daily unused portion of the commitments unless the unused portion equals or exceeds 55% of the commitments, in which case the fee increases to 0.50% per annum. Amounts outstanding under the revolving credit facility may not exceed specified percentages of eligible loans receivable. On September 30, 2014, \$559.7 million was outstanding under this facility, and there was \$60.4 million of unused borrowing availability under the borrowing base limitations. The Company also has \$59.5 million that may become available under the revolving credit facility if it grows the net eligible finance receivables.

The Company's credit agreement contain a number of financial covenants, including minimum net worth and fixed charge coverage requirements. The credit agreement 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 covenants as of September 30, 2014 and does not believe that these covenants 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 for the next 12 months and for the foreseeable future beyond that. Except as otherwise discussed in this report and in the Company's Form 10-K for the year ended March 31, 2014, including, but not limited to, any discussions in Part 1, Item 1A, "Risk Factors" (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 2015), 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.

## Table of Contents

### Share Repurchase Program

The Company's historical long-term profitability has demonstrated over many years our ability to grow our loan portfolio (the Company's only earning asset) and generate excess cash flow. We have and intend to continue to use our cash flow and excess capital to selectively repurchase shares, assuming that the repurchased shares are accretive to earnings per share, which should provide better returns for shareholders in the future. We prefer share repurchases to dividends for several reasons. First, repurchasing shares should increase the value of the remaining shares. Second, repurchasing shares as opposed to dividends provides shareholders the option to defer taxes by electing to not sell any of their holdings. Finally, repurchasing shares provides shareholders with maximum flexibility to increase, maintain or decrease their ownership depending on their view of the value of the Company's shares, whereas a dividend does not provide this flexibility.

Since 1996, the Company has repurchased approximately 17.4 million shares for an aggregate purchase price of approximately \$797.3 million. As of September 30, 2014 our debt outstanding was \$559.7 million and our shareholders' equity was \$293.6 million, resulting in a debt-to-equity ratio of 1.9:1. Our first priority is to ensure we have enough capital to fund loan growth. To the extent we have excess capital we intend to continue selectively repurchasing stock, as authorized by our Board of Directors, which is consistent with our past practice. We will continue to monitor our debt-to-equity ratio and are committed to maintaining a debt level that will allow us to continue to execute our business objectives, while not putting undue stress on our consolidated balance sheet. Historically, management has filed a Form 8-K with the SEC to announce any new authorization the Board of Directors has given regarding stock repurchases. Management plans to continue to make filings with the SEC or otherwise publicly announce future stock repurchase authorizations. When we have Board authorization to repurchase shares, we have historically repurchased shares in the open market and in accordance with applicable regulations regarding company repurchase programs and our own self-imposed trading policies. As mentioned above, when we have excess capital and the market price of our stock is trading at a level that is accretive to earnings per share, we anticipate that we will continue selective repurchases.

### 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 loans receivable and an increase in absolute revenue to be generated from that larger amount of loans receivable. That increase in absolute revenue should offset any increase in operating costs. In addition, because the Company's loans have a relatively short contractual term, 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. Consequently, operating results for the Company's third fiscal quarter are generally 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.

## Table of Contents

### 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,” “should,” and 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 our 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, including, but not limited to, the CFPB, having jurisdiction over the Company’s business or consumer financial transactions generically; the unpredictable nature of regulatory proceedings and litigation; any determinations, findings, claims or actions made or taken by the CFPB, other regulators or other third parties in connection with or resulting from the CID that assert or establish that the Company’s lending practices or other aspects of its business violate applicable laws or regulations; the impact of changes in accounting rules and regulations, or their interpretation or application, which could materially and adversely affect the Company’s reported consolidated financial statements or necessitate material delays or changes in the issuance of the Company’s audited consolidated financial statements; the Company’s assessment of its internal control over financial reporting, and the timing and effectiveness of the Company’s efforts to remediate any reported material weakness in its internal control over financial reporting, which could lead to the Company to report further or unremediated material weaknesses in its internal control over financial reporting; changes in interest rates; risks relating 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 delinquency and charge-offs); and changes in the Company’s markets and general changes in the economy (particularly in the markets served by the Company). These and other risks are discussed in more detail in Part 1, Item 1A “Risk Factors” in the Company’s most recent report on Form 10-K for the fiscal year ended March 31, 2014 filed with the SEC, and in the Company’s other reports filed with, or furnished to, the SEC made from time to time. The Company does not undertake any obligation to update any forward-looking statements it may make.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

#### Interest Rate Risk

As of September 30, 2014, the Company’s financial instruments consisted of the following: cash and cash equivalents, loans receivable and senior notes payable. Fair value approximates carrying value for all of these instruments. Loans receivable are originated at prevailing market rates and have an average life of approximately eight months. Given the short-term nature of these loans, they are continually repriced at current market rates. The Company’s outstanding debt under its revolving credit facility was \$559.7 million at September 30, 2014. Interest on borrowing under this facility is based on the greater of 4.0% or one month LIBOR plus 3.0%.

Based on the outstanding balance at September 30, 2014, a change of 1.0% in the interest rates would cause a change in interest expense of approximately \$0.9 million 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 revenue from our non-U.S. operations accounted for approximately 9.0% and 8.6% of total revenue during the six months ended September 30, 2014 and 2013, respectively. There have been, and there may continue to be, period-to-period fluctuations in the relative portions of our international revenue to total consolidated revenue.

Table of Contents

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, 2014 was a loss of approximately \$2.2 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.

The foreign exchange risk sensitivity of net loans denominated in Mexican pesos and translated into US dollars, which were approximately \$57.1 million and \$57.4 million at September 30, 2014 and 2013, 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

|   | As of September 30, 2014 |               |               |   |
|---|--------------------------|---------------|---------------|---|
| Foreign exchange spot rate, U.S. dollars to Mexican pesos | -10%                     | 0%            | 10%           |   |
| Loans receivable, net of unearned                         | \$867,050,137            | \$872,245,369 | \$878,595,068 |   |
| % change from base amount                                 | (0.60)                   | )% —          | % 0.73        | % |
| \$ change from base amount                                | \$(5,195,232             | ) \$—         | \$6,349,699   |   |
|   | As of September 30, 2013 |               |               |   |
| Foreign exchange spot rate, U.S. dollars to Mexican pesos | -10%                     | 0%            | 10%           |   |
| Loans receivable, net of unearned                         | \$837,038,120            | \$842,257,587 | \$848,636,915 |   |
| % change from base amount                                 | (0.62)                   | )% —          | % 0.76        | % |
| \$ change from base amount                                | \$(5,219,467             | ) \$—         | \$6,379,328   |   |

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, 2014 |              |              |
|---|---|--------------|--------------|
| Foreign exchange spot rate, U.S. dollars to Mexican pesos | -10%  | 0%           | 10%          |
| Net Income  | \$43,647,160                                | \$43,828,677 | \$44,050,531 |

Edgar Filing: WORLD ACCEPTANCE CORP - Form 10-Q

|   |              |    |              |   |              |   |
|---|--------------|----|--------------|---|--------------|---|
| % change from base amount                                 | (0.41        | )% | —            | % | 0.51         | % |
| \$ change from base amount                                | \$(181,517   | )  | \$—          |   | \$221,854    |   |
| For the six months ended September 30, 2013               |              |    |              |   |              |   |
| Foreign exchange spot rate, U.S. dollars to Mexican pesos | -10%         |    | 0%           |   | 10%          |   |
| Net Income  | \$44,414,428 |    | \$44,676,970 |   | \$44,997,855 |   |
| % change from base amount                                 | (0.59        | )% | —            | % | 0.72         | % |
| \$ change from base amount                                | \$(262,542   | )  | \$—          |   | \$320,885    |   |

Table of Contents

Item 4. Controls and Procedures

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the

Exchange Act) that occurred during period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures

Based on management's evaluation (with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO")), as of the end of the period covered by this report, our CEO and CFO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Table of Contents

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

See Note 10 to the unaudited Consolidated Financial Statements for information regarding legal proceedings.

## 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, 2014.

## 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."

The following table provides information with respect to purchases made by the Company of shares of the Company's common stock during the three months ended September 30, 2014:

|  | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Dollar Value<br>of Shares<br>Purchased as part<br>of Publicly<br>Announced Plans<br>or Programs | Approximate<br>Dollar Value of<br>Shares That May<br>Yet be Purchased<br>Under the Plans<br>or Programs |
|--|---|------------------------------------|---|---|
| July 1 through July 31, 2014           | 65,000                                    | \$81.61                            | 5,304,816   | \$21,633,230  |
| August 1 through August 31, 2014       | 99,292                                    | 82.58                              | 8,199,211   | 13,434,019  |
| September 1 through September 30, 2014 | —   | —                                  | —   | 13,434,019  |
| Total for the quarter                  | 164,292                                   | 82.20                              | 13,504,027  |   |

## Item 5. Other Information

None.

Table of Contents

WORLD ACCEPTANCE CORPORATION  
AND SUBSIDIARIES  
PART II. OTHER INFORMATION, CONTINUED

## Item 6. Exhibits

| Exhibit Number | Description  | Previous Exhibit Number | Company Registration No. or Report |
|----------------|--|-------------------------|------------------------------------|
| 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            | Third Amendment to the Amended and Restated Revolving Credit Agreement dated September 17, 2010  | 10.1                    | 11-20-12 8-K                       |
| 4.8            | Fourth Amendment to the Amended and Restated Revolving Credit Agreement dated September 6, 2013  | 10.1                    | 9-9-13 8-K                         |
| 4.9            | Fifth Amendment to the Amended and Restated Revolving Credit Agreement dated March 17, 2014  | 10.1                    | 3-19-14 8-K                        |
| 4.10           | Amended and Restated Company Security Agreement, Pledge and Indenture of Trust, dated as of September 17, 2010   | 10.2                    | 9-21-10 8-K                        |
| 4.11           | 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                        |
| 4.12           | Amended and Restated Guaranty Agreement, dated as of September 17, 2010 (i.e., Subsidiary Guaranty Agreement)  | 10.4                    | 9-21-10 8-K                        |
| 31.1           | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer  | *                       |                                    |
| 31.2           | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer  | *                       |                                    |
| 32.1           | Section 1350 Certification of Chief Executive Officer  | *                       |                                    |
| 32.2           | Section 1350 Certification of Chief Financial Officer  | *                       |                                    |
| 101.1          | The following materials from the Company's Quarterly Report for the fiscal quarter ended September 30, 2014, formatted in XBRL:                        | *                       |                                    |
| (i)            | Consolidated Balance Sheets as of September 30, 2014 and March 31, 2014;   |                         |                                    |
| (ii)           | Consolidated Statements of Operations for the three and six months ended September 30, 2014 and September 30, 2013;                                    |                         |                                    |
| (iii)          | Consolidated Statements of Comprehensive Income for the three and six months ended September 30, 2014 and September 30, 2013;                          |                         |                                    |
| (iv)           | Consolidated Statements of Shareholder's Equity for the year ended March 31, 2014 and the six months ended September 30, 2014;                         |                         |                                    |

- (v) Consolidated Statements of Cash Flows for the six months ended September 30, 2014 and September 30, 2013; and
- (vi) Notes to the Consolidated Financial Statements.

\* Filed or furnished herewith.

29

---

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 10, 2014

By: /s/ John L. Calmes, Jr.  
John L. Calmes, Jr.  
Vice President and Chief Financial Officer  
Date: November 10, 2014