

WORLD ACCEPTANCE CORP  
Form 10-Q  
August 09, 2006

**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 June 30, 2006

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer

Accelerated Filer

Non-accelerated filer

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 August 9, 2006 was 18,515,708.

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**WORLD ACCEPTANCE CORPORATION  
AND SUBSIDIARIES**

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**WORLD ACCEPTANCE CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

	June 30, 2006	March 31 2006
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,897,115	4,033,888
Gross loans receivable	447,840,178	416,301,892
Less:		
Unearned interest and fees	(114,329,731)	(103,556,110)
Allowance for loan losses	(24,604,838)	(22,717,192)
Loans receivable, net	308,905,609	290,028,590
Property and equipment, net	11,516,748	11,039,619
Deferred tax benefit	3,898,000	3,898,000
Other assets, net	7,013,501	6,922,292
Goodwill	4,761,110	4,715,110
Intangible assets, net	11,465,933	12,146,008
Total assets	\$ 352,458,016	332,783,507
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Senior notes payable	112,600,000	99,800,000
Other notes payable	600,000	800,000
Income taxes payable	4,376,033	6,778,276
Accounts payable and accrued expenses	12,028,291	14,975,112
Total liabilities	129,604,324	122,353,388
Shareholders' equity:		
Common stock, no par value	-	-
Authorized 95,000,000 shares; issued and outstanding		
18,500,008 and 18,336,604 shares at June 30, 2006		
and March 31, 2006, respectively		
Additional paid-in capital	4,425,830	1,209,358
Retained earnings	218,544,215	209,270,853
Accumulated other comprehensive loss	(116,353)	(50,092)
Total shareholders' equity	222,853,692	210,430,119
Commitments and contingencies	\$ 352,458,016	332,783,507

See accompanying notes to consolidated financial statements.



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

	Three months ended June 30,	
	2006	2005
<b>Revenues:</b>		
Interest and fee income	\$ 54,536,143	44,598,895
Insurance and other income	9,301,435	7,168,764
Total revenues	63,837,578	51,767,659
<b>Expenses:</b>		
Provision for loan losses	11,167,468	9,540,103
General and administrative expenses:		
Personnel	23,592,675	19,581,848
Occupancy and equipment	3,915,271	3,184,457
Data processing	494,738	500,616
Advertising	1,889,907	1,657,522
Amortization of intangible assets	793,729	685,965
Other	4,160,285	3,630,067
	34,846,605	29,240,475
Interest expense	1,901,239	1,306,592
Total expenses	47,915,312	40,087,170
Income before income taxes	15,922,266	11,680,489
Income taxes	5,935,446	4,368,000
Net income	\$ 9,986,820	7,312,489
Net income per common share:		
Basic	\$ 0.54	0.39
Diluted	\$ 0.53	0.38
Weighted average common equivalent shares outstanding:		
Basic	18,422,341	18,812,083
Diluted	18,741,307	19,477,107

See accompanying notes to consolidated financial statements.

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

	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net	Total Shareholders' Equity	Total Comprehensive Income
Balances at March 31, 2005	11,964,056	177,747,137	-	189,711,193	
Proceeds from exercise of stock options (190,397 shares), including tax benefits of \$1,205,288	3,045,527	-	-	3,045,527	
Common stock repurchases (800,400 shares)	(13,800,225)	(6,991,249)	-	(20,791,474)	
Other comprehensive loss	-	-	(50,092)	(50,092)	(50,092)
Net income	-	38,514,965	-	38,514,965	38,514,965
Total comprehensive income	-	-	-	-	38,464,873
Balances at March 31, 2006	\$ 1,209,358	209,270,853	(50,092)	210,430,119	
Proceeds from exercise of stock options (221,404 shares), including tax benefits of \$1,639,941	3,726,484	-	-	3,726,484	
Common stock repurchases (66,000 shares)	(1,209,358)	(713,458)	-	(1,922,816)	
Issuance of restricted common stock under stock option plan (8,000 shares)	135,148	-	-	135,148	
Stock option expense	564,198	-	-	564,198	
Other comprehensive loss	-	-	(66,261)	(66,261)	(66,261)
Net income	-	9,986,820	-	9,986,820	9,986,820
Total comprehensive income	-	-	-	-	9,920,559
Balances at June 30, 2006	\$ 4,425,830	218,544,215	(116,353)	222,853,692	

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30,	
	2006	2005
<b>Cash flows from operating activities:</b>		
Net income	\$ 9,986,820	7,312,489
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	11,167,468	9,540,103
Amortization of intangible assets	793,729	685,965
Amortization of loan costs and discounts	-	25,000
Depreciation	648,246	536,228
Compensation related to stock option and restricted stock plans	699,346	-
Tax benefit from exercise of stock options	-	365,503
Change in accounts:		
Other assets, net	(157,470)	1,273,342
Accounts payable and accrued expenses	(3,796,166)	(9,424,915)
Income taxes payable	(2,402,243)	4,042,251
<b>Net cash provided by operating activities</b>	<b>16,939,730</b>	<b>14,355,966</b>
<b>Cash flows from investing activities:</b>		
Increase in loans, net	(29,183,574)	(21,376,721)
Net assets acquired from office acquisitions, primarily loans	(863,913)	(770,307)
Purchases of premises and equipment	(1,122,375)	(935,673)
Purchases of intangible assets	(159,654)	(424,216)
<b>Net cash used in investing activities</b>	<b>(31,329,516)</b>	<b>(23,506,917)</b>
<b>Cash flows from financing activities:</b>		
Net change in bank overdraft	849,345	329,393
Proceeds from senior notes payable	12,800,000	16,550,000
Repayment of other notes payable	(200,000)	(200,000)
Repurchase of common stock	(1,922,816)	(6,885,384)
Proceeds from exercise of stock options	2,086,543	363,029
Tax benefit from exercise of stock options	1,639,941	-
<b>Net cash provided by financing activities</b>	<b>15,253,013</b>	<b>10,157,038</b>
<b>Increase in cash and cash equivalents</b>	<b>863,227</b>	<b>1,006,087</b>
<b>Cash and cash equivalents beginning of period</b>	<b>4,033,888</b>	<b>3,046,677</b>



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Cash and cash equivalents end of period	\$	4,897,115	4,052,764
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$	1,799,698	1,303,644
Cash paid for income taxes		6,697,748	39,754

See accompanying notes to consolidated financial statements.

**WORLD ACCEPTANCE CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2006 and 2005**  
**(Unaudited)**

**NOTE 1 - BASIS OF PRESENTATION**

The consolidated financial statements of the Company at June 30, 2006, and for the three months then ended were prepared in accordance with the instructions for Form 10-Q and are unaudited; however, in the opinion of management, all adjustments (consisting only of items of a normal recurring nature) necessary for a fair presentation of the financial position at June 30, 2006, and the results of operations and cash flows for the period then ended, have been included. The results for the period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the full year or any other interim period.

Certain reclassification entries have been made for fiscal 2006 to conform with fiscal 2007 presentation. These reclassifications had no impact on shareholders' equity and comprehensive income or net income.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

These consolidated financial statements do not include all disclosures required by U.S. generally accepted accounting principles and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended March 31, 2006, included in the Company's 2006 Annual Report to Shareholders.

**NOTE 2 - COMPREHENSIVE INCOME**

The Company applies the provision of Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 130 "*Reporting Comprehensive Income*." The following summarizes accumulated other comprehensive loss as of March 31, 2006:

Balance at beginning of year	\$	(50,092)
Unrealized loss from foreign exchange translation adjustment		(66,261)
Total accumulated other comprehensive income	\$	(116,353)

**NOTE 3 - ALLOWANCE FOR LOAN LOSSES**

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

		Three months ended June 30,	
		2006	2005
Balance at beginning of period	\$	22,717,192	20,672,740
Provision for loan losses		11,167,468	9,540,103
Loan losses		(10,688,796)	(10,756,546)

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Recoveries	1,373,430	1,064,183
Allowance on acquired loans	35,544	10,563
Balance at end of period	\$ 24,604,838	20,531,043

Effective April 1, 2005, the Company adopted Statement of Position No. 03-3 ("SOP 03-3"), "*Accounting for Certain Loans or Debt Securities Acquired in a Transfer*," which prohibits carry over or creation of valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of this SOP. Management believes that a loan has shown deterioration if it is over 60 days delinquent. The Company believes that loans acquired since the adoption of SOP 03-3 have not shown evidence of deterioration of credit quality since origination, and therefore, are not within the scope of SOP 03-3 because the Company did not pay consideration for, or record, acquired loans over 60 days delinquent. Loans acquired that are more than 60 days past due are included in the scope of SOP 03-3 and therefore, subsequent refinances or restructures of these loans would not be accounted for as a new loan.

For the quarters ended June 30, 2006 and 2005, the Company recorded adjustments of approximately \$35,000, \$11,000, respectively, to the allowance for loan losses in connection with acquisitions in accordance generally accepted accounting principles. These adjustments represent the allowance for loan losses on acquired loans which do not meet the scope of SOP 03-3.

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## NOTE 4 - AVERAGE SHARE INFORMATION

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

	Three months ended June 30,	
	2006	2005
<b>Basic:</b>		
Average common shares outstanding (denominator)	18,422,341	18,812,083
<b>Diluted:</b>		
Average common shares outstanding	18,422,341	18,812,083
Dilutive potential common shares	318,966	665,024
Average diluted shares outstanding (denominator)	18,741,307	19,477,107

There were no options outstanding at the period end presented that were excluded from the calculation of diluted earnings per share because the exercise price was greater than the average market price of the common shares.

NOTE 5 - STOCK-BASED COMPENSATION*Stock Option Plans*

The Company has a 1992 Stock Option Plan, a 1994 Stock Option Plan, a 2002 Stock Option Plan and a 2005 Stock Option Plan for the benefit of certain directors, officers, and key employees. Under these plans, 4,350,000 shares of authorized common stock have been reserved for issuance pursuant to grants approved by the Compensation and Stock Option Committee of the Board of Directors. Stock options granted under these plans have a maximum duration of 10 years, may be subject to certain vesting requirements, which are generally one year for directors and five years for officers and key employees, and are priced at the market value of the Company's common stock on the date of grant of the option. At June 30, 2006, there were 768,800 shares available for grant under the plans.

Effective April 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), "Share-Based Payment" ("SFAS" 123-R), using the modified prospective transition method, and did not retroactively adjust results from prior periods. Under this transition method, stock option compensation will be recognized as an expense over the remaining unvested portion of all stock option awards granted prior to April 1, 2006, based on the fair values estimated at grant date in accordance with the original provisions of SFAS 123. The Company has applied the Black-Sholes valuation model in determining the fair value of the stock option awards. Compensation expense is recognized only for those options expected to vest, with forfeitures estimated based on historical experience and future expectations. Prior to fiscal 2007, stock option compensation was included as a pro forma disclosure, as permitted by SFAS 123.

As a result of adopting SFAS 123-R, the impact to the Consolidated Statements of Operations for the quarter ended June 30, 2006 was to decrease income before income taxes and net income by \$699,000 and \$438,000, respectively and diluted earnings per share by \$0.02. Basic earnings per share for the quarter were not impacted. In addition, prior to the adoption of SFAS 123-R, the Company presented the tax benefit from the exercise of stock options as a cash flow provided by operating activities in the Consolidated Statements of Cash Flows. Upon adoption of SFAS 123-R, this tax benefit is classified as a cash flow provided by financing activities.

Option activity for the three months ended June 30, 2006, were as follows:

Weighted	Weighted
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	Average Exercise		Average Remaining Contractual Term	Aggregated Intrinsic Value
	Shares	Price		
Options outstanding, beginning of year	1,274,068	\$ 15.56		
Granted	-	\$ -		
Exercised	221,404	\$ 9.56		
Forfeited	-	\$ -		
Options outstanding, end of period	1,052,664	\$ 16.87	6.87	\$ 15,001,053
Options exercisable, end of period	430,664	\$ 9.48	4.53	\$ 3,854,191

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The aggregate intrinsic value reflected in the table above represents the total pre-tax intrinsic value (the difference between the closing stock price on June 30, 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by option holders had all opt