

WORLD ACCEPTANCE CORP  
Form 10-Q  
February 02, 2009

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 December 31, 2008

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-19599

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

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

57-0425114  
(I.R.S. Employer Identification  
Number)

108 Frederick Street  
Greenville, South Carolina 29607  
(Address of principal executive offices)  
(Zip Code)

(864) 298-9800  
(registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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

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 February 2, 2009 was 16,160,259.

---

WORLD ACCEPTANCE CORPORATION  
AND SUBSIDIARIES

TABLE OF CONTENTS

		Page
<b>PART I - FINANCIAL INFORMATION</b>		
Item 1.	Consolidated Financial Statements (unaudited):	
	Consolidated Balance Sheets as of December 31, 2008 and March 31, 2008	3
	Consolidated Statements of Operations for the three and nine months ended December 31, 2008 and 2007	4
	Consolidated Statements of Shareholders' Equity and Comprehensive Income (loss) for the year ended March 31, 2008 and the nine months ended December 31, 2008	5
	Consolidated Statements of Cash Flows for the nine months ended December 31, 2008 and 2007	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	21
Item 4.	Controls and Procedures	22
<b>PART II - OTHER INFORMATION</b>		
Item 1.	Legal Proceedings	23
Item 1A.	Risk Factors	23
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 6.	Exhibits	25
	Signatures	27

## WORLD ACCEPTANCE CORPORATION

AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	December 31, 2008	March 31, 2008
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,138,665	7,589,575
Gross loans receivable	736,234,490	599,508,969
Less:		
Unearned interest and fees	(194,871,842)	(154,418,105)
Allowance for loan losses	(42,575,525)	(33,526,147)
Loans receivable, net	498,787,123	411,564,717
Property and equipment, net	23,068,885	18,654,010
Deferred income taxes	18,927,215	22,134,066
Income taxes receivable	1,713,762	-
Other assets, net	9,629,478	10,818,057
Goodwill	5,583,864	5,352,675
Intangible assets, net	9,513,171	9,997,327
Total assets	\$ 574,362,163	486,110,427
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Senior notes payable	185,350,000	104,500,000
Convertible senior subordinated notes payable	105,000,000	110,000,000
Other notes payable	-	400,000
Income taxes payable	-	18,039,242
Accounts payable and accrued expenses	22,734,404	18,865,913
Total liabilities	313,084,404	251,805,155
<b>Shareholders' equity:</b>		
Preferred stock, no par value Authorized 5,000,000 shares, no shares issued or outstanding	-	-
Common stock, no par value Authorized 95,000,000 shares; issued and outstanding 16,159,559 and 16,278,684 shares at December 31, 2008 and March 31, 2008, respectively	-	-
Additional paid-in capital	593,042	1,323,001
Retained earnings	264,210,985	232,812,768
Accumulated other comprehensive income (loss)	(3,526,268)	169,503
Total shareholders' equity	261,277,759	234,305,272
Commitments and contingencies		
	\$ 574,362,163	486,110,427

See accompanying notes to consolidated financial statements.

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

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
<b>Revenues:</b>				
Interest and fee income	\$ 84,880,761	75,207,879	241,283,794	210,303,422
Insurance and other income	14,775,473	12,835,015	38,514,038	34,326,841
Total revenues	99,656,234	88,042,894	279,797,832	244,630,263
<b>Expenses:</b>				
Provision for loan losses	29,490,333	23,223,929	70,654,378	55,856,170
<b>General and administrative expenses:</b>				
Personnel	31,699,778	29,280,288	96,215,404	86,027,643
Occupancy and equipment	6,491,005	5,555,057	19,022,649	15,856,114
Data processing	572,987	343,486	1,743,384	1,532,994
Advertising	5,087,427	6,023,271	10,329,015	10,753,160
Amortization of intangible assets	621,355	621,844	1,844,902	1,874,838
Other	7,242,789	5,645,730	19,729,143	15,546,532
	51,715,341	47,469,676	148,884,497	131,591,281
Interest expense	2,787,409	3,338,181	8,016,213	8,606,177
Total expenses	83,993,083	74,031,786	227,555,088	196,053,628
Income before income taxes	15,663,151	14,011,108	52,242,744	48,576,635
Income taxes	5,658,849	6,723,034	19,523,443	19,972,176
Net income	\$ 10,004,302	7,288,074	32,719,301	28,604,459
<b>Net income per common share:</b>				
Basic	\$ 0.62	0.43	2.01	1.66
Diluted	\$ 0.61	0.43	1.98	1.63
<b>Weighted average common shares outstanding:</b>				
Basic	16,203,282	16,892,219	16,289,319	17,200,506
Diluted	16,341,536	17,148,112	16,543,043	17,511,074

See accompanying notes to consolidated financial statements.

## WORLD ACCEPTANCE CORPORATION

## AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)  
(Unaudited)

	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss),	Total Shareholders' Equity	Total Comprehensive Income
Balances at March 31, 2007	\$ 5,770,665	209,769,808	(47,826)	215,492,647	
Proceeds from exercise of stock options (116,282 shares), including tax benefits of \$1,110,598	2,724,938	-	-	2,724,938	
Common stock repurchases (1,375,100 shares)	(12,458,946)	(29,403,198)	-	(41,862,144)	
Issuance of restricted common stock under stock option plan (44,981 shares)	1,348,419	-	-	1,348,419	
Stock option expense	3,937,925	-	-	3,937,925	
Cumulative effect of FIN 48	-	(550,000)	-	(550,000)	
Other comprehensive income	-	-	217,329	217,329	217,329
Net income	-	52,996,158	-	52,996,158	52,996,158
Total comprehensive income	-	-	-	-	53,213,487
Balances at March 31, 2008	\$ 1,323,001	232,812,768	169,503	234,305,272	
Proceeds from exercise of stock options (90,183 shares), including tax benefits of \$704,244	2,078,789	-	-	2,078,789	
Common stock repurchase (288,700 shares)	(6,527,680)	(1,321,084)	-	(7,848,764)	
Issuance of restricted common stock under stock option plan (78,592 shares)	1,173,342	-	-	1,173,342	
Stock option expense	2,545,590	-	-	2,545,590	
Other comprehensive loss	-	-	(3,695,771)	(3,695,771)	(3,695,771)
Net income	-	32,719,301	-	32,719,301	32,719,301
Total comprehensive income	-	-	-	-	29,023,530
Balances at December 31, 2008	\$ 593,042	264,210,985	(3,526,268)	261,277,759	

See accompanying notes to consolidated financial statements.

## WORLD ACCEPTANCE CORPORATION

## AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended December 31,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 32,719,301	28,604,459
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	1,844,902	1,874,838
Amortization of loan costs and discounts	569,502	572,446
Provision for loan losses	70,654,378	55,856,170
Depreciation	2,550,410	2,666,458
Deferred income taxes	3,206,851	(1,818,126)
Compensation related to stock option and restricted stock plans	3,718,932	4,186,351
Unrealized losses on interest rate swap	869,123	829,126
Change in accounts:		
Other assets, net	(2,811,304)	(197,346)
Income taxes payable	(18,024,080)	(9,561,987)
Accounts payable and accrued expenses	3,122,082	621,939
Net cash provided by operating activities	98,420,097	83,634,328
Cash flows from investing activities:		
Increase in loans receivable, net	(150,922,924)	(154,168,220)
Assets acquired from office acquisitions, primarily loans	(8,601,606)	(2,899,857)
Increase in intangible assets from acquisitions	(1,591,935)	(1,637,099)
Purchases of property and equipment, net	(7,434,567)	(6,062,844)
Net cash used in investing activities	(168,551,032)	(164,768,020)
Cash flows from financing activities:		
Net change in bank overdraft	-	497,844
Proceeds of senior revolving notes payable, net	80,850,000	102,450,000
Repurchases of common stock	(7,848,764)	(21,278,877)
Repayment of convertible senior subordinated notes payable	(2,916,000)	-
Gain on the extinguishment of debt	(2,084,000)	-
Repayment of other notes payable	(400,000)	(200,000)
Proceeds from exercise of stock options	1,374,545	1,252,653
Excess tax benefit from exercise of stock options	704,244	569,613
Other	-	(208,483)
Net cash provided by financing activities	69,680,025	83,082,750
Increase (decrease) in cash and cash equivalents	(450,910)	1,949,058

Edgar Filing: WORLD ACCEPTANCE CORP - Form 10-Q

Cash and cash equivalents at beginning of period	7,589,575	5,779,032
Cash and cash equivalents at end of period	\$ 7,138,665	7,728,090

See accompanying notes to consolidated financial statements.

6

---



WORLD ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007  
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The Consolidated Financial Statements of the Company at December 31, 2008, and for the three and nine 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 December 31, 2008, and the results of operations and cash flows for the periods ended December 31, 2008 and 2007, have been included. The results for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period.

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT POLICIES

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

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

Edgar Filing: WORLD ACCEPTANCE CORP - Form 10-Q

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:

- o Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- o 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.
- o Level 3 – Unobservable inputs for assets or liabilities reflecting the reporting entity’s own assumptions.

The following financial liabilities were measured at fair value on a recurring basis during the nine months ended December 31, 2008:

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets December 31, 2008	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swaps	\$(2,539,741)	\$ -	\$(2,539,741)

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

#### NOTE 3 – COMPREHENSIVE INCOME (LOSS)

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

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
Balance at beginning of period	\$ (400,811)	(63,995)	169,503	(47,826)
Unrealized loss from foreign exchange translation adjustment	(3,125,457)	(13,757)	(3,695,771)	(29,926)
Balance at end of period	\$ (3,526,268)	(77,752)	(3,526,268)	(77,752)

#### NOTE 4 - ALLOWANCE FOR LOAN LOSSES

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

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
Balance at beginning of period	\$ 38,120,647	32,268,714	33,526,147	27,840,239
Provision for loan losses	29,490,333	23,223,929	70,654,378	55,856,170
Loan losses	(26,558,525)	(20,283,740)	(66,846,813)	(51,639,877)
Recoveries	1,694,403	1,532,579	5,069,652	4,627,973
Translation adjustment	(210,502)	(1,029)	(255,217)	1,670
Allowance on acquired loans	39,169	49,271	427,378	103,549
Balance at end of period	\$ 42,575,525	36,789,724	45,575,525	36,789,724

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

For the quarters ended December 31, 2008 and 2007, the Company recorded adjustments of approximately \$39,000 and \$49,000, respectively, to the allowance for loan losses in connection with acquisitions in accordance with generally accepted accounting principles. These adjustments were approximately \$427,000 and \$104,000 for the nine-months ended December 31, 2008 and 2007, respectively. These adjustments represent the allowance for loan losses on acquired loans which do not meet the scope of SOP 03-3.

## NOTE 5 – AVERAGE SHARE INFORMATION

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

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
<b>Basic:</b>				
Weighted average common shares outstanding (denominator)	16,203,282	16,892,219	16,289,319	17,200,506
<b>Diluted:</b>				
Weighted average common shares outstanding	16,203,282	16,892,219	16,289,319	17,200,506
Dilutive potential common shares	138,254	255,893	253,724	310,568
Weighted average diluted shares outstanding (denominator)	16,341,536	17,148,112	16,543,043	17,511,074

Options to purchase 309,055 and 141,375 shares of common stock at various prices were outstanding during the three months ended December 31, 2008 and 2007, respectively, but were not included in the computation of diluted EPS because the options are antidilutive. The shares related to the convertible senior notes payable (1,682,405) and related warrants were also not included in the computation of diluted EPS because the effect of such instruments was antidilutive.

## NOTE 6 - EXTINGUISHMENT OF DEBT

In December 2008, the Company repurchased, in privately negotiated transactions, an aggregate principal amount of \$5 million (or approximately 4.55% of the total) of its convertible senior subordinated notes due October 11, 2011 (the "Convertible Notes") at an average discount to face value of approximately 42%. The Company spent approximately \$2.9 million on the repurchase. The repurchase left \$105 million principal amount of the Convertible Notes outstanding. The transactions were treated as an extinguishment of debt for accounting purposes. The Company recorded a gain of approximately \$2 million on the repurchase of the Convertible Notes, which was partially offset by the write-off of \$100,000 of deferred financing costs associated with the repurchase and cancellation of Convertible Notes.

## NOTE 7 – STOCK-BASED COMPENSATION

## Stock Option Plans

The Company has a 1992 Stock Option Plan, a 1994 Stock Option Plan, a 2002 Stock Option Plan, a 2005 Stock Option Plan and a 2008 Stock Option Plan for the benefit of certain directors, officers, and key employees. Under these plans, 6,010,000 shares of authorized common stock have been reserved for issuance pursuant to grants approved by the Compensation and Stock Option Committee of the Board of Directors. Stock options granted under these plans have a maximum duration of 10 years, may be subject to certain vesting requirements, which are generally one year for directors and between two and five years for officers and key employees, and are priced at the market value of the Company's common stock on the date of grant of the option. At December 31, 2008, there were 841,700 shares available for grant under the plans.

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

The weighted-average fair values at the grant date for options issued during the nine months ended December 31, 2008 and 2007 were \$8.51 and \$14.21, respectively. This fair value was estimated at grant date using the weighted-average assumptions listed below.

	Three months ended December		Nine months ended December	
	2008	31, 2007	2008	31, 2007
Dividend yield	0%	0%	0%	0%
Expected volatility	50.67%	42.99%	50.67%	42.99%
Average risk-free interest rate	2.75%	3.98%	2.75%	4.00%
Expected life	5.9 years	6.9 years	5.9 years	6.9 years
Vesting period	5 years	5 years	5 years	5 years

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

Option activity for the nine months ended December 31, 2008 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregated Intrinsic Value
Options outstanding, beginning of year	1,274,217	\$ 25.33		
Granted	302,000	16.85		
Exercised	(90,183)	15.15		
Forfeited	(19,684)	28.19		
Options outstanding, end of period	1,466,350	\$ 24.41	7.17	\$ 3,905,542
Options exercisable, end of period	630,400	\$ 21.31	5.20	\$ 3,026,722

The aggregate intrinsic value reflected in the table above represents the total pre-tax intrinsic value (the difference between the closing stock price on December 31, 2008 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. The total intrinsic value of options exercised during the periods ended December 31, 2008 and 2007 were as follows:

	2008	2007
Three months ended	\$ 21,311	693,655
Nine months ended	\$ 2,307,894	1,738,972

As of December 31, 2008, total unrecognized stock-based compensation expense related to non-vested stock options amounted to approximately \$7.3 million, which is expected to be recognized over a weighted-average period of approximately 3.72 years.

#### Restricted Stock

On November 10, 2008, the Company granted 50,000 shares of restricted stock (which are equity classified), with a grant date fair value of \$16.85 per share, to certain executive officers. One-third of the restricted stock grant vested immediately and one-third will vest on the first and second anniversary of grant. On that same date, the Company granted an additional 29,100 shares of restricted stock (which are equity classified), with a grant date fair value of \$16.85 per share, to the same executive officers. The 29,100 shares will vest in three years based on the Company's compounded annual EPS growth according to the following schedule:

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

On May 19, 2008 the Company granted 12,000 shares of restricted stock (which are equity classified) with a grant date fair value of \$43.67 per share to independent directors and a certain officer. One-half of the restricted stock vested immediately and the other half will vest on the first anniversary of grant.

10

---



On November 28, 2007, the Company granted 20,800 shares of restricted stock (which are equity classified), with a grant date fair value of \$30.94 per share, to certain executive officers. One-third of the restricted stock vested immediately and one-third will vest on the first and second anniversary of grant. On that same date, the Company granted an additional 15,150 shares of restricted stock (which are equity classified), with a grant date fair value of \$30.94 per share, to the same executive officers. The 15,150 shares will vest in three years based on the Company's compounded annual EPS growth according to the following schedule:

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

On November 12, 2007, the Company granted 8,000 shares of restricted stock (which are equity classified), with a grant date fair value of \$28.19 per share, to certain officers. One-third of the restricted stock vested immediately and one-third will vest on the first and second anniversary of grant.

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 \$593,000 and \$1.4 million, respectively, of compensation expense for the quarter and nine-months ended December 31, 2008 and recognized approximately \$584,000 and \$1.3 million, respectively of compensation expense for the quarter and nine-months ended December 31, 2007 related to restricted stock, which is included as a component of general and administrative expenses in the Company's Consolidated Statements of Operations. All shares are expected to vest.

As of December 31, 2008, there was approximately \$1,532,000 of unrecognized compensation cost related to unvested restricted stock awards granted, which is expected to be recognized over the next two years.

A summary of the status of the Company's restricted stock as of December 31, 2008, and changes during the nine months ended December 31, 2008, is presented below:

	Number of Shares	Weighted Average Fair Value at Grant Date
Outstanding at March 31, 2008	50,533	35.41
Granted during the period	91,100	20.38
Vested during the period	(48,879)	32.30
Cancelled during the period	(12,508)	17.83
Outstanding at December 31, 2008	80,246	\$ 22.94

Total share-based compensation included as a component of net income during the nine months ended December 31, 2008 and 2007 was as follows:

	Three months ended		Nine months ended	
	2008	2007	2008	2007
Share-based compensation related to equity classified units:				
Share-based compensation related to stock options	\$ 711,647	972,335	\$ 2,603,852	2,885,537
Share-based compensation related to restricted stock units	592,900	583,841	1,382,818	1,300,814
Total share-based compensation related to equity classified awards	\$ 1,304,547	1,556,176	3,986,670	4,186,351



## NOTE 8 – ACQUISITIONS

The following table sets forth the acquisition activity of the Company for the quarters ended December 31, 2008 and 2007:

	2008	2007
Number of offices purchased	21	21
Merged into existing offices	10	8
Purchase Price	\$ 10,193,541	\$ 4,536,956
Tangible assets:		
Net loans	8,550,656	2,765,043
Furniture, fixtures & equipment	48,500	128,000
Other	2,450	6,814
Excess of purchase prices over carrying value of net tangible assets	\$ 1,591,935	\$ 1,637,099
Customer lists	1,280,746	1,228,054
Non-compete agreements	80,000	96,000
Goodwill	231,189	313,045
Total intangible assets	\$ 1,591,935	\$ 1,637,099

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 SFAS No. 141 and all other acquisitions are accounted for as asset purchases. All acquisitions have been from independent third parties.

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 nine months ended December 31, 2008, 11 acquisitions were recorded as business combinations.

When the acquisition is of a portfolio of loans only, the Company records the transaction as an asset purchase. In an asset purchase, no goodwill is recorded. The purchase price is allocated to the estimated fair value of the tangible and intangible assets acquired. During the nine months ended December 31, 2008, 10 acquisitions were recorded as asset acquisitions.

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

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

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

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

Customer lists are allocated at an office level and are evaluated for impairment at an office level when a triggering event occurs, in accordance with SFAS 144. 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 results of operations as reported.

#### NOTE 9 – DERIVATIVE FINANCIAL INSTRUMENTS

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

On October 5, 2005, the Company entered into an interest rate swap with a notional amount of \$30 million to economically hedge a portion of the cash flows from its floating rate revolving credit facility. Under the terms of the interest rate swap, the Company pays a fixed rate of 4.755% on the \$30 million notional amount and receives payments from a counterparty based on the 1 month LIBOR rate for a term ending October 5, 2010. Interest rate differentials paid or received under the swap agreement are recognized as adjustments to interest expense.

At December 31, 2008 and 2007, the Company recorded a liability related to the interest rate swaps of approximately \$2.5 million and \$737,000, respectively, which represented the fair value of the interest rate swap at that date. An unrealized loss of \$1.6 million and \$610,000 was charged to other income for the quarters ended December 31, 2008 and 2007. During the quarter ended December 31, 2008 interest expense was increased by approximately \$151,000, as a result of new payments under the terms of the interest rate swap. For the quarter ended December 31, 2007, interest expense was decreased by approximately \$65,000, as a result of net receipts under the terms of the interest rate swap.

For the nine-months ended December 31, 2008 an unrealized loss of \$869,000 was charged to other income. For the nine months ended December 31, 2007, an unrealized loss of approximately \$829,000 was recorded. Interest expense was increased by approximately \$482,000 for the nine-months ended December 31, 2008 and decreased approximately \$118,000 for the nine-months ended December 31, 2007 as a result of net disbursements under the terms of the interest rate swap.

On May 15, 2008, the Company entered into a \$10 million foreign exchange currency option to economically hedge its foreign exchange risk relative to the Mexican peso. Under the terms of the option contract, the Company could exchange \$10 million U.S. dollars at a rate of 11.0 Mexican pesos per dollar. The option was sold in October 2008 and the Company recorded a \$1.5 million net gain.

The Company does not enter into derivative financial instruments for trading or speculative purposes. The purpose of these instruments is to reduce the exposure to variability in future cash flows attributable to a portion of its LIBOR-based borrowings and to reduce variability in foreign cash flows. The fair value of the interest rate swap and currency option is recorded on the consolidated balance sheets as an other asset or other liability. The Company is currently not accounting for these derivative instruments using the cash flow hedge accounting provisions of SFAS 133; therefore, the changes in fair value of the swap and option are included in earnings as other income or expenses.

By using derivative instruments, the Company is exposed to credit and market risk. Credit risk, which is the risk that a counterparty to a derivative instrument will fail to perform, exists to the extent of the fair value gain in a derivative. Market risk is the adverse effect on the financial instruments from a change in interest rates or implied volatility of exchange rates. The Company manages the market risk associated with interest rate contracts and currency options by establishing and monitoring limits as to the types and degree of risk that may be undertaken. The market risk associated with derivatives used for interest rate and foreign currency risk management activities is fully incorporated in the Company's market risk sensitivity analysis.

NOTE 10 – ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on April 1, 2007. As a result of the implementation of Interpretation 48, the Company recognized a charge of approximately \$550,000 to the April 1, 2007 balance of retained earnings. As of December 31, 2008 and March 31, 2008, the Company had \$4,523,820 and \$8,764,255 of total gross unrecognized tax benefits including interest, respectively. Of this total, approximately \$2,242,589 and \$2,208,734, respectively, represents the amount of unrecognized tax benefits that are permanent in nature and, if recognized, would affect the annual effective tax rate. The decrease in the total gross unrecognized tax benefit including interest during the nine months ending December 31, 2008 is primarily attributable to the revaluation of a prior period uncertain tax position, which resulted in a decrease of \$4,083,782 to the gross liability; additionally, the interest benefit accrued for the quarter comprises the remaining portion of the change in the unrecognized tax benefit.

The Company is subject to U.S and Mexican income taxes, as well as taxation in 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 2004, although carryforward attributes that were generated prior to 2004 may still be adjusted upon examination by the IRS if they either have been or will be used in a future period. The federal income tax returns (2005, 2006, and 2007) are currently under examination by the taxing authorities. In addition, the income tax returns (2001 through 2006) are under examination by a state authority, which has completed its examinations and issued a proposed assessment for tax years 2001 through 2006. The Company is in the initial process of responding to the jurisdiction. In consideration of the proposed assessment, the total gross unrecognized tax benefit was increased by \$2.3 million during fiscal 2008. At this time, it is too early to predict the final outcome on this tax issue and any future recoverability of this charge. Until the tax issues are resolved the Company expects to accrue approximately \$84,000 per quarter for interest.

The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. As of December 31, 2008, the Company had approximately \$1.1 million accrued for interest and penalties, of which approximately \$60,000 was recorded in the third quarter. The Company has determined that it is possible that the total amount of unrecognized tax benefits related to various state examinations will significantly increase or decrease within twelve months of the reporting date. However, at this time, a reasonable estimate of the range of possible change cannot be made until further correspondence has been conducted with the state taxing authorities.

WORLD ACCEPTANCE CORPORATION  
AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

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

Results of Operations

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

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
	(Dollars in thousands)			
Average gross loans receivable (1)	\$ 689,267	608,862	652,846	566,563
Average net loans receivable (2)	507,965	448,934	481,807	419,050
Expenses as a % of total revenue:				
Provision for loan losses	29.6%	26.4%	25.3%	22.8%
General and administrative	51.9%	53.9%	53.2%	53.8%
Total interest expense	2.8%	3.8%	2.9%	3.5%
Operating margin (3)	18.5%	19.7%	21.5%	23.4%
Return on average assets (annualized)	7.3%	5.9%	8.3%	8.3%
Offices opened or acquired, net	16	14	85	99
Total offices (at period end)	923	831	923	831

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

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

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

Comparison of Three Months Ended December 31, 2008, Versus  
Three Months Ended December, 2007

Net income increased to \$10.0 million for the three months ended December 31, 2008, or 37.3%, from the three month period ended December 31, 2007. Operating income (revenues less provision for loan losses and general and administrative expenses) increased approximately \$1.1 million, or 6.3%.



Total revenues rose to \$99.7 million during the quarter ended December 31, 2008, a 13.2% increase over the \$88.0 million for the corresponding quarter of the previous year. This increase was attributable to new offices and an increase in revenues from offices open throughout both quarterly periods, gain on the extinguishment of debt and gain on the sale of the foreign currency option. Revenues from the 727 offices open throughout both quarterly periods increased by approximately 7.1%. At December 31, 2008, the Company had 923 offices in operation, an increase of 85 offices from March 31, 2008.

Interest and fee income for the quarter ended December 31, 2008 increased by \$9.7 million, or 12.9%, over the same period of the prior year. This increase resulted from an \$80.4 million increase, or 13.2%, in average gross loans receivable over the two corresponding periods.

Insurance commissions and other income increased by \$1.9 million, or 15.1%, between the two quarterly periods. Insurance commissions increased by \$405,000, or 4.8%, during the most recent quarter when compared to the prior year quarter due to the increase in loans in those states where credit insurance is sold in conjunction with the loan. Other income increased by approximately \$1.5 million, or 34.3%, over the two corresponding quarters primarily due to a \$1.5 million gain on the sale of the foreign currency option and a \$2.0 million gain on the extinguishment of \$5 million par value of the Convertible Notes. The gains were offset by a \$1.0 million increase in the unrealized loss on the fair value of the interest rate swaps, a \$700,000 reduction in World Class Buying Club ("WCBC") sales, and a \$100,000 reduction in auto club sales.

The provision for loan losses during the quarter ended December 31, 2008 increased by \$6.3 million, or 27.0%, from the same quarter last year. Delinquencies and charge-offs continued to increase during the third quarter as a result of the ongoing economic environment. Accounts that were 61 days or more past due increased from 2.7% to 3.3% on a recency basis and from 3.9% to 4.6% on a contractual basis when comparing the two quarter end statistics. Net charge-offs as a percentage of average net loans increased from 16.7% (annualized) during the prior year third quarter to 19.6% (annualized) during the most recent quarter. As expected, due to the economic conditions, our charge-offs have continued to increase to historical levels. The Company continues to monitor closely the loan portfolio in light of the softening economy and believes that the loss ratios are within acceptable ranges in light of current economic conditions. At this time, management does not expect to see the Company's loss ratios improve for the remainder of the fiscal year.

General and administrative expenses for the quarter ended December 31, 2008 increased by \$4.2 million, or 8.9% over the same quarter of fiscal 2008. Overall, general and administrative expenses, when divided by average open offices, decreased by approximately 2.0% when comparing the two periods. The total general and administrative expense as a percent of total revenues was 51.9% for the three months ended December 31, 2008 and was 53.9% for the three months ended December 31, 2007.

Interest expense decreased by approximately \$551,000 when comparing the two corresponding quarterly periods as a result of a decrease in the average interest rate, offset by increases in the average outstanding debt balance.

The Company's effective income tax rate decreased to 36.1% for the quarter ended December 31, 2008. The Company's effective income tax rate for the quarter ended December 31, 2007 was 48.0% primarily due to a charge of \$1.5 million related to a state jurisdiction tax examination in that quarter. Excluding the \$1.5 million charge, the effective income tax rate for the quarter ended December 31, 2007, would have been 37.3%. At this time, it is still too early to predict the outcome on this tax issue or any future recoverability of this charge. Until the tax issue is finally resolved, the Company will continue to accrue approximately \$40,000 per quarter for interest and penalties. The current quarter decrease in the Company's effective income tax rate was primarily due to a non-taxable gain of \$700,000 related to the extinguishment of debt mentioned above.

In addition, the current quarter effective rate was reduced due to the extinguishment of debt. Of the \$2.0 million gain recorded to other income, only \$1.3 million was treated as a taxable gain.

#### Comparison of Nine Months Ended December 31, 2008, Versus Nine Months Ended December 31, 2007

Net income increased to \$32.7 million for the nine months ended December 31, 2008, or 14.4%, from the nine month period ended December 31, 2007. Operating income increased approximately \$3.1 million, or 5.4%.

Total revenues rose to \$279.8 million during the nine months ended December 31, 2008, a 14.4% increase over the \$244.6 million for the corresponding nine months of the previous year. This increase was attributable to new offices and an increase in revenues from offices open throughout both nine month periods, a gain on the foreign currency option and a gain on the extinguishment of debt. Revenues from the 727 offices open throughout both quarterly periods increased by approximately 8.3%.

Interest and fee income for the nine months ended December 31, 2008 increased by \$31.0 million, or 14.7%, over the same period of the prior year. This increase resulted from an \$86.3 million increase, or 15.2%, in average gross loans receivable over the two corresponding periods.

Insurance commissions and other income increased by \$4.2 million, or 12.2%, between the two nine month periods. Insurance commissions increased by \$1.8 million, or 7.8%, during the most recent nine months when

compared to the prior year nine months due to the increase in loans in those states where credit insurance is sold in conjunction with the loan. Other income increased by approximately \$2.4 million, or 20.8%, over the corresponding nine months primarily due to a gain on the foreign currency option and a gain on the extinguishment of debt. The gains were offset by a reduction of revenue from the auto club sales of approximately \$260,000 and a reduction of revenue from WCBC sales of approximately \$300,000.

The provision for loan losses during the nine months ended December 31, 2008 increased by \$14.8 million, or 26.5%, from the same nine months last year. Delinquencies and charge-offs continued to increase during the first nine months as a result of the ongoing deterioration in the economic environment. Net charge-offs as a percentage of average net loans increased from 15.0% (annualized) during the prior year first nine months to 17.1% (annualized) during the most recent nine months.

General and administrative expenses for the nine months ended December 31, 2008 increased by \$17.3 million, or 13.1% over the same nine months of fiscal 2008. Overall, general and administrative expenses, when divided by average open offices, increased by approximately 1.4% when comparing the two periods. The total general and administrative expense as a percent of total revenues was 53.2% for the nine months ended December 31, 2008 and 53.8% the nine months ended December 31, 2007.

Interest expense decreased by approximately \$590,000, or 6.9%, when comparing the two corresponding nine month periods as a result of increases in the average outstanding debt balance, offset by a decrease in the average interest rate.

The Company's effective income tax rate decreased to 37.4% for the nine months ended December 31, 2008 compared to 41.1% for the first nine months of the prior year. This decrease related to the FIN 48 adjustment discussed in Note 10 of the Consolidated Financial Statements and the extinguishment of debt.

#### Critical Accounting Policies

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

#### Allowance for Loan Losses

The Company has developed policies and procedures for assessing the adequacy of the allowance for loan losses that take into consideration various assumptions and estimates with respect to the loan portfolio. The Company's assumptions and estimates may be affected in the future by changes in economic conditions, among other factors. Additional information concerning the allowance for loan losses is discussed under "Management's Discussion and Analysis of Financial Conditions and Results of Operations - Credit Quality" in the Company's report on Form 10-K for the fiscal year ended March 31, 2008.

#### 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, employee class, 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, or state or local taxing authorities, changes in tax laws or regulations, or assessments made by the Internal Revenue Service (“IRS”) or state or local 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-deductible amounts currently considered deductible either now or in future periods, and the dependency on the generation of future taxable income, including capital gains, in order to ultimately realize deferred income tax assets.

The Company adopted FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes,” on April 1, 2007. Under FIN 48, the Company includes 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 that considers all relevant facts, circumstances and regulations, management must still rely on assumptions and estimates to determine the overall likelihood of success and proper quantification of a given tax position.

## Liquidity and Capital Resources

The Company has financed its operations, acquisitions and office expansion through a combination of cash flow from operations and borrowings from its institutional lenders. The Company's primary ongoing cash requirements relate to the funding of new offices and acquisitions, the overall growth of loans outstanding, the repayment of indebtedness and the repurchase of its common stock. As the Company's gross loans receivable increased from \$416.3 million at March 31, 2006 to \$599.5 million at March 31, 2008, net cash provided by operating activities for fiscal years 2006, 2007 and 2008 was \$98.0 million, \$110.1 million and \$136.0 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. Although the Company historically has not repurchased shares during our loan growth season between October and December, management continues to analyze during this season, as it does at any other given time, whether stock repurchases are then advisable in light of our existing cash position, stock price, and available opportunities. Based on these considerations, the Company may repurchase stock during this season or at any other time. As of February 2, 2009, the Company has \$13.1 million in aggregate remaining repurchase capacity under all of the Company's outstanding repurchase authorizations. In addition, we may from time to time seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

The Company plans to open or acquire at least 70 branches in the United States and 25 branches in Mexico during fiscal 2009. Expenditures by the Company to open and furnish new offices averaged approximately \$25,000 per office during fiscal 2008. New offices have also required from \$100,000 to \$400,000 to fund outstanding loans receivable originated during their first 12 months of operation.

The Company acquired 11 offices and 10 loan portfolios from competitors in 9 states in 13 separate transactions during the first nine months of fiscal 2009. Gross loans receivable purchased in these transactions were approximately \$10.1 million in the aggregate at the dates 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 \$187.0 million base credit facility with a syndicate of banks. In addition to the base revolving credit commitment, there is a \$30.0 million seasonal revolving credit commitment available November 15 of each year through March 31 of the immediately succeeding year to cover the increase in loan demand during this period. On August 4, 2008, the credit facility expiration date was amended to September 30, 2010. Funds borrowed under the revolving credit facility bear interest, at the Company's option, at either the agent bank's prime rate per annum or the LIBOR rate plus 1.80% per annum. At December 31, 2008, the interest rate on borrowings under the revolving credit facility was 3.25%. The Company pays a commitment fee equal to 0.375% per annum of the daily unused portion of the revolving credit facility. Amounts outstanding under the revolving credit facility may not exceed specified percentages of eligible loans receivable. On December 31, 2008, \$185,350,000 million was outstanding under this facility, and there was \$31,650,000 million of unused borrowing availability under the borrowing base limitations. Based on management's discussions with its bankers, the Company does not currently believe that the recent turmoil in the credit markets will affect its access to funding to the extent permitted by the credit facility.

The Company's credit agreements contain a number of financial covenants, including minimum net worth and fixed charge coverage requirements. The credit agreements also contain certain other covenants, including covenants that impose limitations on the Company with respect to (i) declaring or paying dividends or making distributions on or

acquiring common or preferred stock or warrants or options; (ii) redeeming or purchasing or prepaying principal or interest on subordinated debt; (iii) incurring additional indebtedness; and (iv) entering into a merger, consolidation or sale of substantial assets or subsidiaries. The Company believes that it was in compliance with these agreements as of December 31, 2008, and does not believe that these agreements will materially limit its business and expansion strategy.

The Company's contractual obligations as of December 31, 2008 relating to FIN 48 included unrecognized tax benefits of \$4.5 million which are expected to be settled in greater than one year. While the settlement of the obligation is expected to be in excess of one year, the precise timing of the settlement is indeterminable.

The Company believes that cash flow from operations and borrowings under its revolving credit facility or other sources will be adequate to fund the expected cost of opening or acquiring new offices, including funding initial operating losses of new offices and funding loans receivable originated by those offices and the Company's other offices and the scheduled repayment of the other notes payable (for the next 12 months and for the foreseeable future beyond that). Other than possible effects that could result from a worsening or prolongment of existing adverse conditions in the general economy or credit or capital markets on which the Company depends in part to fund its operations, management is not currently aware of any trends, demands, commitments, events or uncertainties related to the Company's operations that it believes will result in, or are 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. Although the Company has successfully obtained such increases in the past and believes that it will be able to obtain such increases or secure other sources of financing in the future as the need arises, continued uncertainty and turmoil in the credit markets could impair the Company's ability to secure funding and adversely impact the cost of any available funding. There can be no assurance that this additional funding will be available if and when needed or that the cost or other terms of any such funding will not be materially unfavorable. For additional information regarding potential liquidity risks to the Company, see Part II, Item 1, Risk Factors, "Adverse conditions in the capital and credit markets generally, or any particular liquidity problems affecting one or more members of the syndicate of banks that are members of the Company's credit facility, could affect the Company's ability to meet its liquidity needs and its cost of capital," included in the Report on Form 10-Q, as well as our risk factors as previously disclosed under Part I, Item 1A (page 9) of the Company's Annual Report on Form 10-K for the year ended March 31, 2008.

#### Inflation

The Company does not believe that inflation has a material adverse effect on its financial condition or results of operations. The primary impact of inflation on the operations of the Company is reflected in increased operating costs. While increases in operating costs would adversely affect the Company's operations, the consumer lending laws of two of the eleven states in which the Company currently operates allow indexing of maximum loan amounts to the Consumer Price Index and nine are unregulated regarding the loan size. These provisions will allow the Company to make larger loans at existing interest rates, which could partially offset the effect of inflationary increases in operating costs.

#### Quarterly Information and Seasonality

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

#### Recently Issued Accounting Pronouncements

#### Business Combinations



In December 2007, the Financial Accounting Standards Board issued SFAS No. 141 (revised 2007) (“SFAS 141R”), Business Combinations, which replaces SFAS 141, Business Combinations. SFAS 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. SFAS 141R also requires acquisition-related costs and restructuring costs that the acquirer expected, but was not obligated to incur at the acquisition date, to be recognized separately from the business combination. In addition, SFAS 141R amends SFAS No. 109, Accounting for Income Taxes, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital. SFAS 141R applies prospectively to business combinations in fiscal years beginning on or after December 15, 2008 and would therefore impact our accounting for future acquisitions beginning in fiscal 2010.

### Noncontrolling Interest in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51" ("SFAS 160"). SFAS 160 clarifies the accounting for noncontrolling interests and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, including classification as a component of equity. SFAS 160 is effective for fiscal years beginning after December 15, 2008, our fiscal 2010. The Company is in the process of determining the effect, if any, that the adoption of SFAS 160 will have on our Consolidated Financial Statements.

### Disclosures about Derivative Instruments and Hedging Activities

On March 19, 2008, the FASB adopted Statement of Financial Accounting Standards No. 161 ("SFAS 161") "Disclosure About Derivative Instruments and Hedging Activities," which amends FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS 161 requires companies with derivative instruments to disclose information about how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133, and how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows. The required disclosures include the fair value of derivative instruments and their gains or losses in tabular format, information about credit-risk-related contingent features in derivative agreements, counterparty credit risk, and the company's strategies and objectives for using derivative instruments. The SFAS 161 expands the current disclosure framework in Statement 133. SFAS 161 is effective prospectively for periods beginning on or after November 15, 2008.

### Convertible Debt Instruments

On May 9, 2008, the FASB issued FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-1 applies to any convertible debt instrument that at conversion may be settled wholly or partly with cash, requires cash-settleable convertibles to be separated into their debt and equity components at issuance and prohibits the use of the fair-value option for such instruments. FSP APB 14-1 is effective for the first fiscal period beginning after December 15, 2008 and must be applied retrospectively to all periods presented with a cumulative effect adjustment being made as of the earliest period presented. We will be required to adopt FSP APB 14-1 in the first quarter of fiscal 2010 and are currently assessing the impact on our Consolidated Financial Statements.

### Instruments Indexed to an Entity's Own Stock

In June 2008, the FASB ratified EITF Issue 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock" ("EITF 07-5"). EITF 07-5 provides a new two-step model to be applied to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative in paragraphs 6-9 of Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, ("SFAS 133") in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the SFAS 133 paragraph 11(a) scope exception. It also clarifies on the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF 07-5 also applies to any freestanding financial instrument that is potentially settled in an entity's own stock, regardless of whether the instrument has all the characteristics of a derivative in paragraphs 6-9 of SFAS 133, for purposes of determining whether the instrument is within the scope of EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock. EITF 07-5 will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is in the process of assessing the effect that the adoption of EITF 07-5 will have on our Consolidated Financial Statements.

Useful Life of Intangible Assets

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"). FSP FAS 142-3 applies to all recognized intangible assets and its guidance is restricted to estimating the useful life of recognized intangible assets. FSP FAS 142-3 is effective for the first fiscal period beginning after December 15, 2008 and must be applied prospectively to intangible assets acquired after the effective date. We will be required to adopt FSP FAS 142-3 to intangible assets acquired beginning with the first quarter of fiscal 2010.

## Forward-Looking Information

This report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” may contain 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,” “plan,” “expect,” “believe,” “may,” “will,” and “should” any variation of the foregoing and similar expressions are forward-looking statements. Although the Company believes that the expectations reflected in any such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Any such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Company’s actual financial results, performance or financial condition may vary materially from those anticipated, estimated or expected. Among the key factors that could cause the Company’s actual financial results, performance or condition to differ from the expectations expressed or implied in such forward-looking statements are the following: the continuation or worsening of adverse conditions in the global and domestic credit markets and uncertainties regarding, or the impact of governmental responses to, those conditions; changes in interest rates; risks inherent in making loans, including repayment risks and value of collateral, which risks may increase in light of adverse or recessionary economic conditions; recently-enacted, proposed, or contemplated legislative initiatives (which could be less favorable to the company in light of current economic and political conditions); the timing and amount of revenues that may be recognized by the Company; changes in current revenue and expense trends (including trends affecting delinquencies and charge-offs); changes in the Company’s markets and general changes in the economy (particularly in the markets served by the Company); and other matters discussed in this Report in Part I, Item 1A, “Risk Factors” in the Company’s most recent annual report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) and the Company’s other reports filed with, or furnished to, the SEC from time to time. The Company does not undertake any obligation to update any forward-looking statements it makes.

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

#### Interest Rate Risk

The Company’s financial instruments consist of the following: cash, loans receivable, senior notes payable, convertible senior subordinated notes payable, and interest rate swaps. Fair value approximates carrying value for all of these instruments, except the convertible notes payable, for which the fair value represents the quoted market price. The fair value of the convertible notes payable was \$60,574,500 at December 31, 2008. Loans receivable are originated at prevailing market rates and have an average life of approximately four months. Given the short-term nature of these loans, they are continually repriced at current market rates. The Company’s outstanding debt under its revolving credit facility was \$185.4 million at December 31, 2008. Interest on borrowings under this facility is based, at the Company’s option, on the agent bank’s prime rate or LIBOR plus 1.80%.

Based on the outstanding balance at December 31, 2008, a change of 1% in the interest rates would cause a change in interest expense of approximately \$1.4 million on an annual basis.

In December 2008, the Company entered into an interest rate swap to economically hedge the variable cash flows associated with \$20 million of its LIBOR-based borrowings. This swap converted the \$20 million from a variable rate based on one-month LIBOR to a fixed rate of 2.4% for a period of three years.

In October 2005, the Company entered into an interest rate swap to economically hedge the variable cash flows associated with \$30 million of its LIBOR-based borrowings. This swap converted the \$30 million from a variable rate based on one-month LIBOR to a fixed rate of 4.755% for a period of five years.

In accordance with SFAS 133, the Company records derivatives at fair value, as other assets or liabilities, on the consolidated balance sheets. Since the Company is not utilizing hedge accounting under SFAS 133, changes in the fair value of the derivative instrument are included in other income. As of December 31, 2008 the fair value of the interest rate swaps was a liability of approximately \$2.5 million and is included in other liabilities. The change in fair value from the beginning of the fiscal year, recorded as an unrealized loss in other income, was approximately \$869,000.

### Foreign Currency Exchange Rate Risk

In September 2005 the Company began opening offices in Mexico, where its local businesses utilize the Mexican peso as their functional currency. The Consolidated Financial Statements of the Company are denominated in U.S. dollars and are therefore subject to fluctuation as the U.S. dollar and Mexican peso foreign exchange rates change. International revenues were less than 5% of the Company's total revenues for the nine months ended December 31, 2008 and net loans denominated in Mexican pesos were approximately \$9.8 million (USD) at December 31, 2008.

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. There have been, and there may continue to be, period-to-period fluctuations in the relative portions of Mexican revenues.

On May 15, 2008, the Company economically hedged its foreign exchange risk by purchasing a \$10 million foreign exchange currency option with a strike rate of 11.00 Mexican pesos per US dollar. Changes in the fair value of this option were recorded as a component of earnings since the Company did not apply hedge accounting under SFAS 133. The option was sold in October 2008 and the Company recorded a \$1.5 million net gain.

As currency exchange rates change, translation of the financial results of our Mexican operations into United States dollars will be impacted. Changes in exchange rates have resulted in cumulative translation adjustments which decreased our net assets by approximately \$3.5 million as of December 31, 2008 and increased our net assets by approximately \$170,000 as of March 31, 2008. These cumulative translation adjustments are included in accumulated other comprehensive income (loss) as a separate component of shareholders' equity and comprehensive income. Due to the immateriality of our current operations in Mexico, a change in foreign currency exchange rates is not expected to have a significant impact on our consolidated financial position, results of operations or cash flows.

### Item 4. Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2008. Based on that evaluation, the Company's management, including the CEO and CFO, has concluded that the Company's disclosure controls and procedures are effective as of December 31, 2008. During the third quarter of fiscal 2009, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time the Company is involved in routine litigation relating to claims arising out of its operations in the normal course of business. The Company believes that it is not presently a party to any such pending legal proceedings that would have a material adverse effect on its financial condition.

### Item 1A. Risk Factors

For a discussion of certain risk factors that could cause our financial results and condition to vary materially from period to period or cause actual results to differ from our expectations for our future financial and business performance, refer to the risk factors previously disclosed under Part I, Item 1A (page 9) of the Company's Annual Report on Form 10-K for the year ended March 31, 2008, as supplemented and updated by the information below. Any of these risks, as well as other risks, uncertainties, and possibly inaccurate assumptions underlying our plans and expectations, could result in harm to our business, results of operations and financial condition and cause the value of our securities to decline, which in turn could cause investors to lose all or part of their investment in our Company. These factors, along with others, could cause actual results to differ from those we have experienced in the past or those we may express or imply from time to time in any forward-looking statements we make. Investors are advised that it is impossible to identify or predict all risks, and that risks not currently known to us or that we may currently deem immaterial also could materially and adversely affect us in the future.

Overall stock market volatility may materially and adversely affect the market price of our common stock.

World's common stock price has been and is likely to continue to be subject to significant volatility. A variety of factors could cause the price of the common stock to fluctuate, perhaps substantially, including: general market fluctuations resulting from factors not directly related to World's operations or the inherent value of its common stock; state or federal legislative or regulatory proposals, initiatives, actions or changes that are, or are perceived to be, adverse to our operations; announcements of developments related to our business; fluctuations in our operating results and the provision for loan losses; general conditions in the financial service industry, the domestic or global economy or the domestic or global credit or capital markets; changes in financial estimates by securities analysts; adverse developments in our relationships with our customers; legal proceedings brought against the Company or its officers; or significant changes in our senior management team. Of late the stock market in general, and the market for shares of equity securities of many financial service companies in particular, have experienced extreme price fluctuations that have often been unrelated to the operating performance of those companies. Such fluctuations and market volatility based on these or other factors may materially and adversely affect the market price of our common stock.

Federal legislative or regulatory proposals, initiatives, actions or changes that are adverse to our operations or result in adverse regulatory proceedings, or, our failure to comply with existing federal laws and regulations or such laws or regulations that may be enacted in the future, could force us to modify, suspend or cease, part or all of our nationwide operations.

In addition to state and local laws and regulations, we are subject to numerous federal laws and regulations that affect our lending operations. Although these laws and regulations have remained substantially unchanged for many years, we believe there now exists, due to current economic conditions primarily in other financial sectors, such as the mortgage lending industry, combined with changes in the make-up of the current administration and Congress and the particular political and media focus on issues of consumer and borrower protection, the possibility that the laws and regulations that directly affect our lending activities could become subject to review and change in a manner that

could force us to modify, suspend or cease part, or, in the worst case, all of our existing operations. It is also possible that the scope of federal regulations could change or expand in such a way as to preempt what has traditionally been state law regulation of our business activities. The enactment of one or more of such regulatory changes could materially and adversely affect our business, results of operations and prospects.



Adverse conditions in the capital and credit markets generally, or any particular liquidity problems affecting one or more members of the syndicate of banks that are members of the Company's credit facility, could affect the Company's ability to meet its liquidity needs and its cost of capital.

The severe turmoil that has persisted in the domestic and global credit capital markets since last year has negatively affected corporate liquidity, equity values, credit agency ratings and confidence in financial institutions. In addition to cash generated from operations, the Company depends on borrowings from institutional lenders to finance its operations, acquisitions and office expansion plans. Therefore, notwithstanding the Company's belief that its current liquidity position is adequate, the Company is not insulated from the pressures and potentially negative consequences of the current financial crisis.

The Company has a \$187.0 million base revolving credit facility with a syndicate of banks. The syndicate's current commitment under this facility extends through the end of September, 2010. As a result of the recent turmoil, there have been reports in the popular press that some banks and other providers of credit have been unable or unwilling to meet their existing commitments or undertake new commitments to provide funds to commercial borrowers, which has forced some of these borrowers to either curtail certain operations or to seek operating capital from other, and likely more expensive, sources. Should a similar situation occur with one or more of the members of the syndicate of banks under the Company's revolving credit facility, the Company would be faced with one or more undesirable alternatives, including the limitation or curtailment of its lending operations, limitation or curtailment of its growth and expansion plans, or an attempt to seek other, and likely more expensive, sources of operating capital in either the corporate credit markets or the equity markets, both of which are currently under significant strain.

## 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.

### Issuer Purchases of Equity Securities

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs
October 1 through October 31, 2008	-	-	-	4,805,506
November 1, through November 30, 2008 (1)	106,000	15.94	1,689,561	13,115,945
December 1, through December 31, 2008	-	-	-	\$ 13,115,945(2)
Total for the quarter	106,000	\$ 15.94	1,689,561	

(1) On November 10, 2008, the Board of Directors authorized the Company to repurchase up to \$10 million of additional common stock.

(2) This remaining repurchase capacity as of December 31, 2008 includes \$3.1 million remaining availability under an authorization of the Board of Directors on May 19, 2008 and \$10 million remaining availability under the authorization referenced in footnote (1) above.

The timing and actual number of shares repurchased will depend on a variety of factors, including the stock price, corporate and regulatory requirements and other market and economic conditions. The Company's stock repurchase program is not subject to specific targets or any expiration date, but may be suspended or discontinued at any time.

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 Credit Agreement dated July 20, 2005	4.4	6-30-05 10-Q
4.5	First Amendment to Amended and Restated Revolving Credit Agreement, dated as of August 4, 2006	4.4	6-30-06 10-Q
4.6	Second Amendment to Amended and Restated Revolving Credit Agreement dated as of October 2, 2006	10.1	10-04-06 8-K
4.7	Third Amendment to Amended and Restated Revolving Credit Agreement dated as of August 31, 2007	10.1	9-7-07 8-K
4.8	Fourth Amendment to Amended and Restated Revolving Credit Agreement dated as of August 4, 2008	4.8	6-30-08 10-Q
4.9	Fifth Amendment to Amended and Restated Revolving Credit Agreement dated as of January 28, 2009	*	
4.10	Subsidiary Security Agreement dated as of June 30, 1997, as Amended through July 20, 2005	4.5	9-30-05 10-Q
4.11	Company Security Agreement dated as of June 20, 1997, as amended through July 20, 2005	4.6	9-30-05 10-Q
4.12	Fourth Amendment to Subsidiary Amended and Restated Security Agreement, Pledge and Indenture of Trust (i.e. Subsidiary Security Agreement)	4.7	6-30-05 10-Q

Edgar Filing: WORLD ACCEPTANCE CORP - Form 10-Q

4.13	Fourth Amendment to Amended and Restated Security Agreement, Pledge and Indenture of Trust, dated as of June 30, 1997 (i.e., Company Security Agreement)	4.10	9-30-04 10-Q
4.14	Fifth Amendment to Amended and Restated Security Agreement, Pledge and Indenture of Trust (i.e. Company Security Agreement)	4.9	6-30-05 10-Q
4.15	Form of 3.00% Convertible Senior Subordinated Note due 2011	4.1	10-12-06 8-K
4.16	Indenture, dated October 10, 2006 between the Company and U.S. Bank National Association, as Trustee	4.2	10-12-06 8-K

25

---

Edgar Filing: WORLD ACCEPTANCE CORP - Form 10-Q

Exhibit Number	Description	Previous Exhibit Number	Company Registration No. or Report
10.1	World Acceptance Corporation Retirement Savings Plan Fifth Amendment	*	
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	*	

\* Filed or furnished herewith.

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: February 2, 2009

By: /s/ Kelly M. Malson  
Kelly M. Malson, Vice President and  
Chief Financial Officer

Date: February 2, 2009