

Edgar Filing: WORLD ACCEPTANCE CORP - Form 10-Q

WORLD ACCEPTANCE CORP
Form 10-Q
February 06, 2017
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, 2016

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: 000-19599

WORLD ACCEPTANCE CORPORATION

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

South Carolina

57-0425114

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

108 Frederick Street

Greenville, South Carolina 29607

(Address of principal executive offices)

(Zip Code)

(864) 298-9800

(registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The number of outstanding shares of the issuer's no par value common stock as of January 30, 2017 was 8,783,197.

WORLD ACCEPTANCE CORPORATION
AND SUBSIDIARIES

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

	Page
Item 1. Consolidated Financial Statements (unaudited):	
<u>Consolidated Balance Sheets as of December 31, 2016 and March 31, 2016</u>	<u>3</u>
<u>Consolidated Statements of Operations for the three and nine months ended December 31, 2016 and December 31, 2015</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended December 31, 2016 and December 31, 2015</u>	<u>5</u>
<u>Consolidated Statements of Shareholders' Equity for the year ended March 31, 2016 and the nine months ended December 31, 2016</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the nine months ended December 31, 2016 and December 31, 2015</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>29</u>
Item 4. <u>Controls and Procedures</u>	<u>30</u>
PART II - OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>31</u>
Item 1A. <u>Risk Factors</u>	<u>31</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>31</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>32</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>32</u>
Item 5. <u>Other Information</u>	<u>32</u>
Item 6. <u>Exhibits</u>	<u>33</u>
<u>Signatures</u>	<u>34</u>

Introductory Note: As used herein, the “Company,” “we,” “our,” “us,” or similar formulations include World Acceptance Corporation and each of its subsidiaries, unless otherwise expressly noted or the context otherwise requires that it include only World Acceptance Corporation. All references in this report to “fiscal 2017” are to the Company’s fiscal year ending March 31, 2017.

Table of Contents

PART I. FINANCIAL INFORMATION

WORLD ACCEPTANCE CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2016	March 31, 2016
ASSETS		
Cash and cash equivalents	\$ 15,985,659	12,377,024
Gross loans receivable	1,165,009,015	1,066,964,342
Less:		
Unearned interest, insurance and fees	(327,308,054)	(290,659,162)
Allowance for loan losses	(81,803,320)	(69,565,804)
Loans receivable, net	755,897,641	706,739,376
Property and equipment, net	23,762,356	25,296,913
Deferred income taxes, net	43,612,003	38,130,982
Other assets, net	13,024,333	14,636,573
Goodwill	6,067,220	6,121,458
Intangible assets, net	2,588,118	2,916,537
Total assets	\$ 860,937,330	806,218,863
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities:		
Senior notes payable	397,936,200	374,685,000
Income taxes payable	10,983,930	8,258,642
Accounts payable and accrued expenses	30,026,931	31,373,640
Total liabilities	438,947,061	414,317,282
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock, no par value Authorized 5,000,000, no shares issued or outstanding	—	—
Common stock, no par value Authorized 95,000,000 shares; issued and outstanding 8,781,817 and 8,812,250 shares at December 31, 2016 and March 31, 2016, respectively	—	—
Additional paid-in capital	143,337,560	138,835,064
Retained earnings	312,754,505	276,000,862
Accumulated other comprehensive loss	(34,101,796)	(22,934,345)
Total shareholders' equity	421,990,269	391,901,581
Total liabilities and shareholders' equity	\$ 860,937,330	806,218,863

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
Revenues:				
Interest and fee income	\$ 118,257,234	126,869,729	\$ 349,281,636	373,672,662
Insurance income, net and other income	12,557,608	12,826,307	37,882,278	39,660,004
Total revenues	130,814,842	139,696,036	387,163,914	413,332,666
Expenses:				
Provision for loan losses	39,984,838	35,440,402	107,869,859	99,225,547
General and administrative expenses:				
Personnel	42,395,388	42,919,853	124,791,866	125,584,162
Occupancy and equipment	10,517,199	10,546,075	31,650,299	32,969,166
Advertising	8,490,703	7,961,227	14,934,458	14,540,768
Amortization of intangible assets	108,470	131,197	382,657	407,220
Other	9,725,018	10,021,695	25,881,791	29,083,034
Total general and administrative expenses	71,236,778	71,580,047	197,641,071	202,584,350
Interest expense	5,274,436	7,149,385	16,379,633	19,890,581
Total expenses	116,496,052	114,169,834	321,890,563	321,700,478
Income before income taxes	14,318,790	25,526,202	65,273,351	91,632,188
Income taxes	4,678,757	10,774,828	23,523,899	34,062,360
Net income	\$ 9,640,033	14,751,374	\$ 41,749,452	57,569,828
Net income per common share:				
Basic	\$ 1.11	1.70	\$ 4.79	6.68
Diluted	\$ 1.10	1.70	\$ 4.75	6.63
Weighted average common shares outstanding:				
Basic	8,701,975	8,657,675	8,716,960	8,624,617
Diluted	8,782,597	8,694,051	8,785,835	8,686,925

See accompanying notes to consolidated financial statements.

Table of Contents

WORLD ACCEPTANCE CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended		Nine months ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Net income	\$9,640,033	\$14,751,374	\$41,749,452	\$57,569,828
Foreign currency translation adjustments	(3,626,904)	(1,075,499)	(11,167,451)	(8,461,239)
Comprehensive income	\$6,013,129	\$13,675,875	\$30,582,001	\$49,108,589

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances at March 31, 2015	\$ 141,864,764	188,605,305	(14,902,350)	315,567,719
Proceeds from exercise of stock options (89,403 shares), including tax benefits of \$78,382	3,327,067	—	—	3,327,067
Restricted common stock expense under stock option plan, net of cancellations (\$2,289,017)	(10,322,230)	—	—	(10,322,230)
Stock option expense	3,965,463	—	—	3,965,463
Other comprehensive loss	—	—	(8,031,995)	(8,031,995)
Net income	—	87,395,557	—	87,395,557
Balances at March 31, 2016	\$ 138,835,064	276,000,862	(22,934,345)	391,901,581
Proceeds from exercise of stock options (32,247 shares), including tax expense of -\$514,275	596,519	—	—	596,519
Common stock repurchases (95,703 shares)	—	(4,995,809)	—	(4,995,809)
Restricted common stock expense under stock option plan, net of cancellations (\$267,674)	774,217	—	—	774,217
Stock option expense	3,131,760	—	—	3,131,760
Other comprehensive loss	—	—	(11,167,451)	(11,167,451)
Net income	—	41,749,452	—	41,749,452
Balances at December 31, 2016	\$ 143,337,560	312,754,505	(34,101,796)	421,990,269

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Nine months ended December 31,	
	2016	2015
Cash flow from operating activities:		
Net income	\$41,749,452	57,569,828
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	382,657	407,220
Amortization of debt issuance costs	1,657,933	1,709,126
Provision for loan losses	107,869,859	99,225,547
Depreciation	5,166,492	4,818,984
(Gain) loss on sale of property and equipment	(133,883)	1,364,251
Deferred income tax benefit	(6,525,485)	(4,411,064)
Compensation related to stock option and restricted stock plans, net of taxes and adjustments	3,905,977	(4,665,702)
Gain on sale of loans receivable, net of buybacks	—	(1,257,427)
Change in accounts:		
Other assets, net	1,545,516	2,356,005
Income taxes payable	2,892,650	(13,575,540)
Accounts payable and accrued expenses	(2,521,296)	(3,098,477)
Net cash provided by operating activities	155,989,872	140,442,751
Cash flows from investing activities:		
Increase in loans receivable, net	(166,156,575)	(160,437,858)
Proceeds from sale of loans receivable, net of buybacks	—	(231,311)
Net assets acquired from branch acquisitions, primarily loans	—	(92,097)
Increase in intangible assets from acquisitions	—	(81,531)
Purchases of property and equipment	(4,877,639)	(4,887,956)
Proceeds from sale of property and equipment	721,906	811,368
Net cash used in investing activities	(170,312,308)	(164,919,385)
Cash flow from financing activities:		
Borrowings from senior notes payable	204,051,200	237,495,000
Payments on senior notes payable	(180,800,000)	(226,710,000)
Debt issuance costs associated with senior notes payable	(201,200)	(5,500,000)
Proceeds from exercise of stock options	1,110,794	2,771,683
Repurchase of common stock	(4,995,809)	—
Excess tax (expense) benefit from exercise of stock options	(514,275)	87,966
Net cash provided by financing activities	18,650,710	8,144,649
Effects of exchange-rate changes on cash and cash equivalents	(719,639)	(1,064,550)
Net change in cash and cash equivalents	3,608,635	(17,396,535)
Cash and cash equivalents at beginning of period	12,377,024	38,338,935
Cash and cash equivalents at end of period	\$15,985,659	20,942,400
Supplemental Disclosures:		
Interest paid during the period	14,373,633	17,533,968
Income taxes paid during the period	27,673,265	51,964,927

See accompanying notes to consolidated financial statements.

7

Table of Contents

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

NOTE 1 – BASIS OF PRESENTATION

The consolidated financial statements of the Company at December 31, 2016, 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, 2016, and the results of operations and cash flows for the periods ended December 31, 2016 and 2015, have been included. The results for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period.

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

The consolidated financial statements do not include all disclosures required by GAAP and should be read in conjunction with the Company’s audited consolidated financial statements and related notes for the fiscal year ended March 31, 2016, included in the Company’s 2016 Annual Report to Shareholders.

NOTE 2 – SUMMARY OF SIGNIFICANT POLICIES

Nature of Operations

The Company is a small-loan consumer finance company headquartered in Greenville, South Carolina that offers short-term small loans, medium-term larger loans, related credit insurance products and ancillary products and services to individuals who have limited access to other sources of consumer credit. In U.S. branches, the Company offers income tax return preparation services to its loan customers and other individuals.

Seasonality

The Company's loan volume and corresponding loans receivable follow seasonal trends. The Company's highest loan demand generally occurs from October through December, its third fiscal quarter. Loan demand is generally lowest and loan repayment highest from January to March, its fourth fiscal quarter. Loan volume and average balances remain relatively level during the remainder of the year. Consequently, the Company experiences significant seasonal fluctuations in its operating results and cash needs. Operating results for the Company's third fiscal quarter are generally lower than in other quarters and operating results for its fourth fiscal quarter are generally higher than in other quarters.

Recently Adopted Accounting Standards

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2015-03, which requires an entity to present debt issuance costs on the balance sheet as a direct deduction from the related debt liability as opposed to an asset. Amortization of the costs will continue to be reported as interest expense. In August

2015, the FASB issued ASU No. 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting). ASU 2015-15 allows debt issuance costs related to line-of-credit agreements to be presented on the balance sheet as an asset. ASU 2015-03 and 2015-15 were adopted April 1, 2016 with no impact on our consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

Clarifying the Definition of a Business

In January 2017, the Financial Accounting Standards Board issued ASU No. 2017-01, Clarifying the Definition of a Business. Current GAAP does not specify the minimum inputs and processes required for a "set" of assets and activities to meet the definition

Table of Contents

of a business. That lack of clarity led to broad interpretations of the definition of a business. The amendments in this Update provide a more robust framework to use in determining when a set of assets and activities is a business. For public business entities the amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements.

Restricted Cash

In November 2016, the Financial Accounting Standards Board issued ASU No. 2016-18, Restricted Cash. GAAP currently does not include specific guidance to address how to classify and present changes in restricted cash or restricted cash equivalents that occur when there are transfers between cash, cash equivalents, and restricted cash or restricted cash equivalents and when there are direct cash receipts into restricted cash or restricted cash equivalents or direct cash payments made from restricted cash or restricted cash equivalents. The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update do not provide a definition of restricted cash or restricted cash equivalents. For public business entities the amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements.

Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the Financial Accounting Standards Board issued ASU No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This prohibition on recognition is an exception to the principle of comprehensive recognition of current and deferred income taxes in GAAP. The amendments in this Update eliminate the exception for an intra-entity transfer of an asset other than inventory. For public business entities the amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the Financial Accounting Standards Board issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. The amendment addresses the following eight specific cash flow issues with the objective of reducing the existing diversity in practice:

- Debt Prepayment or Debt Extinguishment Costs
- Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing
- Contingent Consideration Payments Made after a Business Combination
- Proceeds from the Settlement of Insurance Claims
- Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies
- Distributions Received from Equity Method Investees
- Beneficial Interests in Securitization Transactions
- Separately Identifiable Cash Flows and Application of the Predominance Principle

For public business entities the amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements.

Measurement of Credit Losses on Financial Instruments

In June 2016, the Financial Accounting Standards Board issued ASU No. 2016-13, Financial Instruments - Credit Losses. The amendment seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities the amendments are effective for fiscal years beginning after December

Table of Contents

15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements.

Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing

In April 2016, the Financial Accounting Standards Board issued ASU No. 2016-10, Identifying Performance Obligations and Licensing. The amendments clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. Public entities should apply the amendments for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein. Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements.

Improvements to Employee Share-Based Payment Accounting

In March 2016, the Financial Accounting Standards Board issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies the accounting for share-based payment transactions, income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendment in this ASU becomes effective on a modified retrospective transition for accounting in tax benefits recognized, retrospectively for accounting related to the presentation of employee taxes paid, prospective for accounting related to recognition of excess tax benefits, and either a prospective or retrospective method for accounting related to presentation of excess employee tax benefits for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements.

Principal versus Agent Considerations (Reporting Revenue Gross versus Net)

In March 2016, the Financial Accounting Standards Board issued ASU 2016-08, Principal versus Agent Considerations, which clarifies the implementation of the guidance on principal versus agent considerations from ASU 2014-09, Revenue from Contracts with Customers. ASU 2016-08 does not change the core principle of the guidance in ASU 2014-09, but rather clarifies the distinction between principal versus agent considerations when implementing ASU 2014-09. As these are technical corrections and improvements only, the Company does not believe that this ASU will have a material effect on its consolidated financial statements.

Leases

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, Leases (Topic 842). The ASU will require lessees to recognize assets and liabilities on leases with terms greater than 12 months and to disclose information related to the amount, timing and uncertainty of cash flows arising from leases, including various qualitative and quantitative requirements. The amendments of this ASU become effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the Financial Accounting Standards Board issued ASU 2016-01, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Company beginning in its first quarter of 2019 and early adoption is not permitted. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board issued ASU No. 2014-09, which supersedes the revenue recognition requirements Topic 605 (Revenue Recognition), and most industry-specific guidance. ASU No. 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU No. 2014-09,

Table of Contents

as amended by ASU 2015-14 and ASU 2016-20, is effective for fiscal years, and interim periods, beginning after December 15, 2017, with early adoption permitted for annual reporting periods beginning after December 15, 2016. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements.

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

NOTE 3 – FAIR VALUE

Fair Value Disclosures

The Company may carry certain financial instruments and derivative assets and liabilities at fair value on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Company determines the fair values of its financial instruments based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

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

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

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

	December 31, 2016		March 31, 2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
ASSETS				
Level 1 inputs				
Cash and cash equivalents	\$ 15,985,659	\$ 15,985,659	\$ 12,377,024	\$ 12,377,024
Level 3 inputs				
Loans receivable, net	755,897,641	755,897,641	706,739,376	706,739,376
LIABILITIES				
Level 3 inputs				
Senior notes payable	397,936,200	397,936,200	374,685,000	374,685,000

There were no significant assets or liabilities measured at fair value on a non-recurring basis as of December 31, 2016 or March 31, 2016.

Table of Contents

NOTE 4 – FINANCE RECEIVABLES AND ALLOWANCE FOR LOAN LOSSES

The following is a summary of gross loans receivable as of:

	December 31, 2016	March 31, 2016	December 31, 2015
Small loans	\$720,626,086	637,826,581	754,478,231
Large loans	444,231,345	427,723,584	462,085,177
Sales finance receivables ⁽¹⁾	151,584	1,414,177	2,645,958
Total gross loans	\$1,165,009,015	1,066,964,342	1,219,209,366

⁽¹⁾ The Company decided to wind down the World Class Buying Club program during the third quarter of fiscal 2015. As of March 31, 2015, the Company is no longer financing the purchase of products through the program; however, the Company will continue to service the outstanding retail installment sales contracts.

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

	Three months ended December 31,		Nine months ended December 31,	
	2016	2015	2016	2015
Balance at beginning of period	\$76,421,311	80,317,713	\$69,565,804	70,437,988
Provision for loan losses	39,984,838	35,440,402	107,869,859	99,225,547
Loan losses	(37,707,592)	(35,294,084)	(105,126,567)	(97,622,277)
Recoveries ⁽¹⁾	3,674,873	4,131,664	11,141,171	13,397,456
Translation adjustment	(570,110)	(107,101)	(1,646,947)	(950,120)
Balance at end of period	\$81,803,320	84,488,594	\$81,803,320	84,488,594

⁽¹⁾ Recoveries during the three and nine months ended December 31, 2015 included \$0.5 million and \$2.7 million, respectively, resulting from the sale of previously charged-off loans.

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

December 31, 2016	Loans individually evaluated for impairment (impaired loans)	Loans collectively evaluated for impairment	Total
Gross loans in bankruptcy, excluding contractually delinquent	\$4,679,222	—	4,679,222
Gross loans contractually delinquent	58,478,910	—	58,478,910
Loans not contractually delinquent and not in bankruptcy	—	1,101,850,883	1,101,850,883
Gross loan balance	63,158,132	1,101,850,883	1,165,009,015
Unearned interest and fees	(16,082,976)	(311,225,078)	(327,308,054)
Net loans	47,075,156	790,625,805	837,700,961
Allowance for loan losses	(42,594,801)	(39,208,519)	(81,803,320)
Loans, net of allowance for loan losses	\$4,480,355	751,417,286	755,897,641

Table of Contents

	Loans individually evaluated for impairment (impaired loans)	Loans collectively evaluated for impairment	Total
March 31, 2016			
Gross loans in bankruptcy, excluding contractually delinquent	\$4,560,322	—	4,560,322
Gross loans contractually delinquent	46,373,923	—	46,373,923
Loans not contractually delinquent and not in bankruptcy	—	1,016,030,097	1,016,030,097
Gross loan balance	50,934,245	1,016,030,097	1,066,964,342
Unearned interest and fees	(12,726,898)	(277,932,264)	(290,659,162)
Net loans	38,207,347	738,097,833	776,305,180
Allowance for loan losses	(33,840,839)	(35,724,965)	(69,565,804)
Loans, net of allowance for loan losses	\$4,366,508	702,372,868	706,739,376
	Loans individually evaluated for impairment (impaired loans)	Loans collectively evaluated for impairment	Total
December 31, 2015			
Gross loans in bankruptcy, excluding contractually delinquent	\$4,839,276	—	4,839,276
Gross loans contractually delinquent	56,777,734	—	56,777,734
Loans not contractually delinquent and not in bankruptcy	—	1,157,592,356	1,157,592,356
Gross loan balance	61,617,010	1,157,592,356	1,219,209,366
Unearned interest and fees	(15,173,459)	(322,330,549)	(337,504,008)
Net loans	46,443,551	835,261,807	881,705,358
Allowance for loan losses	(41,809,944)	(42,678,650)	(84,488,594)
Loans, net of allowance for loan losses	\$4,633,607	792,583,157	797,216,764

The average net balance of impaired loans was \$41.8 million and \$42.0 million, respectively, for the nine month periods ended December 31, 2016, and 2015. It is not practical to compute the amount of interest earned on impaired loans.

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

	December 31, 2016	March 31, 2016	December 31, 2015
Credit risk			
Consumer loans- non-bankrupt accounts	\$ 1,159,145,977	1,061,436,900	1,213,286,140
Consumer loans- bankrupt accounts	5,863,038	5,527,442	5,923,226
Total gross loans	\$ 1,165,009,015	1,066,964,342	1,219,209,366
Consumer credit exposure			
Credit risk profile based on payment activity, performing	\$ 1,076,292,160	991,386,552	1,131,348,784
Contractual non-performing, 60 or more days delinquent ⁽¹⁾	88,716,855	75,577,790	87,860,582
Total gross loans	\$ 1,165,009,015	1,066,964,342	1,219,209,366

Credit risk profile based on customer type

Edgar Filing: WORLD ACCEPTANCE CORP - Form 10-Q

New borrower	\$ 169,425,813	141,980,629	173,506,380
Former borrower	136,401,410	111,608,375	137,261,707
Refinance	839,846,451	793,913,695	884,046,393
Delinquent refinance	19,335,341	19,461,643	24,394,886
Total gross loans	\$ 1,165,009,015	1,066,964,342	1,219,209,366

(1) Loans in non-accrual status

13

Table of Contents

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

	December 31, 2016	March 31, 2016	December 31, 2015	
Contractual basis:				
30-59 days past due	\$42,938,440	40,094,824	44,805,260	
60-89 days past due	28,231,005	27,082,385	29,428,608	
90 days or more past due	60,485,851	48,495,405	58,431,974	
Total	\$131,655,296	115,672,614	132,665,842	
Percentage of period-end gross loans receivable	11.3	% 10.8	% 10.9	%

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,	
	2016	2015	2016	2015
Basic:				
Weighted average common shares outstanding (denominator)	8,701,975	8,657,675	8,716,960	8,624,617
Diluted:				
Weighted average common shares outstanding	8,701,975	8,657,675	8,716,960	8,624,617
Dilutive potential common shares stock options	80,622	36,376	68,875	62,308
Weighted average diluted shares outstanding (denominator)	8,782,597	8,694,051	8,785,835	8,686,925

Options to purchase 853,589 and 848,245 shares of common stock at various prices were outstanding during the three months ended December 31, 2016 and 2015 respectively, but were not included in the computation of diluted EPS because the option exercise price was anti-dilutive.

Options to purchase 945,791 and 842,471 shares of common stock at various prices were outstanding during the nine months ended December 31, 2016 and 2015 respectively, but were not included in the computation of diluted EPS because the option exercise price was anti-dilutive.

NOTE 6 – STOCK-BASED COMPENSATION

Stock Option Plans

The Company has a 2002 Stock Option Plan, a 2005 Stock Option Plan, a 2008 Stock Option Plan, and a 2011 Stock Option Plan for the benefit of certain directors, officers, and key employees. Under these plans, a total of 4,100,000 shares of authorized common stock have been reserved for issuance pursuant to grants approved by the Compensation and Stock Option Committee of the Board of Directors. Stock options granted under these plans have a maximum duration of 10 years, may be subject to certain vesting requirements, which are generally three to five years for officers, directors, and key employees, and are priced at the market value of the Company's common stock on the option's grant date. At December 31, 2016, there were a total of 419,463 shares available for grant under the plans.

Stock-based compensation is recognized as provided under FASB ASC Topic 718-10 and FASB ASC Topic 505-50. FASB ASC Topic 718-10 requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense over the requisite service period (generally the vesting period) in the consolidated financial statements based on their grant date fair values. The impact of forfeitures that may occur prior to vesting must also be estimated and considered in the amount recognized. The Company has applied the Black-Scholes valuation model in determining the grant date fair value

Table of Contents

of the stock option awards. Compensation expense is recognized only for those options expected to vest, with forfeitures estimated based on historical experience and future expectations.

The weighted-average fair value at the grant date for options issued during the three months ended December 31, 2016 and 2015 was \$22.25 and \$10.28, respectively. The weighted-average fair value at the grant date for options issued during the nine months ended December 31, 2016 and 2015 was \$22.24 and \$10.82, respectively. Fair value was estimated at grant date using the weighted-average assumptions listed below:

	Three months ended December 31, 2016		Nine months ended December 31, 2016	
	2015	2015	2015	2015
Dividend Yield	—%	—%	—%	—%
Expected Volatility	48.83%	41.51%	48.90%	41.41%
Average risk-free rate	1.19%	1.37%	1.19%	1.38%
Expected Life	5.0 years	5.0 years	5.0 years	5.0 years

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

Option activity for the nine months ended December 31, 2016 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, beginning of period	950,651	\$ 67.20		
Granted during period	62,175	51.36		
Exercised during period	(32,247)	34.45		
Forfeited during period	(50,224)	66.27		
Expired during period	(38,723)	71.17		
Options outstanding, end of period	891,632	\$ 67.16	6.7 years	\$5,732,575
Options exercisable, end of period	554,872	\$ 69.07	5.9 years	\$2,541,260

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, 2016 and the exercise price, multiplied by the number of in-the-money options) that would have been received by option holders had all option holders exercised their options as of December 31, 2016. This amount will change as the stock's market price changes. The total intrinsic value of options exercised during the periods ended December 31, 2016 and 2015 was as follows:

	December 31, 2016	December 31, 2015
Three months ended	\$ 500,137	\$ 153,726
Nine months ended	\$ 612,530	\$ 2,107,301

As of December 31, 2016, total unrecognized stock-based compensation expense related to non-vested stock options amounted to approximately \$6.1 million, which is expected to be recognized over a weighted-average period of approximately 2.2 years.

Restricted Stock

So far during fiscal 2017, the Company has granted 74,490 shares of restricted stock (which are equity classified), to certain executive officers, with a grant date weighted average fair value of \$51.15 per share. One-third of these awards will vest on each anniversary of the grant date over the next three years.

15

Table of Contents

During fiscal 2016, the Company granted 69,950 shares of restricted stock (which are equity classified), to certain executive officers, with a grant date weighted average fair value of \$28.11 per share. One-third of these awards will vest on each anniversary of the grant date over the next three years.

During fiscal 2014 and 2013 the Company granted 8,590 and 70,800 Group A performance based restricted stock awards to certain officers. Group A awards vested on April 30, 2015 based on the Company's achievement of the following performance goals as of March 31, 2015:

EPS Target	Restricted Shares Eligible for Vesting (Percentage of Award)
\$10.29	100%
\$9.76	67%
\$9.26	33%
Below \$9.26	0%

During fiscal 2014 and 2013 the Company granted 56,660 and 443,700 Group B performance based restricted stock awards to certain officers. As of December 31, 2016, no Group B awards remain unforfeited and outstanding. Group B awards would have vested as follows, if the Company achieved the following performance goals during any successive trailing four quarters during the measurement period ending on March 31, 2017:

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

The Company determined that the earnings per share targets associated with the Group B stock awards were not achievable during the measurement period which ends on March 31, 2017. Subsequently, the Compensation and Stock Option Committee of the Board of Directors amended the awards allowing 25% of the Group B awards to vest for certain officers. The officers were required to forfeit their remaining Group B shares as a part of the amendment. FASB Topic ASC 718 defines a grant modification as a change in any of the terms or conditions of a stock-based compensation award to include accelerated vesting. The Company determined that since the Group B awards would not have otherwise vested pre-modification, the accelerated vesting qualified as a Type III modification. The Company released approximately \$9.7 million of compensation expense, including \$2.9 million related to the Type III modification, during the year ended March 31, 2016 associated with the Group B awards.

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 compensation expense of \$0.6 million and \$0.3 million for the three months ended December 31, 2016 and 2015, respectively, and recognized \$1.0 million and a net reduction in compensation expense of \$6.0 million for the nine months ended December 31, 2016 and 2015, respectively, which is included as a component of general and administrative expenses in the Company's Consolidated Statements of Operations.

As of December 31, 2016, there was approximately \$3.9 million of unrecognized compensation cost related to unvested restricted stock awards, which is expected to be recognized over the next 2.6 years based on current estimates.

Table of Contents

A summary of the status of the Company's restricted stock as of December 31, 2016, and changes during the nine months ended December 31, 2016, are presented below:

	Shares	Weighted Average Fair Value at Grant Date
Outstanding at March 31, 2016	93,550	\$ 40.92
Granted during the period	74,490	51.15
Vested during the period	(19,773)	27.98
Forfeited during the period	(36,090)	62.49
Outstanding at December 31, 2016	112,177	\$ 43.06

Total share-based compensation included as a component of net income during the three and nine month periods ended December 31, 2016 and 2015 was as follows:

	Three months ended December 31, 2016		Nine months ended December 31, 2016	
Share-based compensation related to equity classified awards:				
Share-based compensation related to stock options	\$2,149,340	1,719,236	3,131,760	3,226,766
Share-based compensation related to restricted stock, net of adjustments and exclusive of cancellations	618,023	346,865	1,041,891	(6,049,127)
Total share-based compensation related to equity classified awards	\$2,767,363	2,066,101	4,173,651	(2,822,361)

NOTE 7 – ACQUISITIONS

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

There were no acquisitions during the nine months ended December 31, 2016. The following table sets forth the acquisition activity of the Company for the nine months ended December 31, 2015.

	2015
Number of business combinations	—
Number of asset purchases	1
Total acquisitions	1
Purchase Price	173,628
Tangible assets:	
Net loans	92,097
Furniture, fixtures & equipment	—
	92,097
Excess of purchase prices over carrying value of net tangible assets	81,531

Customer lists	76,531
Non-compete agreements	5,000
Goodwill	—

Table of Contents

When the acquisition results in a new branch, 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 branch 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.

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.

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

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

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

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

NOTE 8 – DEBT

At December 31, 2016 the Company's notes payable consist of a \$460.0 million senior revolving credit facility with borrowings of \$397.9 million outstanding and a \$0.8 million standby letter of credit related to workers compensation and surety bonds outstanding. To the extent that the letters of credit are drawn upon, the disbursement will be funded by the credit facility. There are no amounts due related to the letters of credit as of December 31, 2016, and they expire on December 31, 2016. The Letters of Credit are automatically extended for one year on the expiration date. The aggregate commitments will reduce from \$460.0 million to \$370.0 million on March 31, 2017. The amended facility has an accordion feature pursuant to which the Company may request an increase in the aggregate amount of the commitments under the revolving credit facility, provided that the aggregate amount of the commitments will not exceed \$500.0 million. Subject to a borrowing base formula, the Company may borrow at the rate of LIBOR plus 4.0% with a minimum rate of 5.0%. For the nine months ended December 31, 2016 and fiscal year ended March 31, 2016, the Company's effective interest rate, including the commitment fee and amortization of debt issuance costs, was 5.8% and 5.6%, respectively, and the unused amount available under the revolver at December 31, 2016 was \$61.3 million. The revolving credit facility has a commitment fee of 0.50% per annum on the unused portion of the commitment. Borrowings under the revolving credit facility mature on June 15, 2018.

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

NOTE 9 – INCOME TAXES

The Company is required to assess whether the earnings of our two Mexican foreign subsidiaries, Servicios World Acceptance Corporation de México, S. de R.L. de C.V. (“SWAC”) and WAC de México, S.A. de C.V., SOFOM ENR (“WAC de Mexico”), will be permanently reinvested in the respective foreign jurisdiction or if previously untaxed foreign earnings of the Company will no longer be permanently reinvested and thus become taxable in the United States. If these earnings were ever repatriated to the United States, the Company would be required to accrue and pay taxes on the cumulative undistributed earnings. As of December 31, 2016, the Company has determined that approximately \$1.4 million of cumulative undistributed net earnings of SWAC and approximately \$21.9 million of cumulative undistributed net earnings of WAC de México, as well as the future net earnings and losses of both foreign subsidiaries, will be permanently reinvested. At December 31, 2016, there was an unrecognized deductible temporary difference in the amount of \$223,000 related to investment in the Mexican subsidiaries.

Table of Contents

As of December 31, 2016 and March 31, 2016, the Company had \$10.5 million and \$10.7 million, respectively, of total gross unrecognized tax benefits including interest. Approximately \$8.0 million and \$8.2 million, respectively, represent the amount of net unrecognized tax benefits that are permanent in nature and, if recognized, would affect the annual effective tax rate. At December 31, 2016, approximately \$5.5 million of gross unrecognized tax benefits are expected to be resolved during the next twelve months through the expiration of the statute of limitations and settlement with taxing authorities. The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. As of December 31, 2016, the Company had approximately \$1.5 million accrued for gross interest, of which \$139,312 was a current period-end expense for the nine months ended December 31, 2016.

The Company is subject to U.S. and Mexican income taxes, as well as various other state and local jurisdictions. With the exception of a few states, 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 2012, although carryforward attributes that were generated prior to 2012 may still be adjusted upon examination by the taxing authorities if they either have been or will be used in a future period.

The Company's effective income tax rate decreased to 32.7% for the quarter ended December 31, 2016 compared to 42.2% for the prior year quarter. The decrease was primarily due to the increase in reserves related to a state ruling against the Company in the prior year quarter.

NOTE 10 – COMMITMENT AND CONTINGENCIES

See Part 1, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Regulatory Matters - CFPB Investigation," for information regarding the Company's previously disclosed receipt of a Civil Investigative Demand ("CID") from the Consumer Financial Protection Bureau ("CFPB") on March 12, 2014 and receipt of a Notice and Opportunity to Respond and Advise ("NORA") letter from the CFPB on August 7, 2015 and the Company's responses thereto.

As previously disclosed, on April 22, 2014, a shareholder filed a putative class action complaint, *Edna Selan Epstein v. World Acceptance Corporation et al.*, in the United States District Court for the District of South Carolina (case number 6:14-cv-01606) (the "Edna Epstein Putative Class Action"), against the Company and certain of its current and former officers on behalf of all persons who purchased or otherwise acquired the Company's common stock between April 25, 2013 and March 12, 2014. Two amended complaints have been filed by the plaintiffs, and several other motions have been filed in the proceedings. The complaint, as currently amended, alleges that (i) the Company made false and misleading statements in various SEC reports and other public statements in violation of federal securities laws preceding the Company's disclosure in a Form 8-K filed March 13, 2014 that it had received the above-referenced CID from the CFPB (ii) the Company's loan growth and volume figures were inflated because of a weakness in the Company's internal controls relating to its accounting treatment of certain small-dollar loan re-financings and (iii) additional allegations regarding, among other things, the Company's receipt of a Notice and Opportunity to Respond and Advise letter from the CFPB on August 7, 2015. The complaint seeks class certification for a class consisting of all persons who purchased or otherwise acquired the Company's common stock between January 30, 2013 and August 10, 2015, unspecified monetary damages, costs and attorneys' fees. The Company believes the complaint is without merit. On January 29, 2016, the defendants moved to dismiss the complaint. On August 24, 2016, the Court entered an order denying the defendants' motion to dismiss. On September 28, 2016, the Lead Plaintiff filed a motion seeking to certify the action as a class action. The time for the Company to respond to the Lead Plaintiff's motion for class certification has not yet expired. On October 7, 2016, the defendants filed an answer to the complaint. The parties are presently engaged in discovery.

Table of Contents

As previously disclosed, on July 15, 2015, a shareholder filed a putative derivative complaint, Irwin J. Lipton, et al. v. McLean, et al., in the United States District Court for the District of South Carolina (case number 6:15-cv-02796-MGL) (the “Lipton Derivative Action”), on behalf of the Company against certain of its current and former officers and directors. On September 21, 2015, another shareholder filed a putative derivative complaint, Paul Parshall, et al. v. McLean, et al., in the United States District Court for the District of South Carolina (case number 6:15-cv-03779-MGL) (the “Parshall Derivative Action”), asserting substantially similar claims on behalf of the Company against certain of its current and former officers and directors. On October 14, 2015, the Court entered an order consolidating the Lipton Derivative Action and the Parshall Derivative Action as In re World Acceptance Corp. Derivative Litigation (Lead Case No. 6:15-cv-02796-MGL). The plaintiffs subsequently filed an amended consolidated complaint, and the amended consolidated complaint alleges, among other things: (i) that the defendants breached their fiduciary duties by disseminating false and misleading information to the Company’s shareholders regarding the Company’s loan growth, loan renewals, allowances for loan losses, revenue sources, revenue growth, compliance with GAAP, and the sufficiency of the Company’s internal controls and accounting procedures; (ii) that the defendants breached their fiduciary duties by failing to ensure that the Company maintained adequate internal controls; (iii) that the defendants breached their fiduciary duties by failing to exercise prudent oversight and supervision of the Company’s officers and other employees to ensure conformity with all applicable laws and regulations; (iv) that the defendants were unjustly enriched as a result of the compensation they received while allegedly breaching their fiduciary duties owed to the Company; (v) that the defendants wasted corporate assets by paying excessive compensation to certain of the Company’s executive officers, awarding self-interested stock options to certain of the Company’s officers and directors, incurring legal liability and legal costs to defend the defendants’ unlawful actions, and authorizing the repurchase of Company stock at artificially inflated prices; (vi) that certain of the defendants breached their fiduciary duty to the Company by selling shares of the Company’s stock at artificially inflated prices while in the possession of material, nonpublic information regarding the Company’s financial condition; (vii) that the defendants violated Section 10(b) of the Securities Exchange Act of 1934 by making false and misleading statements regarding the Company’s practices regarding loan renewals, loan modifications, and accounting for loans; (viii) that the defendants violated Section 14(a) of the Securities Exchange Act of 1934 by failing to disclose alleged material facts in the Company’s 2014 and 2015 proxy statements; and (ix) allegations similar to those made in connection with the Edna Epstein Putative Class Action described above. The amended consolidated complaint seeks, among other things, unspecified monetary damages and an order directing the Company to take steps to reform and improve its corporate governance and internal procedures to comply with applicable laws and to protect the Company and its shareholders from future wrongdoing such as that described in the consolidated complaint. The defendants filed motions to dismiss the amended consolidated complaint on April 13, 2016. The plaintiffs filed responses in opposition, the defendants filed replies in further support of their motions to dismiss, and the defendants’ motions to dismiss the amended consolidated complaint are currently pending before the Court.

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

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

believe that any reasonably possible losses arising from currently pending legal matters will be material to the Company's results of operations or financial condition. However, in light of the inherent uncertainties involved in such matters, an adverse outcome in one or more of these matters could materially and adversely affect the Company's financial condition, results of operations or cash flows in any particular reporting period.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date the financial statements were issued. Management is not aware of any significant events occurring subsequent to the balance sheet date that would have a material effect on the financial statements thereby requiring adjustment or disclosure.

Table of Contents

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

Cautionary Note Regarding Forward-Looking Information

This report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains various “forward-looking statements,” within the meaning of The Private Securities Litigation Reform Act of 1995, that are based on management’s belief and assumptions, as well as information currently available to management. Statements other than those of historical fact, as well as those identified by the words “anticipate,” “estimate,” “intend,” “plan,” “expect,” “believe,” “may,” “will,” “should,” “would,” “could,” and any variation of 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 our actual financial results, performance or condition to differ from the expectations expressed or implied in such forward-looking statements are the following: recently enacted, proposed or future legislation and the manner in which it is implemented; the nature and scope of regulatory authority, particularly discretionary authority, that may be exercised by regulators, including, but not limited to, the CFPB, having jurisdiction over the Company’s business or consumer financial transactions generically; the unpredictable nature of regulatory proceedings and litigation; any determinations, findings, claims or actions made or taken by the CFPB, other regulators or other third parties in connection with or resulting from the CID that assert or establish that the Company’s lending practices or other aspects of its business violate applicable laws or regulations; the impact of changes in accounting rules and regulations, or their interpretation or application, which could materially and adversely affect the Company’s reported consolidated financial statements or necessitate material delays or changes in the issuance of the Company’s audited consolidated financial statements; the Company’s assessment of its internal control over financial reporting, and the timing and effectiveness of the Company’s efforts to remediate any reported material weakness in its internal control over financial reporting, which could lead the Company to report further or unremediated material weaknesses in its internal control over financial reporting; changes in interest rates; risks relating to expansion and foreign operations; risks inherent in making loans, including repayment risks and value of collateral; the timing and amount of revenues that may be recognized by the Company; changes in current revenue and expense trends (including trends affecting delinquency and charge-offs); changes in the Company’s markets and general changes in the economy (particularly in the markets served by the Company). These and other risks are discussed in more detail in Part 1, Item 1A “Risk Factors” in the Company’s most recent report on Form 10-K for the Fiscal year ended March 31, 2016 filed with the SEC, and in 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 may make.

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):

Table of Contents

	Three months ended December 31,		Nine months ended December 31,		
	2016	2015	2016	2015	
	(Dollars in thousands)				
Average gross loans receivable ¹	\$1,119,658	\$1,180,643	\$1,098,837	\$1,156,062	
Average net loans receivable ²	807,310	855,911	793,807	840,004	
Expenses as a % of total revenue:					
Provision for loan losses	30.6	% 25.4	% 27.9	% 24.0	%
General and administrative	54.5	% 51.2	% 51.0	% 49.0	%
Total interest expense	4.0	% 5.1	% 4.2	% 4.8	%
Operating income ³	15.0	% 23.4	% 21.1	% 27.0	%
Return on average assets (trailing 12 months)	8.4	% 11.9	% 8.4	% 11.9	%
Offices opened (merged) or acquired, net	1	4	(16) 30	
Total offices (at period end)	1,323	1,350	1,323	1,350	

-
- (1) Average gross loans receivable have been determined by averaging month-end gross loans receivable over the indicated period.
- (2) Average net loans receivable have been determined by averaging month-end gross loans receivable less unearned interest and deferred fees over the indicated period.
- (3) Operating income is computed as total revenues less provision for loan losses and general and administrative expenses as a percentage of total revenues.

Comparison of three months ended December 31, 2016 versus three months ended December 31, 2015

Net income was \$9.6 million for the three months ended December 31, 2016, a 34.6% decrease from the \$14.8 million earned during the three months ended December 31, 2015. Operating income (revenue less provision for loan losses and general and administrative expenses) decreased by \$13.1 million, or 40.0%. Interest expense decreased by \$1.9 million, or 26.2%. Income tax expense decreased by \$6.1 million, or 56.6%.

Total revenue decreased by \$8.9 million, or 6.4%, to \$130.8 million during the quarter ended December 31, 2016 from \$139.7 million for the corresponding quarter of the previous year.

Interest and fee income for the quarter ended December 31, 2016 decreased by \$8.6 million, or 6.8%, from the corresponding quarter of the previous year. The decrease was primarily due to a corresponding decrease in average earning loans and an unfavorable move in exchange rates. Gross loans outstanding were down 3.9% at the beginning of fiscal 2017 compared to the prior year. Gross loans outstanding were 5.8% lower to begin the third quarter of fiscal 2017 and ended the quarter down 4.4%, when compared to the prior year. The move in the Mexican Peso exchange rate negatively impacted revenues by \$1.9 million.

Insurance commissions and other income for the quarter ended December 31, 2016 decreased by \$0.3 million, or 2.1%, from the corresponding quarter of the previous year. Insurance commissions decreased by approximately \$0.2 million, or 1.8%, during the three months when compared to the same period in the prior year. Insurance commissions decreased primarily due to a decrease in loans where our insurance products are available to our customer. Other income decreased by approximately \$0.1 million from the prior year quarter.

The provision for loan losses during the quarter ended December 31, 2016 increased by \$4.5 million, or 12.8% from the corresponding quarter of the previous year. This is primarily due an increase in net charge-offs and a larger increase in loans outstanding quarter-over-quarter. Net charge-offs as a percentage of average net loans on an annualized basis increased from 14.6% to 16.9% when comparing the two quarters. The prior year net charge-off rate benefited from the monthly sale of accounts previously charged-off totaling approximately \$0.5 million. Consolidated net charge-offs excluding the impact of the charge-off sale were up \$2.3 million when comparing the two fiscal quarters. The portion of the provision related to an increase in loans outstanding increased \$0.9 million quarter-over-quarter due to gross loans outstanding increasing \$69.4 million in the third quarter of 2017 versus \$56.4 million in the third quarter of 2016. Accounts 90 days past due in the United States, which are fully reserved, increased by \$5.1 million in the current quarter versus \$5.3 million the same quarter last year, which resulted in a \$0.2 million

Table of Contents

decrease in the provision. The provision related to accounts becoming fully reserved in the quarter for Mexico increased \$0.5 million.

General and administrative (G&A) expenses for the quarter ended December 31, 2016 decreased by \$340,000, or 0.5% from the corresponding quarter of the previous year. Personnel expenses decreased \$0.5 million when comparing the two quarters. Personnel and other G&A expenses decreased \$1.9 million during the quarter as a result of ceasing field calls. This decrease was driven by lower head count, lower auto mileage, and lower workers compensation expense. Share based compensation increased for the quarter due to an additional grant in October of 2016. The grant date fair value of the October grant was higher than the previous year due to the increase in the share price. The Company's advertising expense increased \$529,000 or 6.7% from the prior year quarter.

Interest expense for the quarter ended December 31, 2016 decreased by \$1.9 million, or 26.2% from the corresponding quarter of the previous year. The decrease in interest expense is due to a 24.7% decrease in the average debt outstanding, from \$489.6 million to \$368.7 million.

The Company's effective income tax rate decreased to 32.7% for the quarter ended December 31, 2016 compared to 42.2% for the prior year quarter. The decrease was primarily due to the increase in reserves related to a state ruling against the Company in the prior year quarter.

Comparison of nine months ended December 31, 2016 versus nine months ended December 31, 2015

Net income was \$41.7 million for the nine months ended December 31, 2016, a 27.5% decrease from the \$57.6 million earned during the nine months ended December 31, 2015. Operating income (revenue less provision for loan losses and general and administrative expenses) decreased by \$29.9 million, or 26.8%. Interest expense decreased by \$3.5 million, or 17.7%. Income tax expense decreased by \$10.5 million, or 30.9%.

Total revenue decreased by \$26.2 million, or 6.3%, to \$387.2 million during the nine months ended December 31, 2016 from \$413.3 million for the corresponding period of the previous year.

Interest and fee income for the nine months ended December 31, 2016 decreased by \$24.4 million, or 6.5%, from the corresponding period of the previous year. The decrease was due primarily to a corresponding decrease in average earning loans and an unfavorable move in exchange rates.

Insurance commissions and other income for the nine months ended December 31, 2016 decreased by \$1.8 million, or 4.5%, from the corresponding period of the previous year. Insurance commissions decreased by approximately \$2.2 million, or 6.7%, during the nine months when compared to the same period in the prior year. Insurance commissions decreased primarily due to a decrease in loans where our insurance products are available to the customer. Other income increased by approximately \$0.4 million, or 6.9%.

The provision for loan losses during the nine months ended December 31, 2016 increased by \$8.6 million, or 8.7% from the corresponding period of the previous year. This increase is due primarily to net charge-offs increasing by \$9.8 million. Net charge-offs as a percentage of average net loans on an annualized basis increased from 13.4% to 15.8% when comparing the two periods, partially due to the Company's recording three sales of accounts previously charged-off during the nine months ended December 31, 2015. The sales, which totaled approximately \$2.7 million, increased recoveries and, therefore, decreased net charge-offs in that period. There were no sales recorded in the current period. Net charge-offs excluding the impact of the charge-off sale were up \$7.1 million. The prior year included additional provision recorded in order to ensure that our rolling twelve month provision exceeded our rolling twelve month net charge-offs in compliance with our policy.

General and administrative (G&A) expenses for the nine months ended December 31, 2016 decreased by \$4.9 million, or 2.4% from the corresponding period of the previous year. Overall, general and administrative expenses, when divided by average open offices, decreased by approximately 1.6% when comparing the two periods. The total general and administrative expense as a percent of total revenue was 51.0% for the nine months ended December 31, 2016 and was 49.0% for the nine months ended December 31, 2015. Personnel expenses decreased by \$0.8 million despite the prior year benefiting from the release of expense previously accrued under the Group B performance-based restricted stock awards. The release resulted in a decrease in personnel expense of approximately \$6.0 million during the prior period. Personnel expense in the prior year also benefited from the net release of accruals related to resignation of a senior vice president and the retirement of the previous CEO. The net impact of the reversals on the prior year was \$3.3 million. Personnel and other G&A expenses decreased \$7.2 million during nine months ending December 31, 2016 as a result of ceasing field calls. This decrease was driven by lower head count, lower auto mileage, and lower

Table of Contents

workers compensation expense. Occupancy expense decreased \$1.3 million from prior year which is related to a \$1.3 million loss taken in the prior year quarter as a result of the sale of the corporate jet.

Interest expense for the nine months ended December 31, 2016 decreased by \$3.5 million, or 17.7% from the corresponding period of the previous year. The decrease is the result of a 24.9% decrease in the average debt outstanding, from \$489.4 million to \$367.8 million for the periods ended December 31, 2015 and 2016, respectively.

The Company's effective income tax rate decreased to 36.0% for the nine months ended December 31, 2016 compared to 37.2% for the corresponding period of the previous year. The decrease was primarily due to the release of reserves resulting from the running of the statute of limitations during the current year period.

Regulatory Matters

CFPB Investigation

As previously disclosed, on March 12, 2014, the Company received a Civil Investigative Demand ("CID") from the Consumer Financial Protection Bureau (the "CFPB"). The stated purpose of the CID is to determine whether the Company has been or is "engaging in unlawful acts or practices in connection with the marketing, offering, or extension of credit in violation of Sections 1031 and 1036 of the Consumer Financial Protection Act, 12 U.S.C. §§ 5531, 5536, the Truth in Lending Act, 15 U.S.C. §§ 1601, et seq., Regulation Z, 12 C.F.R. pt. 1026, or any other Federal consumer financial law" and "also to determine whether Bureau action to obtain legal or equitable relief would be in the public interest." The Company responded, within the deadlines specified in the CID, to broad requests for production of documents, answers to interrogatories and written reports related to loans made by the Company and numerous other aspects of the Company's business.

Also as previously disclosed, on August 7, 2015, the Company received a letter from the CFPB's Enforcement Office notifying the Company that, in accordance with the CFPB's discretionary Notice and Opportunity to Respond and Advise ("NORA") process, the staff of CFPB's Enforcement Office is considering recommending that the CFPB take legal action against the Company (the "NORA Letter"). The NORA Letter states that the staff of the CFPB's Enforcement Office expects to allege that the Company violated the Consumer Financial Protection Act of 2010, 12 U.S.C. §5536. The NORA Letter confirms that the Company has the opportunity to make a NORA submission, which is a written statement setting forth any reasons of law or policy why the Company believes the CFPB should not take legal action against it. The Company understands that a NORA Letter is intended to ensure that potential subjects of enforcement actions have the opportunity to present their positions to the CFPB before an enforcement action is recommended or commenced.

The Company has made NORA submissions to the CFPB's Enforcement Office. The Company expects that there will continue to be additional requests or demands for information from the CFPB and ongoing interactions between the CFPB, the Company and Company counsel as part of the investigation. We are currently unable to predict the ultimate timing or outcome of the CFPB investigation. While the Company believes its marketing and lending practices are lawful, there can be no assurance that the CFPB's ongoing investigation or future exercise of its enforcement, regulatory, discretionary or other powers will not result in findings or alleged violations of federal consumer financial protection laws that could lead to enforcement actions, proceedings or litigation and the imposition of damages, fines, penalties, restitution, other monetary liabilities, sanctions, settlements or changes to the Company's business practices or operations that could have a material adverse effect on the Company's business, financial condition or results of operations or eliminate altogether the Company's ability to operate its business profitably or on terms substantially similar to those on which it currently operates. See Part I, Item 1, "Business - Government Regulation - Federal legislation" and Part I, Item 1A, "Risk Factors" in the Company's Form 10-K for the year ended March 31, 2016 for a further discussion of these matters and federal regulations to which the Company's operations are subject.

CFPB Proposed Rulemaking Initiatives

On June 2, 2016, the CFPB announced proposed rules under its unfair, deceptive and abusive acts and practices rulemaking authority relating to payday, vehicle title, and similar loans. The proposal would cover short-term loans with a contractual term of 45 days or less, as well as “longer-term loans” with a term of longer than 45 days with an all-in annualized percentage rate of interest (“APR”) in excess of 36% in which the lender has either a non-purchase money security interest in the consumer’s vehicle or the right to collect repayment from the consumer’s bank account or paycheck. The CFPB’s “longer-term” credit proposals seek to address a concern that consumers suffer harm if lenders fail to reasonably underwrite loans but take a security interest in the consumer’s vehicle or access to repayment from a consumer’s account or wages. Although the Company does not make loans with terms of 45 days or less or obtain access to a customer’s bank account or paycheck for repayment of any of its loans, it does make some vehicle-secured loans with an APR within the scope of the proposal. The proposals would require a lender, as a condition of making a covered longer-term loan, to first make a good-faith reasonable determination that the consumer has the ability to

Table of Contents

repay the covered longer-term loan without reborrowing or defaulting. The proposals would require a lender to consider and verify the amount and timing of the consumer's income, the consumer's major financial obligations, and the consumer's borrowing history prior to making a covered loan. Lenders would also be required to determine that a consumer is able to make all projected payments under the covered longer-term loan as those payments are due, while still fulfilling other major financial obligations and meeting living expenses. This ability to repay assessment would apply to both the initial longer-term loan and to any subsequent refinancing. In addition, the proposals would include a rebuttable presumption that customers seeking to refinance a covered longer-term loan lack an "ability to repay" if at the time of refinancing: (i) the borrower was delinquent by more than seven days or had recently been delinquent on an outstanding loan within the past 30 days; (ii) the borrower stated or indicated an inability to make a scheduled payment within the past 30 days; (iii) the refinancing would result in the first scheduled payment to be due in a longer period of time than between the time of refinancing the loan and the next regularly scheduled payment on the outstanding loan; or (iv) the refinancing would not provide the consumer a disbursement of funds or an amount that would not substantially exceed the amount of payment due on the outstanding loan within 30 days of refinancing. To overcome this presumption of inability to repay, the lender would have to verify an improvement in the borrower's financial capacity to indicate an ability to repay the additional extension of credit. These proposals are subject to possible change before any final rules would be issued and implemented and we cannot predict what the ultimate rulemaking will provide. The Company does not believe that these proposals as currently described by the CFPB would have a material impact on the Company's existing lending procedures, because the Company currently underwrites all its loans (including those secured by a vehicle title that would fall within the scope of these proposals) by reviewing the customer's ability to repay based on the Company's standards. However, there can be no assurance that these proposals for longer-term loans, if and when implemented in final rulemaking, would not require changes to the Company's practices and procedures for such loans that could materially and adversely affect the Company's ability to make such loans, the cost of making such loans, the Company's ability to, or frequency with which it could, refinance any such loans, and the profitability of such loans. Any final rulemaking also could have effects beyond those contemplated in the initial proposal that could further materially and adversely impact our business and operations.

The CFPB also stated that it expects to conduct separate rulemaking to identify larger participants in the installment lending market for purposes of its supervision program. Though the timing of any such rulemaking is uncertain, the Company believes that the implementation of such rules would likely bring the Company's business under the CFPB's supervisory authority which, among other things, would subject the Company to reporting obligations to, and on-site compliance examinations by, the CFPB.

On May 5, 2016, the CFPB announced proposed rules to regulate the use of arbitration agreements in consumer financial products or services. The Dodd-Frank Act authorized the CFPB to conduct a formal study of arbitration agreements and, if certain conditions were met, regulate the use of arbitration agreements through a rulemaking. The CFPB's proposal would apply to installment loans, credit cards, checking and deposit accounts, prepaid cards, money transfer services, auto title loans, small dollar or payday loans, and several other types of financial products or services. As specified, the proposal would affect arbitration agreements in two primary ways. First, it would require any arbitration agreement subject to the rule to provide explicitly that the arbitration agreement is inapplicable to cases filed in court on behalf of a class unless and until class certification is denied or the class claims are dismissed. Second, the proposal would require persons subject to the rulemaking, and who continue to use arbitration agreements, to submit information on initial claim filings and awards to the CFPB. Such claims or awards information could ultimately be published by the CFPB. The Company does not believe that these proposals as currently described by the CFPB would have a material impact on the Company's existing operations. While the Company does use arbitration agreements, if the CFPB adopts a final rule as proposed, the Company expects to modify its contracts to conform to the rule. Such a change could lead to increased legal costs for the Company, but it should not otherwise materially affect the Company's core business of making loans. However, any final rulemaking also could have effects beyond those contemplated in the initial proposal that could further materially and adversely impact the Company's

business and operations.

See Part I, Item 1, “Business - Government Regulation - Federal legislation” and Part I, Item 1A, “Risk Factors” in the Company’s Form 10-K for the year ended March 31, 2016 for a further discussion of these matters and federal regulations to which the Company’s operations are subject.

New Mexico Rate Cap Bills

On December 15, 2016, a bill was pre-filed in the New Mexico State Senate, which, if enacted, would place a 36% rate cap on any contract for the extension of credit entered into after July 1, 2017. The Company, through its state and federal trade associations, is working in opposition to this pending legislation; however, it is uncertain whether these efforts will be successful in preventing the passage of the legislation. The Company's operations are subject to extensive state and federal laws and regulations, and changes in those laws or regulations or their application could have a material, adverse effect on the Company's business, results of operations, prospects or ability to continue operations in the jurisdictions affected by these changes. See Part I, Item 1, “Description of Business - Government Regulation” and Part I, Item 1A, “Risk Factors” in the Company's report on Form 10-K for the fiscal year ended March 31, 2016 for more information regarding these regulations and related risks.

Table of Contents

Liquidity and Capital Resources

The Company has financed and continues to finance its operations, acquisitions and office expansion through a combination of cash flows from operations and borrowings from its institutional lenders. The Company has generally applied its cash flows from operations to fund its loan volume, fund acquisitions, repay long-term indebtedness, and repurchase its common stock. As the Company's gross loans receivable increased from \$972.7 million at March 31, 2012 to \$1,067.0 million at March 31, 2016, net cash provided by operating activities for fiscal years 2016, 2015, 2014, 2013 and 2012 was \$206.1 million, \$241.9 million, \$246.0 million, \$232.0 million and \$219.4 million, respectively.

The Company continues to believe stock repurchases are a viable component of the Company's long-term financial strategy and an excellent use of excess cash when the opportunity arises. However, our amended credit facility now requires the Company to obtain prior written consent from our lenders holding at least 66-2/3% of the aggregate commitments before repurchasing additional shares.

The Company plans to open or acquire 15 branches in the United States and 10 branches in Mexico during fiscal 2017. Expenditures by the Company to open and furnish new offices averaged approximately \$27,000 per branch during fiscal 2016. New branches have also required from \$100,000 to \$400,000 to fund outstanding loans receivable originated during their first 12 months of operation. During the nine months ended December 31, 2016, the Company opened 15 new branches and 31 branches were merged into existing branches.

The Company did not complete any acquisitions during the first nine months of fiscal 2017. The Company may acquire new offices or receivables from its competitors or acquire offices in communities not currently served by the Company if attractive opportunities arise as conditions in local economies and the financial circumstances of owners change.

The Company has a revolving credit facility with a syndicate of banks. The revolving credit facility provides for revolving borrowings of up to the lesser of (1) the aggregate commitments under the facility and (2) a borrowing base, and includes a \$750.0 thousand letter of credit subfacility. At December 31, 2016, the aggregate commitments under the credit facility were \$460.0 million. In July 2016, the credit facility was amended to, among other things, extend the term through June 15, 2018 and reduce the aggregate commitments to \$460 million. The aggregate commitments will further reduce to \$370.0 million on March 31, 2017. The amended facility has an accordion feature pursuant to which the Company may request an increase in the aggregate amount of the commitments under the revolving credit facility, provided that the aggregate amount of the commitments will not exceed \$500 million. The borrowing base limitation is equal to the product of (a) the Company's eligible finance receivables, less unearned finance charges, insurance premiums and insurance commissions, and (b) an advance rate percentage that ranges from 79% to 85% based on a collateral performance indicator, as more completely described below. Further, the administrative agent under the revolving credit facility has the right at any time, and from time to time in its permitted discretion (but without any obligation), to set aside reasonable reserves against the borrowing base in such amounts as it may deem appropriate, including, without limitation, reserves with respect to regulatory events or any increased operational, legal or regulatory risk.

Funds borrowed under the revolving credit facility bear interest at the LIBOR rate plus 4.0% per annum, with a minimum rate of 5.0%. During the nine months ended December 31, 2016, the effective interest rate, including the commitment fee and amortization of debt issuance costs, on borrowings under the revolving credit facility was 5.8%. The Company pays a commitment fee equal to 0.50% per annum of the daily unused portion of the commitments. On December 31, 2016, \$397.9 million was outstanding under this facility, and there was \$61.3 million of unused borrowing availability under the borrowing base limitations.

The Company's obligations under the revolving credit facility, together with treasury management and hedging obligations owing to any lender under the revolving credit facility or any affiliate of any such lender, are required to be guaranteed by each of the Company's wholly-owned domestic subsidiaries. The obligations of the Company and the subsidiary guarantors under the revolving credit facility, together with such treasury management and hedging obligations, are secured by a first-priority security interest in substantially all assets of the Company and the subsidiary guarantors.

The agreement governing the Company's revolving credit facility contains affirmative and negative covenants, including covenants that restrict the ability of the Company and its subsidiaries to, among other things, incur or guarantee indebtedness, incur liens, pay dividends and repurchase or redeem capital stock, dispose of assets, engage in mergers and consolidations, make acquisitions or other investments, redeem or prepay subordinated debt, amend subordinated debt documents, make changes in the nature of its business, and engage in transactions with affiliates. The agreement also contains financial covenants, including a minimum consolidated net worth of \$330.0 million, a minimum fixed charge coverage ratio of 2.5 to 1.0, a maximum ratio of total debt to consolidated adjusted net worth of 2.75 to 1.0, and a maximum ratio of subordinated debt to consolidated adjusted net worth of 1.0 to 1.0. The agreement allows the Company to incur subordinated debt that matures after the termination date for the revolving

Table of Contents

credit facility and that contains specified subordination terms, subject to limitations on amount imposed by the financial covenants under the agreement.

In addition, the agreement establishes a maximum specified level for the collateral performance indicator. The collateral performance indicator is equal to the sum of (1) a three-month rolling average rate of receivables at least sixty days past due and (2) an eight-month rolling average net charge-off rate. The Company was in compliance with these covenants at December 31, 2016 and does not believe that these covenants will materially limit its business and expansion strategy.

The agreement contains events of default including, without limitation, nonpayment of principal, interest or other obligations, violation of covenants, misrepresentation, cross-default to other debt, bankruptcy and other insolvency events, judgments, certain ERISA events, actual or asserted invalidity of loan documentation, invalidity of subordination provisions of subordinated debt, certain changes of control of the Company, and the occurrence of certain regulatory events (including the entry of any stay, order, judgment, ruling or similar event related to the Company's or any of its subsidiaries' originating, holding, pledging, collecting or enforcing its eligible finance receivables that is material to the Company or any subsidiary) which remains unvacated, undischarged, unbonded or unstayed by appeal or otherwise for a period of 60 days from the date of its entry and is reasonably likely to cause a material adverse change.

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 branches, including funding initial operating losses of new branches and funding loans receivable originated by those branches and the Company's other branches (for the next 12 months and for the foreseeable future beyond that). Except as otherwise discussed in this report and in the Company's Form 10-K for the year ended March 31, 2016, including, but not limited to, any discussions in Part 1, Item 1A, "Risk Factors" (as supplemented by any subsequent disclosures in information the Company files with or furnishes to the SEC from time to time), management is not currently aware of any trends, demands, commitments, events or uncertainties that it believes will or could result in, or are or could be reasonably likely to result in, any material adverse effect on the Company's liquidity.

Share Repurchase Program

The Company's historical long-term profitability has demonstrated over many years our ability to generate excess cash flow from our operations. We have and intend to continue to use our cash flow and excess capital to repurchase shares, assuming we are able to obtain the required consent of our lenders and that the repurchased shares are accretive to earnings per share.

Since 1996, the Company has repurchased approximately 18.1 million shares for an aggregate purchase price of approximately \$854.2 million. On March 10, 2015, the Board of Directors authorized the Company to repurchase up to \$25.0 million of the Company's common stock. As of December 31, 2016, the Company has \$6.5 million in repurchase capacity remaining under board-approved repurchase authorizations. As of December 31, 2016 our debt outstanding was \$397.9 million and our shareholders' equity was \$422.0 million, resulting in a debt-to-equity ratio of 0.9:1.0. Our first priority is to ensure we have enough capital to fund loan growth. We will also evaluate acquisition opportunities as they arise. To the extent we have excess capital and our lenders under the revolving credit facility provide consent, we intend to continue repurchasing stock, as authorized by our Board of Directors, which is consistent with our past practice.

Inflation

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

Quarterly Information and Seasonality

See Note 2 to the unaudited Consolidated Financial Statements.

Table of Contents

Recently Adopted Accounting Pronouncements

See Note 2 to the unaudited Consolidated Financial Statements.

Critical Accounting Policies

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

Allowance for Loan Losses

The Company has developed processes and procedures for assessing the adequacy of the allowance for loan losses that take into consideration various assumptions and estimates with respect to the loan portfolio. The Company's assumptions and estimates may be affected in the future by changes in economic conditions, among other factors. Additional information concerning the allowance for loan losses is discussed under Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Credit Quality" in the Company's report on Form 10-K for the fiscal year ended March 31, 2016.

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

Income Taxes

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

No assurance can be given that either the tax returns submitted by management or the income tax reported on the Consolidated Financial Statements will not be adjusted by either adverse rulings, changes in the tax code, or assessments made by the Internal Revenue Service ("IRS"), state, or foreign taxing authorities. The Company is

subject to potential adverse adjustments, including but not limited to: an increase in the statutory federal or state income tax rates, the permanent non-deductibility of amounts currently considered deductible either now or in future periods, and the dependency on the generation of future taxable income in order to ultimately realize deferred income tax assets.

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

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

As of December 31, 2016, the Company's financial instruments consisted of the following: cash and cash equivalents, loans receivable and senior notes payable. Fair value approximates carrying value for all of these instruments. Loans receivable are originated at prevailing market rates and have an average life of approximately eight months. Given the short-term nature of these loans, they are continually repriced at current market rates. The Company's outstanding debt under its revolving credit facility was \$397.9 million at December 31, 2016. Interest on borrowing under this facility is based on the greater of 5.0% or one month LIBOR plus 4.0%.

Based on the outstanding balance at December 31, 2016, a change of 1.0% in the interest rates would cause a change in interest expense of approximately \$3.1 million on an annual basis.

Foreign Currency Exchange Rate Risk

The Company operates offices in Mexico, where its local businesses utilize the Mexican peso as their functional currency. The consolidated financial statements of the Company are denominated in U.S. dollars and are, therefore, subject to fluctuation as the U.S. dollar and Mexican peso foreign exchange rates change. International revenue from our non-U.S. operations accounted for approximately 8.0% and 7.9% of total revenue during the nine months ended December 31, 2016 and 2015, respectively. There have been, and there may continue to be, period-to-period fluctuations in the relative portions of our international revenue to total consolidated revenue.

Our international operations are subject to risks, including but not limited to differing economic conditions, changes in political climate, social unrest, labor union dynamics that can affect the collectability of our payroll deduct product, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, our future consolidated financial position as well as our consolidated results of operations could be adversely affected by changes in these or other factors. Foreign exchange rate fluctuations may adversely impact our financial position as the assets and liabilities of our foreign operations are translated into U.S. dollars in preparing our consolidated balance sheet. Our exposure to foreign exchange rate fluctuations arises in part from balances in our intercompany accounts included on our subsidiary balance sheets. These intercompany accounts are denominated in the functional currency of the foreign subsidiaries and are translated to U.S. dollars at each reporting period end. Additionally, foreign exchange rate fluctuations may impact our consolidated results from operations as exchange rate fluctuations will impact the amounts reported in our consolidated statement of income. The effect of foreign exchange rate fluctuations on our consolidated financial position is recognized within shareholders' equity through accumulated other comprehensive income (loss). The net translation adjustment for the nine months ended December 31, 2016 was a loss of approximately \$11.2 million. The Company's foreign currency exchange rate exposures may change over time as business practices evolve and could have a material effect on the Company's financial results. The Company will continue to monitor and assess the effect of foreign currency fluctuations and may institute hedging strategies.

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

The foreign exchange risk sensitivity of net loans denominated in Mexican pesos and translated into U.S. dollars, which were approximately \$57.5 million and \$56.4 million at December 31, 2016 and 2015, respectively, on the

Edgar Filing: WORLD ACCEPTANCE CORP - Form 10-Q

reported consolidated net loans receivable amount is summarized in the following table:

Foreign Exchange Sensitivity Analysis of Loans Receivable, Net Amounts

	As of December 31, 2016		
Foreign exchange spot rate, U.S. dollars to Mexican pesos	-10%	0%	10%
Loans receivable, net of unearned	\$832,477,997	\$837,700,961	\$844,084,602
% change from base amount	(0.62)%	—	% 0.76 %
\$ change from base amount	\$(5,222,964)	\$—	\$6,383,641

Table of Contents

	As of December 31, 2015		
Foreign exchange spot rate, U.S. dollars to Mexican pesos	-10%	0%	10%
Loans receivable, net of unearned	\$876,579,403	\$881,705,358	\$887,970,413
% change from base amount	(0.58)%	—	% 0.71 %
\$ change from base amount	\$(5,125,955)	\$—	\$6,265,055

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

Foreign Exchange Sensitivity Analysis of Net Income

	For the nine months ended December 31, 2016		
Foreign exchange spot rate, U.S. dollars to Mexican pesos	-10%	0%	10%
Net Income	\$41,324,173	\$41,749,452	\$42,269,238
% change from base amount	(1.02)%	—	% 1.25 %
\$ change from base amount	\$(425,279)	\$—	\$519,786
	For the nine months ended December 31, 2015		
Foreign exchange spot rate, U.S. dollars to Mexican pesos	-10%	0%	10%
Net Income	\$57,236,629	\$57,569,828	\$57,977,073
% change from base amount	(0.58)%	—	% 0.71 %
\$ change from base amount	\$(333,199)	\$—	\$407,245

Item 4. Controls and Procedures

Changes in Internal Control over Financial Reporting

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

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

Evaluation of Disclosure Controls and Procedures

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

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the information contained in our Form 10-K Annual Report for the fiscal year ended March 31, 2016 and this Form 10-Q Quarterly Report, we have identified the following material risks and uncertainties which reflect our outlook and conditions known to us as of the date of this Quarterly Report. These material risks and uncertainties should be carefully reviewed by our shareholders and any potential investors in evaluating the Company, our business, and the market value of our common stock. Furthermore, any one of these material risks and uncertainties has the potential to cause actual results, performance, achievements or events to be materially different from any future results, performance, achievements or events implied, suggested or expressed by any forward-looking statements made by us or by persons acting on our behalf.

There may be additional risks and uncertainties of a material nature that, as of the date of this Quarterly Report, we are unaware of or that we consider immaterial that may become material in the future, any one or more of which may result in a material adverse effect on us. You could lose all or a significant portion of your investment due to any one of these material risks and uncertainties.

Unfavorable state legislative or regulatory actions or changes, adverse outcomes in litigation or regulatory proceedings or failure to comply with existing laws and regulations could force us to cease, suspend or modify our operations in a state, potentially resulting in a material adverse effect on our business, results of operations and financial condition.

In addition to federal laws and regulations, we are subject to numerous state laws and regulations that affect our lending activities. Many of these regulations impose detailed and complex constraints on the terms of our loans, lending forms and operations. Failure to comply with applicable laws and regulations could subject us to regulatory enforcement action that could result in the assessment against us of civil, monetary or other penalties, including the suspension or revocation of our licenses to lend in one or more jurisdictions.

Changes in the state laws under which we currently operate or the enactment of new laws governing our operations resulting from state political activities and legislative or regulatory initiatives could have a material adverse effect on all aspects of our business in a particular state. For example, on December 15, 2016, a bill was pre-filed in the New Mexico State Senate, which, if enacted, would place a 36% rate cap on any contract for the extension of credit entered into after July 1, 2017. If this proposed legislation is enacted it would significantly impact our lending activities in New Mexico and could adversely affect our results of operations. If similar legislation is passed in other states in which we operate in, it could materially and adversely affect, or in the worst case, eliminate the Company's lending practices, operations, profitability or prospects.

The Company, through state and federal trade associations of which it is a member, is working in opposition to this pending legislation; however, it is uncertain whether these efforts will be successful in preventing the passage of the legislation. Passage of such proposed legislation or similar initiatives in other states could have a material adverse effect on the Company's business, results of operations, prospects or ability to continue operations in the jurisdictions affected by such changes. We can give no assurance that the laws and regulations that govern our business, or the interpretation or administration of those laws and regulations, will remain unchanged or that any such future changes will not materially and adversely affect or in the worst case, eliminate the Company's lending practices, operations,

profitability or prospects.

In addition, any adverse change in existing laws or regulations, or any adverse interpretation or litigation relating to existing laws and regulations in any state in which we operate, could subject us to liability for prior operating activities or could lower or eliminate the profitability of our operations going forward by, among other things, reducing the amount of interest and fees we can charge in connection with our loans. If these or other factors lead us to close our branches in a state, then in addition to the loss of net revenues attributable to that closing, we would also incur closing costs such as lease cancellation payments and we would have to write off assets that we could no longer use. If we were to suspend rather than permanently cease our operations in a state, we may also have continuing costs associated with maintaining our branches and our employees in that state, with little or no revenues to offset those costs.

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

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

31

Table of Contents

Since 1996, the Company has repurchased approximately 18.1 million shares for an aggregate purchase price of approximately \$854.2 million. On March 10, 2015, the Board of Directors authorized the Company to repurchase up to \$25.0 million of the Company's common stock. As of December 31, 2016, the Company has \$6.5 million in repurchase capacity remaining under board-approved repurchase authorizations. The following table details purchases of the Company's common stock made by the Company during the three months ended December 31, 2016:

	(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, 2016	—	\$ —	—	\$ 11,516,319
November 1 through November 30, 2016	95,703	52.20	95,703	6,520,509
December 1 through December 31, 2016	—	—	—	6,520,509
Total for the quarter	95,703	\$ 52.20	95,703	

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

Exhibit Number	Description	Company Registration No. or Report if Incorporated by Reference	Exhibit No. of Previous Filing if Incorporated by Reference
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer *		*
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer *		*
32.1	Section 1350 Certification of Chief Executive Officer *		*
32.2	Section 1350 Certification of Chief Financial Officer *		*
101.1	The following materials from the Company's Quarterly Report for the fiscal quarter ended December 31, 2016, formatted in XBRL:	*	*
	(i) Consolidated Balance Sheets as of December 31, 2016 and March 31, 2016;		
	(ii) Consolidated Statements of Operations for the three and nine months ended December 31, 2016 and December 31, 2015;		
	(iii) Consolidated Statements of Comprehensive Income for the three and nine months ended December 31, 2016 and December 31, 2015;		
	(iv) Consolidated Statements of Shareholder's Equity for the year ended March 31, 2016 and the nine months ended December 31, 2016;		
	(v) Consolidated Statements of Cash Flows for the nine months ended December 31, 2016 and December 31, 2015; and		
	(vi) Notes to the Consolidated Financial Statements.		

*Submitted electronically herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WORLD
ACCEPTANCE
CORPORATION

By: /s/ Janet Lewis
Matricciani
Janet Lewis
Matricciani
Chief Executive
Officer
Date: February 6, 2017

By: /s/ John L. Calmes,
Jr.
John L. Calmes, Jr.
Senior Vice President
and Chief Financial
Officer
Date: February 6, 2017