

WORLD ACCEPTANCE CORP  
Form 10-K  
May 30, 2008

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

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Form 10-K

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(Mark One)

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

For the fiscal year ended March 31, 2008

OR

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

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

Commission file number 0-19599

**WORLD ACCEPTANCE  
CORPORATION**

(Exact name of registrant as specified in its charter)

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

\_\_\_\_\_  
570425114  
(I.R.S. Employer Identification No.)

\_\_\_\_\_  
108 Frederick Street  
Greenville, South Carolina  
(Address of principal executive offices)

\_\_\_\_\_  
29607  
(Zip Code)

\_\_\_\_\_  
(864) 298-9800  
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

\_\_\_\_\_  
Title of Each Class  
Common Stock, no par value

\_\_\_\_\_  
Name of Each Exchange on Which Registered  
The NASDAQ Stock Market LLC  
(NASDAQ Global Select Market)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or Section 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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  Smaller reporting company   
(Do not check if 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 aggregate market value of voting stock held by non-affiliates of the registrant as of September 30, 2007, computed by reference to the closing sale price on such date, was \$33.08. (For purposes of calculating this amount only, all directors and executive officers are treated as affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.) As of May 30, 2008, 16,350,460 shares of the registrant's Common Stock, no par value, were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive Proxy Statement pertaining to the 2008 Annual Meeting of Shareholders ("the Proxy Statement") and filed pursuant to Regulation 14A are incorporated herein by reference into Part III hereof.

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**WORLD ACCEPTANCE CORPORATION**  
**Form 10-K Report**

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## **Introduction**

World Acceptance Corporation, a South Carolina corporation, operates a small-loan consumer finance business in eleven states and Mexico. As used herein, the "Company," "we," "our," "us," or similar formulations include World Acceptance Corporation and each of its subsidiaries, except that when used with reference to the Common Stock or other securities described herein and in describing the positions held by management or agreements of the Company, it includes only World Acceptance Corporation. All references in this report to "fiscal 2008" are to the Company's fiscal year ended March 31, 2008.

The Company maintains an Internet website, "[www.worldacceptance.com](http://www.worldacceptance.com)," where interested persons will be able to access free of charge, among other information, the Company's annual reports on Form 10-K, its quarterly reports on Form 10-Q, and its current reports on Form 8-K, as well as amendments to these filings, via a link to a third party website. These documents are available for access as soon as reasonably practicable after we electronically file these documents with the SEC. The Company files these reports with the SEC via the SEC's EDGAR filing system, and such reports also may be accessed via the SEC's EDGAR database at [www.sec.gov](http://www.sec.gov). The Company will also provide either electronic or paper copies free of charge upon written request to P.O. Box 6429, Greenville, SC 29606-6429.

## **PART I.**

### **Item 1. Description of Business**

*General.* The Company is engaged in the small-loan consumer finance business, offering short-term small loans, medium-term larger loans, related credit insurance and ancillary products and services to individuals. The Company generally offers standardized installment loans of between \$130 and \$3,000 through 838 offices in South Carolina, Georgia, Texas, Oklahoma, Louisiana, Tennessee, Illinois, Missouri, New Mexico, Kentucky, Alabama and Mexico as of March 31, 2008. The Company generally serves individuals with limited access to consumer credit from banks, savings and loans, other consumer finance businesses and credit card lenders. The Company also offers income tax return preparation services and access to refund anticipation loans through a third party bank to its customers and others.

Small-loan consumer finance companies operate in a highly structured regulatory environment. Consumer loan offices are individually licensed under state laws, which, in many states, establish allowable interest rates, fees and other charges on small loans made to consumers and maximum principal amounts and maturities of these loans. The Company believes that virtually all participants in the small-loan consumer finance industry charge the maximum rates permitted under applicable state laws in those states with interest rate limitations.

The small-loan consumer finance industry is a highly fragmented segment of the consumer lending industry. Small-loan consumer finance companies generally make loans to individuals of up to \$1,000 with maturities of one year or less. These companies approve loans on the basis of the personal creditworthiness of their customers and maintain close contact with borrowers to encourage the repayment or refinancing of loans. By contrast, commercial banks, savings and loans and other consumer finance businesses typically make loans of more than \$1,000 with maturities of more than one year. Those financial institutions generally approve consumer loans on the security of qualifying personal property pledged as collateral or impose more stringent credit requirements than those of small-loan consumer finance companies. As a result of their higher credit standards and specific collateral requirements, commercial banks, savings and loans and other consumer finance businesses typically charge lower interest rates and fees and experience lower delinquency and charge-off rates than do small-loan consumer finance companies. Small-loan consumer finance companies generally charge higher interest rates and fees to compensate for the greater credit risk of delinquencies and charge-offs and increased loan administration and collection costs.

*Expansion.* During fiscal 2008, the Company opened 95 new offices. Thirteen other offices were purchased and two offices were closed or merged into other existing offices due to their inability to grow to profitable levels. The Company plans to open or acquire at least 70 new offices in the United States by increasing the number of offices in its existing market areas or commencing operations in new states where it believes demographic profiles and state regulations are attractive. In addition, the Company plans to open approximately 25 new offices in Mexico. The Company's ability to expand operations into new states is dependent upon its ability to obtain necessary regulatory approvals and licenses, and there can be no assurance that the Company will be able to obtain any such approvals or consents.

The Company's expansion is also dependent upon its ability to identify attractive locations for new offices and to hire suitable personnel to staff, manage and supervise new offices. In evaluating a particular community, the Company examines several factors, including the demographic profile of the community, the existence of an established small-loan consumer finance market and the availability of suitable personnel to staff, manage and supervise the new offices. The Company generally locates new offices in communities already served by at least one other small-loan consumer finance company.

The small-loan consumer finance industry is highly fragmented in the eleven states in which the Company currently operates. The Company believes that its competitors in these markets are principally independent operators with generally less than 100 offices. The Company also believes that attractive opportunities to acquire offices from competitors in its existing markets and to acquire offices in communities not currently served by the Company will become available as conditions in the local economies and the financial circumstances of the owners change.

The following table sets forth the number of offices of the Company at the dates indicated:

At March 31,

| State          | 1999       | 2000       | 2001       | 2002       | 2003       | 2004       | 2005       | 2006       | 2007       | 2008       |
|----------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| South Carolina | 63         | 63         | 62         | 62         | 65         | 65         | 65         | 68         | 89         | 92         |
| Georgia        | 49         | 48         | 48         | 52         | 52         | 74         | 76         | 74         | 96         | 97         |
| Texas          | 131        | 135        | 135        | 136        | 142        | 150        | 164        | 168        | 183        | 204        |
| Oklahoma       | 40         | 43         | 43         | 46         | 45         | 47         | 51         | 58         | 62         | 70         |
| Louisiana      | 20         | 21         | 20         | 20         | 20         | 20         | 20         | 24         | 28         | 34         |
| Tennessee      | 30         | 35         | 38         | 40         | 45         | 51         | 55         | 61         | 72         | 80         |
| Illinois       | 20         | 30         | 30         | 29         | 28         | 30         | 33         | 37         | 40         | 58         |
| Missouri       | 16         | 18         | 22         | 22         | 22         | 26         | 36         | 38         | 44         | 49         |
| New Mexico     | 10         | 13         | 12         | 12         | 16         | 19         | 20         | 22         | 27         | 32         |
| Kentucky (1)   | -          | 4          | 10         | 22         | 30         | 30         | 36         | 41         | 45         | 52         |
| Alabama (2)    | -          | -          | -          | -          | 5          | 14         | 21         | 26         | 31         | 35         |
| Colorado (3)   | -          | -          | -          | -          | -          | -          | 2          | -          | -          | -          |
| Mexico (4)     | -          | -          | -          | -          | -          | -          | -          | 3          | 15         | 35         |
| <b>Total</b>   | <b>379</b> | <b>410</b> | <b>420</b> | <b>441</b> | <b>470</b> | <b>526</b> | <b>579</b> | <b>620</b> | <b>732</b> | <b>838</b> |

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- (1) The Company commenced operations in Kentucky in March 2000.  
(2) The Company commenced operations in Alabama in January 2003.  
(3) The Company commenced operations in Colorado in August 2004 and ceased operations in April 2005.  
(4) The Company commenced operations in Mexico in September 2005.

*Loan and Other Products.* In each state in which it operates and in Mexico, the Company offers loans that are standardized by amount and maturity in an effort to reduce documentation and related processing costs. All of the Company's loans are payable in monthly installments with terms of 4 to 36 months, and all loans are prepayable at any time without penalty. In fiscal 2008, the Company's average originated loan size and term were approximately \$959 and eleven months, respectively. State laws regulate lending terms, including the maximum loan amounts and interest rates and the types and maximum amounts of fees, insurance premiums and other costs that may be charged. As of March 31, 2008, the annual percentage rates on loans offered by the Company, which include interest, fees and other charges as calculated for the purposes of federal consumer loan disclosure requirements, ranged from 30% to 215% depending on the loan size, maturity and the state in which the loan is made. In addition, in certain states, the

Company sells credit insurance in connection with its loans as agent for an unaffiliated insurance company, which may increase its returns on loans originated in those states.

Specific allowable charges vary by state and, consistent with industry practice, the Company generally charges the maximum rates allowable under applicable state law. Statutes in Texas and Oklahoma allow for indexing the maximum loan amounts to the Consumer Price Index. Fees charged by the Company include origination and account maintenance fees, monthly handling charges.



The Company, as an agent for an unaffiliated insurance company, markets and sells credit life, credit accident and health, credit property, and unemployment insurance in connection with its loans in selected states where the sale of such insurance is permitted by law. Credit life insurance provides for the payment in full of the borrower's credit obligation to the lender in the event of death. Credit accident and health insurance provides for repayment of loan installments to the lender that come due during the insured's period of income interruption resulting from disability from illness or injury. Credit property insurance insures payment of the borrower's credit obligation to the lender in the event that the personal property pledged as security by the borrower is damaged or destroyed by a covered event. Unemployment insurance provides for repayment of loan installments to the lender that come due during the insured's period of involuntary unemployment. The Company requires each customer to obtain certain specific credit insurance in the amount of the loan for all loans originated in Georgia, and encourages customers to obtain credit insurance for loans originated in South Carolina, Louisiana, Alabama and Kentucky and on a limited basis in Tennessee, Oklahoma, and New Mexico. Customers in those states typically obtain such credit insurance through the Company. Charges for such credit insurance are made at maximum authorized rates and are stated separately in the Company's disclosure to customers, as required by the Truth-in-Lending Act. In South Carolina, Georgia, Louisiana, Kentucky and Alabama, the Company originates non-file insurance, which is collected by the Company and paid as premiums to an unaffiliated insurance company. In the sale of insurance policies, the Company, as agent, writes policies only within limitations established by its agency contracts with the insurer. The Company does not sell credit insurance to non-borrowers.

The Company also markets automobile club memberships to its borrowers in Georgia, Tennessee, New Mexico, Alabama and Kentucky as an agent for an unaffiliated automobile club. Club memberships entitle members to automobile breakdown and towing reimbursement and related services. The Company is paid a commission on each membership sold, but has no responsibility for administering the club, paying benefits or providing services to club members. The Company generally does not market automobile club memberships to non-borrowers.

In fiscal 1995 the Company implemented its World Class Buying Club and began marketing certain electronic products and appliances to its Texas borrowers. Since implementation, the Company has expanded this program to Georgia, Tennessee, New Mexico, Alabama and Missouri. The program is not offered in the other states where the Company operates, as it is not permitted by the various state regulations. Borrowers participating in this program can purchase a product from a catalog available at a branch office or by direct mail and can finance the purchase with a retail installment sales contract provided by the Company. Products sold through this program are shipped directly by the suppliers to the Company's customers and, accordingly, the Company is not required to maintain any inventory to support the program. In fiscal 2004, on a limited basis, the Company began to maintain a few inventory items in each of its branch offices participating in the program. Having certain items on hand enhanced sales and will continue to be done on a limited basis in the future.

Since fiscal 1997, the Company has expanded its product line to include larger balance, lower risk, and lower yielding individual consumer loans. These loans typically average \$1,000 to \$3,000, with terms of generally 18 to 24 months, compared to \$300 to \$1,000, with terms generally of 8 to 12 month terms for the smaller loans. The Company offers these larger loans in all states except Texas, where they are not profitable under the Company's lending criteria and strategy. Additionally, the Company has purchased numerous larger loan offices and has made several bulk purchases of larger loans receivable. As of March 31, 2008, the larger class of loans accounted for approximately \$156.0 million of gross loans receivable, a 17.0% increase over the balance outstanding at March 31, 2007. This portfolio now represents 26.0% of the total loan balances as of the end of the fiscal year. Management believes that these loans provide lower expense and loss ratios, thus providing positive contributions. While the Company does not intend to change its primary lending focus from its small-loan business, it does intend to continue expanding the larger loan product line as part of its ongoing growth strategy.

Another service offered by the Company is income tax return preparation, electronic filing and access to refund anticipation loans. Begun as an experiment in fiscal 1999, this program is now provided in all but a few of the

Company's offices. The number of returns completed has grown from 16,000 in fiscal 2000 to approximately 65,000 in fiscal 2008, and the net revenues to the Company from this service grew from approximately \$800,000 to \$9.7 million over these same periods. The Company believes that this is a beneficial service for its existing customer base, as well as non-loan customers, and it plans to continue to promote and expand the program.

*Loan Activity and Seasonality.* The following table sets forth the composition of the Company's gross loans receivable by state at March 31 of each year from 1999 through 2008:

| At March 31,   |      |      |      |      |      |      |      |      |      |      |
|----------------|------|------|------|------|------|------|------|------|------|------|
| State          | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| South Carolina | 22%  | 21%  | 21%  | 19%  | 15%  | 14%  | 12%  | 11%  | 13%  | 12%  |
| Georgia        | 16   | 15   | 12   | 12   | 12   | 13   | 13   | 13   | 14   | 15   |
| Texas          | 31   | 28   | 25   | 24   | 23   | 21   | 20   | 24   | 23   | 22   |
| Oklahoma       | 7    | 6    | 6    | 5    | 5    | 5    | 5    | 6    | 5    | 5    |
| Louisiana      | 4    | 3    | 3    | 3    | 3    | 3    | 3    | 3    | 3    | 3    |
| Tennessee      | 12   | 13   | 11   | 12   | 14   | 15   | 18   | 15   | 15   | 14   |
| Illinois       | 3    | 4    | 5    | 5    | 5    | 5    | 5    | 5    | 6    | 6    |
| Missouri       | 2    | 3    | 4    | 5    | 5    | 6    | 6    | 6    | 5    | 6    |
| New Mexico     | 3    | 3    | 3    | 3    | 3    | 3    | 3    | 3    | 3    | 3    |
| Kentucky (1)   | -    | 4    | 10   | 12   | 13   | 12   | 12   | 11   | 9    | 9    |
| Alabama (2)    | -    | -    | -    | -    | 2    | 3    | 3    | 3    | 3    | 3    |
| Colorado (3)   | -    | -    | -    | -    | -    | -    | -    | -    | -    | -    |
| Mexico (4)     | -    | -    | -    | -    | -    | -    | -    | -    | 1    | 2    |
| Total          | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

- (1) The Company commenced operations in Kentucky in March 2000.  
(2) The Company commenced operations in Alabama in January 2003.  
(3) The Company commenced operations in Colorado in August 2004 and ceased operations in April 2005.  
(4) The Company commenced operations in Mexico in September 2005.

The following table sets forth the total number of loans and the average loan balance by state at March 31, 2008:

|                | Total Number<br>of Loans | Average Gross Loan<br>Balance |
|----------------|--------------------------|-------------------------------|
| South Carolina | 80,297                   | \$ 903                        |
| Georgia        | 76,846                   | 1,147                         |
| Texas          | 192,539                  | 687                           |
| Oklahoma       | 44,005                   | 737                           |
| Louisiana      | 21,767                   | 785                           |
| Tennessee      | 80,060                   | 1,049                         |
| Illinois       | 36,828                   | 911                           |
| Missouri       | 33,857                   | 1,041                         |
| New Mexico     | 23,029                   | 792                           |
| Kentucky       | 40,441                   | 1,272                         |
| Alabama        | 23,640                   | 862                           |
| Mexico         | 30,326                   | 467                           |
| Total          | 683,635                  | \$ 877                        |

For fiscal 2008, 2007 and 2006, 98.2%, 99.2% and 99.9% of the Company's revenues were attributable to U.S. customers and 1.8%, 0.8% and 0.1% were attributable to customers in Mexico. For further information regarding potential risks associated with the Company's operations in Mexico, see Part I, Item 1A, Risk Factors. "Our use of

derivatives exposes us to credit and market risk” and “Our continued expansion into Mexico may increase the risks inherent in conducting international operations,” as well as Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosures about Market Risk - Foreign Currency Exchange Rate Risk.”

The Company's highest loan demand occurs generally 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. Consequently, the Company experiences significant seasonal fluctuations in its operating results and cash needs. Operating results from 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.

*Lending and Collection Operations.* The Company seeks to provide short-term loans to the segment of the population that has limited access to other sources of credit. In evaluating the creditworthiness of potential customers, the Company primarily examines the individual's discretionary income, length of current employment, duration of residence and prior credit experience. Loans are made to individuals on the basis of the customer's discretionary income and other factors and are limited to amounts that the customer can reasonably be expected to repay from that income. All of the Company's new customers are required to complete standardized credit applications in person or by telephone at local Company offices. Each of the Company's local offices is equipped to perform immediate background, employment and credit checks and approve loan applications promptly, often while the customer waits. The Company's employees verify the applicant's employment and credit histories through telephone checks with employers, other employment references and a variety of credit services. Substantially all new customers are required to submit a listing of personal property that will be pledged as collateral to secure the loan, but the Company does not rely on the value of such collateral in the loan approval process and generally does not perfect its security interest in that collateral. Accordingly, if the customer were to default in the repayment of the loan, the Company may not be able to recover the outstanding loan balance by resorting to the sale of collateral. The Company generally approves less than 50% of applications for loans to new customers.

The Company believes that the development and continual reinforcement of personal relationships with customers improve the Company's ability to monitor their creditworthiness, reduce credit risk and generate repeat loans. It is not unusual for the Company to have made a number of loans to the same customer over the course of several years, many of which were refinanced with a new loan after two or three payments. In determining whether to refinance existing loans, the Company typically requires loans to be current on a recency basis, and repeat customers are generally required to complete a new credit application if they have not completed one within the prior two years.

In fiscal 2008, approximately 83.0% of the Company's loans were generated through refinancings of outstanding loans and the origination of new loans to previous customers. A refinancing represents a new loan transaction with a present customer in which a portion of the new loan proceeds is used to repay the balance of an existing loan and the remaining portion is advanced to the customer. The Company actively markets the opportunity to refinance existing loans prior to maturity, thereby increasing the amount borrowed and increasing the fees and other income realized. For fiscal 2008, 2007 and 2006, the percentages of the Company's loan originations that were refinancings of existing loans were 73.3%, 74.3% and 75.6%, respectively.

The Company allows refinancing of delinquent loans on a case-by-case basis for those customers who otherwise satisfy the Company's credit standards. Each such refinancing is carefully examined before approval in an effort to avoid increasing credit risk. A delinquent loan may generally be refinanced only if the customer has made payments which, together with any credits of insurance premiums or other charges to which the customer is entitled in connection with the refinancing, reduce the balance due on the loan to an amount equal to or less than the original cash advance made in connection with the loan. The Company does not allow the amount of the new loan to exceed the original amount of the existing loan. The Company believes that refinancing delinquent loans for certain customers who have made periodic payments allows the Company to increase its average loans outstanding and its interest, fee and other income without experiencing a significant increase in loan losses. These refinancings also provide a resolution to temporary financial setbacks for these borrowers and sustain their credit rating. While allowed on a selective basis, refinancings of delinquent loans amounted to less than 1.9% of the Company's loan volume in fiscal 2008.

To reduce late payment risk, local office staff encourage customers to inform the Company in advance of expected payment problems. Local office staff also promptly contact delinquent customers following any payment due date and thereafter remain in close contact with such customers through phone calls, letters or personal visits to the customer's residence or place of employment until payment is received or some other resolution is reached. When representatives of the Company make personal visits to delinquent customers, the Company's policy is to encourage the customers to return to the Company's office to make payment. Company employees are instructed not to accept payment outside of

the Company's offices except in unusual circumstances. In Georgia, Oklahoma, and Illinois, the Company is permitted under state laws to garnish customers' wages for repayment of loans, but the Company does not otherwise generally resort to litigation for collection purposes, and rarely attempts to foreclose on collateral.

*Insurance-related Operations.* In Georgia, Louisiana, South Carolina, Kentucky, and on a limited basis, Alabama, New Mexico, Oklahoma, and Tennessee, the Company sells credit insurance to customers in connection with its loans as an agent for an unaffiliated insurance company. These insurance policies provide for the payment of the outstanding balance of the Company's loan upon the occurrence of an insured event. The Company earns a commission on the sale of such credit insurance, which is based in part on the claims experience of the insurance company on policies sold on its behalf by the Company.

The Company has a wholly-owned, captive insurance subsidiary that reinsures a portion of the credit insurance sold in connection with loans made by the Company. Certain coverages currently sold by the Company on behalf of the unaffiliated insurance carrier are ceded by the carrier to the captive insurance subsidiary, providing the Company with an additional source of income derived from the earned reinsurance premiums. In fiscal 2008, the captive insurance subsidiary reinsured approximately 2% of the credit insurance sold by the Company and contributed approximately 558,000 to the Company's total revenues.

The Company typically does not perfect its security interest in collateral securing its smaller loans by filing Uniform Commercial Code ("UCC") financing statements. Statutes in Georgia, Louisiana, South Carolina, Tennessee, Missouri, Kentucky and Alabama permit the Company to charge a non-file or non-recording insurance premium in connection with certain loans originated in these states. These premiums are equal in aggregate amount to the premiums paid by the Company to purchase non-file insurance coverage from an unaffiliated insurance company. Under its non-file insurance coverage, the Company is reimbursed for losses on loans resulting from its policy not to perfect its security interest in collateral pledged to secure the loans. The Company generally perfects its security interest in collateral on larger loan transactions (typically greater than \$1,000) by filing UCC financing statements.

*Monitoring and Supervision.* The Company's loan operations are organized into Southern, Central, and Western Divisions, and Mexico. The Southern Division consists of South Carolina, Georgia, Louisiana and Alabama; the Central Division consists of Tennessee, Illinois, Missouri, and Kentucky; and the Western Division consists of Texas, Oklahoma, and New Mexico. Several levels of management monitor and supervise the operations of each of the Company's offices. Branch managers are directly responsible for the performance of their respective offices and must approve all credit applications. District supervisors are responsible for the performance of 8 to 11 offices in their districts, typically communicate with the branch managers of each of their offices at least weekly and visit the offices at least monthly. Each of the state Vice Presidents of Operations monitor the performance of all offices within their states (or partial state in the case of Texas), primarily through communication with district supervisors. These Vice Presidents of Operations typically communicate with the district supervisors of each of their districts weekly and visit each office in their states quarterly.

Senior management receives daily delinquency, loan volume, charge-off, and other statistical reports consolidated by state and has access to these daily reports for each branch office. At least six times per fiscal year, district supervisors audit the operations of each office in their geographic area and submit standardized reports detailing their findings to the Company's senior management. At least once per year, each office undergoes an audit by the Company's internal auditors. These audits include an examination of cash balances and compliance with Company loan approval, review and collection procedures and compliance with federal and state laws and regulations.

In fiscal 1994 the Company converted all of its loan offices to a new computer system following its acquisition of Paradata Financial Systems, a small software company located near St. Louis, Missouri. This system uses a proprietary data processing software package developed by Paradata, and has enabled the Company to fully automate all loan account processing and collection reporting. The system also provides significantly enhanced management information and control capabilities. The Company also markets the system to other finance companies, but experiences significant fluctuations from year to year in the amount of revenues generated from sales of the system to third parties and does not expect such revenues to be material.

*Staff and Training.* Local offices are generally staffed with three to four employees. The branch manager supervises operations of the office and is responsible for approving all loan applications. Each office generally has one or two assistant managers who contact delinquent customers, review loan applications and prepare operational reports. Each office also generally has one customer service representative who takes loan applications, processes loan applications, processes payments, assists in the preparation of operational reports, assists in collection efforts, and assists in marketing activities. Larger offices may employ additional assistant managers and customer service representatives.



New employees are required to review a detailed training manual that outlines the Company's operating policies and procedures. The Company tests each employee on the training manual during the first year of employment. In addition, each branch provides in-office training sessions once every week and training sessions outside the office for one full day every six months.

*Compensation.* The Company administers a performance-based compensation program for all of its district supervisors and branch managers. The Company annually reviews the performance of branch managers and adjusts their base salaries based upon a number of factors, including office loan growth, delinquencies and profitability.

Branch managers also receive incentive compensation based upon office profitability and delinquencies. In addition, branch managers are paid a cash bonus for training personnel who are promoted to branch manager positions. Assistant managers and customer service representatives are paid a base salary and incentive compensation based primarily upon their office's loan volume and delinquency ratio.

*Advertising.* The Company actively advertises through direct mail, targeting both its present and former customers and potential customers who have used other sources of consumer credit. The Company obtains or acquires mailing lists from third party sources. In addition to the general promotion of its loans for vacations, back-to-school needs and other uses, the Company advertises extensively during the October through December holiday season and in connection with new office openings. The Company believes its advertising contributes significantly to its ability to compete effectively with other providers of small-loan consumer credit. Advertising expenses were approximately 3.7% of total revenues in fiscal 2008, 3.5% in 2007, and 3.5% in 2006.

*Competition.* The small-loan consumer finance industry is highly fragmented, with numerous competitors. The majority of the Company's competitors are independent operators with generally less than 100 offices. Competition from nationwide consumer finance businesses is limited because these companies typically do not make loans of less than \$1,000.

The Company believes that competition between small-loan consumer finance companies occurs primarily on the basis of the strength of customer relationships, customer service and reputation in the local community, rather than pricing, as participants in this industry generally charge comparable interest rates and fees. The Company believes that its relatively larger size affords it a competitive advantage over smaller companies by increasing its access to, and reducing its cost of, capital.

Several of the states in which the Company currently operates limit the size of loans made by small-loan consumer finance companies and prohibit the extension of more than one loan to a customer by any one company. As a result, many customers borrow from more than one finance company, enabling the Company to obtain information on the credit history of specific customers from other consumer finance companies.

*Government Regulation.* Small-loan consumer finance companies are subject to extensive regulation, supervision and licensing under various federal and state statutes, ordinances and regulations. In general, these statutes establish maximum loan amounts and interest rates and the types and maximum amounts of fees, insurance premiums and other fees that may be charged. In addition, state laws regulate collection procedures, the keeping of books and records and other aspects of the operation of small-loan consumer finance companies. Generally, state regulations also establish minimum capital requirements for each local office. State agency approval is required to open new branch offices. Accordingly, the ability of the Company to expand by acquiring existing offices and opening new offices will depend in part on obtaining the necessary regulatory approvals.

A Texas regulation requires the approval of the Texas Consumer Credit Commissioner for the acquisition, directly or indirectly, of more than 10% of the voting or common stock of a consumer finance company. A Louisiana statute prohibits any person from acquiring control of 50% or more of the shares of stock of a licensed consumer lender, such

as the Company, without first obtaining a license as a consumer lender. The overall effect of these laws, and similar laws in other states, is to make it more difficult to acquire a consumer finance company than it might be to acquire control of a nonregulated corporation.

Each of the Company's branch offices is separately licensed under the laws of the state in which the office is located. Licenses granted by the regulatory agencies in these states are subject to renewal every year and may be revoked for failure to comply with applicable state and federal laws and regulations. In the states in which the Company currently operates, licenses may be revoked only after an administrative hearing.

The Company and its operations are regulated by several state agencies, including the Industrial Loan Division of the Office of the Georgia Insurance Commissioner, the Consumer Finance Division of the South Carolina Board of Financial Institutions, the South Carolina Department of Consumer Affairs, the Texas Office of the Consumer Credit Commission, the Oklahoma Department of Consumer Credit, the Louisiana Office of Financial Institutions, the Tennessee Department of Financial Institutions, the Missouri Division of Finance, the Consumer Credit Division of the Illinois Department of Financial Institutions, the Consumer Credit Bureau of the New Mexico Financial Institutions Division, the Kentucky Department of Financial Institutions, and the Alabama State Banking Department. These state regulatory agencies audit the Company's local offices from time to time, and each state agency performs an annual compliance audit of the Company's operations in that state. Effective May 1, 2008, World Acceptance Corporation de Mexico was converted to WAC de Mexico, S.A. de C.V., SOFOM, E.N.R.

The Company is also subject to state regulations governing insurance agents in the states in which it sells credit insurance. State insurance regulations require that insurance agents be licensed, govern the commissions that may be paid to agents in connection with the sale of credit insurance and limit the premium amount charged for such insurance. The Company's captive insurance subsidiary is regulated by the insurance authorities of the Turks and Caicos Islands of the British West Indies, where the subsidiary is organized and domiciled.

The Company is subject to extensive federal regulation as well, including the Truth-in-Lending Act, the Equal Credit Opportunity Act and the Fair Credit Reporting Act and the regulations thereunder and the Federal Trade Commission's Credit Practices Rule. These laws require the Company to provide complete disclosure of the principal terms of each loan to every prospective borrower, prohibit misleading advertising, protect against discriminatory lending practices and proscribe unfair credit practices. Among the principal disclosure items under the Truth-in-Lending Act are the terms of repayment, the final maturity, the total finance charge and the annual percentage rate charged on each loan. The Equal Credit Opportunity Act prohibits creditors from discriminating against loan applicants on the basis of race, color, sex, age or marital status. Pursuant to Regulation B promulgated under the Equal Credit Opportunity Act, creditors are required to make certain disclosures regarding consumer rights and advise consumers whose credit applications are not approved of the reasons for the rejection. The Fair Credit Reporting Act requires the Company to provide certain information to consumers whose credit applications are not approved on the basis of a report obtained from a consumer reporting agency. The Credit Practices Rule limits the types of property a creditor may accept as collateral to secure a consumer loan. Violations of the statutes and regulations described above may result in actions for damages, claims for refund of payments made, certain fines and penalties, injunctions against certain practices and the potential forfeiture of rights to repayment of loans.

Consumer finance companies are affected by changes in state and federal statutes and regulations. The Company actively participates in trade associations and in lobbying efforts in the states in which it operates. Although the Company is not aware of any pending or proposed legislation that would have a material adverse effect on the Company's business, there can be no assurance that future regulatory changes will not adversely affect the Company's lending practices, operations, profitability or prospects.

*Employees.* As of March 31, 2008, the Company had 2,716 U.S. employees, none of whom were represented by labor unions and 301 employees in Mexico, all of whom were represented by a labor union. The Company considers its relations with its personnel to be good. The Company seeks to hire people who will become long-term employees. The Company experiences a high level of turnover among its entry-level personnel, which the Company believes is typical of the small-loan consumer finance industry.

*Executive Officers.* The names and ages, positions, terms of office and periods of service of each of the Company's executive officers (and other business experience for executive officers who have served as such for less than five years) are set forth below. The term of office for each executive officer expires upon the earlier of the appointment and qualification of a successor or such officers' death, resignation, retirement or removal.

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| Name and Age                     | Position  | Period of Service as Executive Officer and Pre-executive Officer Experience (if an Executive Officer for Less Than Five Years)   |
|----------------------------------|---|--|
| A. Alexander McLean, III<br>(56) | Chief Executive Officer;<br>Chairman and Director | Chief Executive Officer since March 2006;<br>Executive<br>Vice President from August 1996 until March 2006;<br>Senior Vice President from July 1992 until August 1996; CFO from June 1989 until March 2006;<br>Director<br>since June 1989; and Chairman since August 2007 |
| Kelly M. Malson (37)             | Vice President and Chief<br>Financial Officer     | Vice President and CFO since March 2006; Vice<br>President of Internal Audit from September 2005 to<br>March 2006; Financial Compliance Manager,<br>Itron Inc., from July 2004 to August 2005; Senior<br>Manager, KPMG LLP from April 2002 until July<br>2004              |

|                           |  |  |
|---------------------------|--|--|
| Mark C. Roland (51)       | President and Chief Operating Officer and Director | President since March 2006; Chief Operating Officer since April 2005; Executive Vice President from April 2002 to March 2006; Senior Vice President from January 1996 to April 2002  |
| Jeff Tinney (45)          | Senior Vice President, Western Division            | Senior Vice President, Western Division, since June 2007; Vice President, Operations – Texas and New Mexico from June 2001 to June 2007; Vice President, Operations – Texas and Louisiana from April 1998 to June 2001; Vice President, Operations – Louisiana from January 1997 to April 1998 |
| Daniel Clinton Dyer (35)  | Senior Vice President, Central Division            | Senior Vice President, Central Division since June 2005; Vice President, Operations – Tennessee and Missouri from April 2002 to June 2005; Supervisor of Nashville District from September 2001 to March 2002; Manager in Nashville from January 1997 to August 2001                           |
| James Daniel Walters (40) | Senior Vice President, Southern Division           | Senior Vice President, Southern Division since April 2005; Vice President, Operations – South Carolina and Alabama from August 1998 to March 2005.   |
| Francisco J. Sauza (53)   | Senior Vice President                              | Vice President of Operations since April 2005; President of Border Consulting Group from July 2004 to March 2005; Senior Manager of KPMG and BearingPoint Consulting from January 2000 to June 2004; Partner of Atlanta Consulting Group from February 1998 to January 2000.                   |

**Item 1A. Risk Factors**

**Forward-Looking Statements**

This annual report contains various “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, that are based on management’s beliefs and assumptions, as well as information currently available to management. Statements other than those of historical fact, as well as those identified by the use of words such as “anticipate,” “estimate,” “plan,” “expect,” “believe,” “may,” “will,” “should,” and similar expressions, are forward-looking statements. Although we believe that the expectations reflected in any such forward-looking statements are reasonable, we 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, our 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: changes in interest rates; risks inherent in making loans, including repayment risks and value of collateral; recently enacted, proposed or future legislation; the timing and amount of revenues that may be recognized by the Company; changes in current revenue and expense trends (including trends affecting charge-offs); changes in the Company's markets and general changes in the economy (particularly in the markets served by the Company); and the unpredictable nature of litigation. These and other risks are discussed below in more detail under "Risk Factors" and in the Company's other filings made from time to time with the Securities and Exchange Commission ("SEC"). The Company does not undertake any obligation to update any forward-looking statements it may make.

Investors should consider the following risk factors, in addition to the other information presented in this annual report and the other reports and registration statements we file from time to time with the SEC, in evaluating us, our business and an investment in our securities. Any of the following risks, as well as other risks, uncertainties, and possibly inaccurate assumptions underlying our plans and expectations, could result in harm to our business, results of operations and financial condition and cause the value of our securities to decline, which in turn could cause investors to lose all or part of their investment in our Company. These factors, among others, could also cause actual results to differ from those we have experienced in the past or those we may express or imply from time to time in any forward-looking statements we make. Investors are advised that it is impossible to identify or predict all risks, and that risks not currently known to us or that we currently deem immaterial also could affect us in the future.

***We face liquidity risk resulting from market conditions or other events.***

Downturns, uncertainties or turmoil in the corporate credit markets or broader economy, political or social unrest or other events, most of which are beyond our control, could negatively affect the level or cost of our liquidity, which would adversely affect our ongoing ability to service debt, meet contractual obligations, and fund asset growth and new business transactions at a reasonable cost, in a timely manner and without adverse consequences. Any substantial, unexpected and/or prolonged change in the level or cost of liquidity could have a material adverse effect on our financial condition and results of operations. Additional information regarding liquidity risk is included in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.”

***We are subject to interest rate risk resulting from general economic conditions and policies of various governmental and regulatory agencies.***

Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence the amount of interest we pay on our revolving credit facility and other note payable or any other floating interest rate obligations we may incur, but such changes could also affect our ability to originate loans. If the interest we pay on our revolving credit facility increases, our earnings would be adversely affected because the Company is generally charging the maximum fees allowed by the respective state’s regulatory agency. Additional information regarding interest rate risk is included in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Quantitative and Qualitative Disclosures about Market Risk and Inflation.”

***Our use of derivatives exposes us to credit and market risk.***

We use derivatives to manage our exposure to interest rate risk and foreign currency fluctuations. We use interest rate swaps for interest rate risk management and options to hedge foreign currency fluctuation risk. By using derivative instruments, the Company is exposed to credit and market risk. Additional information regarding our exposure to credit and market risk is included in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Quantitative and Qualitative Disclosures About Market Risk.”

***We are exposed to credit risk in our lending activities.***

There are inherent risks associated with our lending activities. Our ability to collect on loans to individuals, our single largest asset group, depends on the willingness and repayment ability of our borrowers. A material adverse change in the ability of a significant portion of our borrowers to meet their obligations to us, due to changes in economic conditions, the cost of consumer goods, interest rates, natural disasters, acts of war, or other causes over which we have no control, would have a material adverse impact on our earnings and financial condition.

***Controls and procedures may fail or be circumvented.***

Controls and procedures are particularly important for small-loan consumer finance companies. Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

***The locations where we have offices may cease to be attractive as demographic patterns change.***

The success of our offices is significantly influenced by location. Current locations may not continue to be attractive as demographic patterns change. It is possible that the neighborhood or economic conditions where our offices are located could change in the future, potentially resulting in reduced revenues in those locations.



***If we lose the services of any of our key management personnel, our business could suffer.***

Our future success significantly depends on the continued services and performance of our key management personnel. Our future performance will depend on our ability to motivate and retain these and other key officers and key team members, particularly divisional senior vice-presidents and regional vice-presidents of operations. Competition for these employees is intense. The loss of the services of members of our senior management or key team members or the inability to attract additional qualified personnel as needed could materially harm our business.

***Regular turnover among our managers and employees at our offices makes it more difficult for us to operate our offices and increases our costs of operations, which could have an adverse effect on our business, results of operations and financial condition.***

The annual turnover as of March 31, 2008 among our office employees was approximately 45.4%. This turnover increases our cost of operations and makes it more difficult to operate our offices. If we are unable to keep our employee turnover rates consistent with historical levels or if unanticipated problems arise from our high employee turnover, our business, results of operations and financial condition could be adversely affected.

***The concentration of our revenues in certain states could adversely affect us.***

Our offices operated in 11 states and Mexico during the year ended March 31, 2008, and our 4 largest states (measured by total revenues) accounted for approximately 62.0% of our total revenues. While we believe we have a diverse geographic presence, for the near term we expect that significant revenues will continue to be generated by certain states, largely due to the currently prevailing economic, demographic, regulatory, competitive and other conditions in those states. Changes in these or any other conditions in the markets in which we operate could lead to a reduction in demand for loans, a decline in our revenues or an increase in our provision for loan losses, any of which could result in a deterioration of our results of operations or financial condition.

***Our ability to manage our growth may deteriorate, and our ability to execute our growth strategy may be adversely affected.***

We have experienced substantial growth in recent years. Our growth strategy, which is based on rapidly opening and acquiring a large number of offices in existing and new markets, is subject to significant risks. We cannot assure you that we will be able to expand our market presence in our current markets or successfully enter new markets through the opening of new offices or acquisitions. Moreover, the start-up costs and the losses from initial operations attributable to each newly opened office place demands upon our liquidity and cash flow, and we cannot assure you that we will be able to satisfy these demands.

In addition, our ability to execute our growth strategy will depend on a number of other factors, some of which are beyond our control, including:

- the prevailing laws and regulatory environment of each state in which we operate or seek to operate, which are subject to change at any time;
- our ability to obtain and maintain any regulatory approvals, government permits or licenses that may be required;
- the degree of competition in new markets and its effect on our ability to attract new customers;
- our ability to compete for expansion opportunities in suitable locations;
- our ability to recruit, train and retain qualified personnel;
- our ability to adapt our infrastructure and systems to accommodate our growth; and
- our ability to obtain adequate financing for our expansion plans.

We cannot assure you that our systems, procedures, controls and existing space will be adequate to support expansion of our operations. Our growth has placed significant demands on all aspects of our business, including our administrative, technical and financial personnel and systems. Additional expansion may further strain our management, financial and other resources. Our future results of operations will substantially depend on the ability of our officers and key employees to manage changing business conditions and to implement and improve our technical, administrative, financial control and reporting systems. In addition, we cannot assure you that we will be able to implement our business strategy profitably in geographic areas we do not currently serve.

***Interruption of, or a breach in security relating to, our information systems could adversely affect us.***

We rely heavily on communications and information systems to conduct our business. Each office is part of an information network that is designed to permit us to maintain adequate cash inventory, reconcile cash balances on a daily basis and report revenues and expenses to our headquarters. Any failure, interruption or breach in security of these systems, including any failure of our back-up systems, could result in failures or disruptions in our customer relationship management, general ledger, loan and other systems. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

***Our centralized headquarters functions are susceptible to disruption by catastrophic events, which could have a material adverse effect on our business, results of operations and financial condition.***

Our headquarters building is located in Greenville, South Carolina. Our information systems and administrative and management processes are primarily provided to our offices from this centralized location, and they could be disrupted if a catastrophic event, such as a tornado, power outage or act of terror, destroyed or severely damaged our headquarters. Any of these catastrophic events could have a material adverse effect on our business, results of operations and financial condition.

***Legislative or regulatory actions or changes with adverse results 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.***

We are subject to numerous 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, money or other penalties. In addition, any adverse change in existing laws or regulations, or 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 lower or eliminate the profitability of 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 offices in a state, in addition to the loss of net revenues attributable to that closing, we would 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 offices and our employees in that state, with little or no revenues.

***We depend to a substantial extent on borrowings under our revolving credit agreement to fund our liquidity needs.***

We have an existing revolving credit agreement committed through September 2009 that allows us to borrow up to \$187.0 million, assuming we are in compliance with a number of covenants and conditions. Because we typically use substantially all of our available cash generated from our operations to repay borrowings on our revolving credit agreement on a current basis, we have limited cash balances and we expect that a significant portion of our liquidity needs will be funded primarily from borrowings under our revolving credit agreement. As of March 31, 2008, we had approximately \$82.5 million available for future borrowings under this agreement, excluding the seasonal line which expires each March 31. Due to the seasonal nature of our business, our borrowings are historically the highest during the third quarter and the lowest during the fourth quarter. If our existing sources of liquidity are insufficient to satisfy our financial needs, we may need to try to raise additional debt or equity in the future.

***Our revolving credit agreement contains restrictions and limitations that could significantly affect our ability to operate our business.***

Our revolving credit agreement contains a number of significant covenants that could adversely affect our business. These covenants impose limitations on the Company with respect to:

- Declaring or paying dividends or making distributions on or acquiring common or preferred stock or warrants or options;
  - Redeeming or purchasing or prepaying principal or interest on subordinated debt
    - Incurring additional indebtedness; and
  - Entering into a merger, consolidation or sale of substantial assets or subsidiaries.

The breach of any covenants or obligation in our revolving credit agreement will result in a default. If there is an event of default under our revolving credit agreement, the lenders under the revolving credit agreement could cause all amounts outstanding thereunder to become due and payable, subject to applicable grace periods. This could trigger cross-defaults under our other existing or future debt instruments. As a result, our ability to respond to changing business and economic conditions and to secure additional financing, if needed, may be significantly restricted, and we may be prevented from engaging in transactions that might further our growth strategy. If we are unable to repay, refinance or restructure our indebtedness under our revolving credit agreement, the lenders under that agreement could proceed against the collateral securing that indebtedness. Our obligations under the revolving credit agreement are guaranteed by each of our existing and future subsidiaries. The borrowings under the revolving credit agreement and the subsidiary guarantees are secured by substantially all of our assets and the assets of the subsidiary guarantors. In addition, borrowings under the revolving credit agreement are secured by a pledge of substantially all of the capital stock, or similar equity interests, of the subsidiary guarantors. In the event of our insolvency, liquidation, dissolution or reorganization, the lenders under our revolving credit agreement and any other existing or future debt of ours would be entitled to payment in full from our assets before distributions, if any, were made to our stockholders.

***If our estimates of loan losses are not adequate to absorb losses, our provision for loan losses would increase. This would result in a decline in our future revenues and earnings, which also could have a material adverse effect on our stock price.***

We maintain an allowance for loan losses for loans we make directly to consumers. To estimate the appropriate allowance for loan losses, we consider the amount of outstanding loan balances owed to us, historical delinquency and charge-off trends, and other factors discussed in our consolidated financial statements.

As of March 31, 2008, our allowance for loan losses was \$33.5 million. These amounts, however, are estimates. If our actual loan losses are greater than our allowance for loan losses, our provision for loan losses would increase. This would result in a decline in our future revenues and earnings, which also could have a material adverse effect on our stock price.

***Our business is seasonal in nature, which causes our revenues, collection rates and earnings to fluctuate. These fluctuations could have a material adverse effect on our results of operations and stock price.***

Our business is seasonal because demand for small consumer loans is highest in the third quarter of each year, corresponding to the holiday seasons, and lowest in the fourth quarter of each year, corresponding to our customers' receipt of income tax refunds. Our provision for loan losses is historically lowest as a percentage of revenues in the fourth quarter of each year, corresponding to our customers' receipt of income tax refunds, and increase as a percentage of revenues for the remainder of each year. This seasonality requires us to manage our cash flows over the course of the year. If our revenues or collections were to fall substantially below what we would normally expect during certain periods, our ability to service our debt and meet our other liquidity requirements may be adversely affected, which could have a material adverse effect on our results of operations and stock price.

In addition, our quarterly results have fluctuated in the past and are likely to continue to fluctuate in the future because of the seasonal nature of our business. Therefore, our quarterly revenues and results of operations are difficult to forecast, which, in turn could cause our future quarterly results to not meet the expectations of securities analysts or investors. Our failure to meet such expectations could cause a material drop in the market price of our common stock.

***Absence of dividends could reduce our attractiveness to investors.***

Since 1989, we have not declared or paid cash dividends on our common stock and may not pay cash dividends in the foreseeable future. As a result, our common stock may be less attractive to certain investors than the stock of dividend-paying companies.

***Various provisions and laws could delay or prevent a change of control that stockholders may favor.***

Provisions of our articles of incorporation and South Carolina law could delay or prevent a change of control that the holders of our common stock may favor or may impede the ability of our stockholders to change our management. In particular, our articles of incorporation and South Carolina law, among other things, authorize our board of directors to issue preferred stock in one or more series, without shareholder approval, and will require the affirmative vote of holders of two-thirds of our outstanding shares of voting stock to approve our merger or consolidation with another corporation.

***Our continued expansion into Mexico may increase the risks inherent in conducting international operations.***

Although our operations in Mexico accounted for only 1.8% of our revenues and 2.4% of our gross loans receivable for the year ended March 31, 2008, we intend to continue opening offices and expanding our presence in Mexico. In doing so, we may expose an increasing portion of our business to risks inherent in conducting international operations, including currency fluctuations and devaluations, unsettled political conditions, communication and translation errors due to language barriers, compliance with differing legal and regulatory regimes and differing cultural attitudes toward regulation and compliance. Among the additional risks potentially affecting our Mexican operations are changes in local economic conditions, disruption from political unrest and difficulty in enforcing agreements due to differences in the Mexican legal and regulatory regimes compared to those of the U.S. Our success in conducting foreign operations will depend, in large part, on our ability to succeed in differing economic, social and political conditions. Among other things, we face potential difficulties in staffing and managing local operations, and we have to design local solutions to manage credit risks posed by local customers. We may not continue to succeed in developing and implementing policies and strategies that are effective in each location where we do business.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

The Company owns its headquarters facility of approximately 21,000 square feet and a printing and mailing facility of approximately 13,000 square feet in Greenville, South Carolina, and all of the furniture, fixtures and computer terminals located in each branch office. As of March 31, 2008, the Company had 838 branch offices, most of which are leased pursuant to short-term operating leases. During the fiscal year ended March 31, 2008, total lease expense was approximately \$12.2 million, or an average of approximately \$15,000 per office. The Company's leases generally provide for an initial three- to five-year term with renewal options. The Company's branch offices are typically located in shopping centers, malls and the first floors of downtown buildings. Branches in the U.S. offices generally have a uniform physical layout with an average size of 1,500 square feet and in Mexico with an average size of 1,600 square feet.

**Item 3. Legal Proceedings**

From time to time the Company is involved in routine litigation relating to claims arising out of its operations in the normal course of business in which damages in various amounts are claimed. However, the Company believes that it is not presently a party to any pending legal proceedings that would have a material adverse effect on its financial condition or results of operations.

**Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to the Company's security holders during the fourth fiscal quarter ended March 31, 2008.

**PART II.**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Since November 26, 1991, the Company's common stock has traded on NASDAQ, currently on the NASDAQ Global Select Market ("NASDAQ"), under the symbol WRLD. As of May 23, 2008, there were 10,200 holders of record of

Common Stock and approximately 3,300 persons or entities who hold their stock in nominee or “street” names through various brokerage firms.

Since April 1989, the Company has not declared or paid any cash dividends on its common stock. Its policy has been to retain earnings for use in its business and on occasion, repurchase its common stock on the open market. In the future, the Company's Board of Directors will determine whether to pay cash dividends based on conditions then existing, including the Company's earnings, financial condition, capital requirements and other relevant factors. In addition, 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.”

On May 19, 2008, the Board of Directors authorized the Company to repurchase up to \$10 million of the Company’s common stock. This repurchase authorization follows, and is in addition to, similar repurchase authorizations of \$10 million announced February 12, 2008 and November 12, 2007. After taking into account all shares repurchased through May 30, 2008, the Company has \$11.0 million in aggregate remaining repurchase capacity under all of the Company’s outstanding repurchase authorizations. The timing and actual number of shares repurchased will depend on a variety of factors, including the stock price, corporate and regulatory requirements and other market and economic conditions. Although the repurchase authorizations above have no stated expiration date, the Company’s stock repurchase program may be suspended or discontinued at any time. The following table provides information with respect to purchases made by the Company of shares of the Company’s common stock during the three month period ended March 31, 2008:

|                                      | (a) Total<br>Number of<br>Shares<br>Purchased | (b) Average<br>Price Paid<br>per<br>Share | (c) Total Number<br>of Shares Purchased<br>as Part of Publicly<br>Announced Plans<br>or Programs | (d) Approximate Dollar<br>Value of Shares<br>That May Yet be<br>Purchased Under the<br>Plans or Programs |
|--------------------------------------|---|---|--|--|
| January 1 through January 31, 2008   | -   | -   | -  | 11,547,976   |
| February 1 through February 29, 2008 | 190,000                                       | 30.82                                     | 190,000  | 15,693,026 <sup>(1)</sup>  |
| March 1 through March 31, 2008       | 495,000                                       | 29.75                                     | 495,000  | 964,709  |
| Total for the Quarter                | 685,000                                       | \$ 30.05                                  | 685,000  |  |

<sup>(1)</sup> Includes additional \$10 million authorized on February 12, 2008.

The table below reflects the stock prices published by NASDAQ by quarter for the last two fiscal years. The last reported sale price on May 23, 2008 was \$43.93.

### Market Price of Common Stock

| Quarter | Fiscal 2008 |          |
|---------|-------------|----------|
|         | High        | Low      |
| First   | \$ 45.74    | \$ 39.27 |
| Second  | 43.16       | 27.76    |
| Third   | 35.59       | 26.40    |
| Fourth  | 35.50       | 19.89    |



| Quarter | Fiscal 2007 |          |
|---------|-------------|----------|
|         | High        | Low      |
| First   | \$ 36.90    | \$ 25.12 |
| Second  | 47.30       | 33.90    |
| Third   | 50.81       | 43.60    |
| Fourth  | 49.10       | 37.00    |

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**Item 6. Selected Financial Data**

## Selected Consolidated Financial and Other Data

(Dollars in thousands, except per share amounts)

|   | Years Ended March 31, |            |            |            |            |
|---|-----------------------|------------|------------|------------|------------|
|   | 2008                  | 2007       | 2006       | 2005       | 2004       |
| <b>Statement of Operations Data:</b>                |                       |            |            |            |            |
| Interest and fee income                             | \$ 292,457            | \$ 247,007 | \$ 204,450 | \$ 177,582 | \$ 151,499 |
| Insurance commissions and other income              | 53,590                | 45,311     | 38,822     | 33,176     | 27,653     |
| Total revenues                                      | 346,047               | 292,318    | 243,272    | 210,758    | 179,152    |
| Provision for loan losses                           | 67,542                | 51,925     | 46,026     | 40,037     | 33,481     |
| General and administrative expenses                 | 179,219               | 153,627    | 128,514    | 112,223    | 96,313     |
| Interest expense                                    | 11,569                | 9,596      | 7,137      | 4,640      | 3,943      |
| Total expenses                                      | 258,330               | 215,148    | 181,677    | 156,900    | 133,737    |
| Income before income taxes                          | 87,717                | 77,170     | 61,595     | 53,858     | 45,415     |
| Income taxes  | 34,721                | 29,274     | 23,080     | 19,868     | 16,650     |
| Net income  | \$ 52,996             | \$ 47,896  | \$ 38,515  | \$ 33,990  | \$ 28,765  |
| Net income per common share (diluted)               | \$ 3.05               | \$ 2.60    | \$ 2.02    | \$ 1.74    | \$ 1.49    |
| Diluted weighted average shares                     | 17,375                | 18,394     | 19,098     | 19,558     | 19,347     |
| <b>Balance Sheet Data (end of period):</b>          |                       |            |            |            |            |
| Loans receivable, net of unearned and deferred fees | \$ 445,091            | \$ 378,038 | \$ 312,746 | \$ 267,024 | \$ 236,528 |
| Allowance for loan losses                           | (33,526)              | (27,840)   | (22,717)   | (20,673)   | (17,261)   |
| Loans receivable, net                               | 411,565               | 350,198    | 290,029    | 246,351    | 219,267    |
| Total assets  | 486,110               | 411,116    | 332,784    | 293,507    | 261,969    |
| Total debt  | 214,900               | 171,200    | 100,600    | 83,900     | 95,032     |
| Shareholders' equity                                | 234,305               | 215,493    | 210,430    | 189,711    | 156,580    |
| <b>Other Operating Data:</b>                        |                       |            |            |            |            |
| As a percentage of average loans receivable:        |                       |            |            |            |            |
| Provision for loan losses                           | 15.8%                 | 14.5%      | 15.4%      | 15.3%      | 15.1%      |
| Net charge-offs                                     | 14.5%                 | 13.3%      | 14.8%      | 14.6%      | 14.7%      |
| Number of offices open at year-end                  | 838                   | 732        | 620        | 579        | 526        |

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### General

The Company's financial performance continues to be dependent in large part upon the growth in its outstanding loans receivable, the ongoing introduction of new products and services for marketing to its customer base, the maintenance of loan quality and acceptable levels of operating expenses. Since March 31, 2003, gross loans receivable have increased at a 16.3% annual compounded rate from \$266.8 million to \$599.5 million at March 31, 2008. The increase reflects both the higher volume of loans generated through the Company's existing offices and the contribution of loans generated from new offices opened or acquired over the period. During this same five-year period, the Company has grown from 470 offices to 838 offices as of March 31, 2008. During fiscal 2009, the Company plans to open or acquire approximately 70 new offices in the United States and 25 new offices in Mexico.

The Company attempts to identify new products and services for marketing to its customer base. In addition to new insurance-related products, which have been introduced in selected states over the last several years, the Company sells and finances electronic items and appliances to its existing customer base in many states where it operates. This program is called the "World Class Buying Club." Total loan volume under this program was \$16.2 million during fiscal 2008, a 12.6% increase from the prior fiscal year. While this represents less than 1% of the Company's total loan volume, it remains a very profitable program, which the Company plans to continue to emphasize in fiscal 2009 and beyond.

The Company's ParaData Financial Systems subsidiary provides data processing systems to 113 separate finance companies, including the Company, and currently supports approximately 1,493 individual branch offices in 45 states and Mexico. ParaData's revenue is highly dependent upon its ability to attract new customers, which often requires substantial lead time, and as a result its revenue may fluctuate greatly from year to year. Its net revenues from system sales and support amounted to \$2.2 million, \$2.5 million and \$2.3 million in fiscal 2008, 2007 and 2006, respectively. ParaData's pretax income (loss) to the Company also can fluctuate greatly. It was \$(255,000), \$112,000 and \$308,000, in fiscal 2008, fiscal 2007 and fiscal 2006, respectively. ParaData's net revenue and resulting net income (loss) to the Company will continue to fluctuate on a year to year basis. While ParaData may or may not remain profitable, it will continue to provide state-of-the-art data processing support for the Company's in-house integrated computer system at a substantially reduced cost to the Company.

Since fiscal 1997, the Company has expanded its product line to include larger balance, lower risk, and lower yielding individual consumer loans. These loans typically average \$1,000 to \$3,000, with terms of generally 18 to 24 months, compared to smaller loans, which average \$300 to \$1,000, with terms of generally 8 to 12 months. The Company offers the larger loans in all states except Texas, where they are not profitable under our lending criteria and strategy. Additionally, the Company has purchased over the years numerous larger loan offices and has made several bulk purchases of larger loans receivable. As of March 31, 2008, the larger loan category accounted for approximately \$156.0 million of gross loans receivable, a 17.0% increase over the balance outstanding at March 31, 2007. At the end of the current fiscal year, this portfolio was 26.0% of the total loan balances, a slight decrease from the previous year mix of 26.4%. Management believes that these loans provide lower expense and loss ratios, and thus provide positive contributions. While the Company does not intend to change its primary lending focus from its small-loan business, it does intend to continue expanding the larger loan product line as part of its ongoing growth strategy.

In fiscal 1999, the Company tested an income tax return preparation and refund anticipation loan program in 40 of its offices. Based on the results of this test, the Company expanded this program in fiscal 2000 into substantially all of its offices. The Company prepared approximately 65,000, 60,000 and 57,000 returns in each of the fiscal years 2008, 2007 and 2006, respectively. Net revenue generated by the Company from this program during fiscal 2008 amounted to approximately \$9.7 million. The Company believes that this profitable business provides a beneficial service to its existing customer base and plans to continue to promote and expand the program in the future.



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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:

|  | 2008       | Years Ended March 31,<br>2007 | 2006    |
|--|------------|-------------------------------|---------|
|  |            | (Dollars in thousands)        |         |
| Average gross loans receivable (1)         | \$ 576,050 | 480,120                       | 396,582 |
| Average net loans receivable (2)           | 426,524    | 358,047                       | 298,267 |
| Expenses as a percentage of total revenue: |            |                               |         |
| Provision for loan losses                  | 19.5%      | 17.8%                         | 18.9%   |
| General and administrative                 | 51.8%      | 52.6%                         | 52.8%   |
| Total interest expense                     | 3.3%       | 3.3%                          | 2.9%    |
| Operating margin (3)                       | 28.7%      | 29.7%                         | 28.3%   |
| Return on average assets                   | 11.3%      | 12.5%                         | 11.9%   |
| Offices opened and acquired, net           | 106        | 112                           | 41      |
| Total offices (at period end)              | 838        | 732                           | 620     |

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

### Comparison of Fiscal 2008 Versus Fiscal 2007

Net income was \$53.0 million during fiscal 2008, a 10.6% increase over the \$47.9 million earned during fiscal 2007. This increase resulted from an increase in operating income (revenues less provision for loan losses and general and administrative expenses) of \$12.5 million, or 14.4%, offset by an increase in interest expense and income taxes.

Total revenues increased to \$346.0 million in fiscal 2008, a \$53.7 million, or 18.4%, increase over the \$292.3 million in fiscal 2007. Revenues from the 645 offices open throughout both fiscal years increased by 8.9%. At March 31, 2008, the Company had 838 offices in operation, an increase of 106 offices from March 31, 2007.

Interest and fee income during fiscal 2008 increased by \$45.5 million, or 18.4%, over fiscal 2007. This increase resulted from an increase of \$68.5 million, or 19.1%, in average net loans receivable between the two fiscal years. The increase in average loans receivable was attributable to the Company acquiring approximately \$3.1 million in net loans and internal growth. During fiscal 2008, internal growth increased because the Company opened 95 new offices and the average loan balance increased from \$837 to \$877.

Insurance commissions and other income increased by \$8.3 million, or 18.3%, over the two fiscal years. Insurance commissions increased by \$6.0 million, or 24.5%, as a result of the increase in loan volume in states where credit insurance is sold. Other income increased by \$2.3 million, or 11.0%, over the two years, primarily due to an increase in fees received from income tax return preparation of \$1.5 million, an increase in motor club product sales of \$1.1 million and an \$0.8 million increase in World Class Buying Club sales. This increase was offset by a \$1.8 million loss

related to our interest rate swap.

The provision for loan losses during fiscal 2008 increased by \$15.6 million, or 30.1%, from the previous year. This increase resulted from a combination of increases in both the allowance for loan losses and the amount of loans charged off. Net charge-offs for fiscal 2008 amounted to \$62.0 million, a 29.8% increase over the \$47.7 million charged off during fiscal 2007. Net charge-offs as a percentage of average loans increased from 13.3% to 14.5% when comparing the two annual periods. The 1.2 percentage point increase is a continuation of the trend the Company has seen during each of the quarters during the fiscal year. The current trend is more in line with historical losses of 14.8% in 2006, 14.6% in 2005, 14.7% in 2004 and 14.6% in 2003. Delinquencies on a recency basis increased from 2.2% to 2.6% and on a contractual basis increased from 3.6% to 4.0% at March 31, 2007 and March 31, 2008, respectively.

General and administrative expenses during fiscal 2008 increased by \$25.6 million, or 16.7%, over the previous fiscal year. This increase was due primarily to costs associated with the new offices opened or acquired during the fiscal year. General and administrative expenses, when divided by average open offices, decreased by 0.6% when comparing the two fiscal years and, overall, general and administrative expenses as a percent of total revenues decreased from 52.6% in fiscal 2007 to 51.8% during fiscal 2008. This decrease resulted from a higher growth in revenue than in expenses.

Interest expense increased by \$2.0 million, or 20.6%, during fiscal 2008, as compared to the previous fiscal year as a result of an increase in average debt outstanding of 40.2%. Average interest rates decreased from 6.3% in fiscal 2007 to 5.4% in fiscal 2008.

Income tax expense increased \$5.4 million, or 18.6%, primarily from an increase in pre-tax income and a charge of \$1.5 million related to a tax examination. A state jurisdiction has completed its examinations and issued a proposed assessment for tax years 2001 through 2006. The Company is in the very initial process of responding to the state taxing authority. In consideration of the proposed assessment, net income for this year was reduced by this charge of \$1.5 million and the total gross unrecognized tax benefits has increased by \$2.3 million as a result of this examination. At this time, it is too early to predict the outcome on this tax issue and any future recoverability of this charge. Until the tax issue is resolved, the Company expects to accrue approximately \$40,000 per quarter for interest and penalties. As a result, the Company's effective income tax rate increased to 39.6% for the year ended March 31, 2008 from 37.9% for the prior year.

#### **Comparison of Fiscal 2007 Versus Fiscal 2006**

Net income was \$47.9 million during fiscal 2007, a 24.4% increase over the \$38.5 million earned during fiscal 2006. This increase resulted from an increase in operating income of \$18.0 million, or 26.2%, offset by an increase in interest expense and income taxes.

Total revenues increased to \$292.3 million in fiscal 2007, a \$49.0 million, or 20.2%, increase over the \$243.3 million in fiscal 2006. Revenues from the 566 offices open throughout both fiscal years increased by 12.5%. At March 31, 2007, the Company had 732 offices in operation, an increase of 112 offices from March 31, 2006.

Interest and fee income during fiscal 2007 increased by \$42.6 million, or 20.8%, over fiscal 2006. This increase resulted from an increase of \$59.8 million, or 20.0%, in average net loans receivable between the two fiscal years. The increase in average loans receivable was attributable to the Company acquiring approximately \$16.1 million in net loans, of which \$12.5 million related to one acquisition, and internal growth. During fiscal 2007, internal growth increased because the Company opened 68 new offices and the average loan balance increased from \$804 to \$837.

Insurance commissions and other income increased by \$6.5 million, or 16.7%, over the two fiscal years. Insurance commissions increased by \$4.6 million, or 23.2%, as a result of the increase in loan volume in states where credit insurance may be sold. Other income increased by \$1.9 million, or 9.9%, over the two years, primarily due to an increase in fees received from income tax return preparation of \$570,000, an increase in motor club product sales of \$1.3 million and a \$1.3 million increase in World Class Buying Club sales. This increase was offset by a \$400,000 loss related to our interest rate swap. Comparative results were also affected by the Company recording a \$393,000 gain from a life insurance claim in fiscal 2006, while no similar gain was recorded in fiscal 2007.

The provision for loan losses during fiscal 2007 increased by \$5.9 million, or 12.8%, from the previous year. This increase resulted from a combination of increases in both the allowance for loan losses and the amount of loans charged off. Net charge-offs for fiscal 2007 amounted to \$47.8 million, a 7.5% increase over the \$44.4 million charged off during fiscal 2006, however, net charge-offs as a percentage of average loans decreased from 14.8% to 13.3% when comparing the two annual periods. The decrease in the charge-off ratio was mainly attributable to a

decrease in bankruptcy related charge-offs from \$8.8 million in fiscal 2006 to \$5.0 million in fiscal 2007. The Company does not expect the charge-off ratio to remain at its current levels because it believes that bankruptcy trends will begin to rise in fiscal 2008. Delinquencies on a recency basis increased from 2.1% to 2.2% and on a contractual basis increased from 3.4% to 3.5% at March 31, 2006 and March 31, 2007, respectively.

General and administrative expenses during fiscal 2007 increased by \$25.1 million, or 19.5%, over the previous fiscal year. This increase was due primarily to costs associated with the new offices opened or acquired during the fiscal year. General and administrative expenses, when divided by average open offices, increased by 5.2% when comparing the two fiscal years and, overall, general and administrative expenses as a percent of total revenues decreased from 52.8% in fiscal 2006 to 52.6% during fiscal 2007. This decrease resulted from a higher growth in revenue than in expenses.

Interest expense increased by \$2.5 million, or 34.5%, during fiscal 2007, as compared to the previous fiscal year as a result of an increase in average debt outstanding of 33.3%. Average interest rates increased slightly from 6.27% in fiscal 2006 to 6.33% in fiscal 2007.



The Company's effective income tax rate increased to 37.9% during fiscal 2007 from 37.5% during the previous fiscal year. This increase resulted primarily from increased state income taxes.

### **Critical Accounting Policies**

The Company's accounting and reporting policies are in accordance with U.S. generally accepted accounting principles and conform to general practices within the finance company industry. The significant accounting policies used in the preparation of the consolidated financial statements are discussed in Note 1 to the consolidated financial statements. Certain critical accounting policies involve significant judgment by the Company's management, including the use of estimates and assumptions which affect the reported amounts of assets, liabilities, revenues, and expenses. As a result, changes in these estimates and assumptions could significantly affect the Company's financial position and results of operations. The Company considers its policies regarding the allowance for loan losses and share-based compensation, to be its most critical accounting policies due to the significant degree of management judgment involved.

#### *Allowance for Loan Losses*

The Company has developed policies and procedures for assessing the adequacy of the allowance for loan losses that take into consideration various assumptions and estimates with respect to the loan portfolio. The Company's assumptions and estimates may be affected in the future by changes in economic conditions, among other factors. For additional discussion concerning the allowance for loan losses, see "Credit Quality" below.

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

### **Credit Quality**

The Company's delinquency and net charge-off ratios reflect, among other factors, changes in the mix of loans in the portfolio, the quality of receivables, the success of collection efforts, bankruptcy trends and general economic conditions.

Delinquency is computed on the basis of the date of the last full contractual payment on a loan (known as the recency method) and on the basis of the amount past due in accordance with original payment terms of a loan (known as the contractual method). Management closely monitors portfolio delinquency using both methods to measure the quality of the Company's loan portfolio and the probability of credit losses.

The following table classifies the gross loans receivable of the Company that were delinquent on a recency and contractual basis for at least 61 days at March 31, 2008, 2007, and 2006:

At March 31,

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|   | 2008                   | 2007          | 2006          |
|---|------------------------|---------------|---------------|
|   | (Dollars in thousands) |               |               |
| Recency basis:                                  |                        |               |               |
| 61-90 days past due                             | \$ 10,414              | 7,732         | 5,886         |
| 91 days or more past due                        | 5,003                  | 3,495         | 2,672         |
| <b>Total</b>                                    | <b>\$ 15,417</b>       | <b>11,227</b> | <b>8,558</b>  |
| Percentage of period-end gross loans receivable |                        |               |               |
|   | 2.6%                   | 2.2%          | 2.1%          |
| Contractual basis:                              |                        |               |               |
| 61-90 days past due                             | \$ 12,838              | 9,684         | 7,664         |
| 91 days or more past due                        | 11,123                 | 8,209         | 6,654         |
| <b>Total</b>                                    | <b>\$ 23,961</b>       | <b>17,893</b> | <b>14,318</b> |
| Percentage of period-end gross loans receivable |                        |               |               |
|   | 4.0%                   | 3.5%          | 3.4%          |

Loans are charged off at the earlier of when such loans are deemed to be uncollectible or when six months have elapsed since the date of the last full contractual payment. The Company's charge-off policy has been consistently applied and no significant changes have been made to the policy during the periods reported. Management considers the charge-off policy when evaluating the appropriateness of the allowance for loan losses.

The Company experienced an increase in contractual delinquency from 3.5% at March 31, 2007 to 4.0% at March 31, 2008. The delinquency rate on a recency basis also increased from 2.2% at the end of fiscal 2007 to 2.6% at the end of the current fiscal year. Charge-offs as a percent of average loans increased from 13.3% in fiscal 2007 to 14.5% in fiscal 2008.

In fiscal 2008, approximately 83.0% of the Company's loans were generated through renewals of outstanding loans and the origination of new loans to previous customers. A renewal represents a new loan transaction with a present customer in which a portion of the new loan proceeds is used to repay the balance of an existing loan and the remaining portion is advanced to the customer. For fiscal 2008, 2007, and 2006, the percentages of the Company's loan originations that were renewals of existing loans were 73.3%, 74.3% and 75.6%, respectively. The Company's renewal policies, while limited by state regulations, in all cases consider our customer's payment history and require that our customer have made at least one payment on the loan being considered for renewal. A renewal is considered a current renewal if the customer is no more than 45 days delinquent on a contractual basis. Delinquent renewals may be extended to customers that are more than 45 days past due on a contractual basis if the customer completes a new application and the manager believes that the customer's ability and intent to repay has improved. It is the Company's policy to not renew delinquent loans in amounts greater than the original amounts financed. In all cases, a customer must complete a new application every two years. During fiscal 2008, delinquent renewals represented 1.9% of the Company's total loan volume compared to 1.9% in fiscal 2007.

Charge-offs, as a percentage of loans made by category, are greatest on loans made to new borrowers and less on loans made to former borrowers and renewals. This is as expected due to the payment history experience available on repeat borrowers. However, as a percentage of total loans charged off, renewals represent the greatest percentage due to the volume of loans made in this category. The following table depicts the charge-offs as a percent of loans made by category and as a percent of total charge-offs during fiscal 2008:

|                  | Loan Volume<br>by Category | Percent of<br>Total Charge-offs | Percent of Total<br>Loans Made by Category |
|------------------|----------------------------|---------------------------------|--|
| Renewals         | 73.3%                      | 71.6%                           | 4.7%                                       |
| Former borrowers | 9.7%                       | 5.9%                            | 3.2%                                       |
| New borrowers    | 17.0%                      | 22.5%                           | 9.6%                                       |
|                  | 100.0%                     | 100.0%                          |  |

The Company maintains an allowance for loan losses in an amount that, in management's opinion, is adequate to cover losses inherent in the existing loan portfolio. The Company charges against current earnings, as a provision for loan losses, amounts added to the allowance to maintain it at levels expected to cover probable losses of principal. When establishing the allowance for loan losses, the Company takes into consideration the growth of the loan portfolio, the mix of the loan portfolio, current levels of charge-offs, current levels of delinquencies, and current economic factors. In accordance with Statement of Accounting Standards No. 5 "Accounting for Contingencies" (SFAS No. 5), the Company accrues an estimated loss if it is probable and can be reasonably estimated. It is probable that there are losses in the existing portfolio. To estimate the losses, the Company uses historical information for net charge-offs and average loan life. This method is based on the fact that many customers renew their loans prior to the contractual maturity. Average contractual loan terms are approximately nine months and the average loan life is approximately four months. Based on this method, the Company had an allowance for loan losses that approximated six months of average net charge-offs at March 31, 2008, 2007, and 2006. Therefore, at each year end the Company had an

allowance for loan losses that covered estimated losses for its existing loans based on historical charge-offs and average lives. In addition, the entire loan portfolio turns over approximately 3 times during a typical twelve-month period. Therefore, a large percentage of loans that are charged off during any fiscal year are not on the Company's books at the beginning of the fiscal year. The Company believes that it is not appropriate to provide for losses on loans that have not been originated, that twelve months of net charge-offs are not needed in the allowance, and that the method employed is in accordance with generally accepted accounting principles.

The Company records acquired loans at fair value based on current interest rates, less an allowance for uncollectibility and collection costs.

The Company follows Statement of Position No. 03-3 (SOP 03-3), "Accounting for Certain Loans or Debt Securities Acquired in a Transfer," which prohibits carryover or creation of valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of the SOP. Management believes that a loan has shown deterioration if it is over 60 days delinquent. The Company believes that loans acquired have not shown evidence of deterioration of credit quality since origination, and therefore, are not within the scope of SOP 03-3 because there is no consideration paid for acquired loans over 60 days delinquent. For the years ended March 31, 2008, 2007 and 2006, the Company recorded adjustments of approximately \$0.1 million, \$0.9 million and \$0.4 million, respectively, to the allowance for loan losses in connection with acquisitions in accordance generally accepted accounting principles. These adjustments represent the allowance for loan losses on acquired loans which are not within the scope of SOP 03-3.

The Company believes that its allowance for loan losses is adequate to cover losses in the existing portfolio at March 31, 2008.

The following is a summary of the changes in the allowance for loan losses for the years ended March 31, 2008, 2007, and 2006:

|  | <b>2008</b>   | March 31,<br>2007 | 2006         |
|--|---------------|-------------------|--------------|
| Balance at the beginning of the year   | \$ 27,840,239 | 22,717,192        | 20,672,740   |
| Provision for loan losses  | 67,541,805    | 51,925,080        | 46,025,912   |
| Loan losses  | (68,985,269)  | (53,979,375)      | (49,267,992) |
| Recoveries   | 6,989,297     | 6,227,742         | 4,849,244    |
| Allowance on acquired loans  | 140,075       | 949,600           | 437,288      |
| Balance at the end of the year   | \$ 33,526,147 | 27,840,239        | 22,717,192   |
| Allowance as a percentage of loans receivable, net of unearned and deferred fees | 7.5%          | 7.4%              | 7.3%         |
| Net charge-offs as a percentage of average loans receivable <sup>(1)</sup>       | 14.5%         | 13.3%             | 14.8%        |

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

### Quarterly Information and Seasonality

The Company's loan volume and corresponding loans receivable follow seasonal trends. The Company's highest loan demand typically occurs from October through December, its third fiscal quarter. Loan demand has generally been the lowest and loan repayment highest from January to March, its fourth fiscal quarter. Loan volume and average balances typically remain relatively level during the remainder of the year. This seasonal trend affects quarterly operating performance through corresponding fluctuations in interest and fee income and insurance commissions earned and the provision for loan losses recorded, as well as fluctuations in the Company's cash needs. Consequently, operating results for the Company's third fiscal quarter generally are significantly lower than in other quarters and operating results for its fourth fiscal quarter are significantly higher than in other quarters.

The following table sets forth, on a quarterly basis, certain items included in the Company's unaudited consolidated financial statements and shows the number of offices open during fiscal years 2008 and 2007.

|                                     | At or for the Three Months Ended |         |         |         |         |         |         |         |
|-------------------------------------|----------------------------------|---------|---------|---------|---------|---------|---------|---------|
|                                     | 2008                             |         |         |         | 2007    |         |         |         |
|                                     | First,                           | Second, | Third,  | Fourth, | First,  | Second, | Third,  | Fourth, |
|                                     | (Dollars in thousands)           |         |         |         |         |         |         |         |
| Total revenues                      | \$ 76,389                        | 80,198  | 88,043  | 101,417 | 63,837  | 67,208  | 74,103  | 87,170  |
| Provision for loan losses           | 14,217                           | 18,416  | 23,224  | 11,685  | 11,167  | 13,813  | 18,365  | 8,580   |
| General and administrative expenses | 42,191                           | 41,930  | 47,470  | 47,628  | 34,847  | 35,289  | 41,460  | 42,031  |
| Net income                          | 10,850                           | 10,466  | 7,288   | 24,392  | 9,987   | 9,861   | 7,011   | 21,037  |
| Gross loans receivable              | \$ 544,964                       | 571,319 | 663,217 | 599,509 | 447,840 | 470,275 | 560,741 | 505,788 |
| Number of offices open              | 782                              | 817     | 831     | 838     | 641     | 678     | 730     | 732     |

## Recently Issued Accounting Pronouncements

### *Business Combinations*

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

### *Fair Value Measurements*

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides a common definition of fair value and a framework for measuring assets and liabilities at fair values when a particular standard prescribes it. In addition, the Statement prescribes a more enhanced disclosure of fair value measures, and requires a more expanded disclosure when non-market data is used to assess fair values.

The provisions of SFAS 157 for financial assets and liabilities, as well as any other assets and liabilities that are carried at fair value on a recurring basis in financial statements, are effective for the first fiscal period beginning after November 15, 2007. The provisions for non-financial assets and liabilities are effective for the first fiscal period beginning after November 15, 2008. We are required to adopt SFAS 157 for financial assets and liabilities in the first quarter of fiscal 2009 and are currently assessing the impact on our Consolidated Financial Statements.

*Noncontrolling Interest in consolidated Financial Statements*

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

*Disclosures about Derivative Instruments and Hedging Activities*

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

*Fair Value Option for Financial Assets and Financial Liabilities*

On February 15, 2007, the FASB issued SFAS No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities," which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. SFAS 159 further establishes certain additional disclosure requirements. SFAS 159 is effective for the first fiscal period beginning after November 15, 2007. We do not expect the adoption of this standard to have a material impact on our Consolidated Financial Statements.

*Convertible Debt Instruments*

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

*Useful Life of Intangible Assets*

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

**Liquidity and Capital Resources**

The Company has financed and continues to finance its operations, acquisitions and office expansion through a combination of cash flow from operations and borrowings from its institutional lenders. The Company has generally applied its cash flow from operations to fund its increasing loan volume, fund acquisitions, repay long-term indebtedness, and repurchase its common stock. As the Company's gross loans receivable increased from \$226.3 million at March 31, 2002 to \$599.5 million at March 31, 2008, net cash provided by operating activities for fiscal years 2006, 2007 and 2008 was \$98.0 million, \$110.1 million and \$136.0 million, respectively.



The Company's primary ongoing cash requirements relate to the funding of new offices and acquisitions, the overall growth of loans outstanding, the repayment of long-term indebtedness and the repurchase of its common stock. In November 2007 and February 2008, the Board of Directors authorized the Company to increase its share repurchase program by an additional \$10 million, respectively. As of March 31, 2008, 6,165,444 shares have been repurchased since 2000 for respective aggregate purchase price of approximately \$141.8 million. During fiscal 2008 the Company repurchased 1,375,100 shares for \$41.9 million. The Company believes stock repurchases to be a viable component of the Company's long-term financial strategy and an excellent use of excess cash when the opportunity arises. In addition, the Company plans to open or acquire approximately 70 branches in the United States and 25 branches in Mexico. Expenditures by the Company to open and furnish new offices generally averaged approximately \$25,000 per office during fiscal 2008. New offices have also required from \$100,000 to \$400,000 to fund outstanding loans receivable originated during their first 12 months of operation.

The Company acquired a net of 13 offices and a number of loan portfolios from competitors in 5 states in 11 separate transactions during fiscal 2008. Gross loans receivable purchased in these transactions were approximately \$4.5 million in the aggregate at the dates of purchase. The Company believes that attractive opportunities to acquire new offices or receivables from its competitors or to acquire offices in communities not currently served by the Company will continue to become available as conditions in local economies and the financial circumstances of owners change.

The Company has a \$187.0 million base credit facility with a syndicate of banks. In addition to the base revolving credit commitment, there is a \$30 million seasonal revolving credit commitment available November 15 of each year through March 31 of the immediately succeeding year to cover the increase in loan demand during this period. The credit facility will expire on September 30, 2009. Funds borrowed under the revolving credit facility bear interest, at the Company's option, at either the agent bank's prime rate per annum or the LIBOR rate plus 1.80% per annum. At March 31, 2008, the interest rate on borrowings under the revolving credit facility was 5.25%. The Company pays a commitment fee equal to 0.375% per annum of the daily unused portion of the revolving credit facility. Amounts outstanding under the revolving credit facility may not exceed specified percentages of eligible loans receivable. On March 31, 2008, \$104.5 million was outstanding under this facility, and there was \$82.5 million of unused borrowing availability under the borrowing base limitations, excluding the seasonal line which expires each March 31.

The Company's credit agreements contain a number of financial covenants including minimum net worth and fixed charge coverage requirements. The credit agreements also contain certain other covenants, including covenants that impose limitations on the Company with respect to (i) declaring or paying dividends or making distributions on or acquiring common or preferred stock or warrants or options; (ii) redeeming or purchasing or prepaying principal or interest on subordinated debt; (iii) incurring additional indebtedness; and (iv) entering into a merger, consolidation or sale of substantial assets or subsidiaries. The Company was in compliance with these agreements at March 31, 2008 and does not believe that these agreements will materially limit its business and expansion strategy.

On October 2, 2006, the Company amended its senior credit facility in connection with the issuance of \$110 million in aggregate principal amount of its 3% convertible senior subordinated notes due October 1, 2011. See Note 7 to the Consolidated Financial Statements included in this report for more information regarding this transaction.

The following table summarizes the Company's contractual cash obligations by period (in thousands):

|  | Fiscal Year Ended March 31, |                   |                 |                   |               |             | Total             |
|--|-----------------------------|-------------------|-----------------|-------------------|---------------|-------------|-------------------|
|  | 2009                        | 2010              | 2011            | 2012              | 2013          | Thereafter  |                   |
| Convertible Senior Subordinated Notes Payable                      | \$ -                        | \$ -              | \$ -            | \$ 110,000        | \$ -          | \$ -        | \$ 110,000        |
| Maturities of Notes Payable  | 200                         | 104,700           | -               | -                 | -             | -           | 104,900           |
| Interest Payments on Convertible Senior Subordinated Notes Payable | 3,300                       | 3,300             | 3,300           | 3,300             | -             | -           | 13,200            |
| Interest Payments on Notes Payable                                 | 5,525                       | 2,744             | -               | -                 | -             | -           | 8,269             |
| Minimum Lease Payments   | 11,305                      | 7,464             | 3,473           | 978               | 272           | -           | 23,492            |
| <b>Total</b>   | <b>\$ 20,330</b>            | <b>\$ 118,208</b> | <b>\$ 6,773</b> | <b>\$ 114,278</b> | <b>\$ 272</b> | <b>\$ -</b> | <b>\$ 259,861</b> |

On April 1, 2007, the Company adopted FIN No. 48. As of March 31, 2008, the Company's contractual obligations relating to FIN 48 included unrecognized tax benefits of \$8.8 million which are expected to be settled in greater than one year. While the settlement of the obligation is expected to be in excess of one year, the precise timing of the settlement is indeterminable.

The Company believes that cash flow from operations and borrowings under its revolving credit facility will be adequate for the next twelve months, and for the foreseeable future thereafter, to fund the expected cost of opening or acquiring new offices, including funding initial operating losses of new offices and funding loans receivable originated by those offices and the Company's other offices. Management is not currently aware of any trends, demands, commitments, events or uncertainties that it believes will result in, or are reasonably likely to result in, the Company's liquidity increasing or decreasing in any material way. From time to time, the Company has needed and obtained, and expects that it will continue to need on a periodic basis, an increase in the borrowing limits under its revolving credit facility. The Company has successfully obtained such increases in the past and anticipates that it will be able to do so in the future as the need arises; however, there can be no assurance that this additional funding will be available (or available on reasonable terms) if and when needed.

## **Quantitative and Qualitative Disclosures About Market Risk**

### *Interest Rate Risk*

The Company's financial instruments consist of the following: cash, loans receivable, senior notes payable, convertible senior subordinated notes payable, an other note payable, an interest rate swap and a foreign currency option. Fair value approximates carrying value for all of these instruments, except the convertible senior subordinated notes payable, for which the fair value represents the quoted market price. Loans receivable are originated at prevailing market rates and have an average life of approximately four months. Given the short-term nature of these loans, they are continually repriced at current market rates. The Company's outstanding debt under its revolving credit facility was \$104.5 million at March 31, 2008. Interest on borrowings under this facility is based, at the Company's option, on the prime rate or LIBOR plus 1.80%.

Based on the outstanding balance at March 31, 2008, a change of 1% in the interest rates would cause a change in interest expense of approximately \$745,000 on an annual basis.

In October 2005, the Company entered into an interest rate swap to economically hedge the variable cash flows associated with \$30 million of its LIBOR-based borrowings. This swap converted the \$30 million from a variable rate of one-month LIBOR to a fixed rate of 4.755% for a period of five years. In accordance with SFAS 133, the Company records derivatives at fair value, as other assets or liabilities, on the consolidated balance sheets. Since the Company is not utilizing hedge accounting under SFAS 133, changes in the fair value of the derivative instrument are included in other income. As of March 31, 2008 the fair value of the interest rate swap was a liability of \$1.7 million and included in other liabilities. The change in fair value from the beginning of the year, recorded as an unrealized loss in other income, was approximately \$1.8 million.

On October 10, 2006, the Company issued \$110 million convertible senior subordinated notes due October 1, 2011 (the "Convertible Notes") to qualified institutional brokers in accordance with Rule 144A of the Securities Act of 1933. Interest on the Convertible Notes is fixed at 3% and is payable semi-annually in arrears on April 1 and October 1 of each year, commencing April 1, 2007.

The Company has another note payable which has a balance of \$400,000 at March 31, 2008, and carries an interest rate equal to LIBOR + 2.00%.

### *Foreign Currency Exchange Rate Risk*

In September 2005 the Company began opening offices in Mexico, where 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 rate changes. International revenues were less than 2% of total revenues for the year ended March 31, 2008 and net loans denominated in

Mexican pesos were approximately \$9.1 million (USD) at March 31, 2008.

The Company's foreign currency exchange rate exposures may change over time as business practices evolve and could have a material effect on its financial results. There have been, and there may continue to be, period-to-period fluctuations in the relative portions of Mexican revenues.

On May 9, 2007, we hedged our foreign exchange risk by purchasing a \$3 million foreign exchange currency option with a strike rate of 11.18 Mexican peso per US dollar. This option expires on May 9, 2008. Changes in the fair value of this option are recorded as a component of earnings since the Company did not apply hedge accounting under SFAS 133. The fair value of the option at March 31, 2008, and the change in the fair value of the option in fiscal 2008 was less than \$100,000.

Because earnings are affected by fluctuations in the value of the U.S. dollar against foreign currencies, an analysis was performed assuming a hypothetical 10% increase or decrease in the value of the U.S. dollar relative to the Mexican peso in which the Company's transactions in Mexico are denominated. At March 31, 2008, the analysis indicated that such market movements would not have had a material effect on the consolidated financial statements. The actual effects on the consolidated financial statements in the future may differ materially from results of the analysis for the year ended March 31, 2008. The Company will continue to monitor and assess the effect of currency fluctuations and may institute further hedging alternatives.

### **Inflation**

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

### **Legal Matters**

As of March 31, 2008, the Company and certain of its subsidiaries have been named as defendants in various legal actions arising from their normal business activities in which damages in various amounts are claimed. Although the amount of any ultimate liability with respect to such matters cannot be determined, the Company believes that any such liability will not have a material adverse effect on the Company's consolidated financial condition or results of operations taken as a whole.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

"Management's Discussion and Analysis of Financial Condition and Results of Operations – Quantitative and Qualitative Disclosures about Market Risk" of this report is incorporated by reference in response to this Item 7A.

**Part II****Item 8. Financial Statements and Supplementary Data****CONSOLIDATED BALANCE SHEETS**

|  | March 31,      |               |
|--|----------------|---------------|
|  | 2008           | 2007          |
| <b>Assets</b>  |                |               |
| Cash and cash equivalents  | \$ 7,589,575   | 5,779,032     |
| Gross loans receivable   | 599,508,969    | 505,788,440   |
| Less:  |                |               |
| Unearned interest and deferred fees  | (154,418,105)  | (127,750,015) |
| Allowance for loan losses  | (33,526,147)   | (27,840,239)  |
| Loans receivable, net  | 411,564,717    | 350,198,186   |
| Property and equipment, net  | 18,654,010     | 14,310,458    |
| Deferred income taxes  | 22,134,066     | 14,507,000    |
| Other assets, net  | 10,818,057     | 10,221,562    |
| Goodwill   | 5,352,675      | 5,039,630     |
| Intangible assets, net   | 9,997,327      | 11,060,139    |
|  | \$ 486,110,427 | 411,116,007   |
| <b>Liabilities and Shareholders' Equity</b>  |                |               |
| Liabilities:   |                |               |
| Senior notes payable   | 104,500,000    | 60,600,000    |
| Convertible senior subordinated notes payable  | 110,000,000    | 110,000,000   |
| Other notes payable  | 400,000        | 600,000       |
| Income taxes payable   | 18,039,242     | 8,015,514     |
| Accounts payable and accrued expenses  | 18,865,913     | 16,407,846    |
| Total liabilities  | 251,805,155    | 195,623,360   |
| Shareholders' equity:  |                |               |
| Preferred stock, no par value  |                |               |
| Authorized 5,000,000 shares, no shares issued or outstanding   | -              | -             |
| Common stock, no par value   |                |               |
| Authorized 95,000,000 shares; issued and outstanding 16,278,684 and 17,492,521 shares at March 31, 2008 and 2007, respectively | -              | -             |
| Additional paid-in capital   | 1,323,001      | 5,770,665     |
| Retained earnings  | 232,812,768    | 209,769,808   |
| Accumulated other comprehensive income (loss), net of tax  | 169,503        | (47,826)      |
| Total shareholders' equity   | 234,305,272    | 215,492,647   |
| Commitments and contingencies  |                |               |
|  | \$ 486,110,427 | 411,116,007   |

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF OPERATIONS**

|   | Years Ended March 31, |             |             |
|---|-----------------------|-------------|-------------|
|   | 2008                  | 2007        | 2006        |
| <b>Revenues:</b>                            |                       |             |             |
| Interest and fee income                     | \$ 292,457,259        | 247,007,668 | 204,450,428 |
| Insurance commissions and other income      | 53,589,595            | 45,310,752  | 38,821,587  |
| Total revenues                              | 346,046,854           | 292,318,420 | 243,272,015 |
| <b>Expenses:</b>                            |                       |             |             |
| Provision for loan losses                   | 67,541,805            | 51,925,080  | 46,025,912  |
| <b>General and administrative expenses:</b> |                       |             |             |
| Personnel                                   | 119,483,185           | 102,824,945 | 84,817,025  |
| Occupancy and equipment                     | 21,554,655            | 17,397,672  | 14,166,977  |
| Data processing                             | 2,112,399             | 2,159,712   | 2,108,740   |
| Advertising                                 | 12,647,576            | 10,277,796  | 8,592,492   |
| Amortization of intangible assets           | 2,505,465             | 2,885,202   | 2,860,555   |
| Other                                       | 20,915,465            | 18,081,517  | 15,968,496  |
|   | 179,218,745           | 153,626,844 | 128,514,285 |
| Interest expense                            | 11,569,110            | 9,596,116   | 7,136,853   |
| Total expenses                              | 258,329,660           | 215,148,040 | 181,677,050 |
| Income before income taxes                  | 87,717,194            | 77,170,380  | 61,594,965  |
| Income taxes                                | 34,721,036            | 29,274,000  | 23,080,000  |
| Net income                                  | \$ 52,996,158         | 47,896,380  | 38,514,965  |
| <b>Net income per common share:</b>         |                       |             |             |
| Basic                                       | \$ 3.11               | 2.66        | 2.08        |
| Diluted                                     | \$ 3.05               | 2.60        | 2.02        |
| <b>Weighted average shares outstanding:</b> |                       |             |             |
| Basic                                       | 17,044,122            | 18,018,370  | 18,493,389  |
| Diluted                                     | 17,374,746            | 18,393,728  | 19,098,087  |

See accompanying notes to consolidated financial statements.



**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME**

|  | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss), Net | Total<br>Shareholders'<br>Equity | Total<br>Comprehensive<br>Income |
|--|----------------------------------|----------------------|---|----------------------------------|----------------------------------|
| Balances at March 31, 2005   | \$ 11,964,056                    | 177,747,137          | -   | 189,711,193                      |                                  |
| Proceeds from exercise of stock options (190,397 shares), including tax benefits of \$1,205,288        | 3,045,527                        | -                    | -   | 3,045,527                        |                                  |
| Common stock repurchases (800,400 shares)  | (13,800,225)                     | (6,991,249)          | -   | (20,791,474)                     |                                  |
| Other comprehensive loss   | -                                | -                    | (50,092)  | (50,092)                         | (50,092)                         |
| Net income   | -                                | 38,514,965           | -   | 38,514,965                       | 38,514,965                       |
| Total comprehensive income   | -                                | -                    | -   | -                                | 38,464,873                       |
| Balances at March 31, 2006   | \$ 1,209,358                     | 209,270,853          | (50,092)  | 210,430,119                      |                                  |
| Proceeds from exercise of stock options (331,870 shares), including tax benefits of \$2,937,122        | 6,423,279                        | -                    | -   | 6,423,279                        |                                  |
| Common stock repurchases (1,209,395 shares)  | (6,698,538)                      | (47,397,425)         | -   | (54,095,963)                     |                                  |
| Issuance of restricted common stock under stock option plan (33,442 shares)                            | 449,331                          | -                    | -   | 449,331                          |                                  |
| Stock option expense   | 3,481,617                        | -                    | -   | 3,481,617                        |                                  |
| Tax benefit from Convertible note  | 9,359,000                        | -                    | -   | 9,359,000                        |                                  |
| Proceeds from sale of warrants associated with convertible notes                                       | 16,155,823                       | -                    | -   | 16,155,823                       |                                  |
| Purchase of call option associated with convertible notes  | (24,609,205)                     | -                    | -   | (24,609,205)                     |                                  |
| Other comprehensive income   | -                                | -                    | 2,266   | 2,266                            | 2,266                            |
| Net income   | -                                | 47,896,380           | -   | 47,896,380                       | 47,896,380                       |
| Total comprehensive income   | -                                | -                    | -   | -                                | 47,898,646                       |
| <b>Balances at March 31, 2007</b>  | <b>\$ 5,770,665</b>              | <b>209,769,808</b>   | <b>(47,826)</b>   | <b>215,492,647</b>               |                                  |
| <b>Proceeds from exercise of stock options (116,282 shares), including tax benefits of \$1,110,598</b> | <b>2,724,938</b>                 | <b>-</b>             | <b>-</b>  | <b>2,724,938</b>                 |                                  |
| <b>Common stock repurchases (1,375,100 shares)</b>   | <b>(12,458,946)</b>              | <b>(29,403,198)</b>  | <b>-</b>  | <b>(41,862,144)</b>              |                                  |
|  | <b>1,348,419</b>                 | <b>-</b>             | <b>-</b>  | <b>1,348,419</b>                 |                                  |

**Issuance of restricted common  
stock under stock option plan  
(44,981 shares)**

|                                    |                     |                    |                |                    |                   |
|------------------------------------|---------------------|--------------------|----------------|--------------------|-------------------|
| <b>Stock option expense</b>        | <b>3,937,925</b>    | <b>-</b>           | <b>-</b>       | <b>3,937,925</b>   |                   |
| <b>Cumulative effect of FIN 48</b> | <b>-</b>            | <b>(550,000)</b>   | <b>-</b>       | <b>(550,000)</b>   |                   |
| <b>Other comprehensive income</b>  | <b>-</b>            | <b>-</b>           | <b>217,329</b> | <b>217,329</b>     | <b>217,329</b>    |
| <b>Net income</b>                  | <b>-</b>            | <b>52,996,158</b>  | <b>-</b>       | <b>52,996,158</b>  | <b>52,996,158</b> |
| <b>Total comprehensive income</b>  | <b>-</b>            | <b>-</b>           | <b>-</b>       | <b>-</b>           | <b>53,213,487</b> |
| <b>Balances at March 31, 2008</b>  | <b>\$ 1,323,001</b> | <b>232,812,768</b> | <b>169,503</b> | <b>234,305,272</b> |                   |

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  |               | Years Ended March 31, |              |
|--|---------------|-----------------------|--------------|
|  | 2008          | 2007                  | 2006         |
| <b>Cash flows from operating activities:</b>   |               |                       |              |
| Net income   | \$ 52,996,158 | 47,896,380            | 38,514,965   |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |               |                       |              |
| Amortization of intangible assets  | 2,505,465     | 2,885,202             | 2,860,555    |
| Amortization of loan costs and discounts   | 763,262       | 379,634               | 25,000       |
| Provision for loan losses  | 67,541,805    | 51,925,080            | 46,025,912   |
| Depreciation   | 3,760,461     | 3,057,658             | 2,371,857    |
| Deferred tax expense (benefit)   | (3,127,924)   | (1,250,000)           | 6,792,000    |
| Compensation related to stock option and restricted stock plans                          | 5,286,344     | 3,930,948             | -            |
| Tax benefit from exercise of stock options   | -             | -                     | 1,205,288    |
| Gain/loss on interest rate swap  | 1,762,662     | 400,000               | (492,000)    |
| <b>Change in accounts:</b>   |               |                       |              |
| Other assets, net  | (1,134,756)   | (262,450)             | (251,024)    |
| Income taxes payable   | 4,973,728     | 1,237,238             | 5,154,207    |
| Accounts payable and accrued expenses  | 695,405       | (111,497)             | (4,204,452)  |
| Net cash provided by operating activities  | 136,022,610   | 110,088,193           | 98,002,308   |
| <b>Cash flows from investing activities:</b>   |               |                       |              |
| Increase in loans receivable, net  | (125,822,271) | (95,963,365)          | (82,962,171) |
| Net assets acquired from office acquisitions, primarily loans                            | (3,220,879)   | (16,269,811)          | (6,800,032)  |
| Increase in intangible assets from acquisitions  | (1,755,698)   | (2,123,853)           | (2,363,168)  |
| Purchases of property and equipment, net   | (7,976,013)   | (6,189,997)           | (3,546,815)  |
| Net cash used in investing activities  | (138,774,861) | (120,547,026)         | (95,672,186) |
| <b>Cash flows from financing activities:</b>   |               |                       |              |
| Net change in bank overdraft   | -             | 1,544,231             | 908,324      |
| Proceeds (repayment) of senior revolving notes payable, net                              | 43,900,000    | (39,200,000)          | 16,900,000   |
| Proceeds from convertible senior subordinated notes                                      | -             | 110,000,000           | -            |
| Repayment of other notes payable   | (200,000)     | (200,000)             | (200,000)    |
| Proceeds from exercise of stock options  | 1,614,340     | 3,486,157             | 1,840,239    |
| Repurchase of common stock   | (41,862,144)  | (54,095,963)          | (20,791,474) |

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|  |                     |              |             |
|--|---------------------|--------------|-------------|
| Tax benefit from exercise of stock options                       | <b>1,110,598</b>    | 2,937,122    | -           |
| Proceeds from sale of warrants associated with convertible notes | -                   | 16,155,823   | -           |
| Loan cost associated with note convertible                       | -                   | (3,814,188)  | -           |
| Purchase of call options associated with convertible notes       | -                   | (24,609,205) | -           |
| Net cash provided by (used in) financing activities              | <b>4,562,794</b>    | 12,203,977   | (1,342,911) |
| Increase in cash and cash equivalents                            | <b>1,810,543</b>    | 1,745,144    | 987,211     |
| Cash and cash equivalents at beginning of year                   | <b>5,779,032</b>    | 4,033,888    | 3,046,677   |
| Cash and cash equivalents at end of year                         | \$ <b>7,589,575</b> | 5,779,032    | 4,033,888   |

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (1) Summary of Significant Accounting Policies

The Company's accounting and reporting policies are in accordance with U.S. generally accepted accounting principles and conform to general practices within the finance company industry. The following is a description of the more significant of these policies used in preparing the consolidated financial statements.

#### *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. It also offers income tax return preparation services and access to refund anticipation loans (through a third party bank) to its customer base and to others.

The Company also markets computer software and related services to financial services companies through its ParaData Financial Systems ("ParaData") subsidiary.

As of March 31, 2008, the Company operated 803 offices in South Carolina, Georgia, Texas, Oklahoma, Louisiana, Tennessee, Missouri, Illinois, New Mexico, Kentucky, and Alabama. The Company also operated 35 offices in Mexico. The Company is subject to numerous lending regulations that vary by jurisdiction.

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of World Acceptance Corporation and its wholly owned subsidiaries (the "Company"). Subsidiaries consist of operating entities in various states and Mexico, ParaData (a software company acquired during fiscal 1994), WAC Insurance Company, Ltd. (a captive reinsurance company established in fiscal 1994) and Servicios World Acceptance Corporation de Mexico (a service company established in fiscal 2006). All significant intercompany balances and transactions have been eliminated in consolidation.

The financial statements of the Company's foreign subsidiaries in Mexico are prepared using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated into US dollars at the current exchange rate and income and expense are translated at an average exchange rate for the period. The resulting translation gains and losses are recognized as a component of equity in "Accumulated Other Comprehensive Income (Loss)."

#### *Use of Estimates in the Preparation of Financial Statements*

The preparation of financial statements in conformity with U.S. generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant item subject to such estimates and assumptions that could materially change in the near term is the allowance for loan losses. Actual results could differ from those estimates.

#### *Business Segments*

The Company reports operating segments in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. SFAS 131 requires that a public enterprise report a measure of

segment profit or loss, certain specific revenue and expense items, segment assets, information about the way that the operating segments were determined and other items.

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The Company has one reportable segment, which is the consumer finance company. The other revenue generating activities of the Company, including the sale of insurance products, income tax preparation, buying club and the automobile club, are done in the existing branch network in conjunction with or as a compliment to the lending operation. There is no discrete financial information available for these activities and they do not meet the criteria under SFAS 131 to be reported separately.

ParaData provides data processing systems to 113 separate finance companies, including the Company. At March 31, 2008 and 2007, ParaData had total assets of \$1.7 million and \$2.7 million, respectively, which represented less than 1% of total consolidated assets at each fiscal year end. Total net revenues (system sales and support) for ParaData for the years ended March 31, 2008, 2007 and 2006 were \$2.2 million, \$2.5 million and \$2.3 million, respectively, which represented approximately 1% of consolidated revenue for each year. For the years ended March 31, 2008, 2007 and 2006, ParaData had income (loss) before income taxes of \$(255,000), \$112,000 and \$308,000, respectively. Although ParaData is an operating segment under SFAS 131, it does not meet the criteria to require separate disclosure.

### ***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the Company considers all highly liquid investments with a maturity of three months or less from the date of original issuance to be cash equivalents.

### ***Loans and Interest Income***

The Company is licensed to originate direct cash consumer loans in the states of Georgia, South Carolina, Texas, Oklahoma, Louisiana, Tennessee, Missouri, Illinois, New Mexico, Kentucky, and Alabama. In addition, the Company also originated direct cash consumer loans in Mexico. During fiscal 2008 and 2007, the Company originated loans generally ranging up to \$3,000, with terms of 24 months or less. Experience indicates that a majority of the direct cash consumer loans are renewed, and the Company accounts for the refinancing as a new loan. Generally a customer must make a payment in order to qualify for a renewal. Furthermore, our lending policy has predetermined lending amounts, so that in most cases a renewal will result in advancing additional funds. The Company believes that the advancement of additional funds constitutes more than a minor modification to the terms of the existing loan, as the present value of the cash flows under the terms of the new loan will be 10% or more of the present value of the remaining cash flows under the terms of the original loan.

Fees received and direct costs incurred for the origination of loans are deferred and amortized to interest income over the contractual lives of the loans. Unamortized amounts are recognized in income at the time that loans are renewed or paid in full.

Loans are carried at the gross amount outstanding, reduced by unearned interest and insurance income, net deferred origination fees and direct costs, and an allowance for loan losses. The Company generally calculates interest revenue on its loans using the rule of 78's, and recognizes the interest revenue using the collection method, which is a cash method of recognizing the revenue. The Company believes that the combination of these two methods does not differ materially from the interest method, which is an accrual method for recognizing the revenue. Charges for late payments are credited to income when collected.

The Company generally offers its loans at the prevailing statutory rates for terms not to exceed 24 months. Management believes that the carrying value approximates the fair value of its loan portfolio.

### ***Allowance for Loan Losses***

The Company maintains an allowance for loan losses in an amount that, in management's opinion, is adequate to cover losses inherent in the existing loan portfolio. The Company charges against current earnings, as a provision for loan

losses, amounts added to the allowance to maintain it at levels expected to cover probable losses of principal. When establishing the allowance for loan losses, the Company takes into consideration the growth of the loan portfolio, the mix of the loan portfolio, current levels of charge-offs, current levels of delinquencies, and current economic factors. The allowance for loan losses has an allocated and an unallocated component. The Company uses historical information for net charge-offs by loan type and average loan life by loan type to estimate the allocated component of the allowance for loan losses.



This method is based on the fact that many customers renew their loans prior to the contractual maturity. Average contractual loan terms are approximately nine months and the average loan life is approximately four months. The allowance for loan loss model also reserves 100% of the principal on loans greater than 90 days past due on a recency basis. Loans are charged off at the earlier of when such loans are deemed to be uncollectible or when six months have elapsed since the date of the last full contractual payment. The Company's charge-off policy has been consistently applied and no significant changes have been made to the policy during the periods reported. Management considers the charge-off policy when evaluating the appropriateness of the allowance for loan losses.

Statement of Position No. 03-3 (SOP 03-3), "*Accounting for Certain Loans or Debt Securities Acquired in a Transfer*," prohibits carryover or creation of valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of the SOP. The Company believes that loans acquired since the adoption of SOP 03-3 have not shown evidence of deterioration of credit quality since origination, and therefore, are not within the scope of SOP 03-3. Therefore, the Company records acquired loans (not within the scope of SOP 03-3) at fair value based on current interest rates, less an allowance for uncollectibility.

### ***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is recorded using the straight-line method over the estimated useful life of the related asset as follows: building, 40 years; furniture and fixtures, 5 to 10 years; equipment, 3 to 7 years; and vehicles, 3 years. Amortization of leasehold improvements is recorded using the straight-line method over the lesser of the estimated useful life of the asset or the term of the lease. Additions to premises and equipment and major replacements or improvements are added at cost. Maintenance, repairs, and minor replacements are charged to operating expense as incurred. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in the statement of operations.

### ***Other Assets***

Other assets include cash surrender value of life insurance policies, prepaid expenses, debt issuance cost and other deposits.

### ***Derivatives and Hedging Activities***

The Company currently uses an interest rate swap and a foreign currency option to economically hedge the variable cash flows associated with \$30 million of its LIBOR-based borrowings and Mexican peso expenditures. The interest rate swap agreement and foreign currency option are carried at fair value. Changes to fair value are recorded each period as a component of the statement of operations.

### ***Intangible Assets and Goodwill***

Intangible assets include the cost of acquiring existing customers, and the value assigned to non-compete agreements. Customer lists are amortized on a straight line or accelerated basis over an estimated weighted average useful life of 9 years and non-compete agreements are amortized on a straight line basis over the term of the agreement.

We evaluate goodwill annually for impairment in the fourth quarter of a fiscal year using the market value-based approach. We have one reporting unit, the consumer finance company, and we have multiple components, the lowest level of which are individual offices. Our components are aggregated for impairment testing because they have similar economic characteristics. We write-off goodwill when we close an office that has goodwill assigned to it. As of March 31, 2008, we had 79 offices with recorded goodwill.

***Impairment of Long-Lived Assets***

We assess impairment of long-lived assets, including property and equipment and intangible assets, whenever changes or events indicate that the carrying amount may not be recoverable. We assess impairment of these assets generally at the office level based on the operating cash flows of the office and our plans for office closings. We write down such assets to fair value if, based on an analysis, the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets. We did not record any material impairment charges for the fiscal years 2008, 2007 and 2006.

### ***Fair Value of Financial Instruments***

SFAS No. 107, "Disclosures about the Fair Value of Financial Instruments," requires disclosures about the fair value of all financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. The Company's financial instruments consist of the following: cash, loans receivable, senior notes payable, convertible senior subordinated notes payable, other note payable, foreign currency options and interest rate swaps. Fair value approximates carrying value for all of these instruments, except the convertible subordinated notes payable. Loans receivable are originated at prevailing market rates and have an average life of approximately four months. Given the short-term nature of these loans, they are continually repriced at current market rates. The Company's revolving credit facility and other note payable have a variable rate based on a margin over LIBOR and reprice with any changes in LIBOR. The convertible subordinated notes payable fair value is based on the current quoted market price which was \$88,385,000 and \$103,537,500 as of March 31, 2008 and 2007, respectively. The carrying value of the convertible subordinated notes payable was \$110,000,000 at March 31, 2008 and 2007. The swap and option are valued based on information from a third party broker.

### ***Insurance Premiums***

Insurance premiums for credit life, accident and health, property and unemployment insurance written in connection with certain loans, net of refunds and applicable advance insurance commissions retained by the Company, are remitted monthly to an insurance company. All commissions are credited to unearned insurance commissions and recognized as income over the life of the related insurance contracts using a method similar to that used for the recognition of interest income.

### ***Non-file Insurance***

Non-file premiums are charged on certain loans at inception and renewal in lieu of recording and perfecting the Company's security interest in the assets pledged on certain loans and are remitted to a third-party insurance company for non-file insurance coverage. Such insurance and the related insurance premiums, claims, and recoveries are not reflected in the accompanying consolidated financial statements except as a reduction in loan losses (see Note 9).

Certain losses related to such loans, which are not recoverable through life, accident and health, property, or unemployment insurance claims are reimbursed through non-file insurance claims subject to policy limitations. Any remaining losses are charged to the allowance for loan losses.

### ***Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

### ***Supplemental Cash Flow Information***

For the years ended March 31, 2008, 2007, and 2006, the Company paid interest of \$10,788,530, \$9,686,128 and \$6,958,983, respectively.

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For the years ended March 31, 2008, 2007, and 2006, the Company paid income taxes of \$32,018,340, \$26,478,254 and \$9,928,505, respectively.

Supplemental non-cash financing activities for the years ended March 31, 2008, 2007, and 2006, consist of:

|                                   | 2008 | 2007      | 2006 |
|-----------------------------------|------|-----------|------|
| Tax benefit from convertible note | \$ - | 9,359,000 | -    |

### ***Earnings Per Share***

Earnings per share (“EPS”) are computed in accordance with SFAS No. 128, “*Earnings per Share*.” Basic EPS includes no dilution and is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings of the Company. Potential common stock included in the diluted EPS computation consists of stock options, restricted stock and warrants, which are computed using the treasury stock method. Potential common stock related to convertible senior notes are included in the diluted EPS computation using the method prescribed by EITF 04-8 “The Effect of Contingently Convertible Instruments on Dilutive Earnings Per Share.”

### ***Reclassifications***

Certain reclassification entries have been made for fiscal 2007 and 2006 to conform with fiscal 2008 presentation. There was no impact on shareholders’ equity or net income previously reported as a result of these reclassifications.

### ***Stock-Based Compensation***

In December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123R (“SFAS 123R”), “Share-Based Payment,” which requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees. SFAS 123R is an amendment of SFAS No. 123 (“SFAS 123”), “Accounting for Stock-Based Compensation,” and its related implementation guidance. SFAS 123R does not change the accounting guidance for share-based payment transactions with parties other than employees provided in SFAS 123. Under SFAS 123R, the way an award is classified will affect the measurement of compensation cost. Liability-classified awards are remeasured to fair value at each balance-sheet date until the award is settled. Equity-classified awards are measured at grant-date fair value, amortized over the subsequent vesting period, and are not subsequently remeasured. The fair value of non-vested stock awards for the purposes of recognizing stock-based compensation expense is the market price of the stock on the grant date. The fair value of options is estimated on the grant date using the Black-Scholes option pricing model (see Note 13).

At March 31, 2008, the Company had several share-based employee compensation plans, which are described more fully in Note 13. Prior to April 1, 2006, the Company accounted for its option plans under the recognition and measurement principles of APB Opinion 25, “Accounting for Stock Issued to Employees,” and related Interpretations (“APB Opinion 25”), as permitted by SFAS 123. No stock-based employee compensation cost was recognized in net income related to these stock options for the year ended March 31, 2006, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective April 1, 2006, the Company adopted SFAS 123R using the modified prospective transition method. Under that method of transition, compensation cost recognized in 2007 and 2008 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of April 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123R. Since this compensation cost is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Prior to the adoption of SFAS 123R, the Company recorded forfeitures as they occurred. The results of this change were not material. The Company has elected to expense future grants of awards with graded vesting on a graded vesting basis over the requisite service period of the entire award. Results for prior periods have not been restated.

Prior to the adoption of SFAS 123R, the Company presented all tax benefits resulting from share-based compensation as cash flows from operating activities in the consolidated statements of cash flows. SFAS 123R requires cash flows resulting from tax deductions in excess of the grant-date fair value of share-based awards to be included in cash flows

from financing activities.

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The following table provides pro forma net income and earnings per share information, as if the Company had applied the fair value recognition provisions of SFAS 123R to stock-based employee compensation option plans for the year ended March 31, 2006 (dollars in thousands, except per share data). Disclosures for the years ended March 31, 2008 and 2007 are not presented because the amounts are recognized in the consolidated financial statements.

| (Dollars in thousands except per share amounts)  | 2006      |
|--|-----------|
| <b>Net income</b>  |           |
| As reported  | \$ 38,515 |
| <b>Deduct:</b>   |           |
| Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect | 1,253     |
| Pro forma net income   | \$ 37,262 |
| <b>Basic earnings per share</b>  |           |
| As reported  | \$ 2.08   |
| Pro forma  | \$ 2.01   |
| <b>Diluted earnings per share</b>  |           |
| As reported  | \$ 2.02   |
| Pro forma  | \$ 1.95   |

See Note 13 for a summary of the Company's assumptions used to estimate the grant date per share fair value of options in the above table.

### ***Comprehensive Income***

Total comprehensive income consists of net income and other comprehensive income (loss). The Company's other comprehensive income (loss) and accumulated other comprehensive income (loss) are comprised of foreign currency translation adjustments.

### ***Concentration of Risk***

During the year ended March 31, 2008, the Company operated in 11 states in the United States as well as in Mexico. For the years ended March 31, 2006, 2007 and 2008, total revenues within the Company's four largest states (measured by total revenues) accounted for approximately 61%, 62% and 62%, respectively, of the Company's total revenues.

### ***Recently Issued Accounting Pronouncements***

#### ***Convertible Debt Instruments***

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

2010 and are currently assessing the impact on our Consolidated Financial Statements.

***Recently Adopted Accounting Pronouncements***

*Accounting for Uncertainty in Income Taxes*

In July 2006, FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109” (“FIN 48”), was issued. It clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements in accordance with Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes,” by prescribing the minimum recognition threshold and measurement attribute a tax position taken or expected to be taken on a tax return is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

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In May 2007, the FASB issued FSP FIN No. 48-1, "Definition of Settlement in FASB Interpretation No. 48." FSP FIN No. 48-1 provides guidance on how a company should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN No. 48-1 is effective upon initial adoption of FIN No. 48, which the Company adopted in the first quarter of fiscal 2008, as discussed in footnote 11 to the Consolidated Financial Statements.

#### *Accounting for Purchases of Life Insurance*

In September 2006, the FASB ratified the consensus reached by the EITF on Issue No. 06-5, "Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance." FASB Technical Bulletin No. 85-4 requires that the amount that could be realized under the insurance contract as of the date of the statement of financial position should be reported as an asset. Since the issuance of FASB Technical Bulletin No. 85-4, there has been diversity in practice in the calculation of the amount that could be realized under insurance contracts. Issue No. 06-5 concludes that the Company should consider any additional amounts (e.g., cash stabilization reserves and deferred acquisition cost taxes) included in the contractual terms of the insurance policy other than the cash surrender value in determining the amount that could be realized in accordance with FASB Technical Bulletin No. 85-4. The adoption of this Interpretation had no material impact on the Company's Consolidated Financial Statements.

#### (2) Accumulated Other Comprehensive Loss

The Company applies the provision of FASB Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." The following summarizes accumulated other comprehensive loss as of March 31, 2008, 2007 and 2006:

|   | 2008        | 2007        | 2006     |
|---|-------------|-------------|----------|
| Balance at beginning of year  | \$ (47,826) | \$ (50,092) | -        |
| Unrealized gain (loss) from foreign exchange translation adjustment | 217,329     | 2,266       | (50,092) |
| Total accumulated other comprehensive loss                          | \$ 169,503  | \$ (47,826) | (50,092) |

#### (3) Allowance for Loan Losses

The following is a summary of the changes in the allowance for loan losses for the years ended March 31, 2008, 2007, and 2006:

|                                      | 2008          | March 31,<br>2007 | 2006         |
|--------------------------------------|---------------|-------------------|--------------|
| Balance at the beginning of the year | \$ 27,840,239 | 22,717,192        | 20,672,740   |
| Provision for loan losses            | 67,541,805    | 51,925,080        | 46,025,912   |
| Loan losses                          | (68,985,269)  | (53,979,375)      | (49,267,992) |
| Recoveries                           | 6,989,297     | 6,227,742         | 4,849,244    |
| Allowance on acquired loans          | 140,075       | 949,600           | 437,288      |
| Balance at the end of the year       | \$ 33,526,147 | 27,840,239        | 22,717,192   |



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

For the years ended March 31, 2008, 2007 and 2006, the Company recorded adjustments of approximately \$0.1 million, \$0.9 million and \$0.4 million, respectively, to the allowance for loan losses in connection with its acquisitions in accordance generally accepted accounting principles. These adjustments represent the allowance for loan losses on acquired loans that do not meet the scope of SOP 03-3 (also see Note 1).

**(4) Property and Equipment**

Property and equipment consist of:

|  | 2008          | March 31,<br>2007 |
|--|---------------|-------------------|
| Land   | \$ 250,443    | 250,443           |
| Buildings and leasehold improvements           | 9,584,129     | 6,633,095         |
| Furniture and equipment                        | 27,971,656    | 24,105,006        |
|  | 37,806,228    | 30,988,544        |
| Less accumulated depreciation and amortization | (19,152,218)  | (16,678,086)      |
| Total  | \$ 18,654,010 | 14,310,458        |

Depreciation expense was \$3,760,000, \$3,058,000 and \$2,372,000 for the years ended March 31, 2008, 2007 and 2006, respectively.

**(5) Intangible Assets**

Intangible assets, net of accumulated amortization, consist of:

|  | 2008         | March 31,<br>2007 |
|--|--------------|-------------------|
| Cost of acquiring existing customers     | \$ 9,547,348 | 10,417,848        |
| Value assigned to non-compete agreements | 449,979      | 642,291           |
| Total                                    | \$ 9,997,327 | 11,060,139        |

The estimated amortization expense for intangible assets for the years ended March 31 is as follows: \$2.3 million for 2009; \$2.0 million for 2010, \$1.6 million for 2011; \$1.3 million for 2012; \$1.0 million for 2013; and an aggregate of \$1.8 million for the years thereafter.

**(6) Goodwill**

The following summarizes the changes in the carrying amount of goodwill for the year ended March 31, 2008 and 2007:

|  | 2008 | March 31,<br>2007 |
|--|------|-------------------|
|--|------|-------------------|

|                                   |    |                  |           |
|-----------------------------------|----|------------------|-----------|
| Balance at beginning of year      | \$ | <b>5,039,630</b> | 4,715,110 |
| Goodwill acquired during the year |    | <b>313,045</b>   | 359,658   |
| Goodwill impaired during the year |    | -                | (35,138)  |
| Balance at March 31, 2008         | \$ | <b>5,352,675</b> | 5,039,630 |

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In August 2006 and January 2007, the Company closed its San Antonio, Texas and Tallassee, Alabama branches, respectively, at which time the goodwill associated with these branches was determined to be impaired and was subsequently written off.

The Company performed an annual impairment test as of March 31, 2008, and determined that none of the recorded goodwill was impaired.

(7) **Notes Payable**

The Company's notes payable consist of:

***Senior Notes Payable***

***\$187,000,000 Revolving Credit Facility***

This facility provides for borrowings of up to \$187 million, with \$104.5 million outstanding at March 31, 2008, subject to a borrowing base formula. An additional \$30 million is available as a seasonal revolving credit commitment from November 15 of each year through March 31 of the immediately succeeding year to cover the increase in loan demand during this period. The Company may borrow, at its option, at the rate of prime or LIBOR plus 1.80%. At March 31, 2008, the Company's interest rate was 5.25% and the unused amount available under the revolver was \$82.5 million, excluding the \$30 million dollar seasonal line which expires each March 31. The revolving credit facility has a commitment fee of 0.375% per annum on the unused portion of the commitment. Borrowings under the revolving credit facility mature on September 30, 2009.

A member of the Company's Board of Directors served as a Director of The South Financial Group, which is the parent of Carolina First Bank. As of March 31, 2008, Carolina First Bank had committed to fund up to \$25.9 million under the credit facility, including \$3.6 million for the seasonal line.

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

**Second Amendment to Amended and Restated Credit Agreement**

The Company entered into a Second Amendment to the Amended and Restated Credit Agreement dated as of October 2, 2006 (the "Amendment"), which amends the Company's Amended and Restated Revolving Credit Agreement, dated as of July 20, 2005, as amended (the "Credit Agreement") among the Company, the banks party thereto (the "Banks"), JPMorgan Chase Bank as Co-Agent and Harris N.A. as Agent for the Banks.

The Amendment permitted the Company to incur up to \$110,000,000 in aggregate principal amount of indebtedness under the Convertible Notes (as defined in the Convertible Senior Notes section below) on the terms, including subordination terms, set forth in the offering memorandum for the Convertible Notes dated as of October 3, 2006, (and as also described in the Company's registration statement on Form S-3 filed December 18, 2006 (SEC File No. 333-139445)) and confirmed that the Notes constitute subordinated indebtedness as defined in the Credit Agreement. In addition, the Amendment modified the consolidated net worth and fixed charge coverage ratio financial covenants in the Credit Agreement and adjusted an indebtedness negative covenant in the Credit Agreement that, as amended, prohibits the incurrence of (i) senior debt as defined in the Credit Agreement, on a consolidated basis that exceeds 375% of the sum of consolidated adjusted net worth and the aggregate unpaid principal amount of subordinated debt, and (ii) subordinated debt that exceeds 150% of consolidated adjusted net worth.

The Amendment eliminated the restricted payments negative covenant in the Credit Agreement and replaced it with a covenant (i) requiring all obligations under the Credit Agreement to constitute senior debt under any agreement covering subordinated debt (and all such obligations to constitute designated senior debt under the indenture for the Convertible Notes), (ii) restricting amendments to subordinated debt (other than amendments with respect to interest rates, deferral of repayments or other matters not adverse to the senior lenders), and (iii) restricting voluntary prepayments and redemptions and cash payments upon conversion of any subordinated debt except for any such payments that on a pro forma basis do not create a default or event of default as defined in the Credit Agreement.

The Amendment also permitted the convertible note hedge and warrant transactions, described in the Convertible Senior Notes section below, and provided that a default by the Company under such convertible note hedge and warrant transactions will also constitute an event of default under the Credit Agreement.

### *Convertible Senior Notes*

On October 10, 2006, the Company issued \$110 million aggregate principal amount of its 3.0% convertible senior subordinated notes due October 1, 2011 (the "Convertible Notes") to qualified institutional brokers in accordance with Rule 144A of the Securities Act of 1933. Interest on the Convertible Notes is payable semi-annually in arrears on April 1 and October 1 of each year, commencing April 1, 2007. The Convertible Notes are the Company's direct, senior subordinated, unsecured obligations and rank equally in right of payment with all existing and future unsecured senior subordinated debt of the Company, senior in right of payment to all of the Company's existing and future subordinated debt and junior to all of the Company's existing and future senior debt. The Convertible Notes are structurally junior to the liabilities of the Company's subsidiaries. The Convertible Notes are convertible prior to maturity, subject to certain conditions described below, at an initial conversion rate of 16.0229 shares per \$1,000 principal amount of notes, which represents an initial conversion price of approximately \$62.41 per share, subject to adjustment. Upon conversion, the Company will pay cash up to the principal amount of notes converted and deliver shares of its common stock to the extent the daily conversion value exceeds the proportionate principal amount based on a 30 trading-day observation period.

Holders may convert the Convertible Notes prior to July 1, 2011 only if one or more of the following conditions are satisfied:

During any fiscal quarter commencing after December 31, 2006, if the last reported sale price of the common stock for at least 20 trading days during a period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter is greater than or equal to 120% of the applicable conversion price on such last trading day;

During the five business day period after any ten consecutive trading day period in which the trading price per note for each day of such ten consecutive trading day period was less than 98% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate on each such day; or

- The occurrence of specified corporate transactions.

If the Convertible Notes are converted in connection with certain fundamental changes that occur prior to October 1, 2011, the Company may be obligated to pay an additional make-whole premium with respect to the Convertible Notes converted. If the Company undergoes certain fundamental changes, holders of Convertible Notes may require the Company to purchase the Convertible Notes at a price equal to 100% of the principal amount of the Convertible Notes purchased plus accrued interest to, but excluding, the purchase date.

Holders may also surrender their Convertible Notes for conversion anytime on or after July 1, 2011 until the close of business on the third business day immediately preceding the maturity date, regardless of whether any of the foregoing conditions have been satisfied.

The contingent conversion feature was not required to be bifurcated and accounted for separately under the provisions of FAS 133 "Accounting for Derivative Instruments and Hedging Activities."

The aggregate underwriting commissions and other debt issuance costs incurred with respect to the issuance of the Convertible Notes were approximately \$3.6 million and are being amortized over the period the convertible senior notes are outstanding.

### *Convertible Notes Hedge Strategy*

Concurrent and in connection with the sale of the Convertible Notes, the Company purchased call options to purchase shares of the Company's common stock equal to the conversion rate as of the date the options are exercised for the

Convertible Notes, at a price of \$62.41 per share. The cost of the call options totaled \$24.6 million. The Company also sold warrants to the same counterparties to purchase from the Company an aggregate of 1,762,519 shares of the Company's common stock at a price of \$73.97 per share and received net proceeds from the sale of increasing these warrants of \$16.2 million. Taken together, the call option and warrant agreements increased the effective conversion price of the Convertible Notes to \$73.97 per share. The call options and warrants must be settled in net shares. On the date of settlement, if the market price per share of the Company's common stock is above \$73.97 per share, the Company will be required to deliver shares of its common stock representing the value of the call options and warrants in excess of \$73.97 per share.



The warrants have a strike price of \$73.97 and are generally exercisable at anytime. The Company issued and sold the warrants in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of section 4(2) thereof. There were no underwriting commissions or discounts in connection with the sale of the warrants.

In accordance with EITF. No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, the Company's Own Stock", the Company accounted for the call options and warrants as a net reduction in additional paid in capital, and is not required to recognize subsequent changes in fair value of the call options and warrants in its consolidated financial statements.

#### ***Other Note Payable***

The Company also has a \$400,000 note payable to Carolina First Bank, bearing interest of LIBOR plus 2.00% payable monthly, which is to be repaid in two remaining annual installments of \$200,000 ending on May 1, 2009.

#### ***Debt Covenants***

The various debt agreements contain restrictions on the amounts of permitted indebtedness, investments, working capital, repurchases of common stock and cash dividends. At March 31, 2008, \$22.4 million was available under these covenants for the payment of cash dividends, or the repurchase of the Company's common stock. In addition, the agreements restrict liens on assets and the sale or transfer of subsidiaries. The Company was in compliance with the various debt covenants for all periods presented.

The aggregate annual maturities of the notes payable for each of the fiscal years subsequent to March 31, 2008, are as follows: 2009, \$200,000; 2010, \$104,700,000; 2011, \$0; 2012, \$110,000,000; and none thereafter.

#### **(8) Derivative Financial Instruments**

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

At March 31, 2008, the Company recorded a liability related to the interest rate swap of \$1.7 million, which represented the fair value of the interest rate swap at that date. The corresponding unrealized loss of \$1.8 million was recorded as a reduction to other income for the year ended March 31, 2008. During the year ended March 31, 2008, interest expense was decreased by approximately \$39,000, as a result of net disbursements under the terms of the interest rate swap.

On May 9, 2007, the Company entered into a \$3 million foreign exchange currency option to economically hedge its foreign exchange risk relative to the Mexican peso. Under the terms of the option contract, the Company can exchange \$3 million U.S. dollars at a rate of 11.18 Mexican pesos on May 9, 2008. The fair value of the option at March 31, 2008 was immaterial.

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

the changes in fair value of the swap and option are included in earnings as other income or expenses.

By using derivative instruments, the Company is exposed to credit and market risk. Credit risk, which is the risk that a counterparty to a derivative instrument will fail to perform, exists to the extent of the fair value gain in a derivative. Credit risk is created when the fair value of a derivative contract is positive, since this generally indicates that the counterparty owes the Company. When the fair value of a derivative is negative, no credit risk exists since the Company would owe the counterparty. Market risk is the adverse effect on the financial instruments from a change in interest rates or implied volatility of exchange rates. The Company manages the market risk associated with interest rate contracts and currency options by establishing and monitoring limits as to the types and degree of risk that may be undertaken. The market risk associated with derivatives used for interest rate and foreign currency risk management activities is fully incorporated in the Company's market risk sensitivity analysis.

**(9) Non-file Insurance**

The Company maintains non-file insurance coverage with an unaffiliated insurance company. The following is a summary of the non-file insurance activity for the years ended March 31, 2008, 2007 and 2006:

|                            | 2008         | 2007      | 2006      |
|----------------------------|--------------|-----------|-----------|
| Insurance premiums written | \$ 5,885,108 | 5,356,161 | 5,229,598 |
| Recoveries on claims paid  | \$ 553,035   | 503,986   | 403,445   |
| Claims paid                | \$ 5,987,181 | 5,451,094 | 4,948,136 |

**(10) Leases**

The Company conducts most of its operations from leased facilities, except for its owned corporate office building. The Company's leases typically have a lease term of three years and contain lessee renewal options. A majority of the leases provide that the lessee pays property taxes, insurance, and common area maintenance costs. It is expected that in the normal course of business, expiring leases will be renewed at the Company's option or replaced by other leases or acquisitions of other properties. All of the Company's leases are operating leases.

The future minimum lease payments under noncancelable operating leases as of March 31, 2008, are as follows:

|                                     |               |
|-------------------------------------|---------------|
| 2009                                | 11,305,444    |
| 2010                                | 7,463,670     |
| 2011                                | 3,473,112     |
| 2012                                | 977,791       |
| 2013                                | 271,969       |
| Thereafter                          | -             |
| Total future minimum lease payments | \$ 23,491,956 |

Rental expense for cancelable and noncancelable operating leases for the years ended March 31, 2008, 2007 and 2006, was \$12,198,271, \$9,555,103 and \$7,730,647, respectively.

**(11) Income Taxes**

Income tax expense (benefit) consists of:

|                                   | Current       | Deferred    | Total      |
|-----------------------------------|---------------|-------------|------------|
| <b>Year ended March 31, 2008:</b> |               |             |            |
| U.S. Federal                      | \$ 33,113,415 | (2,280,364) | 30,833,051 |
| State and local                   | 4,149,913     | (847,560)   | 3,302,353  |
| Foreign                           | 585,632       | -           | 585,632    |
|                                   | \$ 37,848,960 | (3,127,924) | 34,721,036 |
| Year ended March 31, 2007:        |               |             |            |
| U.S. Federal                      | \$ 26,532,000 | (1,256,000) | 25,276,000 |
| State and local                   | 3,947,000     | 39,000      | 3,986,000  |
| Foreign                           | 45,000        | (33,000)    | 12,000     |
|                                   | \$ 30,524,000 | (1,250,000) | 29,274,000 |
| Year ended March 31, 2006:        |               |             |            |

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|                 |    |            |           |            |
|-----------------|----|------------|-----------|------------|
| U.S. Federal    | \$ | 14,475,000 | 6,059,000 | 20,534,000 |
| State and local |    | 1,813,000  | 733,000   | 2,546,000  |
|                 | \$ | 16,288,000 | 6,792,000 | 23,080,000 |

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Income tax expense was \$34,721,036, \$29,274,000 and \$23,080,000, for the years ended March 31, 2008, 2007 and 2006, respectively, and differed from the amounts computed by applying the U.S. federal income tax rate of 35% to pretax income from continuing operations as a result of the following:

|  | 2008          | 2007       | 2006       |
|--|---------------|------------|------------|
| Expected income tax                                  | \$ 30,701,018 | 27,010,000 | 21,558,000 |
| Increase (reduction) in income taxes resulting from: |               |            |            |
| State tax, net of federal benefit                    | 2,146,587     | 2,591,000  | 1,655,000  |
| Change in valuation allowance                        | (335,361)     | 207,000    | 19,000     |
| Insurance income exclusion                           | (117,834)     | (167,000)  | (75,000)   |
| Proceeds from life insurance                         | -             | -          | (145,000)  |
| Uncertain tax positions                              | 1,408,734     | -          | -          |
| Other, net   | 917,892       | (367,000)  | 68,000     |
|  | \$ 34,721,036 | 29,274,000 | 23,080,000 |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2008 and 2007 are presented below:

|  | 2008          | 2007         |
|--|---------------|--------------|
| Deferred tax assets:   |               |              |
| Allowance for doubtful accounts  | \$ 12,533,595 | 10,587,000   |
| Unearned insurance commissions   | 7,794,408     | 6,549,000    |
| Accounts payable and accrued expenses primarily related to employee benefits | 4,223,506     | 2,565,000    |
| Accrued interest receivable  | 2,450,352     | 2,277,000    |
| Convertible notes  | 7,367,233     | 9,359,000    |
| Unrealized losses  | 625,164       | -            |
| Other  | 172,944       | 857,000      |
| Gross deferred tax assets  | 35,167,202    | 32,194,000   |
| Less valuation allowance   | (406,639)     | (742,000)    |
| Net deferred tax assets  | 34,760,563    | 31,452,000   |
| Deferred tax liabilities:  |               |              |
| Fair value adjustment for loans  | (6,906,863)   | (11,255,000) |
| Property and equipment   | (1,926,228)   | (1,031,000)  |
| Intangible assets  | (1,940,150)   | (2,942,000)  |
| Unrealized gains   | -             | (35,000)     |
| Deferred net loan origination fees   | (1,267,454)   | (1,068,000)  |
| Prepaid expenses   | (585,802)     | (614,000)    |
| Gross deferred liabilities   | (12,626,497)  | (16,945,000) |
| Net deferred tax assets  | \$ 22,134,066 | 14,507,000   |

As of March 31, 2008, the deferred tax asset included \$4,500,000 related to uncertain tax positions that were identified during the adoption of FIN 48.

The valuation allowance for deferred tax assets as of March 31, 2008 and 2007 was \$406,639 and \$742,000, respectively. The valuation allowance against the total deferred tax assets as of March 31, 2008 and 2007 relates to state net operating losses. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset, the Company will need to generate future taxable income prior to the expiration of the deferred tax assets governed by the tax code. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at March 31, 2008. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The Company adopted the provision of Financial Standards Accounting Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes (“FIN 48”), an interpretation of FASB Statement No. 109 on April 1, 2007. As a result of the implementation of Interpretation 48, the Company recognized a charge of approximately \$550,000 to the April 1, 2007 balance of retained earnings. As of April 1, 2007 and March 31, 2008, the Company had \$5,530,703 and \$8,764,255 of total gross unrecognized tax benefits including interest, respectively. Of this total, approximately \$800,000 and \$2,208,734, respectively, represents the amount of unrecognized tax benefits that are permanent in nature and, if recognized, would affect the annual effective tax rate.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

|   |           |
|---|-----------|
| Unrecognized tax benefits balance at April 1, 2007  | 5,174,703 |
| Gross increases for tax positions of prior years    | 1,942,169 |
| Gross decreases for tax positions of prior years    | -         |
| Gross increases for tax positions of current year   | 981,151   |
| Gross decreases for tax positions of current year   | -         |
| Settlements   | (61,333)  |
| Lapse of statute of limitations                     | (511,770) |
| Unrecognized tax benefits balance at March 31, 2008 | 7,524,920 |

The Company’s continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. As of March 31, 2008, the Company had \$1,239,335 accrued for gross interest, of which \$883,335 was a current period expense. The Company has determined that it is possible that the total amount of unrecognized tax benefits related to various state examinations will significantly increase or decrease within twelve months of the reporting date. However, at this time, a reasonable estimate of the range of possible change cannot be made until further correspondence has been conducted with the state taxing authorities.

The Company is subject to U.S. and Mexican income taxes, as well as various other state and local jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2003, although carryforward attributes that were generated prior to 2003 may still be adjusted upon examination by the taxing authorities if they either have been or will be used in a future period. The federal income tax returns (2005, 2006 and 2007) are currently under examination by the taxing authorities. In addition, the income tax returns (2001 through 2006) are under examination by a state authority which has completed its examinations and issued a proposed assessment for tax years 2001 and 2006. The Company is in the very initial process of responding to the Jurisdiction. In consideration of the proposed assessment, the total gross unrecognized tax benefit was increased by \$2.3 million. At this time, it is too early to predict the final outcome on this tax issue and any future recoverability of this charge. Until the tax issue is resolved, the Company expects to accrue approximately \$40,000 per quarter for interest.

(12)

**Earnings Per Share**

The following is a reconciliation of the numerators and denominators of the basic and diluted EPS calculations.

|  | For the year ended March 31, 2008 |                         |                     |
|--|-----------------------------------|-------------------------|---------------------|
|  | Income<br>(Numerator)             | Shares<br>(Denominator) | Per Share<br>Amount |
| <b>Basic EPS</b>   |                                   |                         |                     |
| <b>Income available to common shareholders</b>   | <b>\$ 52,996,158</b>              | <b>17,044,122</b>       | <b>\$ 3.11</b>      |
| <b>Effect of Dilutive Securities</b>   |                                   |                         |                     |
| <b>Options and restricted stock</b>  | <b>-</b>                          | <b>330,624</b>          |                     |
| <b>Diluted EPS</b>   |                                   |                         |                     |
| <b>Income available to common shareholders plus assumed exercises of stock options</b> | <b>\$ 52,996,158</b>              | <b>17,374,746</b>       | <b>\$ 3.05</b>      |

|  | For the year ended March 31, 2007 |                         |                     |
|--|-----------------------------------|-------------------------|---------------------|
|  | Income<br>(Numerator)             | Shares<br>(Denominator) | Per Share<br>Amount |
| <b>Basic EPS</b>   |                                   |                         |                     |
| <b>Income available to common shareholders</b>   | <b>\$ 47,896,380</b>              | <b>18,018,370</b>       | <b>\$ 2.66</b>      |
| <b>Effect of Dilutive Securities</b>   |                                   |                         |                     |
| <b>Options and restricted stock</b>  | <b>-</b>                          | <b>375,358</b>          |                     |
| <b>Diluted EPS</b>   |                                   |                         |                     |
| <b>Income available to common shareholders plus assumed exercises of stock options</b> | <b>\$ 47,896,380</b>              | <b>18,393,728</b>       | <b>\$ 2.60</b>      |

|  | For the year ended March 31, 2006 |                         |                     |
|--|-----------------------------------|-------------------------|---------------------|
|  | Income<br>(Numerator)             | Shares<br>(Denominator) | Per Share<br>Amount |
| <b>Basic EPS</b>   |                                   |                         |                     |
| <b>Income available to common shareholders</b>   | <b>\$ 38,514,965</b>              | <b>18,493,389</b>       | <b>\$ 2.08</b>      |
| <b>Effect of Dilutive Securities</b>   |                                   |                         |                     |
| <b>Options</b>   | <b>-</b>                          | <b>604,698</b>          |                     |
| <b>Diluted EPS</b>   |                                   |                         |                     |
| <b>Income available to common shareholders plus assumed exercises of stock options</b> | <b>\$ 38,514,965</b>              | <b>19,098,087</b>       | <b>\$ 2.02</b>      |

Options to purchase 183,030, 77,556 and 133,000 shares of common stock at various prices were outstanding during the years ended March 31, 2008, 2007 and 2006, respectively, but were not included in the computation of diluted EPS because the option exercise price was greater than the average market price of the common shares. The shares related to the convertible senior notes payable (1,762,519) and related warrants were not included in the computation of diluted EPS because the effect of such instruments was antidilutive.



(13)

**Benefit Plans**

***Retirement Plan***

The Company provides a defined contribution employee benefit plan (401(k) plan) covering full-time employees, whereby employees can invest up to the maximum designated for that year. The Company makes a matching contribution equal to 50% of the employees' contributions for the first 6% of gross pay. The Company's expense under this plan was \$1,078,896, \$948,519 and \$619,433, for the years ended March 31, 2008, 2007 and 2006, respectively.

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***Supplemental Executive Retirement Plan***

The Company has instituted a Supplemental Executive Retirement Plan (“SERP”), which is a non-qualified executive benefit plan in which the Company agrees to pay the executive additional benefits in the future, usually at retirement, in return for continued employment by the executive. The Company selects the key executives who participate in the SERP. The SERP is an unfunded plan, which means there are no specific assets set aside by the Company in connection with the establishment of the plan. The executive has no rights under the agreement beyond those of a general creditor of the Company. For the years ended March 31, 2008, 2007 and 2006, contributions of \$836,977, \$474,865 and \$454,165, respectively were charged to operations related to the SERP. The unfunded liability was \$4,000,000, \$2,989,000 and \$2,707,000, as of March 31, 2008, 2007 and 2006, respectively.

For the three years presented, the unfunded liability was estimated using the following assumptions; an annual salary increase of 3.5% for all 3 years; a discount rate of 6% for all 3 years; and a retirement age of 65.

***Executive Deferred Compensation Plan***

The Company has an Executive Deferral Plan. Eligible executives may elect to defer all or a portion of their incentive compensation to be paid under the Executive Incentive Plan. As of March 31, 2008 and 2007, the balance outstanding was \$101,123 and \$217,480, respectively, under this plan.

***Stock Option Plans***

The Company has a 1992 Stock Option Plan, a 1994 Stock Option Plan, a 2002 Stock Option Plan and a 2005 Stock Option Plan for the benefit of certain directors, officers, and key employees. Under these plans, 4,350,000 shares of authorized common stock have been reserved for issuance pursuant to grants approved by the Compensation and Stock Option Committee of the Board of Directors. Stock options granted under these plans have a maximum duration of 10 years, may be subject to certain vesting requirements, which are generally one year for directors and five years for officers and key employees, and are priced at the market value of the Company’s common stock on the date of grant of the option. At March 31, 2008, there were 234,123 shares available for grant under the plans.

The fair value of the Company’s stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them, the estimated volatility of our common stock price over the expected term and the number of options that ultimately will not complete their vesting requirements. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for the Company’s employee stock options.

The weighted-average fair value at the grant date for options issued during the years ended March 31, 2008, 2007 and 2006 was \$14.41, \$26.44 and \$14.93 per share, respectively. The following is a summary of the Company’s weighted-average assumptions used to estimate the weighted-average per share fair value of options granted on the date of grant using the Black-Scholes option-pricing model:

|                                 | 2008  | 2007  | 2006  |
|---------------------------------|-------|-------|-------|
| Dividend yield                  | 0%    | 0%    | 0%    |
| Expected volatility             | 43.0% | 43.4% | 48.2% |
| Average risk-free interest rate | 4.00% | 4.69% | 4.70% |

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|                |           |           |              |
|----------------|-----------|-----------|--------------|
| Expected life  | 6.9 years | 7.5 years | 7.5 years    |
| Vesting period | 5 years   | 5 years   | 1 to 5 years |

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

Option activity for the year ended March 31, 2008, was as follows:

|  | Shares    | 2008<br>Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual Term | Aggregate<br>Intrinsic<br>Value |
|--|-----------|--|--|---------------------------------|
| Options outstanding, beginning of year | 1,139,949 | 23.41  |  |                                 |
| Granted                                | 286,250   | 28.55  |  |                                 |
| Exercised                              | (116,282) | 13.88  |  |                                 |
| Forfeited                              | (35,700)  | \$ 27.19   |  |                                 |
| Options outstanding, end of year       | 1,274,217 | \$ 25.33   | 6.98   | \$ 11,929,017                   |
| Options exercisable, end of year       | 556,667   | \$ 17.07   | 5.00   | \$ 8,939,454                    |

The aggregate intrinsic value reflected in the table above represents the total pre-tax intrinsic value (the difference between the closing stock price on March 31, 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by option holders had all option holders exercised their options as of March 31, 2008. This amount will change as the market price per share changes. The total intrinsic value of options exercised during the periods ended March 31, 2008, 2007 and 2006 were as follows:

|  | 2008         | 2007         | 2006         |
|--|--------------|--------------|--------------|
|  | \$ 2,503,399 | \$ 8,078,143 | \$ 3,348,020 |

As of March 31, 2008, total unrecognized stock-based compensation expense related to non-vested stock options amounted to approximately \$6.2 million which is expected to be recognized over a weighted-average period of approximately 3.1 years.

The following table summarizes information regarding stock options outstanding at March 31, 2008:

| Range of Exercise Price | Options Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Options Exercisable | Weighted Average Exercise Price |
|-------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
| \$ 4.90 - \$5.99        | 134,517             | 1.33  | \$ 5.28                         | 134,517             | \$ 5.28                         |
| \$ 6.00 - \$ 7.99       | 18,500              | 3.00  | \$ 6.75                         | 18,500              | \$ 6.75                         |
| \$ 8.00 - \$ 9.99       | 94,300              | 3.97  | \$ 8.46                         | 87,800              | \$ 8.43                         |
| \$11.00 - \$11.99       | 31,500              | 5.13  | \$ 11.44                        | 31,500              | \$ 11.44                        |
| \$15.00 - \$16.99       | 95,900              | 5.70  | \$ 16.27                        | 70,100              | \$ 16.16                        |
| \$23.00 - \$23.99       | 97,900              | 6.58  | \$ 23.53                        | 44,900              | \$ 23.53                        |
| \$25.00 - \$25.99       | 193,700             | 7.87  | \$ 25.07                        | 86,300              | \$ 25.09                        |
| \$28.00 - \$28.99       | 390,850             | 9.05  | \$ 28.22                        | 40,800              | \$ 28.29                        |
| \$43.00 - \$43.99       | 7,000               | 9.15  | \$ 43.00                        | -                   | \$ 43.00                        |
| \$46.00 - \$49.00       | 210,050             | 8.62  | \$ 48.73                        | 42,250              | \$ 48.74                        |
| \$ 4.90 - \$49.00       | 1,274,217           | 6.98  | \$ 25.33                        | 556,667             | \$ 17.07                        |

### *Restricted Stock*

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

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

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

On April 30, 2007, the Company granted 8,000 shares of restricted stock (which are equity classified), with a grant date fair value of \$42.93 per share, to its independent directors. One-half of the restricted stock vested immediately and the other half will vest on the first anniversary of grant.

Compensation expense related to restricted stock is based on the number of shares expected to vest and the fair market value of the common stock on the grant date. The Company recognized \$1.6 million and \$1.1 million of compensation expense for the years ended March 31, 2008 and 2007, respectively, related to restricted stock, which is included as a component of general and administrative expenses in the Consolidated Statements of Operations. All shares are expected to vest.

As of March 31, 2008, there was approximately \$1.0 million of unrecognized compensation cost related to unvested restricted stock awards granted, which is expected to be recognized over the next two years.

A summary of the status of the Company's restricted stock as of March 31, 2008, and changes during the year ended March 31, 2008, are presented below:

|                                  | Number of<br>Shares | Weighted Average Fair<br>Value at Grant Date |
|----------------------------------|---------------------|--|
| Outstanding at March 31,<br>2007 | 29,442              | 43.87  |
| Granted during the period        | 51,950              | 32.36  |
| Vested during the period,<br>net | (23,323)            | 40.83  |
| Cancelled during the<br>period   | (6,969)             | 29.92  |
| Outstanding at March 31,<br>2008 | 51,100              | \$ 35.46                                     |

Total share-based compensation included as a component of net income during the years ended March 31, were as follows:

|   | 2008         | 2007      |
|---|--------------|-----------|
| Share-based compensation related to equity<br>classified units:       |              |           |
| Share-based compensation related to stock<br>options                  | \$ 3,937,925 | 3,399,763 |
| Share-based compensation related to restricted<br>stock units         | 1,556,902    | 1,088,387 |
| Total share-based compensation related to<br>equity classified awards | \$ 5,494,827 | 4,488,150 |

(14)

**Acquisitions**

The following table sets forth the acquisition activity of the Company for the last three fiscal years:

|  | <b>2008</b>     | 2007<br>(\$ in thousands) | 2006  |
|--|-----------------|---------------------------|-------|
| Number of offices purchased  | <b>25</b>       | 86                        | 25    |
| Merged into existing offices   | <b>12</b>       | 50                        | 22    |
| Purchase Price   | <b>\$ 4,977</b> | 18,394                    | 9,163 |
| Tangible assets:   |                 |                           |       |
| Net loans  | <b>3,086</b>    | 16,131                    | 6,742 |
| Furniture, fixtures & equipment                                      | <b>128</b>      | 139                       | 58    |
| Other  | <b>7</b>        | -                         | -     |
|  | <b>3,221</b>    | 16,270                    | 6,800 |
| Excess of purchase prices over carrying value of net tangible assets | <b>\$ 1,756</b> | 2,124                     | 2,363 |
| Customer lists   | <b>1,327</b>    | 1,696                     | 2,063 |
| Non-compete agreements   | <b>116</b>      | 68                        | 97    |
| Goodwill   | <b>313</b>      | 360                       | 203   |
| Total intangible assets  | <b>\$ 1,756</b> | 2,124                     | 2,363 |

The Company evaluates each acquisition to determine if the transaction meets the definition of a business combination. Those transactions that meet the definition of a business combination are accounted for as such under SFAS No. 141 and all other acquisitions are accounted for as asset purchases. All acquisitions have been with independent third parties.

## **Titan Acquisition**

On October 13, 2006 the Company purchased assets, consisting primarily of loans receivable, from Titan Financial Group, II, LLC and certain of its affiliated companies for approximately \$13.5 million in cash. The assets included approximately \$12.5 million in net loan receivable portfolios and \$117,000 of fixed assets. This acquisition was recorded as a business combination. Management determined that the fair value of the customer list exceeded the excess of the purchase price paid over the fair value of the tangible assets; therefore the excess was recorded as a customer list. No goodwill was recorded. Titan office locations were across Georgia and South Carolina. The Company kept open 39 of the 69 Titan offices and consolidated the remaining Titan offices into existing operations.

The results of this acquisition have been included in the Company's Consolidated Financial Statements since the acquisition date. The pro forma impact of this purchase as though it had been acquired at the beginning of the periods presented would not have a material effect on the results of the operations as reported.

## **Other Acquisitions**

When the acquisition results in a new office, the Company records the transaction as a business combination, since the office acquired will continue to generate loans. The Company typically retains the existing employees and the office location. The purchase price is allocated to the estimated fair value of the tangible assets acquired and to the estimated fair value of the identified intangible assets acquired (generally non-compete agreements and customer lists). The remainder is allocated to goodwill. During the nine months ended March 31, 2008, 13 acquisitions were recorded as business combinations.

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

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

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

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

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

Customer lists are allocated at an office level and are evaluated for impairment at an office level when a triggering event occurs, in accordance with SFAS 144. If a triggering event occurs, the impairment loss to the customer list is



generally the remaining unamortized customer list balance. In most acquisitions, the original fair value of the customer list allocated to an office is generally less than \$100,000, and management believes that in the event a triggering event were to occur, the impairment loss to an unamortized customer list would be immaterial.

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

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**Quarterly Information (Unaudited)**

The following sets forth selected quarterly operating data:

|                                     | <b>2008</b>  |        |        |         | <b>2007</b> |        |        |        |
|-------------------------------------|--|--------|--------|---------|-------------|--------|--------|--------|
|                                     | First  | Second | Third  | Fourth  | First       | Second | Third  | Fourth |
|                                     | (Dollars in thousands, except earnings per share data) |        |        |         |             |        |        |        |
| Total revenues                      | \$ 76,389  | 80,198 | 88,043 | 101,417 | 63,837      | 67,208 | 74,103 | 87,170 |
| Provision for loan losses           | 14,217   | 18,416 | 23,224 | 11,685  | 11,167      | 13,813 | 18,365 | 8,580  |
| General and administrative expenses | 42,191   | 41,930 | 47,470 | 47,628  | 34,847      | 35,289 | 41,460 | 42,031 |
| Interest expense                    | 2,336  | 2,932  | 3,338  | 2,963   | 1,901       | 2,270  | 2,823  | 2,602  |
| Income tax expense                  | 6,795  | 6,454  | 6,723  | 14,749  | 5,935       | 5,975  | 4,444  | 12,920 |
| Net income                          | \$ 10,850  | 10,466 | 7,288  | 24,392  | 9,987       | 9,861  | 7,011  | 21,037 |
| Earnings per share:                 |  |        |        |         |             |        |        |        |
| Basic                               | \$ .62   | .61    | .43    | 1.46    | .54         | .53    | .40    | 1.20   |
| Diluted                             | \$ .61   | .60    | .43    | 1.44    | .53         | .52    | .39    | 1.17   |

(16)

**Litigation**

At March 31, 2008, the Company and certain of its subsidiaries have been named as defendants in various legal actions arising from their normal business activities in which damages in various amounts are claimed. Although the amount of any ultimate liability with respect to such matters cannot be determined, the Company believes that any such liability will not have a material adverse effect on the Company's results of operations or financial condition taken as a whole.

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We are responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a – 15(f) under the Securities Exchange Act of 1934. We have assessed the effectiveness of internal control over financial reporting as of March 31, 2008. Our assessment was based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, Internal Control-Integrated Framework.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of the assets;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and board of directors: and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, any assumptions regarding internal control over financial reporting in future periods based on an evaluation of effectiveness in a prior period are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on using the COSO criteria, we believe our internal control over financial reporting as of March 31, 2008 was effective.

Our independent registered public accounting firm has audited the consolidated financial statements included in this Annual Report and has issued an attestation report on the effectiveness of our internal control over financial reporting, as stated in their report.

/s/ A. A. McLean III  
A. A. McLean III  
Chairman and Chief Executive Officer

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

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors  
World Acceptance Corporation:

We have audited the accompanying consolidated balance sheets of World Acceptance Corporation and subsidiaries (the "Company") as of March 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of World Acceptance Corporation and subsidiaries as of March 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* effective April 1, 2007 and Statement of Financial Accounting Standard No. 123 (revised 2004) *Share-Based Payment* effective April 1, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), World Acceptance Corporation's internal control over financial reporting as of March 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated May 30, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Greenville, South Carolina  
May 30, 2008

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors  
World Acceptance Corporation

We have audited World Acceptance Corporation and subsidiaries' (the "Company's") internal control over financial reporting as of March 31, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of March 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2008, and our report dated May 30, 2008 expressed an unqualified opinion on those consolidated financial statements.

Greenville, South Carolina

May 30, 2008

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## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

The Company had no disagreements on accounting or financial disclosure matters with its independent registered public accountants to report under this Item 9.

### **Item 9A. Controls and Procedures**

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2008. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures are effective in recording, processing, summarizing, and timely reporting information required to be disclosed in our reports to the Securities and Exchange Commission.

### **Internal control over Financial Reporting**

Management has assessed the effectiveness of our internal control over financial reporting as of March 31, 2008. Management's report on internal control over financial reporting can be found on page 52 of this Annual Report on Form 10-K.

Our independent registered public accounting firm has issued an attestation report on our internal control over financial reporting. This report can be found on page 54 of this Annual Report on Form 10-K.

### **Changes in Internal Control**

There was no change in our internal control over financial reporting during the fourth quarter of fiscal 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Item 9B. Other Information**

None.

### **PART III.**

#### **Item 10. Directors, Executive Officers and Corporate Governance**

Information contained under the caption “Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Corporate Governance matters – Director Nominations” in the Proxy Statement is incorporated herein by reference in response to this Item 10. The information in response to this Item 10 regarding the executive officers of the Company is contained in Item 1, Part I hereof under the caption “Executive Officers.”

#### **Audit Committee Financial Experts**

The Board of Directors has determined that each member of the Audit Committee, Mr. Way, Mr. Bramlett and Mr. Hummers, is an audit committee financial expert. Each of these members is also “independent” as that term is defined in accordance with the independence requirements of NASDAQ.

#### **Code of Ethics and Code of Business Conduct and Ethics**

The Company has adopted a written Code of Business Conduct and Ethics (the “Code of Ethics”) that applies to all directors, employees and officers of the Company (including the Company’s Chief Executive Officer (principal executive officer) and Executive Vice President and Chief Financial Officer (principal financial and accounting officer)). The Code of Ethics has been filed as an exhibit to this report and print copies are available to any shareholder that requests a copy by writing to the Company’s Corporate Secretary at P.O. Box 6429, Greenville, South Carolina 29606.

#### **Item 11. Executive Compensation**

Information contained under the caption “Executive Compensation” in the Proxy Statement, except for the information therein under the subcaption “Report of Compensation and Stock Option Committee,” which shall be deemed furnished, but not filed herewith, is incorporated herein by reference in response to this Item 11.

#### **Item 12. Security Ownership of Certain Beneficial Owners, Management and Related Stockholder Matters**

Information contained under the captions “Executive Compensation – “Equity Plan Compensation Information,” “Ownership of Shares by Certain Beneficial Owners” and “Ownership of Common Stock of Management” in the Proxy Statement is incorporated by reference herein in response to this Item 12.

#### **Item 13. Certain Relationships and Related Transactions and Director Independence**

Information contained under the caption “Election of Directors,” “Corporate Governance Matters – Director Independence”, and “Related Party Transaction” is incorporated herein in response to this Item 13.



**Item 14. Principal Accountant Fees and Services**

Information contained under the caption "Appointment of Independent Registered Public Accountants," in the Proxy Statement except for the information therein under the subcaption "Report of the Audit Committee of the Board of Directors," is incorporated by reference herein in response to this Item 14.

**PART IV.**

**Item 15. Exhibits and Financial Statement Schedules**

(1) The following consolidated financial statements of the Company and Report of Independent Registered Public Accounting Firm are filed herewith.

**Consolidated Financial Statements:**

Consolidated Balance Sheets at March 31, 2008 and 2007

Consolidated Statements of Operations for the years ended March 31, 2008, 2007 and 2006

Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended March 31, 2008, 2007 and 2006

Consolidated Statements of Cash Flows for the years ended March 31, 2008, 2007 and 2006

Notes to Consolidated Financial Statements

**Reports of Independent Registered Public Accounting Firm**

(2) Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, are inapplicable, or the required information is included elsewhere in the consolidated financial statements.

## (3) Exhibits

The following exhibits are filed as part of this report or, where so indicated, have been previously filed and are incorporated herein by reference.

| Exhibit Number | Description  | Filed Herewith (*),<br>Previously filed (+), or<br>or Incorporated by<br>Reference Previous<br>Exhibit Number | Company<br>Registration<br>No. or Report |
|----------------|--|---|--|
| 3.1            | Second Amended and Restated Articles of Incorporation of the Company, as amended   | 3.1   | 333-107426                               |
| 3.2            | Fourth Amended and Restated Bylaws of the Company  | 99.1  | 8-03-07 8-K                              |
| 4.1            | Specimen Share Certificate   | 4.1   | 33-42879                                 |
| 4.2            | Articles 3, 4 and 5 of the Form of Company's Second Amended and Restated Articles of Incorporation (as amended)                            | 3.1   | 333-107426                               |
| 4.3            | Article II, Section 9 of the Company's Fourth Amended And Restated Bylaws  | 99.1  | 8-03-07 8-K                              |
| 4.4            | Amended and Restated Credit Agreement dated July 20, 2005  | 4.4   | 6-30-05 10-Q                             |
| 4.5            | First Amendment to Amended and Restated Revolving Credit Agreement, dated as of August 4, 2006   | 4.4   | 6-30-06 10-Q                             |
| 4.6            | Second Amendment to Amended and Restated Revolving Credit Agreement dated as of October 2, 2006  | 10.1  | 10-04-06 8-K                             |
| 4.7            | Third Amendment to Amended and Restated Revolving Credit Agreement dated as of August 31, 2007   | 10.1  | 9-07-07 8-K                              |
| 4.7            | Subsidiary Security Agreement dated as of June 30, 1997, as amended through July 20, 2005  | 4.5   | 9-30-05 10-Q                             |
| 4.8            | Company Security Agreement dated as of June 20, 1997, as amended through July 20, 2005   | 4.6   | 9-30-05 10-Q                             |
| 4.9            | Fourth Amendment to Subsidiary Amended and Restated Security Agreement, Pledge and Indenture of Trust (i.e. Subsidiary Security Agreement) | 4.7   | 6-30-05 10-Q                             |

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|       |   |      |              |
|-------|---|------|--------------|
| 4.10  | Fourth Amendment to Amended and Restated Security Agreement, Pledge and Indenture of Trust, (i.e. Company Security Agreement) | 4.10 | 9-30-04 10-Q |
| 4.11  | Fifth Amendment to Amended and Restated Security Agreement, Pledge and Indenture of Trust (i.e. Company Security Agreement)   | 4.9  | 6-30-05 10-Q |
| 4.12  | Form of 3.00% Convertible Senior Subordinated Note due 2011   | 4.1  | 10-12-06 8-K |
| 4.13  | Indenture, dated October 10, 2006 between the Company and U.S. Bank National Association, as Trustee                          | 4.2  | 10-12-06 8-K |
| 10.1+ | Employment Agreement of A. Alexander McLean, III, effective May 21, 2007  | 10.3 | 2007 10-K    |
| 10.2+ | Employment Agreement of Mark C. Roland, effective as of May 21, 2007  | 10.4 | 2007 10-K    |

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| Exhibit Number | Description  | Filed Herewith (*),<br>Previously filed (+), or<br>or Incorporated by<br>Reference Previous<br>Exhibit Number | Company<br>Registration<br>No. or Report                               |
|----------------|--|---|--|
| 10.3+          | Employment Agreement of Kelly M. Malson, effective as of August 27, 2007   | 99.1  | 8-29-07 8-K  |
| 10.4+          | Securityholders' Agreement, dated as of September 19, 1991, between the Company and certain of its securityholders | 10.5  | 33-42879   |
| 10.5+          | Supplemental Income Plan   | 10.7  | 2000 10-K  |
| 10.6+          | Second Amendment to the Company's Supplemental Income Plan   | 10.15   | 12-31-07 10-Q  |
| 10.7+          | Board of Directors Deferred Compensation Plan  | 10.6  | 2000 10-K  |
| 10.8           | Second Amendment to the Company's Board of Directors Deferred Compensation Plan (2000)                             | 10.13   | 12-31-07 10-Q  |
| 10.9+          | 1992 Stock Option Plan of the Company  | 4   | 33-52166   |
| 10.10+         | 1994 Stock Option Plan of the Company, as amended  | 10.6  | 1995 10-K  |
| 10.11+         | First Amendment to the Company's 1992 and 1994 Stock Option Plans  | 10.10   | 12-31-07 10-Q  |
| 10.12+         | 2002 Stock Option Plan of the Company  | Appendix A  | Definitive Proxy Statement on Schedule 14A for the 2002 Annual Meeting |
| 10.13+         | First Amendment to the Company's 2002 Stock Option Plan  | 10.11   | 12-31-07 10-Q  |
| 10.14+         | 2005 Stock Option Plan of the Company  | Appendix B  | Definitive Proxy Statement on Schedule 14A for the 2005 Annual Meeting |
| 10.15+         | First Amendment to the Company's 2005 Stock Option Plan  | 10.12   | 12-31-07 10-Q  |
| 10.16+         | The Company's Executive Incentive Plan   | 10.6  | 1994 10-K  |
| 10.17+         | The Company's Retirement Savings Plan  | 4.1   | 333-14399  |

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|        |   |       |               |
|--------|---|-------|---------------|
| 10.18+ | Executive Deferral Plan   | 10.12 | 2001 10-K     |
| 10.19+ | Second Amendment to the Company's Executive Deferral Plan                     | 10.14 | 12-31-07 10-Q |
| 10.20+ | First Amended and Restated Board of Directors 2005 Deferred Compensation Plan | 10.16 | 12-31-07 10-Q |
| 10.21+ | First Amended and Restated 2005 Executive Deferral Plan                       | 10.17 | 12-31-07 10-Q |

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| Exhibit Number | Description   | Filed Herewith (*),<br>Previously filed (+), or<br>or Incorporated by<br>Reference Previous<br>Exhibit Number | Company<br>Registration<br>No. or Report |
|----------------|---|---|--|
| 10.22+         | Second Amended and Restated World Acceptance Corporation<br>2005 Supplemental Income Plan | 10.18   | 12-31-07 10-Q                            |
| 14             | Code of Ethics  | 14  | 2004 10-K                                |
| 21             | Schedule of the Company's Subsidiaries  | *   |  |
| 23             | Consent of KPMG LLP   | *   |  |
| 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                                     | *   |  |

+ Management Contract or other compensatory plan required to be filed under Item 14(c) of this report and Item 601 of Regulation 5-K of the Securities and Exchange Commission.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**WORLD ACCEPTANCE CORPORATION**

By: /s/ A. Alexander McLean III  
A. Alexander McLean, III  
Chairman and Chief Executive Officer  
Date: May 30, 2008

By: /s/ Kelly M. Malson  
Kelly M. Malson  
Vice President and Chief Financial Officer  
Date: May 30, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature

/s/ A. Alexander McLean III  
A. Alexander McLean, III, Chairman of the Board  
and  
Chief Executive Officer (Principal Executive  
Officer)

Date: May 30, 2008

/s/ Ken R. Bramlett Jr.  
Ken R. Bramlett Jr., Director

Date: May 30, 2008

/s/ Kelly M. Malson  
Kelly M. Malson, Vice President and Chief Financial  
Officer (Principal Financial and Accounting Officer)

Date: May 30, 2008

/s/ James R. Gilreath  
James R. Gilreath, Director

Date: May 30, 2008

/s/ William S. Hummers  
William S. Hummers, III, Director

Date: May 30, 2008

/s/ Charles D. Way  
Charles D. Way, Director

Date: May 30, 2008

/s/ Mark C. Roland  
Mark C. Roland, President and COO; Director

Date: May 30, 2008

/s/ Darrell Whitaker  
Darrell Whitaker, Director

Date: May 30, 2008