WORLD ACCEPTANCE CORP
Form 10-Q
February 01, 2010

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

Form 10-Q

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

For the quarterly period ended December 31, 2009.

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 | 57-0425114 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Check One):

| | |
|---|---|
| Large Accelerated Filer ¨ | Accelerated Filer x |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨ |

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

The number of outstanding shares of the issuer’s no par value common stock as of February 1, 2010 was 16,412,386

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WORLD ACCEPTANCE CORPORATION
AND SUBSIDIARIES

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WORLD ACCEPTANCE CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | December 31, 2009 | March 31, 2009 | December 31, 2008 |
|---|---|---|---|
| | | As adjusted (Note 2) | |
| ASSETS | | | |
| Cash and cash equivalents | $ 12,945,733 | 6,260,410 | 7,138,665 |
| Gross loans receivable | 838,864,378 | 671,175,985 | 736,234,490 |
| Less: | | | |
| Unearned interest and fees | (223,441,039) | (172,743,440) | (194,871,842) |
| Allowance for loan losses | (47,679,342) | (38,020,770) | (42,575,525) |
| Loans receivable, net | 567,743,997 | 460,411,775 | 498,787,123 |
| Property and equipment, net | 22,936,050 | 23,060,360 | 23,068,885 |
| Deferred income taxes | 13,027,279 | 12,250,834 | 13,680,570 |
| Income taxes receivable | - | - | 1,569,306 |
| Other assets, net | 10,350,317 | 9,541,757 | 9,162,051 |
| Goodwill | 5,580,946 | 5,580,946 | 5,583,864 |
| Intangible assets, net | 7,541,218 | 8,987,551 | 9,513,171 |
| Total assets | $ 640,125,540 | 526,093,633 | 568,503,635 |
| LIABILITIES & SHAREHOLDERS' EQUITY | | | |
| Liabilities: | | | |
| Senior notes payable | 185,560,000 | 113,310,000 | 185,350,000 |
| Convertible senior subordinated notes payable | 84,000,000 | 95,000,000 | 105,000,000 |
| Debt discount | (7,065,673) | (11,268,462) | (13,615,511) |
| Income taxes payable | 5,624,845 | 11,412,722 | - |
| Accounts payable and accrued expenses | 24,854,275 | 21,304,466 | 22,734,404 |
| Total liabilities | 292,973,447 | 229,758,726 | 299,468,893 |
| 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 16,376,553, 16,211,659 and 16,159,559 shares at December 31, 2009, March 31, 2009 and December 31, 2008, respectively | - | - | - |
| Additional paid-in capital | 22,072,097 | 17,046,310 | 15,383,414 |
| Retained earnings | 327,516,403 | 283,518,260 | 257,177,596 |
| Accumulated other comprehensive loss | (2,436,407) | (4,229,663) | (3,526,268) |
| Total shareholders' equity | 347,152,093 | 296,334,907 | 269,034,742 |
| Commitments and contingencies | | | |
| | $ 640,125,540 | 526,093,633 | 568,503,635 |

See accompanying notes to consolidated financial statements.

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

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|---|---|---|---|
| | 2009 | 2008 As adjusted (Note 2) | 2009 | 2008 As adjusted (Note 2) |
| Revenues: | | | | |
| Interest and fee income | $ 97,610,049 | 84,880,761 | 274,218,046 | 241,283,794 |
| Insurance and other income | 14,700,088 | 14,280,193 | 42,528,223 | 38,018,758 |
| Total revenues | 112,310,137 | 99,160,954 | 316,746,269 | 279,302,552 |
| | | | | |
| Expenses: | | | | |
| Provision for loan losses | 29,632,781 | 29,490,333 | 75,217,079 | 70,654,378 |
| General and administrative expenses: | | | | |
| Personnel | 34,028,477 | 31,699,778 | 104,231,703 | 96,215,404 |
| Occupancy and equipment | 7,657,755 | 6,491,005 | 21,474,593 | 19,022,649 |
| Data processing | 475,639 | 572,987 | 1,503,650 | 1,743,384 |
| Advertising | 5,070,758 | 5,087,427 | 9,891,852 | 10,329,015 |
| Amortization of intangible assets | 563,183 | 621,355 | 1,695,641 | 1,844,902 |
| Other | 7,741,575 | 7,242,789 | 21,827,628 | 19,729,143 |
| | 55,537,387 | 51,715,341 | 160,625,067 | 148,884,497 |
| | | | | |
| Interest expense | 3,756,054 | 3,928,135 | 10,483,235 | 11,428,618 |
| Total expenses | 88,926,222 | 85,133,809 | 246,325,381 | 230,967,493 |
| | | | | |
| Income before income taxes | 23,383,915 | 14,027,145 | 70,420,888 | 48,335,059 |
| | | | | |
| Income taxes | 8,632,677 | 5,163,799 | 26,422,745 | 18,183,133 |
| | | | | |
| Net income | $ 14,751,238 | 8,863,346 | 43,998,143 | 30,151,926 |
| | | | | |
| Net income per common share: | | | | |
| Basic | $ 0.91 | 0.55 | 2.71 | 1.85 |
| Diluted | $ 0.89 | 0.54 | 2.68 | 1.82 |
| | | | | |
| Weighted average common shares outstanding: | | | | |
| Basic | 16,298,477 | 16,203,282 | 16,253,140 | 16,289,319 |
| Diluted | 16,575,841 | 16,341,536 | 16,434,380 | 16,543,043 |

See accompanying notes to consolidated financial statements.

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

| | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity | Total Comprehensive Income |
|---|---|---|---|---|---|
| Balances at March 31, 2008 | $ 1,323,001 | 232,812,768 | 169,503 | 234,305,272 | |
| Cumulative effect of change in accounting principle (Note 2) | 14,961,722 | (4,466,014) | - | 10,495,708 | |
| Proceeds from exercise of stock options (142,683 shares), including tax benefits of $1,320,974 | 2,975,335 | - | - | 2,975,335 | |
| Common stock repurchases (288,700 shares) | (6,527,680) | (1,321,084) | - | (7,848,764) | |
| Issuance of restricted common stock under stock option plan (78,592 shares) | 1,418,031 | - | - | 1,418,031 | |
| Stock option expense | 3,232,229 | - | - | 3,232,229 | |
| Repurchase and cancellation of convertible notes | (336,328) | - | - | (336,328) | |
| Other comprehensive loss | - | - | (4,399,166) | (4,399,166) | (4,399,166) |
| Net income | - | 56,492,590 | - | 56,492,590 | 56,492,590 |
| Total comprehensive income | - | - | - | - | 52,093,424 |
| Balances at March 31, 2009 (As Adjusted – Note 2) | 17,046,310 | 283,518,260 | (4,229,663) | 296,334,907 | |
| | | | | | |
| Proceeds from exercise of stock options (96,850 shares), including tax benefits of $495,835 | 1,903,469 | - | - | 1,903,469 | |
| Issuance of restricted common stock under stock option plan (68,044 shares) | 1,250,993 | - | - | 1,250,993 | |
| Stock option expense | 2,427,228 | - | - | 2,427,228 | |
| Repurchase and cancellation of convertible notes | (555,903) | - | - | (555,903) | |
| Other comprehensive income | - | - | 1,793,256 | 1,793,256 | 1,793,256 |
| Net income | - | 43,998,143 | - | 43,998,143 | 43,998,143 |
| Total comprehensive income. | - | - | - | - | 45,791,399 |
| Balances at December 31, 2009 | $ 22,072,097 | 327,516,403 | (2,436,407) | 347,152,093 | |

See accompanying notes to consolidated financial statements.

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

| | Nine months ended December 31, | |
|---|---|---|
| | 2009 | 2008 As adjusted (Note 2) |
| Cash flows from operating activities: | | |
| Net income | $ 43,998,143 | 30,151,926 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of intangible assets | 1,695,641 | 1,844,902 |
| Amortization of loan costs and discounts | 318,027 | 569,502 |
| Provision for loan losses | 75,217,079 | 70,654,378 |
| Gain on the extinguishment of debt | (2,478,331) | (1,588,720) |
| Amortization of convertible note discount | 2,957,197 | 3,539,484 |
| Depreciation | 4,176,174 | 3,378,260 |
| Deferred income tax (expense) benefit | (776,445) | 1,818,505 |
| Compensation related to stock option and restricted stock plans | 3,678,221 | 3,718,932 |
| Unrealized (gains) losses on interest rate swap | (891,068) | 869,123 |
| Change in accounts: | | |
| Other assets, net | (1,147,626) | (2,543,331) |
| Income taxes payable | (5,744,672) | (17,976,045) |
| Accounts payable and accrued expenses | 4,303,526 | 3,122,082 |
| Net cash provided by operating activities | 125,305,866 | 97,558,998 |
| Cash flows from investing activities: | | |
| Increase in loans receivable, net | (180,449,244) | (150,922,924) |
| Assets acquired from office acquisitions, primarily loans | (765,550) | (8,601,606) |
| Increase in intangible assets from acquisitions | (249,308) | (1,591,935) |
| Purchases of property and equipment, net | (3,774,819) | (8,110,470) |
| Net cash used in investing activities | (185,238,921) | (169,226,935) |
| Cash flows from financing activities: | | |
| Proceeds of senior revolving notes payable, net | 72,250,000 | 80,850,000 |
| Repayment of convertible senior subordinated notes payable | (7,657,500) | (2,916,000) |
| Repurchases of common stock | - | (7,848,764) |
| Repayment of other notes payable | - | (400,000) |
| Proceeds from exercise of stock options | 1,407,634 | 1,374,545 |
| Excess tax benefit from exercise of stock options | 495,835 | 704,244 |
| Net cash provided by financing activities | 66,495,969 | 71,764,025 |

| | | |
|---|---|---|
| Increase (decrease) in cash and cash equivalents | 6,562,914 | 96,088 |
| Cash and cash equivalents at beginning of period | 6,260,410 | 7,589,575 |
| Effect of foreign currency fluctuation on cash | 122,409 | (546,998) |
| Cash and cash equivalents at end of period | $ 12,945,733 | 7,138,665 |

See accompanying notes to consolidated financial statements.

WORLD ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008
(Unaudited)

NOTE 1 – BASIS OF PRESENTATION

The Consolidated Financial Statements of the Company at December 31, 2009, and for the three and nine months then ended were prepared in accordance with the instructions for Form 10-Q and are unaudited; however, in the opinion of management, all adjustments (consisting only of items of a normal recurring nature) necessary for a fair presentation of the financial position at December 31, 2009, and the results of operations and cash flows for the periods ended December 31, 2009 and 2008, have been included. The results for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period.

Certain reclassification entries have been made for fiscal 2009 to conform with fiscal 2010 presentation. These reclassifications had no impact on shareholders' equity and comprehensive income or net income.

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

These Consolidated Financial Statements do not include all disclosures required by U.S. generally accepted accounting principles and should be read in conjunction with the Company's audited Consolidated Financial Statements and related notes for the fiscal year ended March 31, 2009, included in the Company's 2009 Annual Report to Shareholders.

NOTE 2 – SUMMARY OF SIGNIFICANT POLICIES

Change in Accounting Principle

In May 2008, the Financial Accounting Standards Board ("FASB") issued FASB ASC 470-20 (Prior authoritative literature: FASB Staff Position No. APB 14-1 "Accounting for Convertible Debt Instruments that May be Settled in Cash upon Conversion (Including Partial Cash Settlement)"). FASB ASC 470-20 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. FASB ASC 470-20 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. The Company adopted FASB ASC 470-20 effective April 1, 2009. The impact on our Consolidated Financial Statements is as follows:

| | Three Months Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | As Previously Reported | Impact of FASB ASC 470-20 | Upon Adoption of FASB ASC 470-20 | As Previously Reported | Impact of FASB ASC 470-20 | Upon Adoption FASB ASC 470-20 |

| | (in thousands, except per share data) | | | | | |
|---|---|---|---|---|---|---|
| Consolidated Statements of Operations | | | | | | |
| Insurance and other income | $ 14,775 | (495) | 14,280 | 12,835 | - | 12,835 |
| Interest expense | 2,787 | 1,141 | 3,928 | 3,338 | 1,099 | 4,437 |
| Income before income taxes | 15,663 | (1,636) | 14,027 | 14,011 | (1,099) | 12,912 |
| Income taxes | 5,659 | (495) | 5,164 | 6,723 | (409) | 6,314 |
| Net income | 10,004 | (1,141) | 8,863 | 7,288 | (690) | 6,598 |
| | | | | | | |
| Earnings per common share | | | | | | |
| Basic | $ 0.62 | (0.07) | 0.55 | 0.43 | (0.04) | 0.39 |
| Diluted | 0.61 | (0.07) | 0.54 | 0.43 | (0.05) | 0.38 |

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| | Nine Months Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | As Previously Reported | Impact of FASB ASC 470-20 | Upon Adoption of FASB ASC 470-20 | As Previously Reported | Impact of FASB ASC 470-20 | Upon Adoption FASB ASC 470-20 |
| | (in thousands, except per share data) | | | | | |
| Consolidated Statements of Operations | | | | | | |
| Insurance and other income | $ 38,514 | (495) | 38,019 | 34,327 | - | 34,327 |
| Interest expense | 8,016 | 3,413 | 11,429 | 8,606 | 3,255 | 11,861 |
| Income before income taxes | 52,243 | (3,909) | 48,334 | 48,577 | (3,255) | 45,322 |
| Income taxes | 19,523 | (1,340) | 18,183 | 19,972 | (1,212) | 18,760 |
| Net income | 32,719 | (2,567) | 30,152 | 28,604 | (2,043) | 26,561 |
| | | | | | | |
| Earnings per common share | | | | | | |
| Basic | $ 2.01 | (0.16) | 1.85 | 1.66 | (0.12) | 1.54 |
| Diluted | 1.98 | (0.16) | 1.82 | 1.63 | (0.11) | 1.52 |

| | As of March 31, 2009 | | | As of December 31, 2008 | | |
|---|---|---|---|---|---|---|
| | As Previously Reported | Impact of FASB ASC 470-20 | Upon Adoption of FASB ASC 470-20 | As Previously Reported | Impact of FASB ASC 470-20 | Upon Adoption FASB ASC 470-20 |
| | (in thousands) | | | | | |
| Consolidated Balance Sheets | | | | | | |
| Deferred income taxes | $ 16,983 | (4,732) | 12,251 | 18,927 | (5,246) | 13,681 |
| Income tax receivable | - | - | - | 1,714 | (145) | 1,569 |
| Other assets, net | 9,970 | (428) | 9,542 | 9,629 | (467) | 9,162 |
| Total assets | 531,254 | (5,160) | 526,094 | 574,362 | (5,858) | 568,504 |
| | | | | | | |
| Convertible senior subordinated notes payable, net of discount | 95,000 | (11,269) | 83,731 | 105,000 | (13,616) | 91,384 |
| Income taxes payable | 11,253 | 160 | 11,413 | - | - | - |
| Total liabilities | 240,868 | (11,109) | 229,759 | 313,084 | (13,615) | 299,469 |
| | | | | | | |
| Additional paid-in capital | 2,421 | 14,625 | 17,046 | 593 | 14,790 | 15,383 |
| Retained earnings | 292,195 | (8,677) | 283,518 | 264,211 | (7,033) | 257,178 |
| Total shareholders’ equity | 290,386 | 5,949 | 296,335 | 261,278 | 7,757 | 269,035 |
| | | | | | | |
| Total liabilities and shareholders’ equity | 531,254 | (5,160) | 526,094 | 574,362 | (5,858) | 568,504 |

Recent Accounting Pronouncements:

FASB Accounting Standards Codification

In June 2009, the FASB issued ASC 105 (“SFAS 168”), “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.” ASC 105 replaces SFAS 162 and establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this pronouncement did have an impact to the Company’s financial statement disclosures, as all references to authoritative accounting literature have been referenced in accordance with the Codification.

Business Combinations

In December 2007, the FASB issued FASB ASC 805-10 (Prior authoritative literature: FASB Statement 141 (R), “Business Combinations,” which replaces FASB Statement No. 141). FASB ASC 805-10 is effective for the Company April 1, 2009 and establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. FASB ASC 805-10 will change how business combinations are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. The adoption of FASB ASC 805-10 did not have an impact on the Company’s financial position and results of operations, although it may have a material impact on accounting for business combinations in the future which cannot currently be determined.

In April 2009, the FASB issued FASB ASC 805-10-05 (Prior authoritative literature: FSP 141(R)-1 “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arises from Contingencies”). For business combinations, the standard requires the acquirer to recognize at fair value an asset acquired or liability assumed from a contingency if the acquisition date fair value can be determined during the measurement period. FASB ASC 805-10-05 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, with early adoption prohibited. The Company adopted these provisions as of April 1, 2009. FASB ASC 805-10-05 will be applied prospectively for acquisitions in fiscal 2010 or thereafter.

Subsequent Events

In May 2009, the FASB issued ASC Topic 855 (Prior authoritative literature: “SFAS No. 165”), “Subsequent Events,” which establishes general standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are available to be issued (“subsequent events”). More specifically, ASC 855 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition in the financial statements, identifies the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that should be made about events or transactions that occur after the balance sheet date. ASC 855 provides largely the same guidance on subsequent events that previously existed only in auditing literature. The disclosure is required in financial statements for interim and annual periods ending after June 15, 2009. The Company has performed an evaluation of subsequent events through February 1, 2010, which is the date these Consolidated Financial Statements are filed and no events required disclosure.

Useful Life of Intangible Assets

In April 2008, the FASB issued FASB ASC 350-30-55-1c (Prior authoritative literature: FASB Staff Position No. FAS 142-3), “Determination of the Useful Life of Intangible Assets.” FASB ASC 350-30-55-1c applies to all recognized intangible assets and its guidance is restricted to estimating the useful life of recognized intangible assets. FASB ASC 350-30-55-1c 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. The Company adopted FASB ASC 350-30-55-1c effective April 1, 2009 with no significant impact to the Consolidated Financial Statements.

Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that Are Not Orderly

FASB ASC 820-10-65-4 (Prior authoritative literature: FASB Staff Position No. FAS 157-4), “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that Are Not Orderly,” provides additional guidance for estimating fair value in accordance with ASC 820

when the volume and level of activity for the asset or liability have significantly decreased. FASB ASC 820-10-65-4 also provides guidance for determining when a transaction is an orderly one. The Company adopted FASB ASC 820-10-65-4 during the quarter ended June 30, 2009 and the adoption did not have a significant impact on the Company's Consolidated Financial Statements.

Recognition and Presentation of Other-Than-Temporary Impairments

FASB ASC 320-10-65 (Prior authoritative literature: FASB Staff Position FAS 115-2 and FAS 124-2), "Recognition and Presentation of Other-Than-Temporary Impairments," amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FASB ASC 320-10-65 was effective June 30, 2009, and did not have a significant impact on the Company's Consolidated Financial Statements.



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Instruments Indexed to an Entity's Own Stock

In June 2008, the FASB ratified FASB ASC 815-40 (Prior authoritative literature: EITF Issue 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock" ). FASB ASC 815-40 provides a new two-step model to be applied to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative in FASB ASC 815-10-15 (Prior authoritative literature: FASB No. 133, "Accounting for Derivative Instruments and Hedging Activities,") in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for scope exception. It also adds clarity on the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. FASB ASC 815-40 also applies to any freestanding financial instrument that is potentially settled in an entity's own stock, regardless of whether the instrument has all the characteristics of a derivative in FASB ASC 815-10-15. The Company adopted FASB ASC 815-40 during the quarter ended June 30, 2009 and the adoption did not have a material impact on the Company's Consolidated Financial Statements.

Interim Disclosures about Fair Value of Financial Instruments

In April 2009, the FASB issued FASB ASC 825-10-65 (Prior authoritative literature: FASB Staff Position No. FAS 107-1, "Disclosures about Fair Value of Financial Instruments" and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments"), which requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This Standard is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted FASB ASC 825-10-65 during the first quarter ended June 30, 2009. See Note 3.

NOTE 3 – FAIR VALUE

Effective April 1, 2008, the first day of fiscal 2009, the Company adopted the provisions of FASB ASC 820 (Prior authoritative literature: SFAS No. 157, "Fair Value Measurements") for financial assets and liabilities, as well as any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. FASB ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FASB ASC 820 applies under other accounting pronouncements in which the FASB has previously concluded that fair value is the relevant measurement attribute. Accordingly, FASB ASC 820 does not require any new fair value measurements. Effective April 1, 2009, the Company adopted the provisions of FASB ASC 820 for nonfinancial assets and liabilities which were previously deferred under the provisions of FASB ASC 820-10-65 (Prior authoritative literature: FSP FAS 157-2).

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

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

The following financial liabilities were measured at fair value on a recurring basis at December 31, 2009:

| | Fair Value Measurements Using | | |
|---|---|---|---|
| | Quoted Prices In Active Markets for | Significant Other | Significant |

| | December 31, | Identical Assets (Level 1) | Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Interest rate swaps | | | | |
| 2009 | $ 1,552,598 | $ - | $ 1,552,598 | $ - |
| 2008 | $ 2,539,741 | $ - | $ 2,539,741 | $ - |

The Company's interest rate swap was valued using the "income approach" valuation technique. This method used valuation techniques to convert future amounts to a single present amount. The measurement was based on the value indicated by current market expectations about those future amounts.

There were no assets or liabilities measured at fair value on a non recurring basis during the first nine months of fiscal 2010.

Fair Value of Long-Term Debt

The book value and estimated fair value of our long-term debt was as follows (in thousands):

| | December 31, 2009 | March 31, 2009 | December 31, 2008 |
|---|---|---|---|
| Book value: | | | |
| Senior Notes Payable | $ 185,560 | 113,310 | 185,350 |
| Convertible Notes, net of discount | 76,934 | 83,732 | 91,384 |
| | $ 262,494 | 197,042 | 276,734 |
| | | | |
| Estimated fair value: | | | |
| Senior Notes Payable | $ 185,560 | 113,310 | 185,350 |
| Convertible Notes | 78,598 | 61,702 | 60,575 |
| | $ 264,158 | 175,012 | 245,925 |

The difference between the estimated fair value of long-term debt compared with its historical cost reported in our Condensed Consolidated Balance Sheets at December 31, 2009 and March 31, 2009 relates primarily to market quotations for the Company's 3.0% Convertible Senior Subordinated Notes due October 1, 2011.

NOTE 4 – COMPREHENSIVE INCOME (LOSS)

The Company applies the provisions of FASB ASC 220-10 (Prior authoritative literature: SFAS No. 130 "Reporting Comprehensive Income"). The following summarizes accumulated other comprehensive income (loss) as of:

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Balance at beginning of period | $ (3,249,866) | (400,811) | (4,229,663) | 169,503 |
| Unrealized income (loss) from foreign Exchange translation adjustment | 813,459 | (3,125,457) | 1,793,256 | (3,695,771) |
| Balance at end of period | $ (2,436,407) | (3,526,268) | (2,436,407) | (3,526,268) |

NOTE 5 – ALLOWANCE FOR LOAN LOSSES

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

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Balance at beginning of period | $ 43,682,344 | 38,120,647 | 38,020,770 | 33,526,147 |
| Provision for loan losses | 29,632,781 | 29,490,333 | 75,217,079 | 70,654,378 |
| Loan losses | (27,768,448) | (26,558,525) | (71,711,810) | (66,846,813) |
| Recoveries | 2,067,228 | 1,694,403 | 6,025,614 | 5,069,652 |
| Translation adjustment | 65,437 | (210,502) | 127,689 | (255,217) |
| Allowance on acquired loans | - | 39,169 | - | 427,378 |
| Balance at end of period | $ 47,679,342 | 42,575,525 | 47,679,342 | 42,575,525 |

The Company adopted FASB ASC 310 (Prior authoritative literature: Statement of Position No. 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 ASC. The Company believes that a loan has shown deterioration if it is over 60 days delinquent. The Company believes that loans acquired since the adoption of FASB ASC 310 have not shown evidence of deterioration of credit quality since origination, and therefore, are not within the scope of FASB ASC 310 because the Company did not allocate 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 FASB ASC 310 and therefore, subsequent refinances or restructures of these loans would not be accounted for as a new loan.

For the three months ended and nine months ended December 31, 2008, the Company recorded adjustments of approximately $39,000 and $427,000, respectively, to the allowance for loan losses in connection with acquisitions in accordance with generally accepted accounting principles. No adjustments were recorded for the three months ended or the nine months ended December 31, 2009. These adjustments represent the allowance for loan losses on acquired loans which do not meet the scope of FASB ASC 310.

NOTE 6 – AVERAGE SHARE INFORMATION

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

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Basic: | | | | |
| Weighted average common shares outstanding (denominator) | 16,298,477 | 16,203,282 | 16,253,140 | 16,289,319 |
| Diluted: | | | | |
| Weighted average common shares outstanding | 16,298,477 | 16,203,282 | 16,253,140 | 16,289,319 |
| Dilutive potential common shares | 277,364 | 138,254 | 181,240 | 253,724 |
| | 16,575,841 | 16,341,536 | 16,434,380 | 16,543,043 |

| Weighted average diluted shares outstanding (denominator) | |
|---|---|

Options to purchase 159,370 and 309,055 shares of common stock at various prices were outstanding during the three months ended December 31, 2009 and 2008, respectively, but were not included in the computation of diluted EPS because the options are anti-dilutive. Options to purchase 134,172 and 86,584 shares of common stock at various prices were outstanding during the nine months ended December 31, 2009 and 2008, respectively, but were not included in the computation of diluted EPS because the options were anti-dilutive. The shares related to the convertible senior notes payable (1,762,519) and related warrants were also not included in the computation of diluted EPS because the effect of such instruments was anti-dilutive.

NOTE 7 – STOCK-BASED COMPENSATION

Stock Option Plans

The Company has a 1994 Stock Option Plan, a 2002 Stock Option Plan, a 2005 Stock Option Plan and a 2008 Stock Option Plan for the benefit of certain directors, officers, and key employees. Under these plans, 4,850,000 shares of authorized common stock have been reserved for issuance pursuant to grants approved by the Compensation and Stock Option Committee of the Board of Directors. Stock options granted under these plans have a maximum duration of 10 years, may be subject to certain vesting requirements, which are generally one year for directors and between two and five years for officers and key employees, and are priced at the market value of the Company's common stock on the date of grant of the option. At December 31, 2009, there were 505,095 shares available for grant under the plans.

Stock based compensation is recognized as provided under FASB ASC 718-10 and FASB ASC 505-50 (Prior authoritative literature: FASB Statement 123(R), “Share Based Payment”). FASB ASC 718-10 requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense over the requisite service period (generally the vesting period) in the financial statements based on their fair values. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized. The Company elected to use the modified prospective transition method, and did not retroactively adjust results from prior periods. Under this transition method, stock option compensation is recognized as an expense over the remaining unvested portion of all stock option awards granted prior to April 1, 2006, based on the fair values estimated at grant date in accordance with the provisions of FASB ASC 718-10. The Company has applied the Black-Scholes valuation model in determining the fair value of the stock option awards. Compensation expense is recognized only for those options expected to vest, with forfeitures estimated based on historical experience and future expectations.

The weighted-average fair values at the grant date for options issued during the nine months ended December 31, 2009 and 2008 were $15.32 and $8.51, respectively. This fair value was estimated at grant date using the weighted-average assumptions listed below.

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Dividend yield | 0% | 0% | 0% | 0% |
| Expected volatility | 56.69% | 50.67% | 56.69% | 50.67% |
| Average risk-free interest rate | 2.69% | 2.75% | 2.69% | 2.75% |
| Expected life | 6.6 years | 5.9 years | 6.6 years | 5.9 years |
| Vesting period | 5 years | 5 years | 5 years | 5 years |

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

Option activity for the nine months ended December 31, 2009 was as follows:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregated Intrinsic Value |
|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| Options outstanding, beginning of year | 1,390,900 | $ | 25.00 | | | |
| Granted | 295,750 | | 26.73 | | | |
| Exercised | (96,850) | | 16.68 | | | |
| Forfeited | (1,150) | | 46.29 | | | |
| Options outstanding, end of period | 1,588,650 | $ | 25.81 | 7.16 | $ | 18,570,500 |
| Options exercisable, end of period | 712,700 | $ | 25.23 | 5.47 | $ | 9,141,483 |

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The aggregate intrinsic value reflected in the table above represents the total pre-tax intrinsic value (the difference between the closing stock price on December 31, 2009 and the exercise price, multiplied by the number of in-the-money options) that would have been received by option holders had all option holders exercised their options. The total intrinsic value of options exercised during the periods ended December 31, 2009 and 2008 were as follows:

| | | 2009 | 2008 |
|---|---|---|---|
| Three months ended | $ | 1,069,769 | 21,311 |
| Nine months ended | $ | 1,358,666 | 2,307,894 |

As of December 31, 2009, total unrecognized stock-based compensation expense related to non-vested stock options amounted to approximately $8.4 million, which is expected to be recognized over a weighted-average period of approximately 3.85 years.

Restricted Stock

On November 9, 2009, the Company granted 41,346 shares of restricted stock (which are equity classified), with a grant date fair value of $26.73 per share, to certain executive officers and other officers of the Company. One-third of the restricted stock vested immediately and one-third will vest on the first and second anniversary of the grant. On that same date, the Company granted an additional 23,159 shares of restricted stock (which are equity classified), with a grant date fair value of $26.73 per share, to the same executive officers. The 23,159 shares will vest on April 30, 2012 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 April 30, 2009 and May 11, 2009 the Company granted 15,000 shares and 3,000 shares of restricted stock (which are equity classified), respectively, with a grant date fair value of $29.68 and $20.41, respectively, per share to independent directors and a certain officer. All of these grants vested immediately.

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

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

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

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

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

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

Compensation expense related to restricted stock is based on the number of shares expected to vest and the fair market value of the common stock on the grant date. The Company recognized $651,000 and $593,000, respectively, of compensation expense for the quarters ended December 31, 2009 and 2008 and recognized $1.6 million and $1.4 million, respectively, for the nine months ended December 31, 2009 and 2008 related to restricted stock. Compensation expense related to restricted stock is included as a component of general and administrative expenses in the Company's Consolidated Statements of Operations. All shares are expected to vest.

As of December 31, 2009, there was approximately $1.8 million of unrecognized compensation cost related to unvested restricted stock awards granted, which is expected to be recognized over the next 2 years.

A summary of the status of the Company's restricted stock as of December 31, 2009, and changes during the nine months ended December 31, 2009, is presented below:

| | Number of Shares | Weighted Average Fair Value at Grant Date |
|---|---|---|
| Outstanding at March 31, 2009 | 80,246 | $ 22.94 |
| Granted during the period | 82,505 | 27.04 |
| Vested during the period | (64,063) | 25.87 |
| Cancelled during the period | (14,461) | 26.41 |
| Outstanding at December 31, 2009 | 84,227 | $ 23.52 |

Total share-based compensation included as a component of net income during the three months ended and nine months ended December 31, 2009 and 2008 was as follows:

| | Three months ended 2009 | Three months ended 2008 | Nine months ended 2009 | Nine months ended 2008 |
|---|---|---|---|---|
| Share-based compensation related to equity classified units: | | | | |
| Share-based compensation related to stock options | $ 940,728 | 711,647 | $ 2,427,228 | 2,603,852 |
| Share-based compensation related to restricted stock units | 650,994 | 592,900 | 1,632,881 | 1,382,818 |
| Total share-based compensation related to equity classified awards | $ 1,591,722 | 1,304,547 | $ 4,060,109 | 3,986,670 |

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NOTE 8 – ACQUISITIONS

The following table sets forth the acquisition activity of the Company for the nine months ended December 31, 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| Number of offices purchased | 4 | 21 |
| Merged into existing offices | 4 | 10 |
| | | |
| Purchase Price | $ 1,014,858 | $ 10,193,541 |
| Tangible assets: | | |
| Net loans | 765,550 | 8,550,656 |
| Furniture, fixtures & equipment | - | 48,500 |
| Other | - | 2,450 |
| | 765,550 | 8,601,606 |
| | | |
| Excess of purchase prices over carrying value of net tangible assets | $ 249,308 | $ 1,591,935 |
| | | |
| Customer lists | 232,308 | 1,280,746 |
| Non-compete agreements | 17,000 | 80,000 |
| Goodwill | - | 231,189 |
| | | |
| Total intangible assets | $ 249,308 | $ 1,591,935 |

The Company evaluates each acquisition to determine if the acquired enterprise meets the definition of a business. Those acquired enterprises that meet the definition of a business are accounted for as a business combination under FASB ASC 805-10 (Prior authoritative literature: SFAS No. 141(R)) and all other acquisitions are accounted for as asset purchases. All acquisitions have been from independent third parties.

When the acquisition results in a new office, the Company records the transaction as a business combination, since the office acquired will continue to generate loans. The Company typically retains the existing employees and the office location. The purchase price is allocated to the estimated fair value of the tangible assets acquired and to the estimated fair value of the identified intangible assets acquired (generally non-compete agreements and customer lists). The remainder is allocated to goodwill. During the nine months ended December 31, 2009, no acquisitions were recorded as business combinations.

When the acquisition is of a portfolio of loans only, the Company records the transaction as an asset purchase. In an asset purchase, no goodwill is recorded. The purchase price is allocated to the estimated fair value of the tangible and intangible assets acquired. During the nine months ended December 31, 2009, four 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 generally small privately owned offices which do not have sufficient historical data to determine attrition. The Company believes that the customers acquired have the same characteristics and perform similarly to its customers. Therefore, the Company utilized the attrition patterns of its customers when developing the method. This method is re-evaluated periodically.

Customer lists are allocated at an office level and are evaluated for impairment at an office level when a triggering event occurs, in accordance with FASB ASC 360-10-05 (Prior authoritative literature: SFAS 144). If a triggering event occurs, the impairment loss to the customer list is generally the remaining unamortized customer list balance. In most acquisitions, the original fair value of the customer list allocated to an office is less than $100,000 and management believes that in the event a triggering event were to occur, the impairment loss to an unamortized customer list would be immaterial.

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

NOTE 9 – SENIOR NOTES PAYABLE

Effective July 31, 2009, the Company amended its revolving credit facility. The following amendments were made:

- Increased the base revolving facility to $213.3 million from $187.0 million.
- Added an accordion feature, allowed the existing bank group or additional banks to increase the commitment up to an additional $25.0 million.
- Eliminated the $30.0 million seasonal revolver.
- Extended the term from September 30, 2010 to July 31, 2011.
- Increased the permitted investment in Mexico from $35.0 million to $45.0 million.
- Adjusted the definition of the "Base Rate" borrowing option to reflect current market convention. The new definition would be the greatest of (i) Agent's prime commercial rate as in effect on such day, (ii) the sum of the Fed Funds rate for such day plus 1/2 of 1%, and (iii) the LIBOR Quoted Rate for such day plus 1.00% calculated on an actual day/[365/366-day basis] and payable monthly in arrears. LIBOR Quoted Rate shall be, for any day, the rate per annum equal to the quotient of (i) the rate per annum (rounded upwards, if necessary, to the next higher one hundred-thousandth of a percentage point) for deposits in U.S. Dollars for a one-month period which appears on the LIBOR01 Page as of 11:00 a.m. (London, England time) on such day (or, if such day is not a Business Day, on the immediately preceding Business Day) divided by (ii) one (1) minus the Eurodollar Reserve Percentage. The spread over the Base Rate option would be 1.00% with a minimum yield of 4%.
- Increased the interest rate from LIBOR rate plus 1.80% per annum to LIBOR rate plus 3.0% per annum, with a minimum of 4.0%.

On November 13, 2009, the accordion feature was utilized as two additional banks were added to the existing bank group, increasing the commitment by $25.0 million, or to $238.3 million.

NOTE 10 – 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. The Convertible Notes were registered in December 2006. 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 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 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 1993, 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 FASB ASC 815-40 (Prior authoritative literature: 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.

On April 1, 2009, the Company adopted FASB ASC 470-20 (Prior authoritative literature: FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)). FASB ASC 470-20 requires the convertible debt to be separated between its liability and equity components, in a manner that reflects the Company non-convertible debt borrowing rate, determined to be 8.7% at the time of the issuance of the Convertible Notes, and must be applied retroactively to all periods presented. See Note 2 for disclosure about the financial statement impact of the Company's adoption of FASB ASC 470-20.



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The carrying amounts of the debt and equity components are as follows (in thousands):

| | | December 31, 2009 | March 31, 2009 | December 31, 2008 |
|---|---|---|---|---|
| Face value of convertible debt | $ | 84,000 | 95,000 | 105,000 |
| Unamortized discount | | (7,066) | (11,268) | (13,616) |
| Net carrying amount of debt component | $ | 76,934 | 83,732 | 91,384 |
| | | | | |
| Carrying amount of equity component | $ | 22,804 | 23,359 | 23,524 |

For the nine months ended December 31, 2009 and 2008, the effective interest rate on the liability component was 8.4%. Interest expense relating to both the contractual interest coupon and amortization of the discount on the liability component was $1.9 million and $3.0 million, respectively for the nine months ended December 31, 2009. Interest expense relating to both the contractual interest coupon and amortization of the discount on the liability component was $2.5 million and $3.5 million, respectively, for the nine month ended December 31, 2008. The remaining discount on the liability component will be amortized over 21 months.

NOTE 11 – EXTINGUISHMENT OF DEBT

In December 2009, the Company repurchased, in a privately negotiated transaction, $1.0 million of its Convertible Notes at a discount to face value of approximately 9.25%. The Company paid approximately $908,000 and recorded a gain in other income of approximately $117,000, which was partially offset by the write-off of $9,000 of deferred financing costs pre-tax associated with the repurchase and cancellation of the Convertible Notes. As of December 31, 2009, $84.0 million principal amount of the Convertible Notes was outstanding.

In May 2009, the Company repurchased, in a privately negotiated transaction, $10 million of its Convertible Notes at an average discount to face value of approximately 32.5%. The Company paid approximately $6.8 million and recorded a gain in other income of approximately $2.4 million, which was partially offset by the write-off of $165,000 of deferred financing costs pre-tax associated with the repurchase and cancellation of the Convertible Notes.

In December 2008, the Company repurchased, in privately negotiated transactions, an aggregate principal amount of $5 million (or approximately 4.55% of the total) of its convertible senior subordinated notes due October 11, 2011 the Convertible Notes at an average discount to face value of approximately 42%. The Company paid approximately $2.9 million on the repurchase. The transactions were treated as an extinguishment of debt for accounting purposes. The Company recorded a gain of approximately $1.6 million on the repurchase of the Convertible Notes, which was partially offset by the write-off of $100,000 of deferred financing costs associated with the repurchase and cancellation of Convertible Notes.

NOTE 12 – DERIVATIVE FINANCIAL INSTRUMENTS

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

On October 5, 2005, the Company entered into an interest rate swap with a notional amount of $30 million to economically hedge a portion of the cash flows from its floating rate revolving credit facility. Under the terms of the interest rate swap, the Company pays a fixed rate of 4.755% on the $30 million notional amount and receives

payments from a counterparty based on the 1 month LIBOR rate for a term ending October 5, 2010. Interest rate differentials paid or received under the swap agreement are recognized as adjustments to interest expense.

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

The fair value of the Company's interest rate derivative instruments is included in the Consolidated Balance Sheets as follows (assets (liabilities)):

| | | Interest Rate Swaps |
|---|---|---|
| December 31, 2009: | | |
| Accounts payable and accrued expenses | $ | (1,552,598) |
| Fair value of derivative instrument | $ | (1,552,598) |
| | | |
| March 31, 2009: | | |
| Accounts payable and accrued expenses | $ | (2,443,666) |
| Fair value of derivative instrument | $ | (2,443,666) |
| | | |
| December 31, 2008: | | |
| Accounts payable and accrued expenses | $ | (2,539,741) |
| Fair value of derivative instrument | $ | (2,539,741) |

Both of the interest rate swaps are currently in liability positions, therefore there is no significant risk of loss related to counterparty credit risk.

The gains (losses) recognized in the Company's Consolidated Statements of Operations as a result of the interest rate swaps and foreign currency exchange option are as follows:

| | | Three months ended December 31, | | Nine months ended December 31, | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| Realized gains (losses) | | | | | |
| Interest rate swaps - included as a component of interest expense | $ | (456,316) | (151,000) | (1,336,692) | (482,314) |
| | | | | | |
| Foreign currency exchange option – included as a component of other income | $ | - | 1,548,500 | - | 1,548,500 |
| | | | | | |
| Unrealized gain (losses) included as a component of other income | | | | | |
| Interest rate swaps | $ | 322,480 | (1,619,048) | 891,068 | (869,123) |

The Company does not enter into derivative financial instruments for trading or speculative purposes. The purpose of these instruments is to reduce the exposure to variability in future cash flows attributable to a portion of its LIBOR-based borrowings and to reduce variability in foreign cash flows. The fair value of the interest rate swap and currency option is recorded on the Consolidated Balance Sheets as an other asset or other liability. The Company is currently not accounting for these derivative instruments using the cash flow hedge accounting provisions of FASB ASC 815 (Prior authoritative literature: SFAS 133); therefore, the changes in fair value of the swap and option are included in earnings as other income or expenses.

By using derivative instruments, the Company is exposed to credit and market risk. Credit risk, which is the risk that a counterparty to a derivative instrument will fail to perform, exists to the extent of the fair value gain in a derivative. Market risk is the adverse effect on the financial instruments from a change in interest rates or implied

volatility of exchange rates. The Company manages the market risk associated with interest rate contracts and currency options by establishing and monitoring limits as to the types and degree of risk that may be undertaken. The market risk associated with derivatives used for interest rate and foreign currency risk management activities is fully incorporated in the Company's market risk sensitivity analysis.

NOTE 13 – ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

The Company is required to assess whether the earnings of the Company's two Mexican foreign subsidiaries, Servicios World Acceptance Corporation de Mexico, S. de R.L. de C.V. and WAC de Mexico, S.A. de CV. SOFOM, will be permanently reinvested in the respective foreign jurisdiction or if previously untaxed foreign earnings of the Company will no longer be permanently reinvested and thus become taxable in the United States. As of December 31, 2009, the Company has determined that approximately $173,000 of cumulative undistributed net earnings of Servicios World Acceptance Corporation de México, S. de R.L. de C.V. and approximately $140,000 of cumulative undistributed net losses of WAC de Mexico, S.A. de CV. SOFOM as well as the future net earnings and losses of both foreign subsidiaries, will be permanently reinvested.

The Company accounts for income taxes using the asset and liability method described in FASB ASC 740-10 (Prior authoritative literature: FASB Statement 109, "Accounting for Income Taxes"), the objective of which is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting and the tax bases of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. A valuation allowance related to deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company adopted FASB ASC 740-10 (Prior authoritative literature: FASB interpretation No. 48 "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement 109) on April 1, 2007. As a result of the implementation of FASB ASC 740-10, the Company recognized a charge of approximately $550,000 to the April 1, 2007 balance of retained earnings. As of December 31, 2009 and March 31, 2009, the Company had $5.2 million and $4.7 million of total gross unrecognized tax benefits including interest, respectively. Of this total, approximately $3.1 million and $2.7 million, respectively, represents the amount of unrecognized tax benefits that are permanent in nature and, if recognized, would affect the annual effective tax rate. The increase in the total gross unrecognized tax benefit including interest during the nine months, ending December 31, 2009 is primarily attributable to the accrual of another nine months of interest, netted against the release of several positions that have lapsed due to statute of limitations expiration and the accrual of the current year's uncertain positions.

The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. As of December 31, 2009, the Company had approximately $1.0 million accrued for gross interest, of which approximately $18,000 was a current period benefit. 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 2004, although carryforward attributes that were generated prior to 2004 may still be adjusted upon examination by the taxing authorities if they either have been used or will be used in a future period. 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. In consideration of the proposed assessment, the total gross unrecognized tax benefit was increased by $2.7 million in fiscal 2008. At this time, it is too early to predict the final outcome on this tax issue and any future recoverability of this charge. Until the tax issue is resolved, the Company expects to accrue approximately $57,000 per quarter for interest.

NOTE 14 – LITIGATION

At December 31, 2009, 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, if any, 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.

WORLD ACCEPTANCE CORPORATION
AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

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

Results of Operations

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

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (Dollars in thousands) | | | |
| Average gross loans receivable (1) | $ 785,167 | 689,267 | 742,518 | 652,846 |
| Average net loans receivable (2) | 577,553 | 507,965 | 547,060 | 481,807 |
| | | | | |
| Expenses as a % of total revenue: | | | | |
| Provision for loan losses | 26.4% | 29.7% | 23.7% | 25.3% |
| General and administrative | 49.5% | 52.2% | 50.7% | 53.3% |
| Total interest expense | 3.3% | 4.0% | 3.3% | 4.1% |
| | | | | |
| Operating margin (3) | 24.2% | 18.1% | 25.5% | 21.4% |
| | | | | |
| Return on average assets (trailing 4 quarters) | 12.2% | 10.4% | 12.2% | 10.4% |
| | | | | |
| Offices opened or acquired, net | 9 | 16 | 31 | 85 |
| | | | | |
| Total offices (at period end) | 975 | 923 | 975 | 923 |

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

Comparison of Three Months Ended December 31, 2009, Versus
Three Months Ended December 31, 2008

Net income increased to $14.8 million for the three months ended December 31, 2009, or 66.4%, from the three month period ended December 31, 2008. Operating income (revenues less provision for loan losses and general and administrative expenses) increased approximately $9.2 million, or 51.2%.

Total revenues rose to $112.3 million during the quarter ended December 31, 2009, a 13.3% increase over the $99.2 million for the corresponding quarter of the previous year. This increase was attributable to new offices and an increase in revenues from offices open throughout both quarterly periods. Revenues from the 834 offices open throughout both quarterly periods increased by approximately 9.1%. At December 31, 2009, the Company had 975 offices in operation, an increase of 31 offices from March 31, 2009.

Interest and fee income for the quarter ended December 31, 2009 increased by $12.7 million, or 15.0%, over the same period of the prior year. This increase resulted from a $69.6 million increase, or 13.7%, in average net loans receivable over the corresponding quarter of the prior year.

Insurance commissions and other income increased by approximately $420,000, or 2.9%, between the two quarterly periods. Insurance commissions increased by approximately $1.1 million, or 12.7%, during the most recent quarter when compared to the prior year quarter due to the increase in loans in those states where credit insurance is sold in conjunction with the loan. Other income decreased by approximately $700,000, or 12.6%. During the three months ended December 31, 2008, the Company recorded a $1.5 million gain on the repurchase and cancellation of $5.0 million face value of the convertible notes and a $1.5 million gain on the sale of a foreign currency option. During the three months ended December 31, 2009, the Company recorded a $117,000 gain on the repurchase and cancellation of $1.0 million face value of the convertible notes. In addition, the Company recorded a $322,000 gain on the interest rate swaps mark to market adjustment compared to a $1.6 million loss in the third quarter of fiscal 2009.

The provision for loan losses during the three months ended December 31, 2009 increased by $142,000, or 0.5%, from the same quarter last year. Charge-offs as a percentage of average loans decreased during the third quarter to 17.8% (annualized) from 19.6% (annualized) in the third quarter of the prior year. Accounts that were 61 days or more past due on a recency basis decreased from 3.3% as of December 31, 2008 to 3.0% as of December 31, 2009. On a contractual basis, accounts 61 days or more past due decreased from 4.6% at December 31, 2008 to 4.3% at December 31, 2009. Management continues to closely monitor the loan portfolio credit risk during the current economic environment. The Company believes it has been able to mitigate the risk of losses due to its decentralized collection process and the closed-ended, short-term nature of the loans and that the combination of these factors, which enables the Company to maintain continuing contact with its customers, allows the Company to continue to monitor the customer's current situations and the likelihood of successful collections.

In addition, loans over 90 days past due on a recency basis are fully reserved. Generally, 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 continues to monitor closely the loan portfolio in light of current economic conditions and believes that the loss ratios are within acceptable ranges in light of these conditions.

General and administrative expenses for the quarter ended December 31, 2009 increased by $3.8 million, or 7.4% over the same quarter of fiscal 2009. Overall, general and administrative expenses, when divided by average open offices, increased by approximately 1.3% when comparing the two periods. The total general and administrative expense as a percent of total revenues was 49.5% for the three months ended December 31, 2009 and was 52.2% for the three months ended December 31, 2008. This decrease was a result of the Company opening fewer offices in the current year compared to the prior year.

Interest expense decreased by approximately $172,000 when comparing the two corresponding quarterly periods as a result of a decrease in the average outstanding debt balance, offset by a slight increase in the average interest rate.

The Company's effective income tax rate increased slightly to 36.9% for the quarter ended December 31, 2009 from 36.8% for the prior year quarter.

Comparison of Nine Months Ended December 31, 2009 Versus
Nine Months Ended December 31, 2008

Net income increased to $44.0 million for the nine months ended December 31, 2009, or 45.9%, from the nine month period ended December 31, 2008. Operating income increased approximately $21.1 million, or 35.4%.

Total revenues rose to $316.7 million during the nine months ended December 31, 2009, a 13.4% increase over the $279.3 million for the corresponding nine months of the previous year. This increase was attributable to new offices and an increase in revenues from offices open throughout both nine month periods. Revenues from the 834 offices open throughout both nine month periods increased by approximately 9.0%.

Interest and fee income for the nine months ended December 31, 2009 increased by $32.9 million, or 13.6%, over the same period of the prior year. This increase resulted from a $65.3 million increase, or 13.5%, in average net loans receivable over the two corresponding periods.

Insurance commissions and other income increased by $4.5 million, or 11.9%, between the two nine month periods. Insurance commissions increased by $2.7 million, or 11.2%, during the most recent nine months when compared to the prior year nine months due to the increase in loans in those states where credit insurance is sold in conjunction with the loan. Other income increased by approximately $1.8 million, or 13.0%, over the two corresponding nine months. During the nine months ended December 31, 2009, the Company recognized an $891,000 gain on the interest rate swaps and a $2.5 million gain on the repurchase and cancellation of $11.0 million face value of the convertible notes compared to the nine months ended December 31, 2008, in which the Company recognized an $869,000 loss on the interest rate swaps, a $1.5 million gain on the sale of its foreign currency option, and a $1.5 million gain on the purchase and cancellation of $5.0 million face value of the convertible notes.

The provision for loan losses during the nine months ended December 31, 2009 increased by $4.6 million, or 6.5%, from the same nine months last year. Net charge-offs as a percentage of average net loans decreased from 17.1% (annualized) during the prior year first nine months to 16.0% (annualized) during the most recent nine months.

General and administrative expenses for the nine months ended December 31, 2009 increased by $11.7 million, or 7.9% over the same nine months of fiscal 2009. Overall, general and administrative expenses, when divided by average open offices, decreased by approximately 0.3% when comparing the two periods. The total general and administrative expense as a percent of total revenues was 50.7% for the nine months ended December 31, 2009 and 53.3% the nine months ended December 31, 2008. This decrease was a result of the Company opening fewer offices in the current year compared to prior year.

Interest expense decreased by approximately $945,000 when comparing the two corresponding nine month periods as a result a decrease in the average interest rate and a decrease in the average outstanding debt balance.

The Company’s effective income tax rate decreased to 37.5% for the nine months ended December 31, 2009 compared to 37.6% for the first nine months of the prior year.

Critical Accounting Policies

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

Allowance for Loan Losses

The Company has developed policies and procedures for assessing the adequacy of the allowance for loan losses that take into consideration various assumptions and estimates with respect to the loan portfolio. The Company’s assumptions and estimates may be affected in the future by changes in economic conditions, among other factors. Additional information concerning the allowance for loan losses is discussed under “Management’s Discussion and Analysis of Financial Conditions and Results of Operations - Credit Quality” in the Company’s report on Form 10-K for the fiscal year ended March 31, 2009.

Share-Based Compensation

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

Income Taxes

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

No assurance can be given that either the tax returns submitted by management or the income tax reported on the Consolidated Financial Statements will not be adjusted by either adverse rulings by the U.S. Tax Court, changes in the tax code, or assessments made by the Internal Revenue Service ("IRS") or state taxing authorities. The Company is subject to potential adverse adjustments, including but not limited to: an increase in the statutory federal or state income tax rates, the permanent non-deductibility of amounts currently considered deductible either now or in future periods, and the dependency on the generation of future taxable income, including capital gains, in order to ultimately realize deferred income tax assets.

The Company adopted FASB ASC 740 (Prior authoritative literature: FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes”) on April 1, 2007. Under FASB ASC 740, the Company includes the current and deferred tax impact of its tax positions in the financial statements when it is more likely than not (likelihood of greater than 50%) that such positions will be sustained by taxing authorities, with full knowledge of relevant information, based on the technical merits of the tax position. While the Company supports its tax positions by unambiguous tax law, prior experience with the taxing authority, and analysis that considers all relevant facts, circumstances and regulations, management must still rely on assumptions and estimates to determine the overall likelihood of success and proper quantification of a given tax position.

Liquidity and Capital Resources

The Company has financed its operations, acquisitions and office expansion through a combination of cash flow from operations and borrowings from its institutional lenders. The Company's primary ongoing cash requirements relate to the funding of new offices and acquisitions, the overall growth of loans outstanding, the repayment of indebtedness and the repurchase of its common stock and convertible notes. As the Company's gross loans receivable increased from $505.8 million at March 31, 2007 to $671.2 million at March 31, 2009, net cash provided by operating activities for fiscal years 2007, 2008 and 2009 was $110.1 million, $136.0 million and $153.9 million, respectively.

The Company believes stock repurchases and debt 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. As of February 1, 2010, the Company has $15.0 million in aggregate remaining repurchase capacity under all of the Company’s outstanding stock repurchase authorizations and $24.0 million remaining repurchase capacity under the Company’s convertible notes repurchase authorization.

The Company plans to open or acquire at least 30 branches in the United States and 15 branches in Mexico during fiscal 2010. Expenditures by the Company to open and furnish new offices averaged approximately $25,000 per office during fiscal 2009. 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 no offices and four loan portfolios from a competitor in three states during the first nine months of fiscal 2010. Gross loans receivable purchased in these transactions was approximately $1.0 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 amended its revolving credit facility effective July 31, 2009. As amended, base revolving facility was increased to $213.3 million, with no seasonal revolving credit commitment, and the expiration date was extended to July 31, 2011. The amendment had an accordion feature for an additional $25.0 million. On November 13, 2009, two additional banks were added to the existing bank group, increasing the revolving credit facility availability to $238.3 million. Funds borrowed under the revolving credit facility bear interest, at the Company's option, at either the agent bank's prime rate plus 1.0% per annum or the LIBOR rate plus 3.0% per annum, with a minimum of 4.0% per annum.

At December 31, 2009, the interest rate on borrowings under the revolving credit facility was 4.25%. The Company pays a commitment fee equal to 0.375% per annum of the daily unused portion of the revolving credit facility. Amounts outstanding under the revolving credit facility may not exceed specified percentages of eligible loans receivable. On December 31, 2009, $185.6 million was outstanding under this facility, and there was $52.8 million of unused borrowing availability under the borrowing base limitations.

The Company's credit agreements contain a number of financial covenants, including minimum net worth and fixed charge coverage requirements. The credit agreements also contain certain other covenants, including covenants that impose limitations on the Company with respect to (i) declaring or paying dividends or making distributions on or acquiring common or preferred stock or warrants or options; (ii) redeeming or purchasing or prepaying principal or interest on subordinated debt; (iii) incurring additional indebtedness; and (iv) entering into a merger, consolidation or sale of substantial assets or subsidiaries. The Company believes that it was in compliance with these agreements as of December 31, 2009, and does not believe that these agreements will materially limit its business and expansion strategy.

The Company’s contractual obligations as of December 31, 2009 relating to FASB ASC 740 included unrecognized tax benefits of $5.2 million which are expected to be settled in greater than one year. While the settlement of the obligation is expected to be in excess of one year, the precise timing of the settlement is indeterminable.

The Company believes that cash flow from operations and borrowings under its revolving credit facility or other sources will be adequate to fund the expected cost of opening or acquiring new offices, including funding initial operating losses of new offices and funding loans receivable originated by those offices and the Company's other offices and the scheduled repayment of the other notes payable (for the next 12 months and for the foreseeable future beyond that). Management is not currently aware of any trends, demands, commitments, events or uncertainties related to the Company’s operations that it believes will result in, or are reasonably likely to result in, the Company’s liquidity increasing or decreasing in any material way. From time to time, the Company has needed and obtained, and expects that it will continue to need on a periodic basis, an increase in the borrowing limits under its revolving credit facility. The Company has successfully obtained such increases in the past and anticipates that it will be able to obtain such increases or secure other sources of financing 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. In addition, there can be no assurance as to the cost of the additional funding, if additional funds were requested.

Inflation

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

Quarterly Information and Seasonality

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

Recently Adopted Accounting Pronouncements

See Note 2 to our Consolidated Financial Statements.

Forward-Looking Information

This report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” may contain various “forward-looking statements,” within the meaning of Section 21E of the Securities Exchange Act of 1934, that are based on management’s belief and assumptions, as well as information currently available to management. Statements other than those of historical fact, as well as those identified by the words “anticipate,” “estimate,” “plan,” “expect,” “believe,” “may,” “will,” and “should” any variation of the foregoing and similar ex

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

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

Interest Rate Risk

The Company's financial instruments consist of the following: cash, loans receivable, senior notes payable, convertible senior subordinated notes payable, and interest rate swaps. Fair value approximates carrying value for all of these instruments, except the convertible notes payable, for which the fair value represents the quoted market price. The fair value of the convertible notes payable was $78.6 million at December 31, 2009. Loans receivable are originated at prevailing market rates and have an average life of approximately four months. Given the short-term nature of these loans, they are continually repriced at current market rates. The Company's outstanding debt under its revolving credit facility was $185.6 million at December 31, 2009. Interest on borrowings under this facility is based, at the Company's option, on the prime rate or LIBOR plus 3.0%, with a minimum of 4.0% per annum.

Based on the outstanding balance and the current LIBOR/Prime mix at December 31, 2009, a change of 1% in the LIBOR interest rates would cause a change in interest expense of approximately $400,000 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 December 2008, the Company entered into a $20 million interest rate swap to convert a variable rate one-month LIBOR to a fixed rate of 2.4%

In accordance with FASB ASC 815, 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 FASB ASC 815, changes in the fair value of the derivative instrument are included in other income. As of December 31, 2009 the fair value of the interest rate swaps was a liability of approximately $1.6 million and is included in other liabilities. The change in fair value from the beginning of the fiscal year, recorded as an unrealized gain in other income, was approximately $891,000.

Foreign Currency Exchange Rate Risk

In September 2005, the Company began opening offices in Mexico, where its local businesses utilize the Mexican peso as their functional currency. The Consolidated Financial Statements of the Company are denominated in U.S. dollars and are therefore subject to fluctuation as the U.S. dollar and Mexican peso foreign exchange rates change. International revenues were less than 5% of the Company's total revenues for the nine months ended December 31, 2009 and net loans denominated in Mexican pesos were approximately $18.4 million (USD) at December 31, 2009.

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

Because its earnings are affected by fluctuations in the value of the U.S. dollar against foreign currencies, the Company has performed an analysis 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 December 31, 2009, the analysis indicated that such market movements would not have had a material effect on the Company's Consolidated Financial Statements. The actual effects on the Consolidated Financial Statements in the future may differ materially from results of the analysis for the quarter ended December 31, 2009. The Company will continue to monitor and assess the effect of currency fluctuations and may institute further hedging alternatives.

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Item 4. Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company’s management, including its Chief Executive Officer (“CEO”) and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2009. Based on that evaluation, the Company's management, including the CEO and CFO, has concluded that the Company's disclosure controls and procedures are effective as of December 31, 2009. During the third quarter of fiscal 2010, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed under Part I, Item 1A (page 9) of the Company’s Annual Report on Form 10-K for the year ended March 31, 2009.

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

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

WORLD ACCEPTANCE CORPORATION
AND SUBSIDIARIES

PART II. OTHER INFORMATION, CONTINUED

Item 6. Exhibits

| Exhibit Number | Description | Previous Exhibit Number | Company Registration No. or Report |
|---|---|---|---|
| 3.1 | Second Amended and Restated Articles of Incorporation of the Company, as amended | 3.1 | 333-107426 |
| 3.2 | Fourth Amended and Restated Bylaws of the Company | 99.1 | 8-03-07 8-K |
| 4.1 | Specimen Share Certificate | 4.1 | 33-42879 |
| 4.2 | Articles 3, 4 and 5 of the Form of Company's Second Amended and Restated Articles of Incorporation (as amended) | 3.1 | 333-107426 |
| 4.3 | Article II, Section 9 of the Company's Fourth Amended and Restated Bylaws | 99.1 | 8-03-07 8-K |
| 4.4 | Amended and Restated Credit Agreement dated July 20, 2005 | 4.4 | 6-30-05 10-Q |
| 4.5 | First Amendment to Amended and Restated Revolving Credit Agreement, dated as of August 4, 2006 | 4.4 | 6-30-06 10-Q |
| 4.6 | Second Amendment to Amended and Restated Revolving Credit Agreement dated as of October 2, 2006 | 10.1 | 10-04-06 8-K |
| 4.7 | Third Amendment to Amended and Restated Revolving Credit Agreement dated as of August 31, 2007 | 10.1 | 9-7-07 8-K |
| 4.8 | Fourth Amendment to Amended and Restated Revolving Credit Agreement dated as of August 4, 2008 | 4.8 | 6-30-08 10-Q |
| 4.9 | Fifth Amendment to Amended and Restated Credit Agreement dated as of January 28, 2009 | 4.9 | 12-31-08 10Q/A |
| 4.10 | Sixth Amendment to Amended and Restated Credit Agreement dated as of July 31, 2009 | 4.10 | 6-30-09 10-Q |
| 4.11 | Revised listing of Bank Commitments effective as of November 13, 2009, pursuant to the Sixth Amendment to Amended and Restated Credit Agreement dated as of July 31, 2009 (the "Sixth Amendment") (this listing updates the information previously disclosed in Schedule 1.1 to the Sixth Amendment, which was previously filed as Exhibit 4.10 to the Company's report on Form 10-Q for the quarter ended June 30, 2009) | * | |

| | | | |
|---|---|---|---|
| 4.12 | Subsidiary Security Agreement dated as of June 30, 1997, as Amended through July 20, 2005 | 4.5 | 9-30-05 10-Q |
| 4.13 | Company Security Agreement dated as of June 20, 1997, as amended through July 20, 2005 | 4.6 | 9-30-05 10-Q |
| 4.14 | 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 |
| 4.15 | Fourth Amendment to Amended and Restated Security Agreement, Pledge and Indenture of Trust, dated as of June 30, 1997 (i.e., Company Security Agreement) | 4.10 | 9-30-04 10-Q |

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| Exhibit Number | Description | Previous Exhibit Number | Company Registration No. or Report |
|---|---|---|---|
| 4.16 | 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 |
| 4.17 | Form of 3.0% Convertible Senior Subordinated Note due 2011 | 4.1 | 10-12-06 8-K |
| 4.18 | Indenture, dated October 10, 2006 between the Company and U.S. Bank National Association, as Trustee | 4.2 | 10-12-06 8-K |
| 4.19 | Amended and Restated Guaranty Agreement dated as of June 30, 1997 (i.e., Subsidiary Guaranty Agreement) | 4.17 | 3-31-09 10-K |
| 4.20 | First Amendment to Subsidiary Guaranty Agreement, dated as of August 4, 2008 | 4.18 | 3-31-09 10-K |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer | * | |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer | * | |
| 32.1 | Section 1350 Certification of Chief Executive Officer | * | |
| 32.2 | Section 1350 Certification of Chief Financial Officer | * | |

* Filed or furnished herewith.

SIGNATURES

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

WORLD ACCEPTANCE CORPORATION

By: /s/ A. Alexander McLean, III
A. Alexander McLean, III, Chief
Executive Officer
Date: February 1, 2010

By: /s/ Kelly M. Malson
Kelly M. Malson, Senior Vice President and
Chief Financial Officer
Date: February 1, 2010