

WORLD ACCEPTANCE CORP

Form 10-Q

November 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission File Number: 000-19599

WORLD ACCEPTANCE CORPORATION

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

South Carolina

(State or other jurisdiction of incorporation or organization)

57-0425114

(I.R.S. Employer Identification Number)

108 Frederick Street

Greenville, South Carolina 29607

(Address of principal executive offices)

(Zip Code)

(864) 298-9800

(registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

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Large Accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of outstanding shares of the issuer's no par value common stock as of November 1, 2018 was 9,865,424.

WORLD ACCEPTANCE CORPORATION
FORM 10-Q

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Introductory Note: As used herein, the "Company," "we," "our," "us," or similar formulations include World Acceptance Corporation and each of its subsidiaries, unless otherwise expressly noted or the context otherwise requires that it include only World Acceptance Corporation. All references in this report to "fiscal 2019" are to the Company's fiscal year ending March 31, 2019; all references in this report to "fiscal 2018" are to the Company's fiscal year ended March 31, 2018; and all references to "fiscal 2017" are to the Company's fiscal year ended March 31, 2017.

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GLOSSARY OF DEFINED TERMS

The following terms may be used throughout this Report, including consolidated financial statements and related notes.

Term	Definition
ASU	Accounting Standards Update
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFPB	U.S. Consumer Financial Protection Bureau
Compensation Committee	Compensation and Stock Option Committee
DOJ	U.S. Department of Justice
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FCPA	U.S. Foreign Corrupt Practices Act of 1977, as amended
G&A	General and administrative
GAAP	U.S. generally accepted accounting principles
IRS	U.S. Internal Revenue Service
LIBOR	London Interbank Offered Rate
Option Measurement Period	The 6.5 year performance period beginning on September 30, 2018 and ending on March 31, 2025 over which the Performance Options are eligible to vest, following certification by the Compensation Committee of achievement
Purchasers	Jointly, Astro Wealth S.A. de C.V. and Astro Assets S.A. de C.V.
Performance Share Measurement Period	The 6.5 year performance period beginning on September 30, 2018 and ending on March 31, 2025 over which the Performance Shares are eligible to vest, following certification by the Compensation Committee of achievement
Performance Options	Performance-based stock options
Performance Shares	Service- and performance-based restricted stock awards
Restricted Stock	Service-based restricted stock awards
SEC	U.S. Securities and Exchange Commission
Sellers	Collectively, World Acceptance Corporation, WFC Services Inc., and WAC Mexico Holdings LLC
Service Options	Service-based stock options
SWAC	Servicios World Acceptance Corporation de México, S. de R.L. de C.V, a former subsidiary of World Acceptance Corporation
TCJA	Tax Cuts and Jobs Act
Transition Tax	Tax amount associated with a one-time repatriation tax on deferred foreign income
WAC de Mexico	WAC de México, S.A. de C.V., SOFOM, E.N.R., a former subsidiary of World Acceptance Corporation

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PART I. FINANCIAL INFORMATION

WORLD ACCEPTANCE CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2018	March 31, 2018
ASSETS		
Cash and cash equivalents	\$5,595,711	\$12,473,833
Gross loans receivable	1,126,792,196	1,004,233,159
Less:		
Unearned interest, insurance and fees	(297,698,553)	(258,991,492)
Allowance for loan losses	(79,310,375)	(66,088,139)
Loans receivable, net	749,783,268	679,153,528
Property and equipment, net	23,816,135	22,785,951
Deferred income taxes, net	22,892,445	20,175,148
Other assets, net	20,970,694	13,244,416
Goodwill	7,034,463	7,034,463
Intangible assets, net	8,856,698	6,644,301
Assets of discontinued operations (Note 2)	—	79,475,397
Total assets	\$838,949,414	\$840,987,037
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities:		
Senior notes payable	\$230,190,000	\$244,900,000
Income taxes payable	13,565,183	14,097,419
Accounts payable and accrued expenses	30,203,556	33,503,335
Liabilities of discontinued operations (Note 2)	—	7,378,431
Total liabilities	273,958,739	299,879,185
Commitments and contingencies (Note 11)	—	—
Shareholders' equity:		
Preferred stock, no par value Authorized 5,000,000, no shares issued or outstanding	—	—
Common stock, no par value Authorized 95,000,000 shares; issued and outstanding 9,153,145 and 9,119,443 shares at September 30, 2018 and March 31, 2018, respectively	—	—
Additional paid-in capital	180,680,619	175,887,227
Retained earnings	384,310,056	391,275,705
Accumulated other comprehensive loss	—	(26,055,080)
Total shareholders' equity	564,990,675	541,107,852
Total liabilities and shareholders' equity	\$838,949,414	\$840,987,037

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Continuing operations				
Revenues:				
Interest and fee income	\$ 113,490,097	\$ 106,317,687	\$ 221,934,475	\$ 209,685,171
Insurance income, net and other income	13,625,666	12,611,364	27,971,273	25,882,246
Total revenues	127,115,763	118,929,051	249,905,748	235,567,417
Expenses:				
Provision for loan losses	40,358,696	32,824,398	70,949,315	60,534,025
General and administrative expenses:				
Personnel	39,694,543	38,198,950	81,263,890	79,242,753
Occupancy and equipment	10,365,759	9,714,602	20,417,862	19,242,486
Advertising	5,116,510	5,041,454	9,966,595	9,678,910
Amortization of intangible assets	275,496	275,447	538,948	461,269
Other	9,483,540	9,536,959	20,525,908	20,350,180
Total general and administrative expenses	64,935,848	62,767,412	132,713,203	128,975,598
Interest expense	4,157,999	4,790,744	8,383,000	9,037,446
Total expenses	109,452,543	100,382,554	212,045,518	198,547,069
Income from continuing operations before income taxes	17,663,220	18,546,497	37,860,230	37,020,348
Income taxes	3,604,153	6,510,886	8,163,498	13,776,282
Income from continuing operations	14,059,067	12,035,611	29,696,732	23,244,066
Discontinued operations (Note 2)				
Income (loss) from discontinued operations before disposal of discontinued operations and income taxes	—	(2,216,433)) 2,341,825	215,290
Gain (loss) on disposal of discontinued operations	628,921	—	(38,377,623)) —
Income taxes	150,343	19,833	626,583	592,325
Income (loss) from discontinued operations	478,578	(2,236,266)) (36,662,381)) (377,035)
Net income (loss)	\$ 14,537,645	\$ 9,799,345	\$ (6,965,649)) \$ 22,867,031
Net income per common share from continuing operations:				
Basic	\$ 1.55	\$ 1.38	\$ 3.28	\$ 2.67
Diluted	\$ 1.51	\$ 1.35	\$ 3.20	\$ 2.62
Net income (loss) per common share from discontinued operations:				

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Basic	\$ 0.05	\$ (0.26)	\$ (4.05)	\$ (0.04)
Diluted	\$ 0.05	\$ (0.25)	\$ (3.95)	\$ (0.04)
Net income (loss) per common share:				
Basic	\$ 1.60	\$ 1.12	\$ (0.77)	\$ 2.63
Diluted	\$ 1.56	\$ 1.10	\$ (0.75)	\$ 2.58
Weighted average common shares outstanding:				
Basic	9,072,160	8,713,638	9,063,524	8,700,489
Diluted	9,292,886	8,895,274	9,273,104	8,861,007

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Net income (loss)	\$14,537,645	\$9,799,345	\$(6,965,649)	\$22,867,031
Foreign currency translation adjustments	—	(819,978)	(5,235,838)	1,658,641
Reclassification of cumulative foreign currency translation adjustments due to sale of Mexico business	31,290,918	—	31,290,918	—
Comprehensive income (loss)	\$45,828,563	\$8,979,367	\$19,089,431	\$24,525,672

See accompanying notes to consolidated financial statements.

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

	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances at March 31, 2017	\$ 144,241,105	344,605,347	(27,782,875)	461,063,577
Proceeds from exercise of stock options (389,888 shares)	25,323,531	—	—	25,323,531
Common stock repurchases (58,728 shares)	—	(4,614,331)	—	(4,614,331)
Restricted common stock expense under stock option plan, net of cancellations (\$1,517,357)	1,564,048	—	—	1,564,048
Stock option expense	2,353,214	—	—	2,353,214
ASU 2016-09 adoption	2,405,329	(2,405,329)	—	—
Other comprehensive income	—	—	1,727,795	1,727,795
Net income	—	53,690,018	—	53,690,018
Balances at March 31, 2018	\$ 175,887,227	391,275,705	(26,055,080)	541,107,852
Proceeds from exercise of stock options (25,276 shares)	1,815,406	—	—	1,815,406
Restricted common stock expense under stock option plan	1,914,349	—	—	1,914,349
Stock option expense	1,063,637	—	—	1,063,637
Other comprehensive loss	—	—	(5,235,838)	(5,235,838)
Reclassification of cumulative foreign currency translation adjustments due to sale of Mexico business	—	—	31,290,918	31,290,918
Net loss	—	(6,965,649)	—	(6,965,649)
Balances at September 30, 2018	\$ 180,680,619	384,310,056	—	564,990,675

See accompanying notes to consolidated financial statements.

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

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	Six months ended September 30,	
	2018	2017
Cash flow from operating activities:		
Net income (loss)	\$ (6,965,649)	\$ 22,867,031
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Loss on sale of discontinued operations	38,377,623	—
Amortization of intangible assets	538,948	461,269
Amortization of debt issuance costs	320,588	447,884
Provision for loan losses	70,949,315	69,816,030
Depreciation	3,296,860	3,609,047
Loss on sale of property and equipment	123,852	174,034
Deferred income tax benefit	(2,717,297)	(7,674,970)
Compensation related to stock option and restricted stock plans, net of taxes and adjustments	2,977,986	2,412,345
Change in accounts:		
Other assets, net	(7,806,866)	175,253
Income taxes payable	(532,236)	(461,044)
Accounts payable and accrued expenses	(3,299,779)	2,147,872
Net cash provided by operating activities	95,263,345	93,974,751
Cash flows from investing activities:		
Increase in loans receivable, net	(132,314,528)	(103,599,118)
Net assets acquired from branch acquisitions, primarily loans	(9,264,527)	(8,566,874)
Increase in intangible assets from acquisitions	(2,751,345)	(1,795,581)
Purchases of property and equipment	(4,609,927)	(3,972,237)
Proceeds from sale of property and equipment	159,031	109,842
Proceeds from sale of Mexico business	37,494,505	—
Net cash used in investing activities	(111,286,791)	(117,823,968)
Cash flow from financing activities:		
Borrowings from senior notes payable	130,190,000	133,663,800
Payments on senior notes payable	(144,900,000)	(108,050,000)
Debt issuance costs associated with senior notes payable	(240,000)	(420,000)
Proceeds from exercise of stock options	1,815,406	6,765,046
Repurchase of common stock	—	(4,614,331)
Net cash provided by (used in) financing activities	(13,134,594)	27,344,515
Effects of foreign currency fluctuations on cash and cash equivalents	2,667,447	84,569
Net change in cash and cash equivalents	(26,490,593)	3,579,867
Cash and cash equivalents at beginning of period from continuing operations	12,473,833	11,581,936
Cash and cash equivalents at beginning of period from discontinued operations	19,612,471	3,618,474
Cash and cash equivalents at end of period	\$ 5,595,711	\$ 18,780,277
Cash and cash equivalents at end of period from continuing operations	5,595,711	13,337,686
Cash and cash equivalents at end of period from discontinued operations	—	5,442,591
Supplemental Disclosures:		
Interest paid during the period	\$ 7,878,609	\$ 8,138,988
Income taxes paid during the period	\$ 12,261,977	\$ 22,498,725

See accompanying notes to consolidated financial statements.

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

NOTE 1 – BASIS OF PRESENTATION

The consolidated financial statements of the Company at September 30, 2018, and for the three and six 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 September 30, 2018, and the results of operations and cash flows for the periods ended September 30, 2018 and 2017, have been included. The results for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period.

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

The consolidated financial statements do not include all disclosures required by GAAP and should be read in conjunction with the Company's audited consolidated financial statements and related notes for the fiscal year ended March 31, 2018, included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2018, as filed with the SEC.

NOTE 2 – DISCONTINUED OPERATIONS

As previously disclosed, the Company sold all of the issued and outstanding capital stock and equity interest of WAC de Mexico and SWAC to the Purchasers, effective as of July 1, 2018, for a purchase price of approximately USD\$44.36 million. The Company has provided, and may continue to provide, limited accounting assistance to the Purchasers, as requested. The Company has not and will not have any other involvement with the Mexico operating segment subsequent to the sale's effective date.

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The following table reconciles the major classes of assets and liabilities of discontinued operations to the amounts presented in the Consolidated Balance Sheet for March 31, 2018:

	March 31, 2018
Assets of discontinued operations:	
Cash and cash equivalents	\$ 19,612,471
Loans receivable, net	46,027,200
Property and equipment, net	