NICHOLAS FINANCIAL INC
Form 10KSB
June 29, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB

X ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934

For the fiscal year ended March 31, 2001

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from ________ to _________.

Commission file number: 0-26680

NICHOLAS FINANCIAL, INC.
(Name of Small Business Issuer in its Charter)

British Columbia, Canada	8736-3354
(State or Other Jurisdiction of Incorporation or Organization	(I.R.S. Employer Identification No.)

Nicholas Financial, Inc.
2454 McMullen Booth Road, Building C
Clearwater, Florida 33759
(Address of Principal Executive Offices) (Zip Code)

Issuer's Telephone Number, Including Area Code:
(727) 726-0763

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:
Common Stock ($0.01 Par Value)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. The issuer's revenues for its most recent fiscal year ended March 31, 2001 were $17,797,026.As of May 31, 2001, 2,317,108 shares of the

Registrant's common stock were outstanding, and the aggregate market value of the shares held by non-affiliates was approximately $9,531,802.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders currently expected to be held on August 7, 2001, to be filed with the Commission pursuant to Regulation 14A, are incorporated by reference in Part III of this Report.

Transitional Small Business Disclosure Format(check one) : Yes No X

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1

NICHOLAS FINANCIAL, INC. & SUBSIDIARIES
FORM 10-KSB ANNUAL REPORT

TABLE OF CONTENTS

2

Forward-Looking Information

This report on Form 10-KSB contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and information that is based on management's beliefs and assumptions, as well as information currently available to management. When used in this document, the words "anticipate," "estimate," "expect," and similar expressions are intended to identify forward-looking statements. Although Nicholas Financial, Inc., including its subsidiaries ("the Company"), believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. 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, actual results may vary materially from those anticipated, estimated or expected. Among the key factors that may cause actual results to differ materially from those projected in forward-looking statements include fluctuations in the economy, the degree and nature of competition, fluctuations in interest rates, demand for consumer financing in the markets served by the Company, the Company's products and services, increases in the default rates experienced on retail installment sales contracts, adverse regulatory changes in the Company's existing and future markets, and the Company's ability to expand its business, including its ability to complete acquisitions and integrate the operations of acquired businesses, to recruit and retain qualified employees, to expand into new markets and to maintain profit margins in the face of increased pricing competition. All forward-looking statements included in this report are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statement. Prospective investors should also consult the risk factors described from time to time in the Company's reports on Forms 10-QSB and 10-KSB and annual reports to shareholders.

3

PART I

Item 1. Description of Business

General

Nicholas Financial, Inc. ("Nicholas Financial-Canada") is a Canadian holding company incorporated under the laws of British Columbia in 1986. The business activities of Nicholas Financial-Canada are conducted through its wholly-owned subsidiaries formed pursuant to the laws of the State of Florida, Nicholas Financial, Inc. ("Nicholas Financial") and Nicholas Data Services, Inc., ("NDS"). Nicholas Financial is a specialized consumer finance company engaged primarily in acquiring and servicing installment sales contracts ("Contracts") for purchases of new and used automobiles and light trucks. To a lesser extent, the Company also makes direct consumer loans and sells consumer-finance related products ("Insurance Products"). NDS is engaged in designing, developing, marketing and supporting industry specific computer application software for small businesses located primarily in the Southeast United States. Nicholas Financial's financing activities accounted for approximately 98% of consolidated revenues for the fiscal year ended March 31, 2001 and NDS's activities accounted for approximately 2% of such revenues during the same period.

Nicholas Financial-Canada, Nicholas Financial and NDS are hereafter collectively referred to as the "Company". Unless otherwise specified, all financial information herein is designated in United States currency.

The Company's principal executive offices are located at 2454 McMullen Booth Road, Building C, Clearwater Florida 33759, and its telephone number is (727) 726-0763.

Automobile Finance Business - Indirect Loans

The Company is engaged in the business of providing financing programs, primarily on behalf of purchasers of new and used cars and light trucks who meet the Company's credit standards, but who do not meet the credit standards of traditional lenders, such as banks and credit unions, because of the age of the vehicle being financed and/or the customer's job instability or credit history. Unlike traditional lenders, which look primarily to the credit history of the borrower in making lending decisions and typically finance new automobiles, the Company is willing to purchase installment sales contracts for purchases made by borrowers who do not have a good credit history and for older model and high mileage automobiles. In making decisions regarding the purchase of a particular installment sales contract the Company considers the following factors related to the borrower: place and length of residence, current and prior job status, history in making installment payments for automobiles, current income and credit history. In addition, the Company examines its prior experience with Contracts purchased from the dealer from which the Company is purchasing the Contract, and the value of the automobile in relation to the purchase price and the term of the installment sales Contract.

The Company's automobile finance programs are currently conducted in Florida, Georgia and North Carolina only under the name Nicholas Financial, Inc. The Company currently operates fourteen branch offices in Florida, four branch offices in Georgia and two branch offices in North Carolina. As of March 31, 2001 the Company had non-exclusive agreements with approximately 700 dealers for the purchase of retail installment sales contracts (the "Contracts") that meet the Company's financing criteria. The dealer agreements require the dealer to originate Contracts in accordance with the Company's guidelines.

The obligors under the Contracts typically make down payments, in the form of cash or trade-in, ranging from 5% to 20% of the sale price of the vehicle financed. The balance of the purchase price of the vehicle plus taxes, title fees and, if applicable, premiums for extended service contracts, accident and health insurance and/or credit life insurance, are generally financed over a period of 12 to 60 months. Accident and health insurance coverage enables the borrower to make required payments under the Contract in the event the borrower becomes unable to work because of illness or accident and credit life insurance pays the borrower's obligations under the Contract upon his or her death.

4

The Company purchases Contracts from the automobile dealer at a negotiated price that is less than the original principal amount being financed {the discount} by the purchaser of the automobile. The amount of the discount depends upon factors such as the age and value of the automobile and the credit worthiness of the purchaser. In certain markets, competition determines the discount that the Company can charge. Historically, the Contracts purchased by the Company have been purchased at discounts that range from 1% to 15% of the original principal amount of the Contract. In addition to the discount, the Company charges the dealer a processing fee of $75 per Contract purchased. Virtually all Contracts purchased by the Company since

April 1, 1992 have been purchased from dealers without recourse, meaning that the Company, not the dealer, bears the risk of nonpayment by the borrower under the Contract. Prior to April 1, 1992 some Contracts were acquired with full recourse against the dealer for nonpayment by the borrower. As of March 31, 2001, substantially all of the Company's loan portfolio consisted of Contracts that were purchased without recourse against the dealer. Although substantially all the Contracts in the Company's loan portfolio were acquired without recourse, the dealer remains liable to the Company for liabilities arising from certain representations and warranties made by the dealer with respect to compliance with applicable federal and state laws and valid title to the vehicle.

The Company purchases a Contract only after the dealer and the Company arrive at a negotiated price for the Contract and the dealer has provided the Company with the requisite proof that the vehicle is properly titled, that the Company has a perfected first priority lien on the financed vehicle, that the customer has obtained the required collision insurance naming the Company as loss payee and that the installment sales contract has been fully and accurately completed and validly executed. Once the Company has received and approved all required documents, it pays the dealer for the Contract and commences servicing the Contract through maturity.

The Company requires the owner of the vehicle to obtain and maintain collision insurance, naming the Company as the loss payee, with a deductible of not more than $500. The Company does not offer collision insurance. Both the Company and the dealers offer purchasers of vehicles certain other "add on products". These products are offered by the dealer on behalf of the Company or by the automobile dealer on behalf of the dealership at the time of sale. They consist of a roadside assistance plan, extended warranty protection, credit life insurance, credit accident and health insurance and credit property insurance. If the purchaser so desires, the cost of these products may be included in the amount financed under the Contract. As of March 31, 2001, approximately 20% of the borrowers under Contracts in the Company's loan portfolio had elected to purchase "add on products".

The following table sets forth certain information for each of the fiscal years ended March 31, 2001, 2000 and 1999, respectively, relating to the Company's automobile finance business:

	2001	2000	1999
Contracts purchased - Face value	$51,193,231	$41,507,381	$32,901,892
Number of contracts purchased	6,400	5,264	4,242
Weighted APR (1)	24.70%	24.67%	24.53%
Discount	8.36%	8.63%	9.63%

(1) "APR" means the annual interest rate payable by the borrower.

Direct Consumer Loans

Although the Company is licensed to make small direct consumer loans up to $25,000, the average loan made to date by the Company had an initial principal balance of approximately $2,500. The Company does not expect the average loan size to increase significantly within the foreseeable future and does not presently intend to make loans at the maximum size permitted under its license. The Company offers loans primarily to borrowers under the Contracts previously purchased by the Company. In deciding whether or not to make a loan, the Company considers the individual's credit history, job stability, income and impressions created during a personal interview with a Company loan officer. Additionally, because approximately 90% of the direct consumer loans made to date have been made to borrowers under Contracts previously purchased by the Company, the payment history of the borrower under the Contract is a significant factor in making the loan decision. The direct consumer loan program was implemented in April 1995 and currently accounts for less than 5% of total revenue for the Company. As of March 31, 2001, loans made by the Company pursuant to its direct consumer loan program constituted approximately 4.3% of the aggregate principal amount of the Company's loan portfolio.

In connection with its direct consumer loan program the Company also offers health and accident insurance coverage and credit life insurance to borrowers. Borrowers in approximately 65% of the 1,256 direct consumer loan transactions outstanding as of March 31, 2001 had elected to purchase insurance coverage offered by the Company. The cost of this insurance is included in the amount financed by the borrower.

The following table sets forth certain information for each of the fiscal years ended March 31, 2001, 2000 and 1999, respectively, relating to the Company's direct consumer loan business:

	2001	2000	1999
Loans purchased- Face value	$5,142,122	$4,511,897	$2,703,008
Number of loans purchased	1,143	1,011	659
Weighted APR (1)	25.85%	26.07%	26.49%

(1) "APR" means the annual interest rate payable by the borrower.

Financing Sources

The Company finances the acquisition of Contracts with its retained earnings, cash flow from operations, loans from investors, insiders and a revolving line of credit with BankofAmerica. In August 2000, the Company expanded its line of credit capacity to $60 million, extended the maturity date of such line to November 30, 2002 and reduced the rate of interest payable under the line. In February 2001, the Company further expanded its line of credit capacity to $75 million. No assurance can be given that the size of the line will be increased or that the maturity date will be extended beyond November 30, 2002.

As of March 31, 2001, the Company owed approximately $1.0 million to five investors who purchased notes issued by the Company. These notes bear interest at 12%. Two of the notes totaling $700,000 are convertible to common stock at a price of $4.50 per share. In some cases, the Company's obligation to repay the note is subordinated to payment of its obligations under the BankAmerica line of credit.

6

The BankAmerica line of credit is secured by all assets of the Company. The interest rate payable by the Company on funds drawn under the line of credit is based on either the current prime rate published by BankAmerica or several Libor pricing options. In addition to interest, the Company also pays a monthly fee to BankAmerica equal to .25% of the amount available under the line of credit that has not been drawn upon. As of March 31, 2001, the Company had drawn approximately $48 million under the line of credit.

Underwriting Guidelines

The Company's typical customer is 30 years old, has a monthly gross income of $1,500 and a credit history that fails to meet the lending standards of most banks and credit unions. Among the credit problems experienced by the Company's customers that resulted in a poor credit history are: unpaid revolving credit card obligations; unpaid medical bills; unpaid student loans; prior bankruptcy; and evictions for nonpayment of rent. The Company believes that its customer profile is similar to that of its direct competitors.

Prior to its approval of the purchase of a Contract, the Company is provided with a standardized credit application completed by the consumer which contains information relating to the consumer's background, employment, and credit history. The Company also obtains credit reports from Equifax, TRW or TransUnion which are independent reporting services. The Company verifies the consumer's employment history, income and residence. In most cases consumers are interviewed by telephone by a Company application processor.

The Company has established internal buying guidelines to be used by its Branch Managers and underwriters when purchasing Contracts. Any Contract that does not meet these guidelines must be approved by the senior management of the Company. The Company currently has three Regional Managers charged with managing the specific branches in a defined geographic area. In addition to a variety of administrative duties, the Regional Managers are responsible for monitoring their assigned branch's compliance with the Company's underwriting standards.

The Company continues to utilize its Loss Recovery Department ("LRD") formally known as the Special Operations Department ("SOD) to perform on-site audits of branch compliance with Company buying guidelines. LRD audits Company branches on a schedule that is variable depending on the size of the branch, length of time a branch has been open, current tenure of the branch manager, previous branch audit score and current and historical branch profitability. LRD reports directly to the Accounting and Administrative Management of the

Company. The Company believes that an independent review and audit of its branches that is not tied to the sales function of the Company is imperative in order to assure the information obtained is impartial.

The Company uses essentially the same criteria in analyzing a direct consumer loan as it does in analyzing the purchase of a Contract. Lending decisions regarding direct consumer loans are made based upon a review of the customer's loan application, credit history, job stability, income, in-person interviews with a Company loan officer and the value of the collateral offered by the borrower to secure the loan. To date, since approximately 90% of the Company's direct loans have been made to individuals whose automobiles have been financed by the Company, the customer's payment history under the automobile installment sale agreement is a significant factor in the lending decision. The decision process with respect to the purchase of Contracts is similar, although the customer's prior payment history with automobile loans is weighted more heavily in the decision making process and the collateral value of the automobile being financed is considered.

After reviewing the information included in the loan application and taking the other factors into account, Company representatives categorize the borrower using internally developed credit classifications of "A", indicating higher creditworthiness, through "D", indicating lower creditworthiness. In the absence of other factors, such as a favorable payment history on a Contract held by the Company, the Company generally makes direct consumer loans only to individuals rated in categories "B" or higher. Contracts are financed for individuals who fall within all four acceptable rating categories utilized, "A" through "D". Usually borrowers who fall within the two highest categories are purchasing a two to four year old, low mileage used automobile from the inventory of a new car or franchise dealer while borrowers in the two lowest categories are purchasing an older, high mileage automobile from an independent used automobile dealer.

7

Upon credit approval of the customer and the receipt of all required title and insurance documentation, the Company pays the dealer for the Contract. The Company typically purchases the Contract for a price that approximates the wholesale value of the automobile being financed. The amount the Company is willing to pay a dealer for a particular Contract depends upon the credit rating of the customer. The Company will pay more (e.g. purchase the Contract at a smaller discount from the original principal amount) for Contracts as the credit risk of the customer improves. The discounts from the initial principal amount of Contracts purchased by the Company range from 1% to 15%.

Servicing and Monitoring of Contracts

The Company requires all customers to obtain and maintain collision insurance covering damage to the vehicle. Failure to maintain insurance constitutes a default under the Contract and the Company may at its discretion repossess the vehicle. To reduce potential loss due to insurance lapse, the Company has the legal and contractual right to force place its own collateral protection insurance policy which covers loss due to physical damage to vehicles not covered by collision insurance.

The Company's Management Information Services personnel maintain a number of reports to monitor compliance by borrowers with their obligations under Contracts and direct loans made by the Company. These reports may be accessed on a real-time basis throughout the Company by management personnel, including branch office managers and staff, at computer terminals located in the main office and each branch office. The reports include: delinquency aging reports, insurance due reports, customer promises reports, vehicle information reports, purchase reports, dealer analysis reports, static pool reports, and repossession reports.

The delinquency report is an aging report that provides basic information regarding each account and indicates accounts that are past due. The report includes information such as the account number, address of the borrower, home and work phone numbers of the borrower, original term of the Contract, number of remaining payments, outstanding balance, due dates, date of last payment, number of days past due, scheduled payment amount, amount of last payment, total past due, and special payment arrangements or agreements.

Accounts that are less than 120 days matured are included on the delinquency report on the first day that the contract is contractually past due. After an account has matured more than 120 days, it is not included on the delinquency report until it is 11 days past due. Once an account becomes 30 days past due, repossession proceedings are implemented unless the borrower provides the Company with an acceptable explanation for the delinquency and displays a willingness, ability to make the payment, and there is an agreed upon plan to return the account to current status. When an account is 60 days past due, the Company ceases amortization of the Contract and repossession proceedings are initiated. At 120 days delinquent, if the vehicle has not yet been repossessed, the account is written off. Once a vehicle has been repossessed, the related loan balance no longer appears on the delinquency report. It then appears on the Company's repossession report and is sold, either at auction or to an automobile dealer.

When an account becomes delinquent, the Company immediately contacts the borrower to determine the reason for the delinquency and to determine if arrangements for payment can appropriately be made. Once payment arrangements acceptable to the Company have been made, the information is entered in its database and is used to generate a "Promises Report", which is utilized by the collection staff for account follow up.

8

The Company generates an insurance report to monitor compliance with the insurance obligations imposed upon borrowers. This report includes the account number, name and address of the borrower, information regarding the insurance carrier, summarizes the insurance coverage, identifies the expiration date of the policy, and provides basic information regarding payment dates and the term of the Contract. This report assists the Company in identifying borrowers whose insurance policy is up for renewal or in jeopardy of being canceled. The Company sends written notices to, and makes direct contact with, borrowers whose insurance policies are about to lapse or be canceled. If the borrower fails to provide proof of coverage within 30 days of notice, the Company has the option of purchasing insurance and adding the cost and applicable finance charges to the balance of the Contract.

The Company prepares a repossession report that provides information regarding repossessed vehicles and aids the Company in disposing of repossessed vehicles. In addition to information regarding the borrower, this report provides information regarding the date of repossession, date the vehicle was sold, number of days it was held in inventory prior to sale, year and make and model of the vehicle, mileage, payoff amount on the Contract, NADA book value, Black Book value, suggested sale price, location of the vehicle, original dealer, and notes other information that may be helpful to the Company such as the condition of the vehicle.

The Company also prepares a dealer analysis report that provides information regarding each dealer from which it purchases Contracts. This report allows the Company to analyze the volume of business done with each dealer and the terms on which it purchased Contracts from the dealer.

The Company's policy is to aggressively pursue legal remedies to collect deficiencies from customers. Delinquency notices are sent to customers and verbal requests for payment are made beginning when an account becomes 11 days delinquent. When an account becomes 30 days delinquent and the borrower has not made payment arrangements acceptable to the Company or has failed to respond to the requests for payment, a repossession request form is prepared by the responsible branch office employee for approval by the branch manager for the vicinity in which the borrower lives. Once the repossession request has been approved, first by the Branch Manager and secondly by his Regional Manager, it must then be approved by a corporate officer. The repossessor delivers the vehicle to a secure location specified by the Company where it is held. The Company maintains relationships with several licensed repossession firms which repossess vehicles for fees that range from $150 to $350 for each vehicle repossessed. As required by Florida, Georgia and North Carolina law, the customer is notified by certified letter that the vehicle has been repossessed and that to retain the vehicle they must make arrangements satisfactory to the Company and pay the amount owed under the Contract within ten days after delivery of the letter. The minimum requirement for return of the vehicle is payment of all past due amounts under the Contract and all expenses associated with the repossession incurred by the Company. If satisfactory arrangements for return of the vehicle are not made within the statutory period, the Company then sends title to the vehicle to the state title transfer department which then registers the vehicle in the name of the Company. The Company then either sells the vehicle to a dealer or has it transported to an automobile auction for sale. On average, approximately 30 days lapse between the time the Company takes possession of a vehicle and the time it is sold by a dealer or at auction. During its most recent fiscal year, repossessed vehicles have been sold at prices that average approximately $1,200 to $1,800 less than the price paid by the Company for the Contract. When the Company determines that there is a reasonable likelihood of recovering part or all of any deficiency against the borrower under the Contract, it pursues legal remedies available to it including law suits, judgement liens and wage garnishments. Historically, the Company has recovered approximately 12% of deficiencies from such borrowers.

9

Marketing and Advertising

The Company's Contract marketing efforts are directed toward automobile dealers. The Company attempts to meet dealers' needs by offering highly-responsive, cost-competitive and service-oriented financing programs. The Company relies on its Regional and Branch Managers to solicit agreements for the purchase of Contracts with automobile dealers located within a 25 mile radius of each branch office. The Branch Manager provides dealers with information regarding the Company and the general terms upon which the Company is willing to purchase Contracts. The Company presently has no plans to implement any other forms of advertising for the purchase of Contracts such as radio or newspaper advertisements.

Currently, the primary method utilized by the Company in soliciting borrowers under its direct consumer loan program is through direct mailings followed by telephone calls to individuals who have a good credit history with the Company with Contracts purchased by the Company. The Company to some extent uses direct mail marketing to those customers who meet the criteria for a consumer loan.

The Industry

The non-prime automobile finance market is highly fragmented and historically has been serviced by a variety of financial entities, including captive finance subsidiaries of major automobile manufactures, banks, independent finance companies, and small loan companies. Many of these financial entities do not consistently provide financing to this market. Although prime borrowers represent a large segment of the automobile financing market, there are many potential purchasers of automobiles who do not qualify as prime borrowers. Purchasers considered by the Company to be non-prime borrowers are generally unable to obtain credit from traditional sources of automobile financing. The Company believes that, because these potential purchasers represent a substantial market, there is a demand by automobile dealers with respect to financing for non-prime borrowers that has not been effectively served by traditional automobile financing sources.

Computerized Information System

The Company's operations utilize integrated computer systems developed by NDS to enhance its ability to respond to customer inquiries, to monitor the performance of its indirect and direct loan portfolio and the performance of individual borrowers under Contracts. All personnel are provided with instant, simultaneous access to information from a single shared database. The Company has created specialized programs to automate the tracking of loans from inception. The capacity of the networking system includes the Company's branch office locations. See the discussion below the caption "Servicing and Monitoring of Contracts" for a summary of the different reports prepared by the Company.

10

Strategy

The Company's business strategy is to continue its growth and to increase its profitability through greater penetration in its current markets, controlled geographic expansion into new markets and selective portfolio acquisitions. As of the date of this report, the Company has no commitments or agreements in principle with respect to any expansion into new geographic markets or any portfolio acquisitions. The Company also intends to continue its expansion through the increased origination of additional direct consumer loans. The Company believes that opportunity for growth continues to exist in the States of Florida, Georgia and North Carolina and intends to continue its expansion activities in such states. The Company is also exploring the possibility of expanding into other Southeastern States. No assurances can be given, however, that such expansion will occur.

Competition

The consumer finance industry is fragmented and highly competitive. There are numerous financial service companies that provide consumer credit in the markets served by the Company including banks, other consumer finance companies, and captive finance companies owned by automobile manufacturers and retailers. Many of these companies have significantly greater resources than the Company. The Company does not believe that increased competition for the purchase of Contracts will cause a reduction in the interest rate payable by the purchaser of the automobile. However, increased competition for the purchase of Contracts will enable automobile dealers to shop for the best price, thereby giving rise to an erosion in the discount from the initial principal amount at which the Company would be willing to purchase Contracts.

The Company's target market consists of persons who are generally unable to obtain traditional used car financing because of their credit history, the vehicle's mileage or age. The Company has been able to expand its automobile finance business in the non-prime credit market by offering to purchase Contracts on terms that are competitive with those of other companies which purchase automobile receivables in that market segment. Because of the daily contact that many of its employees have with automobile dealers located throughout the market areas served by it, the Company is generally aware of the terms upon which its competitors are offering to purchase Contracts. The Company's policy is to modify its terms if necessary to remain competitive. The Company has no intention and will not sacrifice credit quality, its purchasing criteria or prudent business practices in order to meet the competition or be driven by unrealizable growth expectations. The Company expects to analyze new lending programs and marketing methods which may be implemented with the objective of increasing profits and or its market share, including the possibility of offering to purchase portfolios of seasoned Contracts from dealers in bulk transactions from $100,000 to $10,000,000.

The Company's ability to compete effectively with other companies offering similar financing arrangements depends upon maintaining close business relationships with dealers of new and used vehicles. No single dealer out of the approximately 700 dealers that the Company has contractual relationships with accounted for over 3% of its business volume for the fiscal years ended March 31, 2001, 2000 or 1999, respectively.

11

Regulation

The Company's financing operations are subject to regulation, supervision and licensing under various Federal, State and local statutes and ordinances. Additionally, the procedures that must be followed by the Company in connection with the repossession of vehicles securing Contracts are regulated by each of the states in which the Company does business. To date, the Company's operations have been conducted exclusively in the States of Florida, Georgia and North Carolina. Accordingly, the laws of such states as well as applicable Federal laws, govern the Company's operations. Compliance with existing laws and regulations applicable to the Company has not had a material adverse effect on the Company's operations to date. Management believes that it maintains all requisite licenses and permits and is in material compliance with all applicable Local, State and Federal regulations.

The Company maintains a Retail Installment Seller's License and a Sales Finance Company License with the Florida Department of Banking and Finance, the Georgia Secretary of State (Business Services & Regulation) and the North Carolina Secretary of State. Pursuant to regulations of the State of Florida governing the Company's financing business activities, the Department of Banking and Finance conducts an on site audit of each of the Company's Florida branches annually to monitor compliance with the applicable regulations. The regulations govern, among other matters, licensure requirements, requirements for maintenance of proper records, payment of required fees to the State of Florida, Georgia and North Carolina, maximum interest rates that may be charged on loans to finance used vehicles and proper disclosure to customers regarding financing terms.

Employees

The Company's executive management and various support functions are centralized at the Company's Corporate Headquarters in Clearwater, Florida. As of March 31, 2001 the Company employed a total of 95 persons, five of whom work for NDS and 90 of whom work for Nicholas Financial. The Company provides paid holidays, vacation, sick time, jury time, health and life insurance, long-term disability insurance, dental insurance and a retirement plan that includes a Company matching formula on employee contributions as well as a Company profit sharing contribution for all qualified employees. No employees are covered by a collective bargaining agreement and the Company believes it has good relations with its employees.

12

Item 2. Description of Properties

The Company leases its Headquarters and branch office facilities. Its Headquarters, located at 2454 McMullen Booth Road, Building C in Clearwater, Florida, consist of approximately 6,800 square feet. The Company occupies the space pursuant to a lease that commenced on January 1, 2000 and expires on December 31, 2004. The current monthly rent is $7,855, with annual increases of approximately 2.25% in each subsequent year of the lease. Management believes this office space is adequate to meet its needs for the foreseeable future.

Each of the Company's 20 branch offices located in Florida, Georgia and North Carolina consists of approximately 1,200 square feet. These offices are located in office parks, shopping centers or strip malls and are occupied pursuant to leases with an initial term of from two to five years at annual rates ranging from approximately $8.00 to $16.00 per square foot. The Company believes that these facilities and additional or alternate space available to it are adequate to meet its needs for the foreseeable future.

Item 3. Legal Proceedings

The Company is not a party to any pending legal proceedings other than ordinary routine litigation incidental to its business none of which, in the opinion of management, will have a material adverse effect on the Company's business, financial position or results of operations.

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

No matters were submitted to a vote of security holders during the quarter ended March 31, 2001.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Since December 23, 1997, the Company's Common Stock has traded on the NASDAQ SmallCap System. Effective May 5, 1999, the Company's trading symbol changed from "NICKF" to "NICK". Share information with respect to the Common Stock is set forth in the "Selected Quarterly Data" table included below.

As of March 31, 2001, there were approximately 450 holders of record of the Company's Common Stock. Holders of Common Stock are entitled to receive dividends if and when declared by the Board of Directors out of funds legally available therefore. To date, it has been the Company's policy to retain earnings to finance the growth of its business. Accordingly, the Company has not declared or paid any cash dividends since its inception and does not anticipate declaring or paying any cash dividends in the foreseeable future. Any dividends on the Common Stock will be at the sole discretion of the Board of Directors and will depend upon the Company's profitability, capital requirements, requirements of the Company's lenders, statutory restrictions and other factors deemed relevant by the Company's Board of Directors.

The following table reflects the high and low sale prices for the Company's Common Stock as reported by the NASDAQ Stock Market for each of the periods indicated.

Price Range of Common Stock:

	High	Low
Fiscal Year ended March 31, 2001		
First Quarter	$5.63	$4.50
Second Quarter.........	5.25	4.50
Third Quarter...........	5.00	4.13
Fourth Quarter............	5.44	4.31
	High	Low
Fiscal Year ended March 31, 2000		
First Quarter	$4.55	$3.50
Second Quarter...........	5.50	3.63
Third Quarter............	5.38	4.03
Fourth Quarter............	5.75	4.13

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Consolidated net income increased in the fiscal year ended March 31, 2001 to $3,410,877 or $1.35 per diluted share from $2,577,568 or $1.01 per diluted share in the fiscal year ended March 31, 2000. Earnings for the year were favorably impacted by significant growth in the outstanding loan portfolio.

The following table sets forth certain financial data:

	Years Ended March 31 2001	2000
Average Net Finance Receivables(1)	$73,076,939	$55,015,469
Average Indebtedness (2)	46,166,602	34,530,273
Interest Income	17,386,318	13,557,371
Interest Expense	3,761,689	2,771,100
Net Interest Income	13,624,629	10,786,271
Gross Portfolio Yield (3)	23.79%	24.64%
Average Cost of Borrowed Funds (2)	8.15%	8.03%
Net Interest Spread (4)	15.64%	16.61%
Net Portfolio Yield (3)	18.64%	19.61%
Write-off to Liquidation	7.21%	6.71%
Net Charge-Off Percentage	6.16%	5.88%