NICHOLAS FINANCIAL INC
Form 10QSB
November 13, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

X

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934 FOR THE PERIOD ENDED SEPTEMBER 30, 2002

TRANSITION REPORT PURSUANT TO 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.
(Exact name of registrant as specified in its Charter)

British Columbia, Canada	8736-3354
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2454 McMullen Booth Road, Building C Clearwater, Florida	33759
(Address of Principal Executive Offices)	(Zip Code)

(727) 726-0763
(Registrant's telephone number, Including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods 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 ____.

As of October 31st, 2002 there were 5,002,021 shares of common stock outstanding.

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Part I. Item 1

Nicholas Financial, Inc.
Condensed Consolidated Balance Sheet
(Unaudited)

	September 30, 2002
Assets	
Cash	$ 598,203
Finance receivables, net	81,518,449
Accounts receivable	19,048
Prepaid expenses and other assets	839,708
Property and equipment, net	410,000
Deferred income taxes	327,338

Total assets	$ 83,712,746
Liabilities	
Line of credit	$ 57,533,426
Drafts payable	297,796
Notes payable - related party	649,376
Accounts payable	3,088,984
Derivatives	2,175,431
Deferred revenues	911,337
Total liabilities	64,656,350
Shareholders' equity	
Preferred stock, no par: 5,000,000 shares authorized;none issued and outstanding	-
Common stock, no par: 50,000,000 shares authorized; 5,010,521 shares issued and outstanding	4,437,090
Other comprehensive loss	(2,208,714)
Retained earnings	16,828,020
	19,056,396
Total liabilities and shareholders' equity	$ 83,712,746

See accompanying notes.

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Nicholas Financial, Inc.
Condensed Consolidated Statements of Income
(Unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2002	2001	2002	2001
Revenue:				
Interest income on finance receivables	$5,492,139	$4,857,907	$10,725,488	$9,389,658
Sales	92,939	89,922	175,315	189,042
	5,585,078	4,947,829	10,900,803	9,578,700
Expenses:				
Cost of sales	25,652	19,873	42,820	43,562
Marketing	155,860	138,014	309,341	248,471
Administrative	2,114,689	1,798,052	4,096,548	3,482,578
Provision for credit losses	582,138	427,776	1,129,204	780,425
Depreciation and amortization	42,000	60,000	79,000	105,000
Interest expense	967,632	1,010,581	1,931,695	2,006,413
	3,887,971	3,454,296	7,588,608	6,666,449
Operating income before income taxes	1,697,107	1,493,533	3,312,195	2,912,251

Income tax expense:				
Current	508,509	468,024	1,081,758	1,011,146
Deferred	132,442	95,000	161,117	89,583
	640,951	563,024	1,242,875	1,100,729
Net Income	$1,056,156	$ 930,509	$ 2,069,320	$ 1,811,522
Earnings per share - basic	$0.21	$0.19	$0.41	$0.38
Earnings per share - diluted	$0.20	$0.18	$0.39	$0.35

See accompanying notes.

Nicholas Financial, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended September 30, 2002	2001
Operating activities		
Net income	$ 2,069,320	$ 1,811,522
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	79,000	105,000
Provision for credit losses	1,129,204	780,425
Deferred income taxes	161,117	89,385
Changes in operating assets and liabilities:		
Accounts receivable	(4,604)	(2,976)
Prepaid expenses and other assets	(323,055)	(147,312)
Accounts payable	(291,170)	(30,583)
Drafts payable	(121,320)	-
Income taxes payable	(110,116)	(93,819)
Deferred revenues	255,781	64,690
Net cash provided by operating activities	2,844,157	2,576,332
Investing activities		
Increase in finance receivables, net of principal collected	(6,580,266)	(4,924,823)
Purchase of property and equipment, net of disposals	(118,151)	(109,625)
Net cash used in investing activities	(6,698,417)	(5,034,448)
Financing activities		
Issuance of notes payable - related party	107,094	-
Net proceeds from line of credit	4,260,000	2,200,000
Sale of common stock	34,130	64,488

Net cash provided by financing activities	4,401,224	2,264,488
Net increase(decrease) in cash	546,964	(193,628)
Cash, beginning of period	51,239	233,167
Cash, end of period	$ 598,203	$ 39,539

See accompanying notes.

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Nicholas Financial, Inc.
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

September 30, 2002

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Nicholas Financial, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB pursuant to the Securities and Exchange Act of 1934, as amended in Article 10 of Regulation SB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending March 31, 2003. For further information, refer to the condensed consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2002.

2. Earnings Per Share

Basic earnings per share excludes any dilutive effects of common stock equivalents such as options, warrants, and convertible securities. Diluted earnings per share includes the effects of dilutive options, warrants, and convertible securities. Basic and diluted earnings per share have been computed as follows:

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Nicholas Financial, Inc.
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2002	2001	2002	2001

Numerator:				
Numerator for basic earnings per share - Net income available to common stockholders	$1,056,156	$930,509	$2,069,320	$1,811,522
Effect of dilutive securities:				
Convertible debt	-	4,068	-	13,423
Numerator for dilutive earnings per share - income available to common stockholders after assumed conversions	$1,056,156	$934,577	$2,069,320	$1,824,945
Denominator:				
Denominator for basic earnings per share - weighted average shares	5,010,351	4,875,683	5,004,909	4,756,949
Effect of dilutive securities:				
Employee stock options	305,659	307,967	324,398	264,676
Convertible debt	-	96,618	-	203,865
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	5,316,010	5,280,268	5,329,307	5,225,490
Earnings per share - basic	$0.21	$0.19	$0.41	$0.38
Earnings per share - diluted	$0.20	$0.18	$0.39	$0.35

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Nicholas Financial, Inc.
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

3. Finance Receivables

Finance receivables consist of automobile finance installment contracts and direct consumer loans and are detailed as follows:

Finance receivables, gross contract	$129,557,491
Less:	
Unearned interest	(31,005,238)
	98,552,253
Nonrefundable dealer reserves	(11,952,122)
Allowance for credit losses	(5,081,682)

Finance receivables, net	$ 81,518,449

The terms of the receivables range from 12 to 60 months and bear a weighted average effective interest rate of 24%.

4. Line of Credit

The Company has a $75 million Line of Credit facility (the Line) which expires on November 30, 2004. Borrowings under the Line bear interest at the prime rate plus .25%. The Company also has several LIBOR pricing options available. If the outstanding balance falls below $10 million, the Line bears interest at the prime rate plus 2.00%. Pledged as collateral for this credit facility are all of the assets of Nicholas Financial, Inc. and its subsidiaries.

5. Notes Payable - Related Party

The Company's notes payable consist of unsecured notes bearing interest at 9.5% with principal and interest due within 30-days upon demand. The notes totaled $649,376 at September 30, 2002.

6. Derivatives and Hedging

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This statement establishes requirements for accounting and reporting of derivative instruments and hedging activities. SFAS 133 was updated by the issuance of SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS No. 133" and SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities - amendment of FASB Statement No. 133." As amended, SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities.

The Company adopted the provisions of SFAS 133, as amended by SFAS 137 and SFAS 138, on April 1, 2001, which requires that all derivative instruments be recorded on the balance sheet at fair value. The estimated fair value of derivative financial instruments represents the amount required to enter into similar offsetting contracts with similar remaining maturities based on quoted market prices.

The Company utilizes interest rate swaps to manage its interest rate exposure. The swaps effectively convert a portion of the

Company's floating rate debt to a fixed rate, more closely matching the interest rate characteristics of the Company's finance receivables. When entering into contracts intended by the Company to receive hedge accounting treatment, the Company formally designates and documents the financial instrument as a hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transaction.

The Company has entered into the following cash-flow hedges:

Date Entered	Notional Amount	Fixed Rate Of Interest	Maturity Date
August 19, 1999	$10,000,000	5.80%	August 1, 2003
May 17, 2000	10,000,000	6.87%	May 17, 2004
March 30,2001	10,000,000	4.89%	March 30, 2003
October 5, 2001	10,000,000	3.85%	October 5, 2004
June 28, 2002	10,000,000	3.83%	July 2, 2005

The Company has also entered into various interest rate option agreements with maturities through May 17, 2004.

For cash-flow hedge transactions, changes in the fair value of the derivative instrument are recorded as a component of other comprehensive income, and reclassified into earnings in the same period or periods during which earnings are affected by the variability of the cash flows of the hedged item. Any ineffective portion of a derivative instrument's change in fair value is immediately recognized in earnings.

Critical Accounting Policy

The Company's critical accounting policy relates to the allowance for losses on loans. It is based on management's opinion of an amount that is adequate to absorb losses in the existing portfolio. The allowance for credit losses is established through a provision for loss based on management's evaluation of the risk inherent in the loan portfolio, the composition of the portfolio, specific impaired loans and current economic conditions. Such evaluation, which includes a review of all loans on which full collectibility may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loan loss experience, management's estimate of probable credit losses and other factors that warrant recognition in providing for an adequate credit loss allowance.

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Part I. Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Consolidated net income increased for the three month period ended September 30, 2002 to $1,056,156 from $930,509 for the three month period ended September 30, 2001. Earnings were favorably impacted by an increase in the outstanding loan portfolio. The Company's Nicholas Data Services subsidiary did not contribute significantly to consolidated operations in the three or six month periods ended September 30, 2002 or 2001.

Portfolio Summary

	Three months ended September 30,		Six months ended September 30,	
	2002	2001	2002	2001
Average Net Finance Receivables (1)	$97,378,535	$83,284,788	$95,579,869	$81,937,694
Average Indebtedness(2)	57,165,923	50,374,767	56,373,558	50,158,101
Total Finance Revenue(3)	5,492,139	4,857,907	10,725,488	9,389,658
Interest Expense	967,632	1,010,581	1,931,695	2,006,413
Net Finance Revenue	4,524,507	3,847,326	8,793,793	7,383,245
Gross Portfolio Yield(4)	22.56%	23.33%	22.44%	22.92%
Average Cost of Borrowed Funds(2)	6.77%	8.02%	6.85%	8.00%
Net Interest Spread(5)	15.79%	15.31%	15.59%	14.92%
Provision for Credit Losses as a Percentage of Average Net Finance Receivables	2.39%	2.05%	2.36%	1.90%
Net Portfolio Yield(4)	16.19%	16.42%	16.04%	16.12%

Operating Expenses as a Percentage of Average Net Finance Receivables (6)	9.21%	9.17%	9.07%	8.97%
Pre-tax Yield as a Percentage of Average Net Finance Receivables(7)	6.98%	7.25%	6.97%	7.15%
Write-off to Liquidation(8)	9.29%	9.37%	8.60%	8.38%
Net Charge-Off Percentage(9)	7.97%	8.24%	7.47%	7.30%

See accompanying notes.

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(1) Average net finance receivables represents the average of net finance receivables throughout the period. Net finance receivables represents gross finance receivables less any unearned finance charges related to those receivables.

(2) Average indebtedness represents the average outstanding borrowings under the Line of Credit and notes payable-related party. Average cost of borrowed funds represents interest expense as a percentage of average indebtedness.

(3) Does not include revenue generated by the Company's software subsidiary "NDS". See page 13 for detail on NDS revenue for the three months ended September 30, 2002 and 2001, respectively. See page 14 for detail on NDS revenue for the six months ended September 30, 2002 and 2001, respectively.

(4) Gross portfolio yield represents total finance revenues as a percentage of average net finance receivables. Net portfolio yield represents net finance revenue income minus the provision for credit losses as a percentage of average net finance receivables.

(5) Net interest spread represents the gross portfolio yield less the average cost of borrowed funds.

(6) Does not include operating expenses associated with the Company's software subsidiary "NDS". See page 13 for detail on NDS cost of sales and operating expenses for the three months ended September 30, 2002 and 2001, respectively. See page 14 for detail on NDS cost of sales and operating expenses for the six months ended September 30, 2002 and 2001, respectively.

(7) Pre-tax yield represents net portfolio yield minus operating expenses as a percentage of interest earning assets

(8) Liquidation is defined as beginning receivable balance plus current period purchases minus voids and

refinances minus ending receivable balance.

(9) Net charge-off percentage represents net charge-offs divided by average net finance receivables outstanding during the period.

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Three months ended September 30, 2002 compared to three months ended September 30, 2001

Interest Income and Loan Portfolio

Interest revenue increased 13% to $5.5 million for the period ended September 30, 2002, from $4.9 million for the period ended September 30, 2001. The net finance receivable balance totaled $81.5 million at September 30, 2002, an increase of 18% from the $69.2 million at September 30, 2001. The primary reason net finance receivables increased was the increase in the receivable base of several existing branches and the opening of three additional branch locations. The gross finance receivable balance increased 18% to $129.6 million at September 30, 2002 from $109.8 million at September 30, 2001. The primary reason interest revenue increased was the increase in the outstanding loan portfolio. The gross portfolio yield decreased from 23.33% for the period ended September 30, 2001 to 22.56% for the period ended September 30, 2002. The net portfolio yield decreased from 16.42% for the period ended September 30, 2001 to 16.19% for the period ended September 30, 2002. The primary reason for the decrease in the net portfolio yield was an increase in the provision for credit losses for the period ended September 30, 2002 of 2.39% of interest earning assets from 2.05% for the period ended September 30, 2001.

Computer Software Business

Sales for the period ended September 30, 2002 were $92,939 compared to $89,922 for the period ended September 30, 2001, an increase of 3%. This increase was primarily due to higher revenue from the existing customer base. Cost of sales and operating expenses decreased from $105,682 for the period ended September 30, 2001 to $96,460 for the period ended September 30, 2002.

Operating Expenses

Operating expenses, excluding provision for credit losses and interest expense, increased to $2.3 million for the period ended September 30, 2002 from $2.0 million for the period ended September 30, 2001. This increase of 16% was primarily attributable to the additional staffing of several existing branches, increased general operating expenses and the opening of three additional branch offices. Operating expenses as a percentage of interest earning assets increased from 9.17% for the period ended September 30, 2001 to 9.21% for the period ended September 30, 2002.

Interest Expense

Interest expense decreased to $967,632 for the period ended September 30, 2002 as compared to $1,010,581 for the period ended September 30, 2001. The average indebtedness for the period ended

September 30, 2002 increased to $57.2 million compared to $50.4 million for the period ended September 30, 2001. This increase was offset by a decrease in the average cost of outstanding borrowings from 8.02% during the three months ended September 30, 2001 to 6.77% during the three months ended September 30, 2002.

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Six months ended September 30, 2002 compared to six months ended September 30, 2001

Interest Income and Loan Portfolio

Interest revenue increased 14% to $10.7 million for the period ended September 30, 2002, from $9.4 million for the period ended September 30, 2001. The net finance receivable balance totaled $81.5 million at September 30, 2002, an increase of 18% from the $69.2 million at September 30, 2001. The primary reason net finance receivables increased was the increase in the receivable base of several existing branches and the opening of three additional branch locations. The gross finance receivable balance increased 18% to $129.6 million at September 30, 2002 from $109.8 million at September 30, 2001. The primary reason interest revenue increased was the increase in the outstanding loan portfolio. The gross portfolio yield decreased from 22.92% for the period ended September 30, 2001 to 22.44% for the period ended September 30, 2002. The net portfolio yield decreased from 16.12% for the period ended September 30, 2001 to 16.04% for the period ended September 30, 2002. The primary reason for the decrease in the net portfolio yield was an increase in the provision for credit losses for the period ended September 30, 2002 of 2.36% of interest earning assets from 1.90% for the period ended September 30, 2001.

Computer Software Business

Sales for the period ended September 30, 2002 were $175,315 compared to $189,042 for the period ended September 30, 2001, a decrease of 7%. This decrease was primarily due to lower revenue from the existing customer base during the first quarter of the fiscal year. Cost of sales and operating expenses decreased from $204,049 for the period ended September 30, 2001 to $193,166 for the period ended September 30, 2002.

Operating Expenses

Operating expenses, excluding provision for credit losses and interest expense, increased to $4.5 million for the period ended September 30, 2002 from $3.9 million for the period ended September 30, 2001. This increase of 17% was primarily attributable to the additional staffing of several existing branches, increased general operating expenses and the opening of 3 additional branch offices. Operating expenses as a percentage of interest earning assets increased from 8.97% for the period ended September 30, 2001 to 9.07% for the period ended September 30, 2002.

Interest Expense

Interest expense decreased to $1.9 million for the period ended September 30, 2002 as compared to $2.0 million for the period ended September 30, 2001. The average indebtedness for the period ended September 30, 2002 increased to $56.4 million compared to $50.2 million for the period ended September 30, 2001. This increase was offset by a decrease in the average cost of outstanding borrowings from 8.00% during the six months ended September 30, 2001 to 6.85% during the six months ended September 30, 2002.

Analysis of Credit Losses

Because of the nature of the borrowers under the Contracts and its direct consumer loan program, the Company considers the establishment of adequate reserves for credit losses to be imperative. The Company segregates its Contracts into pools for purposes of establishing reserves for losses. Each such pool consists of the loans purchased by a Company branch office during a three month period. The average pool consists of 72 Contracts with an aggregate initial principal amount of approximately $588,726. As of September 30, 2002, the Company had 395 active pools.

The Company pools Contracts according to branch location because the branches purchase contracts in different markets located in Florida, Georgia, North Carolina, South Carolina and Ohio. All Contracts purchased by a branch during a fiscal quarter comprise a pool. This method of pooling by branch and quarter allows the Company to evaluate the different markets where the branches operate. The pools also allow the Company to evaluate the different levels of customer income, stability, credit history, and the types of vehicles purchased in each market.

A pool retains an amount equal to 100% of the discount into a reserve for credit losses. In situations where, at the date of purchase, the discount is determined to be insufficient to absorb all potential losses associated with the pool, a portion of future unearned income associated with that specific pool will be added to the reserves for credit losses until total reserves have reached the appropriate level. Subsequent to the purchase, if the reserve for credit losses is determined to be inadequate for a pool which is not fully liquidated, then a charge to income is used to reestablish adequate reserves. If a pool is fully liquidated and has any remaining reserves, the excess reserves are accreted into income.

In analyzing a pool, the Company considers the performance of prior pools originated by the branch office, the performance of prior Contracts purchased from the dealers whose Contracts are included in the current pool, the credit rating of the borrowers under the Contracts in the pool, and current market and economic conditions. Each pool is analyzed monthly to determine if the loss reserves are adequate, and adjustments are made if they are determined to be necessary. As of September 30, 2002, the Company had established reserves for losses on Contracts of $16,831,493 or 13.49% of gross outstanding receivables under the Contracts.

The following tables present certain information regarding the delinquency rates experienced by the Company with respect to Contracts and under its direct consumer loan program:

	Three Months Ended September 30, 2002		Three Months Ended September 30, 2001	
Contracts				
Gross Balance Outstanding	$124,728,292		$105,378,020	
Delinquencies	Dollar Amount	Percent*	Dollar Amount	Percent*
30 to 59 days	$2,538,101	2.03%	$2,472,836	2.35%
60 to 89 days	733,604	0.59%	733,846	0.70%
90 + days	325,314	0.26%	242,889	0.23%
Total Delinquencies	$3,597,019		$3,449,571	
*Total Delinquencies as percent of outstanding balance		2.88%		3.28%
Direct Loans				
Gross Balance Outstanding	$4,829,199		$4,399,201	
Delinquencies				
30 to 59 days	$72,985	1.51%	$76,561	1.74%
60 to 89 days	14,414	0.30%	5,414	0.12%
90 + days	13,150	0.27%	6,187	0.14%
Total Delinquencies	$100,549		$88,162	
*Total Delinquencies as a percent of outstanding balance		2.08%		2.00%

The provision for credit losses was $582,138 for the three month period ended September 30, 2002 and 1,129,204 for the six month period ended September 30, 2002 as compared to $427,776 for the three month period ended September 30, 2001 and 780,425 for the six month period ended September 30, 2001. The Company's total reserve percentage increased from 12.92% for the period ended March 31, 2002 to 13.15% for the period ended September 30, 2002. Management believes that the reserve adjustments made during the three and six month period ended September 30, 2002 are consistent with its reserve methodology.

Income Taxes

The Company's effective tax rate remained relatively consistent at 37.77% and 37.52% for the three and six month periods ended

September 30, 2002 compared to 37.70% and 37.80% for the three and six months ended September 30, 2001.

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Liquidity and Capital Resources

The Company's cash flows for the six months ended September 30, 2002 and September 30, 2001 are summarized as follows:

	Six months ended September 30, 2002	Six months ended September 30, 2001
Cash provided by (used in):		
Operating Activities -	$ 2,844,157	$ 2,576,332
Investing Activities - (primarily purchase of Contracts)	(6,698,417)	(5,034,448)
Financing Activities	4,401,224	2,264,488
Net increase(decrease)in cash	546,964	(193,628)

The Company's primary use of working capital during the three months ended September 30, 2002 was the funding of the purchase of Contracts. The Contracts were financed substantially through borrowings on the Company's Line of Credit. The Line of Credit is secured primarily by Contracts, and available borrowings are based on a percentage of qualifying Contracts. As of September 30, 2002 the Company had approximately $17.5 million available under the Line of Credit. Since inception, the Company has also funded a portion of its working capital needs through cash flows from operating activities.

The self-liquidating nature of installment Contracts and other loans enables the Company to assume a higher debt-to-equity ratio than in most businesses. The amount of debt the Company incurs from time to time under these financing mechanisms depends on the Company's need for cash and it's ability to borrow under the terms of its Line of Credit. The Company believes that borrowings available under the Line of Credit as well as cash flow from operations and, if necessary, the issuance of additional subordinated debt and, or the sale of additional securities in the capital markets, will be sufficient to meet its short term funding needs.

The Company renewed its credit facility on June 28, 2002. The new loan agreement expires November 30, 2004 and bears interest at the prime rate plus .25% and offers several LIBOR pricing options. The new loan agreement released Bank One as a participating bank and added First Tennessee Bank. The Company is pleased with its new banking relationship and believes it will be beneficial for future expansion.

Future Expansion

The Company currently operates twenty-five branch locations, sixteen in the State of Florida, three in the State of Georgia, three in the State of North Carolina, one in the state of South Carolina and two in the state of Ohio. Each office is budgeted (size of branch, number of employees and location) to handle up to 1,000 accounts and up to $7,500,000 in outstanding receivables. To date two of our branches have reached this capacity.

The Company currently intends to continue its expansion through the purchase of additional Contracts and the expansion of its direct consumer loan program. In order to increase the size of the Company's portfolio of Contracts, it will be necessary for the Company to open additional branch offices and increase the size of its revolving Line of Credit arrangement, either with its current lender or another lender. The Company, from time to time, has and will meet with private investors and financial institutions that specialize in investing in subordinated debt. The Company also intends to continue its policy of not paying dividends and using earnings from operations to purchase Contracts or make direct consumer loans. The Company believes that opportunity for growth continues to exist in Florida, Georgia, North Carolina, South Carolina and Ohio and intends to continue its expansion activities in those states. The Company is currently expanding its automobile financing program in the State of Ohio. The Company has targeted certain geographic locations within the State of Ohio where it believes there is a sufficient market for its automobile financing program. The Company is currently purchasing Contracts in the State of Ohio utilizing employees who reside in the State of Ohio. These employees are developing their respective markets in Ohio and the Company has created a Central Buying Office in its Corporate Headquarters in Clearwater Florida to purchase, process and service these Contracts. The Company's strategy is to monitor these new markets and ultimately decide where and when to open actual branch locations. No assurances can be given, however, that any further such expansion will occur. The Company is also analyzing other markets in States the Company does not currently operate in, however no assurance can be given that any expansion will occur in these new markets.

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Forward-Looking Information

This 10-QSB contains various forward-looking statements and information that are 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 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 have a direct bearing on the Company's operating results are fluctuations in the economy, the degree and nature of competition, demand for consumer financing in the markets served by the Company, the Company's products and services, increases in the default rates experienced on Contracts, adverse regulatory changes in the Company's existing and future markets, 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.

Part I. Item 3

DISCLOSURES AND CONTROLS

(a) Evaluation of disclosure controls and procedures. The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the chief executive officer and the chief financial officer of the Company concluded that the Company's disclosure controls and procedures were adequate.

(b) Changes in internal controls. The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the chief executive officer and chief financial officer.

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Part II - Other Information

Item 1. Legal Proceedings - None

Item 2. Changes in Securities - None

Item 3. Defaults upon Senior Securities - None

Item 4. Submission of Matters to a Vote of Security Holders - None

Item 5. Other Information - None

Item 6. (a) Exhibits - See exhibit index following the signature page.

(b) Reports on Form 8-K - None

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SIGNATURES

In accordance with the requirements of the Securities Act of 1934, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form 10-QSB and authorized this Report to be signed on its behalf by the undersigned, in the City of Clearwater, State of Florida, on November 13, 2002.

NICHOLAS FINANCIAL, INC.
(Registrant)

Date: November 13, 2002 /s/Peter L. Vosotas

Peter L. Vosotas
Chairman, President,
Chief Executive Officer
(Principal Executive Officer)

Date: November 13, 2002 /s/Ralph T. Finkenbrink

Ralph T. Finkenbrink
(Principal Financial Officer
and Accounting Officer)

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CERTIFICATION

I, Peter L. Vosotas, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Nicholas Financial, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls;

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date or our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002   /s/ Peter L. Vosotas

Peter L. Vosotas
President & CEO

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CERTIFICATION

I, Ralph T. Finkenbrink, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Nicholas Financial, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the

registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls;

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date or our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/Ralph T. Finkenbrink
Ralph T. Finkenbrink
Senior Vice President

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EXHIBIT INDEX

Item 6. Exhibits and Reports on Form 8-K

3.1 Articles of Incorporation and By-Laws of Nicholas Financial, Inc. Incorporated by reference to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996

4.1 Stock Certificate

Incorporated by reference to Exhibit 4.1 to the Company's Form 10-SB (File No. 0-26680) filed on

March 13, 1996

10.1.1 Loan and Security Agreement dated March 31, 1993 between BA Business Credit, Inc. and Nicholas Financial, Inc.

Incorporated by reference to Exhibit 10.1.1 to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996

10.1.2 Amendment No. 1 to Loan Agreement dated January 14, 1994

Incorporated by reference to Exhibit 10.1.2 to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996

10.1.3 Temporary Line Increase Agreement dated Mach 28, 1994

Incorporated by reference to Exhibit 10.1.3 to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996

10.1.4 Amendment No. 2 to Loan Agreement dated June 3, 1994

Incorporated by reference to Exhibit 10.1.4 to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996

10.1.5 Amendment No. 3 to Loan Agreement dated July 5, 1994

Incorporated by reference to Exhibit 10.1.5 to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996

10.1.6 Amendment No. 4 to Loan Agreement dated March 31, 1995

Incorporated by reference to Exhibit 10.1.6 to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996

10.1.7 Amendment No. 5 to Loan Agreement dated July 13, 1995

Incorporated by reference to Exhibit 10.1.7 to the Company's Form 10-KSB for the fiscal year ended March 31, 1996

10.1.8 Amendment No. 6 to Loan Agreement dated May 13, 1996

Incorporated by reference to Exhibit 10.1.8 to the Company's Form 10-QSB for the three months ended June 30, 1996

10.1.9 Amendment No. 7 to Loan Agreement dated July 5, 1997

Incorporated by reference to Exhibit 10.1.9 to the Company's Form 10-QSB for the three months ended September 30, 1997

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10.1.10 Amendment No. 8 to Loan Agreement dated September 18, 1998

Incorporated by reference to Exhibit 10.2.0 to the Company's Form 10-QSB for the three months ended September 30, 1998

10.1.11 Amendment No. 9 to Loan Agreement dated November 25, 1998

Incorporated by reference to Exhibit 10.2.1 to the Company's Form 10-QSB for the three months ended December 31, 1998

10.1.12 Amendment No. 10 to Loan Agreement dated November 24, 1999

Incorporated by reference to Exhibit 10.2.2 to the Company's Form 10-QSB for the three months ended December 31, 1999

10.1.13 Amendment No. 11 to Loan Agreement dated August 1, 2000

Incorporated by reference to Exhibit 10.1.13 to the Company's Form 10-KSB for the year ended March 31, 2001

10.1.14 Amendment No. 12 to Loan Agreement dated March 16, 2001

Incorporated by reference to Exhibit 10.1.14 to the Company's Form 10-KSB for the year ended March 31, 2001

10.3.1 Employee Stock Option Plan

Incorporated by reference to the Company's 1999 Annual proxy statement dated June 29, 1999

10.3.2 Non-Employee Stock Option Plan

Incorporated by reference to the Company's 1999 Annual proxy statement dated June 29, 1999

10.4.1 Employment Contract, dated November 22, 1999, between Nicholas Financial, Inc. and Ralph Finkenbrink, Senior Vice President of Finance.

Incorporated by reference to Exhibit 10.2.1 to the Company's Form 10-QSB for the three months ended December 31, 1999

10.4.2 Employment Contract, dated March 16, 2001, between Nicholas Financial, Inc. and Peter L. Vosotas President & Chief Executive Officer.

Incorporated by reference to the Company's 2001 Annual

	proxy statement dated July 2, 2001
21	Subsidiaries of Nicholas Financial, Inc. Incorporated by reference to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996
24	Powers of Attorney (included on signature page hereto)
99.1	Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C. 1350
99.2	Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C. 1350

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Exhibit 99.1

Written Statement of the Chief Executive Officer
Pursuant to 18 U.S.C. 1350

Solely for the purposes of complying with 18 U.S.C. 1350, I , the undersigned Chief Executive Officer of Nicholas Financial, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-QSB of the Company for the quarter ended September 30, 2002 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/Peter L. Vosotas

Peter L. Vosotas
Chief Executive Officer
November 13, 2002

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Exhibit 99.2

Written Statement of the Chief Financial Officer
Pursuant to 18 U.S.C. 1350

Solely for the purposes of complying with 19 U.S.C. 1350, I , the undersigned Chief Financial Officer of Nicholas Financial, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-QSB of the Company for the quarter ended September 30, 2002 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/Ralph T. Finkenbrink

Ralph T. Finkenbrink
Chief Executive Officer
November 13, 2002