NICHOLAS FINANCIAL INC
Form 10QSB
August 14, 2003

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 JUNE 30, 2003

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 July 31st, 2003 there were 5,043,488 shares of common stock outstanding

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Part I. Item 1

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

	June 30, 2003
Assets	
Cash	$ 733,285
Finance receivables, net	89,699,998
Accounts receivable	13,150
Assets held for resale	421,987

Prepaid expenses and other assets	339,036
Property and equipment, net	510,078
Deferred income taxes	3,135,787
Total assets	$94,853,321
Liabilities	
Line of Credit	$61,960,238
Drafts Payable	691,560
Notes payable - related party	807,468
Accounts payable and accrued liabilities	3,349,529
Derivatives	2,623,825
Income taxes payable	1,511,906
Deferred revenues	909,168
Total liabilities	71,853,694
Shareholders' equity	
Preferred stock, no par: 5,000,000 shares authorized;none issued and outstanding	-
Common stock, no par: 50,000,000 shares authorized; 5,010,421 shares issued and outstanding	4,460,173
Other comprehensive loss	(1,666,614)
Retained earnings	20,206,068
	22,999,627
Total liabilities and shareholders' equity	$94,853,321

See accompanying notes.

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

	Three months ended June 30	
	2003	2002
Revenue:		
Interest income on finance receivables	$5,988,473	$5,233,349
Sales	71,558	82,376
	6,060,031	5,315,725
Expenses:		
Cost of sales	17,074	17,168
Marketing	211,232	153,481
Administrative	2,315,877	1,981,858
Provision for credit losses	579,999	547,066

Depreciation and amortization	69,718	37,000
Interest expense	987,328	964,063
	4,181,228	3,700,636
Operating income before income taxes	1,878,803	1,615,089
Income tax expense:		
Current	1,592,107	820,121
Deferred	(879,279)	(218,197)
	712,828	601,924
Net income	$1,165,975	$1,013,165
Earnings per share - basic	$0.23	$0.20
Earnings per share - diluted	$0.22	$0.19

See accompanying notes.

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

	Three months ended June 30 2003	2002
Operating activities		
Net income	$ 1,165,975	$ 1,013,165
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	69,718	37,000
Provision for credit losses	579,999	547,066
Deferred income taxes	(879,279)	28,675
Changes in operating assets and liabilities:		
Accounts receivable	3,078	2,174
Prepaid expenses and other assets	(21,551)	(251,305)
Accounts payable and accrued liabilities	278,653	(284,879)
Drafts payable	27,040	(71,648)
Income taxes payable	1,406,031	552,061
Deferred revenues	(7,721)	114,325
Net cash provided by operating activities	2,621,943	1,686,634
Investing activities		
Purchase and origination of finance contracts	(17,619,385)	(15,312,018)
Principal payments received	13,555,378	12,430,856

Purchase of property and equipment, net of disposals	(112,200)	(49,630)
Net cash used in investing activities	(4,176,207)	(2,930,792)
Financing activities		
(Repayment) issuance of notes payable - related party	(1,142)	6,458
Net proceeds from line of credit	1,800,000	1,860,000
Sale of common stock	7,480	30,448
Net cash provided by financing activities	1,806,338	1,896,906
Net increase in cash	252,074	652,748
Cash, beginning of period	481,211	51,239
Cash, end of period	$ 733,285	$ 703,987

See accompanying notes.

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

June 30, 2003

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, as amended. 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 three months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending March 31, 2004. For further information, refer to the condensed consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal year ended March 31, 2003.

2. Revenue Recognition

Interest income on finance receivables is recognized using the interest method. Accrual of interest income on finance receivables is suspended when a loan is contractually delinquent for 60 days or more or the collateral is repossessed, whichever is earlier.

The Company attributes all of its dealer discount and a portion of unearned income to a reserve for credit losses. Such amounts reduce the interest recognized over the life of the contract. The Company receives a commission for selling add-on services to consumer borrowers and amortizes the commission, net of the related costs, over the term of the loan using the interest method. The Company's net fees charged for processing a loan are recognized as an adjustment to the yield and are amortized over the life of the loan using the interest method.

The amount of future unearned income represents the amount of finance charges the Company expects to fully earn over the life of the current portfolio, and is computed as the product of the contract rate, the contract term, and the contract amount. The Company aggregates the contracts purchased during a three-month period for all of its branch locations. After the analysis of purchase date accounting is complete, any uncollectable amounts would be contemplated in the allowance for credit losses.

3. 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)

3. Earnings Per Share (continued)

	Three months ended June 30, 2003	2002
Numerator:		
Numerator for basic and dilutive earnings per share available to common stockholders	$1,165,975	$1,013,165
Denominator:		
Denominator for basic earnings per share - weighted average shares	5,006,926	4,998,364
Effect of dilutive securities: Employee stock options	293,531	343,819
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	5,300,458	5,342,183
Earnings per share - basic	$0.23	$0.20

Earnings per share - diluted	$0.22	$0.19

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

4. Finance Receivables

The Company charges-off receivables when an individual account has become more than 120 days contractually delinquent. In the event of a repossession the charge-off will occur in the month in which the vehicle was repossessed.

Costs associated with repossession, transport and auction preparation expenses are charges reported under operating expenses in the period in which they were incurred. The Company maintains full responsibility for repossessions. There is no relationship between the Company and the dealer with respect to a given contract once the assignment of that contract is complete. The dealer has no vested interest in the performance of any installment contract the Company purchases.

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

Finance receivables, gross contract	$143,170,416
Less:	
Unearned interest	(34,174,937)
	108,995,479
Dealer discounts	(13,358,345)
Allowance for credit losses	(5,937,136)
Finance receivables, net	$ 89,699,998

The terms of the receivables range from 12 to 66 months and bear a weighted average effective interest rate of 24%.

5. 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 twenty-five basis points. 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. As of June 30, 2003 the outstanding amount of the credit facility was $61,960,238, the amount available under the line of credit was $13,039,762. As of June 30, 2003 the Company was in full compliance of all debt covenants.

6. Notes Payable - Related Party

The Company has unsecured notes totaling $807,468. The notes bear an interest rate of 8.87% and are due upon 30-day demand.

7. Derivatives and Hedging

The Company is party to interest rate swap agreements which are derivative instruments. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk, such as interest rate risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of the future cash flows of the hedged item, if any, is recognized in current earnings during the period of change.

The Company has entered into interest rate swap agreements that effectively convert a portion of its floating-rate debt to a fixed-rate basis, thus reducing the impact of interest rate changes on future interest expense. At June 30, 2003, approximately $50,000,000 of the Company's borrowings have been designated as the hedged items to interest rate swap agreements. Under the swap agreements, the Company received an average variable rate of 3.56% and paid an average fixed rate of 6.35% during the three months ended June 30, 2003. A loss of $1,666,614 related to the fair value of the swaps at June 30, 2003 has been recorded in the caption derivatives on the balance sheet. Amounts of net losses on derivative instruments expected to be reclassified from comprehensive income to earnings in the next 12 months are not expected to be material. The Company has also entered into three forward locking swaps disclosed in the table below.

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

Date Entered	Effective Date	Notional Amount	Fixed Rate Of Interest	Maturity Date
August 19,1999	August 19, 1999	$10,000,000	5.80%	August 1,2003
May 17, 2000	May 17, 2000	10,000,000	6.87%	May 17, 2004
October 5, 2001	October 5, 2001	10,000,000	3.85%	October 5, 2004

June 28, 2002	June 28, 2002	10,000,000	3.83%	July 2, 2005
January 6, 2003	April 2, 2003	10,000,000	3.35%	April 2, 2007
January 31, 2003	August 1, 2003	10,000,000	3.20%	August 2, 2006
February 26, 2003	May 17, 2004	10,000,000	3.91%	May 19, 2008

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

The Company utilizes the above noted 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. There has historically been no ineffectiveness associated with the Company's hedges.

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

8. Stock Options

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" which amends FASB Statement No. 123. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based-employee compensation. SFAS 148 also amends the disclosure requirements of SFAS 123 to require more prominent and more frequent disclosures in financial statements concerning the effects of stock-based compensation. The effective date of SFAS 148 is for fiscal years ending after December 15, 2002.

The Company has an employee stock incentive plan (the SIP) for officers, directors and key employees under which 585,866 shares of common stock were reserved for issuance as of June 30, 2003. Options currently granted by the Company generally vest over a five-year period.

Previous to FAS 148 the Company had elected to follow APB 25, and related Interpretations in accounting for its employee stock options because the alternative, fair value method, provided for under FAS 123 requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, if the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The following table contains the pro forma net income and basic and fully diluted earnings per share under the fair value method. The fair value method uses the Black-Scholes option-pricing model to determine compensation expense associated with the Company's options.

Three Months Ended June 30

	2003	2002
Net income	$1,165,975	$1,013,165
Basic earnings per share	$0.23	$0.20
Fully diluted earnings per share	$0.22	$0.19
Stock based employee compensation cost under the Fair Value Method	$12,012	$24,209
Pro forma net income	$1,153,963	$988,956
Pro forma basic earnings per share	$.23	$.20
Pro forma fully diluted earnings per share	$.22	$.19

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

9. Comprehensive Income

The Company is party to interest rate swap agreements which are derivative instruments. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk, such as interest rate risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

The following table reconciles net income with comprehensive income for the three months ended June 30, 2003 and 2002, respectively.

	June 30, 2003	June 30, 2002
Net Income	$1,165,975	$1,013,165
Mark to market interest rate swaps	(264,269)	(246,872)
Comprehensive income	$901,706	$766,293

10. Subsequent events

On August 11th, 2003 the Company announced its Board of Directors has approved a $.10 per share cash dividend payable semi-annual at the rate of $.05 per share. The record date has been set for September 8, 2003 and the payment date is September 22, 2003.

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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 June 30, 2003 to $1,165,975 from $1,013,165 for the three-month period ended June 30, 2002. Earnings were favorably impacted by an increase in the outstanding loan portfolio. The Company's NDS subsidiary did not contribute significantly to consolidated operations in the three-month periods ended June 30, 2003 or 2002.

Select Portfolio Information	Three months ended June 30, 2003	2002
Average Net Finance Receivables(1)	$107,212,467	$93,781,204
Average Indebtedness(2)	62,239,301	55,581,193
Total Finance Revenue(3)	5,988,473	5,233,349
Interest Expense	987,328	964,063
Net Finance Revenue	5,001,145	4,269,286
Weighted average Contractual rate(5)	23.90%	23.93%
Gross Portfolio Yield (4)	22.34%	22.32%
Average Cost of Borrowed Funds(2)	6.35%	6.94%
Provision for Credit Losses as a Percentage of Average Net Finance Receivables	2.16%	2.33%
Net Portfolio Yield(4)	16.49%	15.88%
Operating Expenses as a Percentage of Average Net Finance Receivables(6)	9.43%	8.85%
Pre-tax Yield as a Percentage of Average Net Finance Receivables(7)	7.06%	7.03%
Write-off to Liquidation (8)	7.76%	7.90%
Net Charge-Off Percentage (9)	6.64%	6.95%

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(1) Average net finance receivables represent 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 of $71,558 and $82,376 associated with the Company's software subsidiary "NDS for the three months ended June 30, 2003 and 2002, 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) Weighted average contractual rate represents the weighted average Annual percentage rate (APR) of all Contracts in the portfolio during the period.

(6) Does not include operating expenses of $86,555 and $113,875 associated with the Company's software subsidiary "NDS for the three months ended June 30, 2003 and 2002, 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 June 30, 2003 compared to three months ended June 30, 2002

Interest Income and Loan Portfolio

Interest revenue increased 14% to $6.0 million for the period ended June 30, 2003, from $5.2 million for the period ended June 30, 2002. The net finance receivable balance totaled $89.7 million at June 30, 2003, an increase of 14% from the $78.4 million at June 30, 2002. The primary reason net finance receivables increased was the increase in the receivable base of several existing branches and the opening of five additional branches. The gross finance receivable balance increased 15% to $143.2 million at June 30, 2003 from $124.6 million at June 30, 2002. The primary reason interest revenue increased was the increase in the outstanding loan portfolio. The gross portfolio yield increased from 22.32% for the period ended June 30, 2002 to 22.34% for the period ended June 30, 2003.

Computer Software Business

Sales for the period ended June 30, 2003 were $71,558 compared to $82,376 for the period ended June 30, 2002, a decrease of 13%. This decrease was primarily due to lower revenue from the existing customer base and the continued emphasis on the finance subsidiary.

Operating Expenses

Operating expenses, excluding provision for credit losses and interest expense, increased to $2.6 million for the period ended June 30, 2003 from $2.2 million for the period ended June 30, 2002. This increase of 19% was primarily attributable to the additional staffing of several existing branches, the opening of five additional branches and increased general operating expenses.

Interest Expense

Interest expense increased to $987,328 for the period ended June 30, 2003 as compared to $964,063 for the period ended June 30, 2002. This increase was due to the increase in the amount of average indebtedness from $55.6 million for the three months ended June 30, 2002 to $62.2 million for the three months ended June 30, 2003. This increase was offset in part due to a reduction in the average cost of outstanding borrowings from 6.94% for the three months ended June 30, 2002 to 6.35% for the three months ended June 30, 2003.

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Contract Procurement

The Company purchases contracts in the states listed below. The amounts shown in the table below represent the total face value of contracts acquired. The Company has fifteen branch locations in Florida and does not have any immediate plans for additional expansion in Florida. The Company has been expanding its contract procurement in North Carolina, South Carolina, Ohio and Michigan. Please see Future Expansion.

The Contracts purchased by the Company are predominately for used vehicles, less than 3% were new. The average model year collateralizing the portfolio is a 1998 vehicle. Contracts purchased and originated are shown at face value.

State	Maximum allowable Interest rate (1)	Three Months Ended 6/30/03	6/30/02
FL	30%	$10,148,495	$9,616,464
GA	29%	2,331,056	1,805,361
NC	29%	1,998,035	2,008,000
SC	29%	760,698	520,762
OH	25%	3,125,301	1,574,553
MI	25%	455,534	-
VA	29%	17,040	46,642
Total		$18,836,159	$15,571,782

(1) The allowable maximum interest rates by State is subject to change and are governed by the individual states the Company conducts business in.

Indirect Contracts Purchased	Three Months Ended 6/30/03	6/30/02
Purchases	$18,836,159	$15,571,782
Weighted APR	24.00%	24.62%
Average Discount	8.96%	8.83%
Weighted average Term (months)	44	44
Average Loan	$8,186	$8,110
Number of Contracts	2,301	1,920

Direct Loans Originated	Three Months Ended 6/30/03	6/30/02
Originations	$941,223	$1,115,092
Weighted APR	26.50%	25.78%
Weighted average Term(months)	27	30
Average Loan	$2,878	$3,195
Number of Loans	327	349

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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 74 Contracts with an aggregate initial principal amount of approximately $600,000. As of June 30, 2003, the Company had 442 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, Ohio and Michigan. 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.

Contracts are purchased from many different dealers and are all purchased on an individual contract by contract basis. Individual contract pricing is determined by the automobile dealerships and is generally the lesser of State maximum interest rates or the maximum interest rate at which the customer will accept. In certain markets, competitive forces will drive down contract rates from the maximum rate to a level where an individual competitor is willing to buy an individual contract. The Company only buys contracts on an individual basis and never purchases contracts in batches.

Dealer discount represents the difference between the face value of an installment contract and the amount of money the Company actually pays for the contract. The discount negotiated by the Company is a function of the credit quality of the customer and the wholesale value of the vehicle. The automotive dealer accepts these terms by executing a dealer agreement with the Company. The entire amount of discount relates to credit quality, and is therefore considered to be part of the credit loss reserve. The Company utilizes a static pool approach to track portfolio performance. A static 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 through the provision is used to reestablish adequate reserves. If a pool is fully liquidated and has any remaining reserves, the excess reserves are immediately recognized into income. For pools not fully liquidated, that are determined to have excess reserves, such excess amounts are accreted into income over the remaining life of the pool. Reserves accreted into income for the period ended June 30, 2003 were $524,125 compared to $581,051 in the period ended June 30, 2002.

The Company has definitive underwriting guidelines it utilizes to determine which contracts to purchase. These guidelines are very specific and result in all loan purchases having common risk characteristics. The Company utilizes its District Managers to evaluate their respective branch locations for adherence to these underwriting guidelines. The Company also utilizes an internal audit department to assure adherence to its underwriting guidelines. The Company utilizes the branch model which allows for contract purchasing to be done on the branch level. Each Branch Manager will interpret the guidelines differently and as a result the common risk characteristics will be the same on an individual branch level but not necessarily compared to another branch.

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 June 30, 2003, the Company had established reserves for losses on Contracts of $19,094,465 or 13.75% of gross outstanding receivables under the Contracts.

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The Company has experienced higher losses in the last twelve months, however, not to the extent it had anticipated. This resulted in more mature static pools having reserves in excess of current estimates needed to liquidate these pools. The Company is in the process of accreting these excess reserves over the remaining life of the pools. The Company's overall reserve percentage has increased from 13.17% of gross receivables as of March 31, 2003 to 13.48% of gross receivables as of June 30, 2003. Management has concluded that the reserve level remains adequate.

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The following table sets forth a reconciliation of the changes in dealer discount on Contracts.

	Three months ended June 30, 2003	2002
Balance at beginning of period	$12,394,089	$11,259,898
Discounts acquired on new volume	3,067,849	2,542,434
Losses absorbed	(1,856,531)	(1,789,251)
Recoveries	277,063	249,029
Reserves accreted	(524,125)	(575,716)
Balance at end of period	$13,358,345	$11,686,394
Reserves as a percent of gross Finance receivables	9.62%	9.76%

The following table sets forth a reconciliation of the changes in the allowance for credit losses on Contracts.

	Three months ended June 30, 2003	2002
Balance at beginning of period	$5,428,681	$4,105,174
Current period provision	519,454	491,464
Losses absorbed	(212,015)	(143,892)
Balance at end of period	$5,736,120	$4,452,746
Reserves as a percent of gross Finance receivables	4.13%	3.72%

The following table sets forth a reconciliation of the changes in the allowance for credit losses on Direct loans.

	Three months ended June 30, 2003	2002
Balance at beginning of period	$176,126	$200,612
Current period provision	60,545	55,602
Losses absorbed	(41,250)	(30,596)
Recoveries	5,595	6,464
Reserves accreted	-	(5,335)
Balance at end of period	$201,016	$226,747
Reserves as a percent of gross Finance receivables	4.62%	4.62%
Total reserves at end of period	$19,295,481	$16,365,887

Reserves as a percent of gross Finance receivables	13.48%	13.13%

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The average dealer discount associated with new volume for the three months ended June 30, 2003 was 8.96% compared to 8.83% for the three months ended June 30, 2002. The Company does not consider these changes to be material and such changes are not the result of any change in buying philosophy or competition.

The provision for credit losses increased for the three months ended June 30, 2003 to $579,999 compared to $547,066 for the three months ended June 30, 2002. This increase is attributed to an increase in the Net Finance Receivable balance from $78.4 million at June 30, 2002 to $89.7 million at June 30, 2003. To a lesser extent, the provision for credit losses increased as a result of an increase in the charge off rate of certain static pools. These pools were reaching reserve levels below Company estimates to absorb future credit losses. In these instances, the Company increased reserves related to specific static pools through a direct charge to income through the provision.

The Company's losses as a percentage of liquidation decreased from 7.90% for the three months ended June 30, 2002 to 7.76% for the three months ended June 30, 2003. The Company believes portfolio performance will weaken if the labor market continues to produce further loss of jobs as evidenced by the July 2003 unemployment numbers released by the federal government. The Company does not believe there have been any significant changes in loan concentrations, terms or quality of contracts purchased during the three months ended that would have contributed to a change in the percentage of losses. The delinquency percentage for contracts more than thirty days past due for the three months ended June 30, 2003 increased to 2.66% from 2.42% for the three months ended June 30, 2002. The delinquency percentage for direct loans more than thirty days past due for the three months ended June 30, 2003 increased to 2.32% from 0.95% for the three months ended June 30, 2002. The Company does not give significant consideration to short-term trends in delinquency when evaluating reserve levels. Delinquency percentages tend to be very volatile and often are not necessarily an indication of future losses. The Company utilizes a static pool approach to analyze portfolio performance and looks at specific pool performance and recent trends as leading indicators to future performance of the portfolio.

Recoveries as a percentage of current year losses were 13.40% for the three months ended June 30, 2003 compared to 13.01% for the three months ended June 30, 2002. Recoveries as a percent of losses increased during the comparable quarters, however as the Company continues to expand, it expects recoveries as a percent of losses to decline. The Company anticipates difficulty in implementing its loss recovery model in geographic areas further away from the Company's origin.

Reserves accreted into income for the three months ended June 30, 2003 were $524,125 compared to $581,051 for the three months ended June 30, 2002. The amount and timing of reserves accreted into income is a function of individual static pool performance. The Company has seen some deterioration in the performance of the portfolio, more specifically; static pools more than fifty percent liquidated have seen an increase in the default rate when compared to prior year pool performance during their same liquidation cycle. The Company attributes this increase to overall general economic conditions and more specifically to the increased unemployment rate in the Company's markets.

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The current unemployment rate compared to last year has risen. The Company believes there is a correlation between the unemployment rate and future portfolio performance. The number of voluntary repossessions has increased slightly for the three months ended June 30, 2003 as compared to the three months ended June 30, 2002. The number of bankruptcy filings has also risen slightly during the three months ended June 30, 2003 as compared to the three months ended June 30, 2002. As a result of the above, the Company has raised its current reserve level to anticipate a modest decline in portfolio performance.

The amount of future unearned income represents the amount of finance charges the Company expects to fully earn over the life of the current portfolio, and is computed as the product of the contract rate, the contract term, and the contract amount. The Company aggregates the contracts purchased during a three-month period for all of its branch locations. After the analysis of purchase date accounting is complete, any uncollectable amounts would be contemplated in the allowance for credit losses.

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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 June 30, 2003		Three Months Ended June 30, 2002	
Contracts Gross Balance Outstanding	$138,823,707		$119,737,365	
Delinquencies	Dollar Amount	Percent*	Dollar Amount	Percent *
30 to 59 days	$ 2,647,022	1.91%	$ 1,896,347	1.59%
60 to 89 days	736,415	0.53%	827,527	0.69%
90 + days	307,405	0.22%	173,315	0.14%
Total Delinquencies	$3,690,842		$2,897,189	

*Total Delinquencies

as percent of outstanding balance		2.66%		2.42%
Direct Loans Gross Balance Outstanding	$ 4,346,709		$ 4,906,633	
Delinquencies				
30 to 59 days	$ 49,582	1.14%	$ 27,245	0.56%
60 to 89 days	12,760	0.29%	14,427	0.29%
90 + days	38,609	0.89%	5,042	0.10%
Total Delinquencies	$ 100,951		$ 46,714	
*Total Delinquencies as a percent of outstanding balance		2.32%		0.95%

The delinquency percentage for contracts more than thirty days past due for the three months ended June 30, 2003 was 2.66% compared to 2.42% for the three months ended June 30, 2002. The delinquency percentage for direct loans more than thirty days past due for the three months ended June 30, 2003 was 2.32% compared to 0.95% for the three months ended June 30, 2002.

The Company does not give much consideration to short-term trends in delinquency percentages when evaluating reserve levels. Delinquency percentages tend to be very volatile and often are not necessarily an indication of future losses. The Company estimates future portfolio performance by considering several factors. The most significant factors are described as follows. The Company analyzes historical static pool performance for each branch location when determining appropriate reserve levels. The Company utilizes internal branch audits as an indication to future static pool performance. (See pg.7 of the Company's March 31, 2003 10-KSB "Underwriting Guidelines" for more information on branch location audits) The Company also considers such things as the current unemployment rate in markets the Company operates in, the percentage of voluntary repossessions as compared to prior periods, the percentage of bankruptcy filings as compared to prior periods and other leading economic indicators.

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Income Taxes

The Company's effective tax rate increased from 37.27% for the three months ended June 30, 2002 compared to 37.94% for the three months ended June 30, 2003. This increase is primarily attributed to higher state income tax rates in the state of Ohio.

Liquidity and Capital Resources

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

	Three months ended June 30, 2003	Three months ended June 30, 2002
Cash provided by (used in):		
Operating Activities -	$ 2,621,943	$ 1,686,634
Investing Activities - (primarily purchase of Contracts)	(4,176,207)	(2,930,792)
Financing Activities	1,806,338	1,896,906
Net increase in cash	252,074	652,748

The Company's primary use of working capital during the three months ended June 30, 2003 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 June 30, 2003 the Company had approximately $13.0 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 loan agreement expires November 30, 2004 and bears interest at the prime rate and offers several LIBOR pricing options. The new loan agreement released Bank One as a secondary bank and added First Tennessee Bank. The Company is pleased with its new banking relationship and believes it will be beneficial for future expansion.

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Future Expansion

The Company currently operates twenty-seven branch locations, fifteen 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 five 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 none of our branches have reached this capacity.

The Company intends to continue its expansion through the purchase of additional Contracts and the expansion of its direct consumer loan program. As the branches continue to add customers, the size of the loan portfolio will continue to grow. With the added volume in each branch and as the company adds new branches, it will be necessary for the Company to increase the size of its Line of Credit.

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 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 Michigan. The Company has targeted its first geographic locations within the State of Michigan where it believes there is a sufficient market for its automobile financing program. The Company is currently purchasing Contracts in the State of Michigan utilizing an employee who resides in the State of Michigan. This employee is developing their respective market in Michigan and the Company is utilizing its Central Buying Office at its Corporate Headquarters 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.

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 1. Item 3 Controls and Procedures

Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934). Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. No significant changes were made in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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Part II - Other Information

Item 1. Legal Proceedings - None

Item 2. Changes in Securities

Item 3. Defaults upon Senior Securities - None

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

Item 5. Other Information - On August 11th, 2003 the Company announced its Board of Directors has approved a $.10 per share cash dividend payable semi-annual at the rate of $.05 per share. The record date has been set for September 8, 2003 and the payment date is September 22, 2003.

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 August 14, 2003.

NICHOLAS FINANCIAL, INC.
(Registrant)

Date: August 14, 2003 /s/Peter L. Vosotas

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

Date: August 14, 2003 /s/Ralph T. Finkenbrink

Ralph T. Finkenbrink
(Principal Accounting Officer)

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EXHIBIT INDEX

Item 13. 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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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 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 report;

3. Based on my knowledge, the financial statements, and other

financial information included in this 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 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-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

Date: August 14, 2003

/s/Peter L. Vosotas

President & Chief Executive Officer

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

Dated: August 14, 2003 /s/Ralph T. Finkenbrink

Senior Vice President

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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 19 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 June 30, 2003 (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
August 14, 2003

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 June 30, 2003 (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 Finkenbrink

Ralph Finkenbrink

Chief Financial Officer
August 14, 2003