NICHOLAS FINANCIAL INC
Form 10KSB
June 25, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB

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

For the fiscal year ended March 31, 2002

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

For the transition period from ________ to _________.

Commission file number: 0-26680

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

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

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

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

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

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

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

Check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The issuer's revenues for its most recent fiscal year ended March 31, 2002 were $20,218,125.As of May 31, 2002, 4,993,764 shares of the Registrant's Common Stock, 0.01 par value, were outstanding,

and the aggregate market value of the shares held by non-affiliates was approximately $13,874,787

DOCUMENTS INCORPORATED BY REFERENCE:
Portions of the issuer's definitive Proxy Statement for the Annual Meeting of Stockholders currently scheduled to be held on August 7, 2002, expected to be filed with the Commission pursuant to Regulation 14A, on or about July 2, 2002, are incorporated by reference in Part III of this Annual Report on Form 10-KSB.

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

(This page intentionally left blank)

1

NICHOLAS FINANCIAL, INC.
FORM 10-KSB ANNUAL REPORT
TABLE OF CONTENTS

PART I Page No.

Item 1. Description of Business.........................3
Item 2. Description of Property........................12
Item 3. Legal Proceedings..............................12
Item 4. Submission of Matters to a Vote of Security Holders..............................12

PART II

Item 5. Market for Common Equity and Related Stockholder Matters............................13
Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations................................14
Item 7. Financial Statements...........................20
Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.........41

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16 (a) of the Exchange Act.............41
Item 10. Executive Compensation.........................41
Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.......................................42
Item 12. Certain Relationships and Related Transactions..................................42
Item 13. Exhibits and Reports on Form 8-K................43

2

Forward-Looking Information

This report on Form 10-KSB contains various forward-looking statements within the meaning of Section 27A of the Securities Act of

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

3

PART I

Item 1. Description of Business

General

Nicholas Financial, Inc. ("Nicholas Financial-Canada") is a Canadian holding company incorporated under the laws of British Columbia in 1986. The business activities of Nicholas Financial-Canada are conducted through its two wholly-owned subsidiaries formed pursuant to the laws of the State of Florida, Nicholas Financial, Inc. ("Nicholas Financial") and Nicholas Data Services, Inc., ("NDS"). Nicholas Financial is a specialized consumer finance company engaged primarily in acquiring and servicing installment sales contracts ("Contracts") for purchases of new and used automobiles and light trucks. To a lesser extent, Nicholas Financial also makes direct consumer loans and sells consumer-finance related products ("Insurance Products"). NDS is engaged in designing, developing, marketing and supporting industry specific computer application software for small businesses located primarily in the Southeast United States. Nicholas Financial's financing activities accounted for approximately 98% of consolidated revenues for each of the fiscal years ended March 31, 2002 and 2001. NDS's activities accounted for approximately 2% of such revenues during the same periods.

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

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

Automobile Finance Business - Indirect Loans

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

The Company's automobile finance programs are currently conducted in Florida, Georgia, North Carolina, South Carolina and Ohio only under the name Nicholas Financial, Inc. The Company currently operates fifteen branch offices in Florida, three branch offices in Georgia, three branch offices in North Carolina and one branch in South Carolina. As of March 31, 2002 the Company had non-exclusive agreements with approximately 750 dealers for the purchase of retail installment sales contracts (the "Contracts") that meet the Company's financing criteria. The dealer agreements require the dealer to originate Contracts in accordance with the Company's guidelines.

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

4

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

purchased. As of March 31, 2002, substantially all of the Company's loan portfolio consisted of Contracts that were purchased without recourse against the dealer. Although substantially all the Contracts in the Company's loan portfolio were acquired without recourse, the dealer remains liable to the Company for liabilities arising from certain representations and warranties made by the dealer with respect to compliance with applicable federal and state laws and valid title to the vehicle.

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

The Company requires the owner of the vehicle to obtain and maintain collision insurance, naming the Company as the loss payee, with a deductible of not more than $500. The Company does not offer collision insurance. Both the Company and the dealers offer purchasers of vehicles certain other "add on products". These products are offered by the dealer on behalf of the Company or by the automobile dealer on behalf of the dealership at the time of sale. They consist of a roadside assistance plan, extended warranty protection, gap insurance, credit life insurance, credit accident and health insurance and credit property insurance. If the purchaser so desires, the cost of these products may be included in the amount financed under the Contract. As of March 31, 2002 and 2001, approximately 19% and 20%, respectively, of the borrowers under Contracts in the Company's loan portfolio had elected to purchase "add on products".

The following table sets forth certain information for each of the fiscal years ended March 31, 2002, 2001 and 2000, respectively, relating to the Company's automobile finance business:

	2002	2001	2000
Contracts purchased - Face value	$56,935,868	$51,193,231	$41,507,381
Number of Contracts purchased	6,918	6,400	5,264
Weighted APR(1)	24.57%	24.70%	24.67%
Discount	8.67%	8.36%	8.63%

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

5

Direct Consumer Loans

The Company is licensed to originate direct consumer loans in the majority of its branch locations. The size of the loan and maximum interest rate that can be charged varies from State to State. The average loan made to date by the Company had an initial principal balance of approximately $3,500. The Company does not expect the

average loan size to increase significantly within the foreseeable future. The Company offers loans primarily to borrowers under the Contracts previously purchased by the Company. In deciding whether or not to make a loan, the Company considers the individual's credit history, job stability, income and impressions created during a personal interview with a Company loan officer. Additionally, because approximately 90% of the direct consumer loans made by the Company to date have been made to borrowers under Contracts previously purchased by the Company, the payment history of the borrower under the Contract is a significant factor in making the loan decision. The direct consumer loan program was implemented in April 1995 and currently accounts for less than 5% of total revenue for the Company. As of March 31, 2002, loans made by the Company pursuant to its direct consumer loan program constituted approximately 4% of the aggregate principal amount of the Company's loan portfolio.

In connection with its direct consumer loan program, the Company also offers health and accident insurance coverage and credit life insurance to borrowers. Borrowers in approximately 68% of the 1,416 direct consumer loan transactions outstanding as of March 31, 2002 had elected to purchase insurance coverage offered by the Company. The cost of this insurance is included in the amount financed by the borrower.

The following table sets forth certain information for each of the fiscal years ended March 31, 2002, 2001 and 2000, respectively, relating to the Company's direct consumer loan business:

	2002	2001	2000
Loans purchased - Face value	$4,100,180	$3,816,245	$3,364,897
Number of loans purchased	1,279	1,143	1,011
Weighted APR(1)	25.85%	25.82%	26.07%

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

Financing Sources

The Company finances the acquisition of Contracts with its retained earnings, cash flow from operations, loans from investors, insiders and a revolving line of credit with Bank of America. In August 2000, the Company expanded its line of credit capacity to $60 million, extended the maturity date of such line to November 30, 2002 and reduced the rate of interest payable under the line. In February 2001, the Company further expanded its line of credit capacity to $75 million. The Company is currently negotiating to extend its current maturity date. No assurance can be given that the size of the line will be increased or that the maturity date will be extended beyond November 30, 2002. The failure to do so could have a material adverse effect on the business, financial condition and results of operations of the Company.

The Bank of America line of credit is secured by all assets of the Company. The interest rate payable by the Company on funds drawn under the line of credit is based on either the current prime rate published by Bank of America or several Libor pricing options. In addition to interest, the Company also pays a monthly fee to Bank of

America equal to .25% of the amount available under the line of credit that has not been drawn upon. As of March 31, 2002, the Company had drawn approximately $54 million under the line of credit.

6

Underwriting Guidelines

The Company's typical customer is 30 years old, has a monthly gross income of $1,700 and a credit history that fails to meet the lending standards of most banks and credit unions. Among the credit problems experienced by the Company's customers that resulted in a poor credit history are: unpaid revolving credit card obligations; unpaid medical bills; unpaid student loans; prior bankruptcy; and evictions for nonpayment of rent. The Company believes that its customer profile is similar to that of its direct competitors.

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

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

The Company continues to utilize its Loss Recovery Department ("LRD") to perform on-site audits of branch compliance with Company buying guidelines. LRD audits Company branches on a schedule that is variable depending on the size of the branch, length of time a branch has been open, current tenure of the branch manager, previous branch audit score and current and historical branch profitability. LRD reports directly to the Accounting and Administrative Management of the Company. The Company believes that an independent review and audit of its branches that is not tied to the sales function of the Company is imperative in order to assure the information obtained is impartial.

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

considered.

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

7

Upon credit approval of the customer and the receipt of all required title and insurance documentation, the Company pays the dealer for the Contract. The Company typically purchases the Contract for a price that approximates the wholesale value of the automobile being financed. The amount the Company is willing to pay a dealer for a particular Contract depends upon the credit rating of the customer. The Company will pay more (e.g. purchase the Contract at a smaller discount from the original principal amount) for Contracts as the credit risk of the customer improves. The discounts from the initial principal amount of Contracts purchased by the Company range from 1% to 15% and average 8%.

Servicing and Monitoring of Contracts

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

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

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

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

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

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

8

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

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

The Company's policy is to aggressively pursue legal remedies to collect deficiencies from customers. Delinquency notices are sent to customers and verbal requests for payment are made beginning when an account becomes 11 days delinquent. When an account becomes 30 days

delinquent and the borrower has not made payment arrangements acceptable to the Company or has failed to respond to the requests for payment, a repossession request form is prepared by the responsible branch office employee for approval by the branch manager for the vicinity in which the borrower lives. Once the repossession request has been approved, first by the Branch Manager and secondly by his District Manager, it must then be approved by a corporate officer. The repossessor delivers the vehicle to a secure location specified by the Company where it is held. The Company maintains relationships with several licensed repossession firms which repossess vehicles for fees that range from $150 to $350 for each vehicle repossessed. As required by Florida, Georgia, North Carolina, South Carolina and Ohio law, the customer is notified by certified letter the vehicle has been repossessed and to regain the vehicle they must make arrangements satisfactory to the Company and pay the amount owed under the Contract within ten days after delivery of the letter. The minimum requirement for return of the vehicle is payment of all past due amounts under the Contract and all expenses associated with the repossession incurred by the Company. If satisfactory arrangements for return of the vehicle are not made within the statutory period, the Company then sends title to the vehicle to the state title transfer department, which then registers the vehicle in the name of the Company. The Company then either sells the vehicle to a dealer or has it transported to an automobile auction for sale. On average, approximately 30 days lapse between the time the Company takes possession of a vehicle and the time it is sold by a dealer or at auction. During its most recent fiscal year, repossessed vehicles have been sold at prices that average approximately $1,500 to $2,000 less than the price paid by the Company for the Contract. When the Company determines that there is a reasonable likelihood of recovering part or all of any deficiency against the borrower under the Contract, it pursues legal remedies available to it including law suits, judgement liens and wage garnishments. Historically, the Company has recovered approximately 10-15% of deficiencies from such borrowers. Proceeds from the disposition of the vehicles are not included in the percentage range shown above.

9

Marketing and Advertising

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

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

The Industry

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

Computerized Information System

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

10

Strategy

The Company's principal business strategy is to continue its growth and to increase its profitability through greater penetration in its current markets, controlled geographic expansion into new markets and selective portfolio acquisitions. As of the date of this report, the Company has no commitments or agreements in principle with respect to any portfolio acquisitions. The Company also intends to continue its expansion through the increased origination of additional direct consumer loans. 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 that state. These employees are developing their respective markets in Ohio and the Company has created a Central Buying Office in 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. As of May 15, 2002 the Company had signed two lease obligations for branch locations in Cleveland and Columbus Ohio. 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.

Competition

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

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

The Company's ability to compete effectively with other companies offering similar financing arrangements depends upon maintaining close business relationships with dealers of new and used vehicles. No single dealer out of the approximately 750 dealers that the Company has contractual relationships with accounted for over 3% of its business volume for the fiscal years ended March 31, 2002 or 2001.

Regulation

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

The Company maintains a Retail Installment Seller's License and a

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

Employees

The Company's executive management and various support functions are centralized at the Company's Corporate Headquarters in Clearwater, Florida. As of March 31, 2002 the Company employed a total of 118 persons, five of whom work for NDS and 113 of whom work for Nicholas Financial. The Company provides paid holidays, vacation, sick time, jury time, health and life insurance, long-term disability insurance, dental insurance and a retirement plan that includes a Company matching formula on employee contributions as well as a Company profit sharing contribution for all qualified employees. No employees are covered by a collective bargaining agreement and the Company believes it has good relations with its employees.

12

Item 2. Description of Properties

The Company leases its Headquarters and branch office facilities. Its Headquarters, located at 2454 McMullen Booth Road, Building C in Clearwater, Florida, consist of approximately 6,800 square feet. The Company occupies the space pursuant to a lease that commenced on January 1, 2000 and expires on November 30, 2002. The current monthly rent is $7,855. The Company is currently negotiating to expand its corporate facility by either negotiating for additional space and extending its current lease or relocating its corporate facility to a new location.

Each of the Company's 22 branch offices located in Florida, Georgia, North Carolina and South Carolina consists of approximately 1,200 square feet. These offices are located in office parks, shopping centers or strip malls and are occupied pursuant to leases with an initial term of from two to five years at annual rates ranging from approximately $8.00 to $16.00 per square foot. The Company believes that these facilities and additional or alternate space available to it are adequate to meet its needs for the foreseeable future.

Item 3. Legal Proceedings

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

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

No matters were submitted to a vote of security holders during the quarter ended March 31, 2002.

13

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

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

As of March 31, 2002, there were approximately 500 holders of record of the Company's Common Stock. Holders of Common Stock are entitled to receive dividends if and when declared by the Board of Directors out of funds legally available therefore. To date, it has been the Company's policy to retain earnings to finance the growth of its business. Accordingly, the Company has not declared or paid any cash dividends since its inception and does not anticipate declaring or paying any cash dividends in the foreseeable future. Any dividends on the Common Stock will be at the sole discretion of the Board of Directors and will depend upon the Company's profitability, capital requirements, requirements of the Company's lenders, statutory restrictions and other factors deemed relevant by the Company's Board of Directors.

The following table reflects the high and low sale prices for the Company's Common Stock for each of the periods indicated as reported by the NASDAQ Stock Market and as restated for the two-for-one stock split effected pursuant to a 100% stock dividend, completed on September 10, 2001.

Price Range of Common Stock:

	High	Low
Fiscal Year ended March 31, 2002		
First Quarter	$3.75	$2.40
Second Quarter.........	5.50	3.15
Third Quarter...........	4.75	3.54
Fourth Quarter............	4.50	3.65
	High	Low
Fiscal Year ended March 31, 2001		
First Quarter	$2.81	$2.25
Second Quarter.........	2.63	2.25
Third Quarter...........	2.50	2.06
Fourth Quarter............	2.72	2.16

"The information set forth in the second paragraph (and accompanying table) under the caption "Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" of this Annual Report on Form 10-KSB is incorporated herein by reference."

14

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.

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

Overview

Consolidated net income increased in the fiscal year ended March 31, 2002 to $3,932,139 or $0.75 per diluted share from $3,410,877 or $0.68 per diluted share in the fiscal year ended March 31, 2001. Earnings for the year were favorably impacted by significant growth in the outstanding loan portfolio.

The following table sets forth certain financial data:

Select Portfolio Information	Years Ended March 31 2002	2001
Average Net Finance Receivables(1)	$84,388,641	$73,076,939
Average Indebtedness(2)	50,907,525	46,166,602
Interest Income	19,852,758	17,386,318
Interest Expense	3,898,400	3,761,689
Net Interest Income	15,954,358	13,624,629
Gross Portfolio Yield(3)	23.53%	23.79%
Average Cost of Borrowed Funds(2)	7.66%	8.15%

Net Interest Spread(4)	15.87%	15.64%
Net Portfolio Yield(3)	18.91%	18.64%
Write-off to Liquidation	8.62%	7.21%
Net Charge-Off Percentage	7.63%	6.16%

15

(1)Average net finance receivables represent the average of net finance receivables throughout the year. 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 its line of credit, subordinated debt and notes payable. Average cost of borrowed funds represents interest expense as percentage of average indebtedness.

(3)Gross portfolio yield represents interest income as a percentage of average finance receivables. Net portfolio yield represents net interest income as a percentage of average finance receivables.

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

Fiscal 2002 compared to Fiscal 2001

Interest Income and Loan Portfolio

Interest income on finance receivables, predominantly finance charge income, increased 14% to $19.9 million in fiscal 2002 from $17.4 million in fiscal 2001. The net finance receivable balance totaled $76.1 million at March 31, 2002, an increase of 17% from $65.0 million at March 31, 2001. The gross finance receivable balance increased 17% to $120.5 million at March 31, 2002 from $103.2 million at March 31, 2001. The primary reason interest revenue increased was the increase in the outstanding loan portfolio. The primary reason net finance receivables increased was the opening of two additional offices and the increased receivable base of several existing branch offices.

Computer Software Business

In fiscal 2002, the revenues of NDS were $365,367 compared with fiscal 2001 revenues of $410,708, a decrease of 11%. Operating loss for fiscal 2002 was $(11,408) compared with an operating income of $25,137 for fiscal 2001. The Company expects both operating revenues and income of NDS to remain relatively stable, although no assurance can be given in this regard.

Operating Expenses

Operating expenses excluding provision for credit losses and interest expense increased to $8.1 million in fiscal 2002 from $7.0 million in fiscal 2001. This increase of 16% was primarily attributable to the opening of two additional branch locations, increasing the number of employees in several existing branch

locations and also increasing the number of corporate personnel. The Company increased its work force from 95 employees at the end of fiscal 2001 to 118 employees at the end of fiscal 2002.

Interest Expense

Interest expense increased to $3.9 million in fiscal 2002 as compared to $3.8 million in fiscal 2001. This increase was due to an increase in average outstanding borrowings from $46.2 million to $50.9 million. The average cost of borrowed funds decreased from 8.15% for fiscal 2001 to 7.66% for fiscal 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 74 Contracts with an aggregate initial principal amount of approximately $600,141. As of March 31, 2002, the Company had 365 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 recognized as 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 March 31, 2002, the Company had established reserves for losses on Contracts of $15,565,684 or 12.92% 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:

	Year Ended March 31, 2002		Year Ended March 31, 2001	
Contracts				
Gross Balance Outstanding	$115,683,683		$98,797,992	
Delinquencies	Dollar Amount	Percent	Dollar Amount	Percent
30 to 59 days	$2,004,990	1.73%	$1,363,532	1.38%
60 to 89 days	400,486	0.35%	328,964	0.33%
90 + days	276,096	0.24%	182,951	0.19%
Total Delinquencies	$2,681,572		$1,875,447	
Total Delinquencies as a percent of outstanding balance		2.32%		1.90%
Direct Loans				
Gross Balance Outstanding	$4,771,275		$4,406,187	
Delinquencies				
30 to 59 days	33,992	0.71%	56,781	1.29%
60 to 89 days	5,081	0.11%	2,436	0.06%
90 + days	1,842	0.04%	9,659	0.22%
Total Delinquencies	$40,915		$68,876	
Total Delinquencies as apercent of outstanding balance		0.86%		1.56%

The provision for credit losses was $1,912,918 in fiscal 2002 as compared to $1,470,744 in fiscal 2001. This increase was primarily the result of a 17% increase in the net portfolio over the prior year. The Company decreased its total reserve percentage from 13.34% of gross finance receivables for the fiscal year ended March 31, 2001 to 12.92% for the fiscal year ended March 31, 2002. Management believes that the reserve adjustments made during fiscal 2002 are consistent with its reserve methodology.

Income Taxes

The provision for income taxes increased 10% to $2,338,419 in fiscal 2002 from $2,120,855 in fiscal 2001 primarily as a result of higher pretax income. The Company's effective tax rate decreased from 38.34% in fiscal 2001 to 37.29% in fiscal 2002.

18

Net Income

As a result of the above factors, net income increased from $3,410,877 in fiscal 2001 to $3,932,139 in fiscal 2002.

Liquidity and Capital Resources

The Company's cash flows for fiscal 2002 and 2001 are summarized as follows:

	Fiscal 2002	Fiscal 2001
Cash provided by (used in):		
Operations	$ 7,291,571	$ 5,780,282
Investing activities - (primarily purchase of installment contracts)	(13,166,260)	(14,644,237)
Financing activities	5,605,733	8,924,967
Net (decrease) increase in cash	$ (268,956)	$ 61,012

The Company's primary use of working capital during fiscal year 2002 was the funding of the purchase of Contracts. The Contracts were financed substantially through borrowings on the Company's $75 million line of credit. The line of credit, which expires in November 2002, is secured primarily by Contracts, and available borrowings are based on a percentage of qualifying Contracts. As of March 31, 2002 the Company had approximately $21 million available under the line of credit. Since inception, the Company has also funded a portion of its working capital needs from cash flows from operating activities. The Company is currently negotiating to extend its current maturity date. No assurance can be given that the size of the line will be increased or that the maturity date will be extended beyond November 30, 2002.

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 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 additional securities in the capital markets, will be sufficient to meet its short term funding needs.

19

Impact of Inflation

The Company is affected by inflation primarily through increased operating costs and expenses including increases in interest rates. Inflationary pressures on operating costs and expenses have been offset by the Company's continued emphasis on stringent operating and cost controls. Management believes that the Company's financial position has enabled it to negotiate favorable interest rates. No assurances can be given that the Company will be able to continue to do so in the future.

The Company believes the current downturn in the economy would increase the number of purchasers of automobiles financed with Contracts. During a modest downturn in economic activity more people will experience a reduction in income because of downsizing, fewer and smaller raises, and the necessity of accepting lower paying jobs. In addition, it may be difficult for individuals who have financially over-extended themselves to meet their debt obligations and they may find it necessary to purchase used rather than new automobiles. Although the number of potential customers can be expected to increase during periods of slow economic activity, the number of defaults in payment obligations can also be expected to increase with a resulting increase in repossessions of vehicles securing Contracts. The Company believes the net effect of such a continued downturn in the economy would be unfavorable to the operating results of the Company.

Future Expansion

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 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. As of May 15, 2002 the Company had signed two lease obligations for branch locations in Cleveland and Columbus Ohio. 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.

20

Item 7. Financial Statements

The following financial statements are filed as part of this report (see pages 20-39)

Report of Independent Certified Public Accountants..........21

Audited Consolidated Financial Statements

Consolidated Balance Sheets................................22
Consolidated Statements of Income..........................23

Consolidated Statements of Stockholders' Equity............24
Consolidated Statements of Cash Flows.......................25
Notes to Consolidated Financial Statements..................26

21

Report of Independent Certified Public Accountants

To the Board of Directors of
Nicholas Financial, Inc.

We have audited the accompanying consolidated balance sheets of Nicholas Financial, Inc. and subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nicholas Financial, Inc. and subsidiaries at March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

May 31, 2002

/s/Ernst & Young

22

Nicholas Financial, Inc. and Subsidiaries
Consolidated Balance Sheets

	March 31	
	2002	2001
Assets		

Cash	$ 51,239	$ 320,195
Finance receivables, net	76,067,387	65,040,868
Accounts receivable	14,444	14,468
Prepaid expenses and other assets	516,653	549,186
Property and equipment, net	370,849	333,759
Deferred income taxes	488,455	1,070,888
Total assets	$77,509,027	$67,329,364
Liabilities and shareholders' equity		
Line of credit	$53,273,426	$47,823,426
Drafts payable	419,116	387,028
Notes payable-related party	542,282	968,008
Accounts payable	3,400,859	3,017,503
Derivatives	1,151,458	-
Income taxes payable	69,852	93,819
Deferred revenues	655,556	611,729
Total liabilities	59,512,549	52,901,513
Shareholders' equity:		
Preferred stock, no par: 5,000,000 shares authorized;none issued and outstanding	-	-
Common stock, no par: 50,000,000 shares authorized; 4,993,764 and 4,634,216 shares issued and outstanding, respectively	4,402,960	3,601,292
Other comprehensive loss	(1,165,180)	-
Retained earnings	14,758,698	10,826,559
Total shareholders' equity	17,996,478	14,427,851
Total liabilities and shareholders' equity	$77,509,027	$67,329,364

See accompanying notes.

23

Nicholas Financial, Inc. and Subsidiaries
Consolidated Statements of Income

	Year ended March 31 2002	2001
Revenue:		
Interest income on finance receivables	$19,852,758	$17,386,318
Sales	365,367	410,708
	20,218,125	17,797,026
Expenses:		
Cost of sales	78,615	84,870
Marketing	565,626	445,869
Administrative	7,302,275	6,356,555
Provision for credit losses	1,912,918	1,470,744
Depreciation	189,733	145,567
Interest expense	3,898,400	3,761,689

	13,947,567	12,265,294
Operating income before income taxes	6,270,558	5,531,732
Income tax expense:		
Current	1,755,986	2,075,855
Deferred	582,433	45,000
	2,338,419	2,120,855
Net income	$ 3,932,139	$ 3,410,877
Earnings per share:		
Basic	$.81	$.73
Diluted	$.75	$.68
Weighted average shares - basic	4,869,078	4,673,198
Weighted average shares - diluted	5,263,966	5,137,732

See accompanying notes.

24

Nicholas Financial, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at April	4,704,016	$3,711,602	$7,415,682	$ -	$11,127,284
Issuance of common stock	2,000	3,400	-	-	3,400
Issued in connection with services rendered	-	23,600	-	-	23,600
Repurchase and retirement of common stock	(71,800)	(169,794)	-	-	(169,794)
Settlement of accounts receivable from shareholder related to exercise of options	-	32,484	-	-	32,484
Net income	-	-	3,410,877	-	3,410,877
Balance at March 31, 2001	4,634,216	3,601,292	10,826,559	-	14,427,851
Issuance of common stock	35,534	64,488	-	-	64,488

Issued in connection with services rendered	13,404	26,800	-	-	26,800
Repurchase and retirement of common stock	(1,000)	(3,550)	-	-	(3,550)
Issued in connection with employee bonus plan	500	2,135	-	-	2,135
Shares issued in connection with the conversion of debt	311,110	711,795	-	-	711,795
Mark to market - interest rate swaps	-	-	-	(1,165,180)	(1,165,180)
Net income	-	-	3,932,139	-	3,932,139
Balance at March 31, 2002	4,993,764	$4,402,960	$14,758,698	$(1,165,180)	$17,996,478

See accompanying notes.

25

Nicholas Financial, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Year ended March 31 2002	2001
Cash flows from operating activities		
Net income	$ 3,932,139	$ 3,410,877
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	189,733	145,567
Provision for credit losses	1,912,918	1,470,744
Deferred income taxes	582,433	45,000
Changes in operating assets and liabilities:		
Accounts receivable	24	6,454
Prepaid expenses and other assets	32,533	(132,902)
Accounts payable	589,843	321,881
Drafts payable	32,088	387,028
Income taxes payable	(23,967)	48,854
Deferred revenues	43,827	93,011
Other liabilities	-	(16,232)
Net cash provided by operating activities	7,291,571	5,780,282
Investing activities		
Increase in finance receivables, net of principal collected	(12,939,437)	(14,496,505)
Purchase of property and equipment,		

net of disposals	(226,823)	(147,732)
Net cash used in investing activities	(13,166,260)	(14,644,237)
Financing activities		
Issuance (repayment) of notes payable-related party	83,000	(350,000)
Net proceeds from line of credit	5,450,000	9,408,877
Sale (repurchase) of common stock	72,733	(133,910)
Net cash provided by financing activities	5,605,733	8,924,967
Net decrease in cash	(268,956)	61,012
Cash, beginning of year	320,195	259,183
Cash, end of year	$ 51,239	$ 320,195
Supplemental disclosure of noncash investing and financing activities		
Stock issued in connection with services rendered	$ 26,800	$ -
Conversion of debt to common stock	$ 700,000	$ -
Conversion of accrued interest to notes payable - related party	$ 191,274	$ -

See accompanying notes.

26

Nicholas Financial, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2002

1. Organization

Nicholas Financial, Inc. (NFI, Canada or the Company) is a Canadian holding company incorporated under the laws of British Columbia with two wholly-owned United States subsidiaries, Nicholas Data Services, Inc. (NDS) and Nicholas Financial, Inc. (NFI). NDS is engaged principally in the development, marketing and support of computer application software. NFI is engaged principally in providing installment sales financing. Both NDS and NFI are based in Florida, U.S.A. The accompanying financial statements are stated in U.S. dollars and are presented in accordance with accounting principles generally accepted in the United States.

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of NFI, Canada and its wholly-owned subsidiaries, NDS and NFI, collectively referred to as the Company. All intercompany transactions and balances have been eliminated.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for repairs and maintenance are charged to expense as incurred. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

Automobiles	3 years
Equipment	5 years
Furniture and fixtures	7 years
Leasehold improvements	Lease term

Allowance for Loan Losses

The allowance for loan losses is increased by charges against earnings and decreased by charge-offs (net of recoveries). In addition to the allowance for loan losses, a nonrefundable dealer reserve has been established using unearned interest and dealer discounts to absorb potential credit losses. To the extent actual credit losses exceed these reserves, a bad debt provision is recorded; and to the extent credit losses are less than the reserve, the reserve is accreted into income as an adjustment to the interest yield over the term of the underlying finance receivables.

27

2. Summary of Significant Accounting Policies (continued)

Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions.

Drafts Payable

Drafts payable represent checks disbursed for loan purchases which have not yet been funded through the line of credit. Amounts clear within one to two business days of period end are then added to the line of credit.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date.

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.

Revenues resulting from the sale of hardware and software are recognized when persuasive evidence of an agreement exists, delivery of the products has occurred, no significant Company obligation with regard to implementation remain, the fee is fixed or determinable and collectibility is probable. If the fee due from the customer is not fixed or determinable, revenue is recognized as payments become due from the customer. If collectibility is not considered probable, revenue is recognized when the fee is collected. Arrangements that included software services are evaluated to determine whether those services are essential to the functionality of

28

2. Summary of Significant Accounting Policies (continued)

other elements of the arrangement. When software services are considered essential, revenue under the arrangement is recognized using contract accounting. When software services are not considered essential, the revenue related to the software services is recognized as the services are performed. The unamortized amounts are included in the caption "deferred revenues."

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:

	Year ended March 31	
	2002	2001
Numerator:		
Numerator for basic earnings per share - Net income available to common stockholders	$3,932,139	$3,410,877
Effect of dilutive securities:		
Convertible debt	17,491	59,489
Numerator for dilutive earnings per share - income available to common stockholders after assumed conversions	$3,949,630	$3,470,366
Denominator:		
Denominator for basic earnings per share - weighted average shares	$4,869,078	$4,673,198
Effect of dilutive securities: (A)		
Employee stock options	292,956	117,298
Convertible debt	101,932	347,236
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	$5,263,966	$5,137,732

Earnings per share - basic	$.81	$.73
Earnings per share - diluted	$.75	$.68

Footnote A:

Options	-	84,000

The options above were outstanding but not included in the computation of diluted earnings per share because the effect would be antidilutive.

29

2. Summary of Significant Accounting Policies (continued)

Stock Option Accounting

The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations in accounting for its stock option grants and to present the disclosure requirements relating to stock-based compensation plans required by Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation (FAS 123).

Financial Instruments

The Company's financial instruments consist of finance receivables, accounts receivable, line of credit, notes payable-related party and accounts payable. For each of these financial instruments, the carrying value approximates its fair value.

The Company's financial instruments that are exposed to concentrations of credit risk are primarily finance receivables, which are concentrated in the states of Florida, Georgia and North Carolina. The Company provides credit during the normal course of business and performs ongoing credit evaluations of it customers. The Company maintains allowances for potential credit losses which, when realized, have been within the range of management's expectations. The Company perfects a primary security interest in all vehicles financed as a form of collateral.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant of these estimates relates to the determination of the allowance for credit losses and related reserves. Actual results could differ from those estimates.

Accumulated Other Comprehensive Income

Prior to the adoption of Statement of Financial Accounting Standard (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. SFAS No. 133, comprehensive

net income equaled net income. Accumulated other comprehensive loss is composed entirely of the fair value of cash flow hedges.

Statement of Cash Flows

Cash paid for income taxes for the years ended March 31, 2002 and 2001 was approximately $1,780,000 and $2,027,000, respectively. Cash paid for interest for the years ended March 31, 2002 and 2001 was approximately $3,972,000 and $3,705,000, respectively.

Derivatives

On April 1, 2001, the Company adopted SFAS No. 133. SFAS No. 133 requires the recognition of all derivative instruments as either assets or liabilities in the consolidated balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based on the exposure being hedged, as either a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. Derivative instruments are not used for speculative purposes.

Recent Accounting Pronouncement

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), which is effective for fiscal periods beginning after December 15, 2001. This statement supersedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. The accounting model for long-lived assets to be disposed of by sales applies to all long-lived assets, including discontinued operations, and replaces the provisions of Accounting Principles Board (APB) Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. Under the provisions of APB 30, a segment of a business to be disposed of was measured at the lower of its carrying amount or net realizable value, adjusted for expected future operating losses, whereas SFAS 121 used fair value less cost to sell and excluded future operating losses from the framework established in SFAS 121, for long-lived assets to be disposed of by sale. SFAS No. 144 requires that those long-lived assets be measured at the lower of the carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet

occurred. SFAS No. 144 also broadens the reporting for

discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The adoption of SFAS 144 will not have a material impact on the earnings and financial position of the Company.

Reclassification

Certain prior year amounts have been reclassified to conform to the 2002 presentation.

3. Finance Receivables

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

	2002	2001
Finance receivables, gross	$120,454,958	$103,204,179
Less:		
Unearned interest	(28,821,887)	(24,391,597)
	91,633,071	78,812,582
Nonrefundable dealer reserve	(11,259,898)	(10,306,699)
Allowance for credit losses	(4,305,786)	(3,465,015)
Finance receivables, net	$ 76,067,387	$ 65,040,868

The terms of the receivables range from 12 to 60 months and bear a weighted average effective interest rate of 24% for both 2002 and 2001, respectively.

32

3. Finance Receivables (continued)

The following table sets forth a reconciliation of the changes in nonrefundable dealer reserves for the years ended March 31:

	2002	2001
Balance at beginning of year	$ 10,306,699	$ 8,444,103
Discounts acquired on new volume	9,384,892	8,449,361
Recoveries	886,451	696,588
Accreted to income	(2,781,776)	(2,330,757)
Losses absorbed	(6,536,368)	(4,952,596)
Balance at end of year	$ 11,259,898	$ 10,306,699

Reserve as a percent of gross finance receivables	9.35%	9.99%

The following table sets forth a reconciliation of the changes in the allowance for credit losses for the years ended March 31:

	2002	2001
Balance at beginning of year	$ 3,465,015	$ 2,524,611
Current year provision	1,912,918	1,470,744
Recoveries	15,676	10,564
Accreted to income	(141,729)	(190,724)
Losses absorbed	(946,094)	(350,180)
Balance at end of year	$ 4,305,786	$ 3,465,015
Reserve as a percent of gross finance receivables	3.57%	3.36%

33

4. Property and Equipment

	Cost	Accumulated Depreciation	Net Book Value
2002			
Automobiles	$ 262,238	$ 119,149	$ 143,089
Equipment	449,007	319,664	129,343
Furniture and fixtures	176,256	112,033	64,223
Leasehold improvements	187,637	153,443	34,194
	$1,075,138	$704,289	$370,849
2001			
Automobiles	$ 169,944	$ 58,670	$111,274
Equipment	372,079	252,871	119,208
Furniture and fixtures	155,542	101,412	54,130
Leasehold improvements	169,521	120,374	49,147
	$ 867,086	$533,327	$333,759

5. Line of Credit

The Company has a $75,000,000 line of credit facility (the Line)

with Bank of America, of which approximately $54,000,000 was outstanding at March 31, 2002. Borrowings under the Line bear interest at the Bank of America prime rate or several Libor pricing options. Pledged as collateral for this credit facility are all of the assets of Nicholas Financial, Inc. and Nicholas Data Services, Inc. The Line expires on November 30, 2002.

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.

34

5. Line of Credit (continued)

The Companies have 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 March 31, 2002, 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 5.37% and paid an average fixed rate of 7.66% during the year ended March 31, 2002. A loss of $1,165,180 related to the fair value of the swaps at March 31, 2002 has been recorded in comprehensive income. 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.

On May 11, 1999, the Company entered into an interest rate swap with a notional amount of $10 million at a fixed rate of 5.81%, maturing on May 24, 2002. On May 21, 1999, the Company entered into two interest rate swaps with notional amounts of $5 million each, at fixed rates of 5.81% and 6.08%, maturing on May 24, 2001 and May 24, 2004, respectively.

On August 18, 1999, the Company terminated a $5-million swap maturing on May 24, 2004 in exchange for $52,000. In addition the Company entered into an interest rate swap with a notional amount of $10 million at a fixed rate of 5.80%.

On May 17, 2000, the Company entered into an interest rate swap with a notional amount of $10 million at a fixed rate of 6.87%.

On March 30, 2001, the Company entered into an interest rate swap with a notional amount of $10 million at a fixed rate of 4.89%, maturing on March 30, 2003.

On October 5, 2001, the Company entered into an interest rate swap with a notional amount of $10 million at a fixed rate of 3.85%, maturing on October 5, 2004.

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.

35

6. Notes Payable-Related Party

Notes payable to shareholders, directors and individuals related thereto at March 31:

	2002	2001
Note payable, unsecured, with interest at varying rates up to 12%, quarterly interest payments due through November 2001, at which time the entire principal balance and unpaid interest is due, subordinated to the Line. The note is convertible at the option of the holder, into common shares at prices from $2.25 to $3.00 per share.	$ -	$700,000
Note payable, unsecured, interest at 9.5% principal and interest due upon 30-day demand.	480,544	219,270
Note payable, unsecured, interest at 9.5% principal and interest due upon 30-day demand.	61,738	48,738
	$542,282	$968,008

The company incurred interest expense on the above notes of approximately $80,000 and $150,000 for the years ended March 31, 2002 and 2001, respectively.

7. Income Taxes

The provision for income taxes reflects an effective U.S tax rate, which differs from the corporate tax rate (34%) for the following reasons:

2002 2001

Provision for income taxes at federal statutory rate	$2,131,990	$1,880,789
Increase resulting from:		
State income taxes, net of federal benefit	228,701	202,109
Other	(22,272)	37,957
	$2,338,419	$2,120,855

36

7. Income Taxes (continued)

The Company's deferred tax assets consist of the following as of March 31:

	2002	2001
Allowance for credit losses not currently deductible for tax purposes	$ 372,927	$1,005,497
Other items	115,528	65,391
	$ 488,455	$1,070,888

NFI, Canada has income tax loss carryforward balances of approximately Cdn$318,000 (2001-Cdn$298,000) which are available to reduce future taxable income.

For the years ended March 31, 2002 and 2001, the Company would have recorded deferred tax assets of approximately $93,000 and $93,000, respectively, due primarily to these Canadian income tax loss carryforwards. The assets, however, are offset entirely by a valuation allowance due to the relative uncertainty surrounding the realization of the assets.

8. Shareholders' Equity

The Company has an employee stock incentive plan (the SIP) for officers, directors and key employees under which 653,866 shares of common stock were reserved for issuance as of March 31, 2002. Options currently granted by the Company generally vest over a five-year period.

The Company has elected to follow APB 25, and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting 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.

8. Shareholders' Equity (continued)

Pro forma information regarding net income and earnings per share as required by FAS 123 has been determined as if the Company has accounted for its employee stock options and warrants granted subsequent to December 31, 1994 under the fair value method of that Statement. The fair value for these options and warrants was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2002 and 2001:

	2002	2001
Risk free rate of return	4.92%	5.00%
Volatility factor	0.390	.0405
Expected life	7 years	10 years
Expected dividends	None	None

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuations models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options and warrants have characteristics significantly different from those of traded options and warrants, and because changes in the subjective input assumptions can materially effect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options and warrants.

For purposes of pro forma disclosures, the estimated fair value of the options and warrants is amortized to expense over the option and warrant's vesting period. The Company's pro forma information is as follows:

	2002	2001
Pro forma net income	$3,829,314	$3,271,584
Pro forma earnings per share:		
Basic	$0.79	$0.70
Diluted	$0.73	$0.65

8. Shareholders' Equity (continued)

The following table reflects activity within the SIP for the years noted:

2002		2001	
Options &	Weighted Average Exercise	Options &	Weighted Average Exercise

	Warrants	Price	Warrants	Price
Outstanding-beginning of year	599,400	$2.01	1,184,066	$2.31
Granted	131,000	3.38	91,000	2.74
Exercised	(35,534)	1.81	(2,000)	1.70
Canceled/expired	(41,000)	2.52	(673,666)	2.55
Outstanding-end of year	653,866	2.26	599,400	2.01
Exercisable at end of year	403,045	1.89	266,160	1.82
Weighted-average fair value of options granted during the year		$1.52		$1.61

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Currently Exercisable Shares	Currently Exercisable Weighted Average Exercise Price
$1.00 to 1.99	327,800	$1.70	6.19 years	299,240	$1.70
2.00 to 2.99	208,066	2.49	7.78 years	103,805	2.42
3.00 to 3.99	118,000	3.39	9.32 years	-	-
Total	653,866	$2.26	7.26 years	403,045	$1.89

39

9. Employee Benefit Plans

The Company has a 401(k) profit sharing plan under which all employees are eligible to participate. Employee contributions are voluntary and subject to Internal Revenue Service limitations. The Company matches, based on annually determined factors, employee contributions provided the employee completes certain levels of service annually. For the years ended March 31, 2002 and 2001, the Company recorded expenses of approximately $59,000 and $27,000, respectively, related to this plan. All employees who were eligible under the plan received a profit sharing contribution based on their total compensation in relation to the total compensation of all eligible employees. For the years ended March 31, 2002 and 2001, the Company recorded expenses of $116,000 and $125,000, respectively, related to this plan.

10. Commitments

The Company leases its corporate and branch offices under operating lease agreements which provide for annual minimum rental payments as follows:

Year ending March 31:

2003	$369,305
2004	173,587
2005	70,501
2006	20,811
2007	6,937
	$641,141

Rent expense for the years ended March 31, 2002 and 2001 was approximately $404,000 and $362,000, respectively.

40

11. Segment Information

The segments presented have been identified based on the difference in the products and services of the Company's two wholly owned subsidiaries. Internal financial results for each subsidiary are presented to and reviewed by the senior management of the Company. Substantially all of the Company's operations are in the United States. The industry segments are as follows:

	General Financing	Computer Application Software and Support	Corporate	Total
2002				
Interest income and sales	$19,852,758	$365,367	-	$20,218,125
Operating income (loss) before income taxes	6,281,966	(11,408)	-	6,270,558
Income tax expense	2,342,725	(4,306)	-	2,338,419
Identifiable assets	77,470,957	213,382	5,572	77,689,911
Net capital expenditures	226,823	-	-	226,823
Depreciation	189,725	8	-	189,733
2001				
Interest income and sales	17,386,318	410,708	-	17,797,026
Operating income (loss) before income taxes	5,521,553	25,137	(14,958)	5,531,732
Income tax expense	2,111,149	9,706	-	2,120,855
Identifiable assets	67,049,298	191,757	1,281	67,242,336
Net capital expenditures	147,732	-	-	147,732
Depreciation	145,498	69	-	145,567

41

Item 8. Changes In and Disagreements with Accountants on Accounting

and Financial Disclosure

None.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons

The information set forth under the caption "Proposal 1: Election of Directors" in the Proxy Statement and Information Circular, dated on or about July 2, 2002, for the 2002 Annual General Meeting of Members of the Company to be held August 7, 2002 (the "Proxy Statement"), the information set forth under the caption "Executive Officers and Compensation" in the Proxy Statement, and the information set forth under the caption "Section 16 (a) Beneficial Ownership Reporting Compliance" in the Proxy Statement are incorporated herein by reference.

Item 10. Executive Compensation

The information set forth under the caption "Executive Officers and Compensation" in the Proxy Statement is incorporated herein by reference.

42

Item 11. Security Ownership of Certain Beneficial Owners, Management and Related Stockholder Matters

The information set forth under the caption "Voting Shares and Ownership of Management and Principal Holders" in the Proxy Statement is incorporated herein by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth certain information, as of March 31, 2002, with respect to compensation plans under which equity securities of the Company are authorized for issuance:

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Securities to be Issued Upon Exerciseof Outstanding Options, Warrants and Rights	Weighted - Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in Column(a)
Column	(a)	(b)	(c)

Equity Compensation Plans Approved by Security Holders	653,866	$2.26	286,134
Equity Compensation Plans Not Approved by Security Holders	Nil	NotApplicable	Nil
TOTAL	653,866	$2.26	286,134

Item 12. Certain Relationships and Related Transactions

The information set forth under the caption "Certain Relationships and Related Transactions" in the Proxy Statement is incorporated herein by reference.

43

Item 13. Exhibits and Reports on Form 8-K

Exhibit Index

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 Specimen 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 March 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

44

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

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 fiscal 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 fiscal year ended March 31, 2001.

10.2.1 Employee Stock Option Plan

Incorporated by reference to the Company's definitive Proxy Statement, dated June 29, 1999, relating to the Company's 1999 Annual Meeting of Stockholders as filed on June 29, 1999.

10.2.2 Non-Employee Stock Option Plan

Incorporated by reference to the Company's definitive Proxy Statement, dated June 29, 1999, relating to the Company's 1999 Annual Meeting of Stockholders as filed on June 29, 1999.

10.3.1 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

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

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)

Exhibits 10.2.1, 10.2.2, 10.3.1 and 10.3.2 represent management contracts and compensatory plans.

(b) Reports on Form 8-K

The Company did not file any current reports on Form 8-K during the fourth quarter of the fiscal year ended March 31, 2002.

46

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

NICHOLAS FINANCIAL, INC.

Dated: June 25, 2002

By: /s/ Peter L. Vosotas
Peter L. Vosotas
Chairman, Chief Executive Officer
and President

KNOW ALL MEN BY THESE PRESENTS that each person whose signature appears below constitutes and appoints Peter L. Vosotas and Ralph T. Finkenbrink, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with all exhibits thereto, and any other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents or either of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Peter L. Vosotas Peter L. Vosotas	Chairman of the Board, Chief Executive Officer, President and Director	June 25, 2002
/s/ Ralph T. Finkenbrink Ralph T. Finkenbrink	Vice President-Finance (Principal Financial Officer)	June 25, 2002
/s/ Ellis P. Hyman Ellis P. Hyman	Director	June 25, 2002
/s/ Stephen Bragin Stephen Bragin	Director	June 25, 2002
/s/ Alton R. Neal Alton R. Neal	Director	June 25, 2002