NICHOLAS FINANCIAL INC
Form 10QSB
February 14, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934 FOR THE PERIOD ENDED DECEMBER 31, 2002

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

For the transition period from ________ to _________.

Commission file number: 0-26680

NICHOLAS FINANCIAL, INC.
(Exact name of registrant as specified in its Charter)

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

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

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

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

As of January 31st, 2003 there were 5,002,021 shares of common stock outstanding.

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Part I. Item 1

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

	December 31, 2002
Assets	
Cash	$ 738,841
Finance receivables, net	81,747,124
Accounts receivable	19,542
Prepaid expenses and other assets	867,332
Property and equipment, net	406,818
Deferred income taxes	1,321,300
Total assets	$85,100,957
Liabilities	
Line of credit	$57,333,426

Drafts payable	309,724
Notes payable - related party	654,376
Accounts payable	2,614,682
Derivatives	2,040,258
Income tax payable	991,754
Deferred revenues	949,958
Total liabilities	64,894,178
Shareholders' equity	
Preferred stock, no par: 5,000,000 shares authorized; none issued and outstanding	-
Common stock, no par: 50,000,000 shares authorized; 5,002,021 shares issued and outstanding	4,443,133
Other comprehensive loss	(2,073,541)
Retained earnings	17,837,187
	20,206,779
Total liabilities and shareholders' equity	$85,100,957

See accompanying notes.

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

	Three months ended December 31, 2002	Three months ended December 31, 2001	Nine months ended December 31, 2002	Nine months ended December 31, 2001
Revenue:				
Interest income on finance receivables	$5,350,248	$4,923,210	$16,075,736	$14,312,868
Sales	78,850	85,852	254,165	274,894
	5,429,098	5,009,062	16,329,901	14,587,762
Expenses:				
Cost of sales	19,865	15,932	62,685	59,494
Marketing	172,388	134,724	481,729	383,196
Administrative	2,012,342	1,846,227	6,108,890	5,328,805
Provision for credit losses	548,554	500,679	1,677,758	1,281,104
Depreciation and amortization	51,000	60,365	130,000	165,365
Interest expense	1,023,976	949,068	2,955,671	2,955,481
	3,828,125	3,506,995	11,416,733	10,173,445
Operating income before income taxes	1,600,973	1,502,067	4,913,168	4,414,317
Income tax expense:				
Current	1,585,769	392,265	2,667,527	1,403,411
Deferred	(993,962)	161,269	(832,845)	250,852

	591,807	553,534	1,834,682	1,654,263
Net Income	$1,009,166	$948,533	$3,078,486	$2,760,054
Earnings per share - basic	$0.20	$0.19	$0.62	$0.57
Earnings per share - diluted	$0.19	$0.18	$0.58	$0.53

See accompanying notes.

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

	Nine months ended December 31, 2002	2001
Operating activities		
Net income	$ 3,078,486	$ 2,760,054
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	130,000	165,365
Provision for credit losses	1,677,758	1,281,104
Deferred income taxes	(832,845)	250,852
Changes in operating assets and liabilities:		
Accounts receivable	(5,098)	1,321
Prepaid expenses and other assets	(350,677)	(102,686)
Accounts payable	(805,737)	(275,795)
Drafts payable	(109,392)	-
Principal payments received	35,754,549	31,196,298
Income taxes payable	921,902	(93,819)
Deferred revenues	294,402	74,076
Net cash provided by operating activities	39,753,348	35,256,770
Investing activities		
Purchase of finance contracts	(43,112,044)	(38,216,607)
Purchase of property and equipment, net of disposals	(165,969)	(116,262)
Net cash used in investing activities	(43,278,013)	(38,332,869)
Financing activities		
Issuance of notes payable - related party	112,094	223,274
Net Proceeds from line of credit	4,060,000	2,850,000
Sale of common stock	40,173	72,733
Net cash provided by financing activities	4,212,267	3,146,007

Net increase in cash	687,602	69,908
Cash, beginning of period	51,239	233,167
Cash, end of period	$ 738,841	$ 303,075

See accompanying notes.

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Nicholas Financial, Inc.
Notes to the Condensed Consolidated Financial Statements
(Unaudited)
December 31, 2002

1. Basis of Presentation

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

Revenue Recognition

Interest income on finance receivables is recognized using the interest method. Accrual of interest income on finance receivables is suspended when a loan is contractually delinquent for 60 days or more or the collateral is repossessed, whichever is earlier. The Company receives a commission for selling add-on services to consumer borrowers and amortizes the commission, net of the related costs, over the term of the loan using the interest method.

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

3. Earnings Per Share

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

	Three months ended December 31, 2002	Three months ended December 31, 2001	Nine months ended December 31, 2002	Nine months ended December 31, 2001
Numerator:				
Numerator for basic earnings per share - Net income available to common stockholders	$1,009,166	$ 948,533	$3,078,486	$2,760,054
Effect of dilutive securities:				
Convertible debt	-	-	-	17,491
Numerator for dilutive earnings per share - income available to common stockholders after assumed conversions	$1,009,166	$948,533	$3,078,486	$2,777,545
Denominator:				
Denominator for basic earnings per share - weighted average shares	5,003,592	4,980,860	5,004,470	4,831,586
Effect of dilutive securities:				
Employee stock options	274,025	294,768	307,607	290,794
Convertible debt	-	-	-	135,910
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	5,277,617	5,275,628	5,312,077	5,258,290
Earnings per share - basic	$0.20	$0.19	$0.62	$0.57
Earnings per share - diluted	$0.19	$0.18	$0.58	$0.53

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

4. Finance Receivables

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

Finance receivables, gross contract	$128,992,200
Less:	
Unearned interest	(30,455,591)
	98,536,609
Dealer discount	(12,110,424)
Allowance for credit losses	(4,679,061)
Finance receivables, net	$ 81,747,124

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

5. Line of Credit

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

6. Notes Payable - Related Party

The Company's notes payable consist of unsecured notes bearing interest at 9.5% with principal and interest due within 30-days upon demand. The notes totaled $654,376 at December 31, 2002 and are held by a related party.

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

7. Derivatives and Hedging

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

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

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

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

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

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

7. Derivatives and Hedging (cont.)

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

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

8. Stock Options

In December 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" which amends FASB

Statement No. 123. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based-employee compensation. SFAS 148 also amends the disclosure requirements of SFAS 123 to require more prominent and more frequent disclosures in financial statements concerning the effects of stock-based compensation. The effective date of SFAS 148 is for fiscal years ending after December 15, 2002.

The Company has an employee stock incentive plan (the SIP) for officers, directors and key employees under which 604,810 shares of common stock were reserved for issuance as of December 31, 2002. Options currently granted by the Company generally vest over a five-year period.

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

8. Compensation Based Stock Options (cont.)

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

	Three Months Ended December 31, 2002	Three Months Ended December 31, 2001	Nine Months Ended December 31, 2002	Nine Months Ended December 31, 2001
Net income	$1,009,166	$948,533	$3,078,486	$2,760,054
Basic earnings per share	$0.20	$0.19	$0.62	$0.57
Fully diluted earnings per share	$0.19	$0.18	$0.58	$0.53
Stock based employee compensation cost under the Intrinsic Value Method	-	-	-	-
Stock based employee compensation cost under the Fair Value Method	15,282	23,729	59,594	77,801

Pro forma net income	993,884	924,804	3,018,892	2,682,253
Pro forma basic earnings per share	$0.20	$0.19	$0.60	$0.56
Pro forma fully diluted earnings per share	$0.19	$0.18	$0.57	$0.51

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Part I. Item 2

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

Introduction

Consolidated net income increased for the three month period ended December 31, 2002 to $1,009,166 from $948,533 for the three month period ended December 31, 2001. Earnings were favorably impacted by an increase in the outstanding loan portfolio. The Company's Nicholas Data Services subsidiary did not contribute significantly to consolidated operations in the three or nine month periods ended December 31, 2002 or 2001.

Portfolio Summary

	Three months ended December 31, 2002	Three months ended December 31, 2001	Nine months ended December 31, 2002	Nine months ended December 31, 2001
Average Net Finance Receivables (1)	$98,504,403	$84,882,208	$96,554,714	$82,919,199
Average Indebtedness(2)	57,952,802	50,611,434	56,899,973	50,271,434
Total Finance Revenue(3)	5,350,248	4,923,210	16,075,736	14,312,868
Interest Expense	1,023,976	949,068	2,955,671	2,955,481
Net Finance Revenue	4,326,272	3,974,142	13,120,065	11,357,387
Weighted average contractual rate(5)	23.73%	23.96%	23.85%	24.04%
Gross Portfolio Yield(4)	21.73%	23.20%	22.20%	23.01%
Average Cost of Borrowed Funds(2)	7.07%	7.50%	6.93%	7.84%
Provision for Credit Losses as a Percentage of Average Net Finance				

Receivables	2.23%	2.36%	2.32%	2.06%
Net Portfolio Yield(4)	15.34%	16.37%	15.80%	16.20%
Operating Expenses as a Percentage of Average Net Finance Receivables(6)	8.69%	9.15%	8.88%	8.96%
Pre-tax Yield as a Percentage of Average Net Finance Receivables(7)	6.65%	7.22%	6.92%	7.24%
Write-off to Liquidation(8)	11.97%	10.06%	9.88%	8.97%
Net Charge-Off Percentage(9)	10.50%	9.10%	8.62%	7.92%

See accompanying notes.

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

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

(3) Does not include revenue generated by the Company's software subsidiary "NDS". See page 14 for detail on NDS revenue for the three months ended December 31, 2002 and 2001, respectively. See page 15 for detail on NDS revenue for the nine months ended December 31, 2002 and 2001, respectively.

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

(5) Weighted average contractual rate represents the weighted average Annual percentage rate (APR) of all contracts in the portfolio during the period.

(6) Does not include operating expenses associated with the Company's software subsidiary "NDS". See page 13 for detail on NDS cost of sales and operating expenses for the three months ended December 31, 2002 and 2001, respectively. See page 15 for detail on NDS cost of sales and operating expenses for the nine months ended December 31, 2002 and

2001, respectively.

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

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

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

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Three months ended December 31, 2002 compared to three months ended December 31, 2001

Interest Income and Loan Portfolio

Interest revenue increased 9% to $5.4 million for the period ended December 31, 2002, from $4.9 million for the period ended December 31, 2001. The net finance receivable balance totaled $81.7 million at December 31, 2002, an increase of 15% from the $70.8 million at December 31, 2001. The primary reason net finance receivables increased was the increase in the receivable base of several existing branches and the opening of six additional branch locations. The gross finance receivable balance increased 15% to $129 million at December 31, 2002 from $112 million at December 31, 2001. The primary reason interest revenue increased was the increase in the outstanding loan portfolio. The gross portfolio yield decreased from 23.20% for the period ended December 31, 2001 to 21.73% for the period ended December 31, 2002. The net portfolio yield decreased from 16.37% for the period ended December 31, 2001 to 15.34% for the period ended December 31, 2002. The primary reason for the decrease in the net portfolio yield was an increase in charge-offs for the period ended December 31, 2002. The net charge off percentage for the period ended December 31, 2002 was 10.50% compared to 9.10% for the period ended December 31, 2001.

Computer Software Business

Sales for the period ended December 31, 2002 were $78,850 compared to $85,852 for the period ended December 31, 2001, a decrease of 8%. Cost of sales and operating expenses decreased from $115,473 for the period ended December 31, 2001 to $115,073 for the period ended December 31, 2002.

Operating Expenses

Operating expenses, excluding provision for credit losses and interest expense, increased to $2.3 million for the period ended December 31, 2002 from $2.1 million for the period ended December 31, 2001. This increase of 10% was primarily attributable to the additional staffing of several existing branches, increased general operating expenses and the opening of six additional branch offices. Operating expenses as a percentage of interest earning assets decreased from 9.15% for the period ended December 31, 2001 to 8.69% for the period ended December

31, 2002.

Interest Expense

Interest expense increased to $1,023,976 for the period ended December 31, 2002 as compared to $949,068 for the period ended December 31, 2001. The average indebtedness for the period ended December 31, 2002 increased to $58.0 million compared to $50.6 million for the period ended December 31, 2001. This increase was offset by a decrease in the average cost of outstanding borrowings from 7.50% during the three months ended December 31, 2001 to 7.07% during the three months ended December 31, 2002.

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Nine months ended December 31, 2002 compared to nine months ended December 31, 2001

Interest Income and Loan Portfolio

Interest revenue increased 12% to $16.1 million for the period ended December 31, 2002, from $14.3 million for the period ended December 31, 2001. The net finance receivable balance totaled $81.7 million at December 31, 2002, an increase of 15% from the $70.8 million at December 31, 2001. The primary reason net finance receivables increased was the increase in the receivable base of several existing branches and the opening of six additional branch locations. The gross finance receivable balance increased 15% to $129 million at December 31, 2002 from $112 million at December 31, 2001. The primary reason interest revenue increased was the increase in the outstanding loan portfolio. The gross portfolio yield decreased from 23.01% for the period ended December 31, 2001 to 22.20% for the period ended December 31, 2002. The net portfolio yield decreased from 16.20% for the period ended December 31, 2001 to 15.80% for the period ended December 31, 2002. The primary reason for the decrease in the net portfolio yield was an increase in charge-offs for the period ended December 31, 2002. The net charge off percentage for the period ended December 31, 2002 was 8.62% compared to 7.92% for the period ended December 31, 2001.

Computer Software Business

Sales for the period ended December 31, 2002 were $254,165 compared to $274,894 for the period ended December 31, 2001, a decrease of 7.5%. This decrease was primarily due to lower revenue from the existing customer base during the first quarter of the fiscal year. Cost of sales and operating expenses decreased from $363,083 for the period ended December 31, 2001 to $351,059 for the period ended December 31, 2002.

Operating Expenses

Operating expenses, excluding provision for credit losses and interest expense, increased to $6.8 million for the period ended December 31, 2002 from $5.9 million for the period ended December 31, 2001. This increase of 14% was primarily attributable to the additional staffing of several existing branches, increased general operating expenses and the opening of six additional branch offices. Operating expenses as a percentage of interest earning assets increased from 8.96% for the period ended December 31, 2001 to 8.88% for the period ended December 31, 2002.

Interest Expense

Interest expense was $3.0 million for the period ended December 31, 2002 as compared to $3.0 million for the period ended December 31, 2001. The average indebtedness for the period ended December 31, 2002 increased to $56.9 million compared to $50.3 million for the period ended December 31, 2001. This increase was offset by a decrease in the average cost of outstanding borrowings from 7.84% during the nine months ended December 31, 2001 to 6.93% during the nine months ended December 31, 2002.

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Contract Procurement

The Company purchases contracts in the states listed below. The amounts shown in the table below represent the total face value of contracts acquired. The decrease in purchases for the State of Florida is primarily due to increased competition and the lack of expansion in that state during the current year. The Company has sixteen branch locations in Florida and does not have any immediate plans for additional expansion in Florida. The Company has been expanding its contract procurement in North Carolina, South Carolina and Ohio. Please see Future Expansion.

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

State	Maximum allowable Interest rate (1)	3 Months Ended 12/31/02	3 Months Ended 12/31/01	9 Months Ended 12/31/02	9 Months Ended 12/31/01
FL	30%	$7,667,048	$8,920,202	$26,790,694	$27,935,330
GA	29%	1,844,048	1,426,241	5,679,668	5,391,992
NC	29%	1,755,160	1,666,170	5,694,837	4,715,598
SC	29%	568,994	411,725	1,667,627	454,779
OH	25%	1,714,623	315,452	5,373,214	315,452
VA	29%	10,432	194,880	65,475	210,943
Total		$13,560,305	$12,934,670	$45,271,515	$39,024,094

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

Indirect Contracts Purchased

	3 Months Ended 12/31/02	3 Months Ended 12/31/01	9 Months Ended 12/31/02	9 Months Ended 12/31/01
Purchases	$13,560,305	$12,934,670	$45,271,515	$39,024,094
Weighted APR	23.66%	24.38%	24.11%	24.45%
Average Discount	9.00%	8.79%	8.87%	8.48%
Average Term(mnths)	40	41	41	42
Average Loan	$8,091	$8,161	$8,157	$8,284
Number of Contracts	1,676	1,585	5,550	4,711

Direct Loans Originated

	3 Months Ended 12/31/02	3 Months Ended 12/31/01	9 Months Ended 12/31/02	9 Months Ended 12/31/01
Originations	$935,909	$1,356,272	$2,982,344	$3,118,883
Weighted APR	26.60%	25.62%	26.07%	25.97%
Average Term(mnths)	20	22	21	23
Average Loan	$2,713	$3,229	$2,988	$3,125
Number of Loans	345	420	998	998

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Analysis of Credit Losses

Because of the nature of the borrowers under the Contracts and its direct consumer loan program, the Company considers the establishment of adequate reserves for credit losses to be imperative. The Company segregates its Contracts into pools for purposes of establishing reserves for losses. Each such pool consists of the loans purchased by a Company branch office during a three month period. The average pool consists of 70 Contracts with an aggregate initial principal amount of approximately $567,000. As of December 31, 2002, the Company had 409 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.

Dealer discount represents the difference between the face value of an installment contract and the amount of money the Company actually pays for the contract. The discount negotiated by the Company is a function of the credit quality of the customer and the wholesale value of the vehicle. The automotive dealer accepts these terms by executing a dealer agreement with the Company. The entire amount of discount relates to credit quality, and is therefore considered to be part of the credit loss reserve. The Company utilizes a static pool approach to track portfolio performance. A static pool retains an amount equal to 100% of the discount into a reserve for credit losses. In situations where, at the date of purchase, the discount is determined to be insufficient to absorb all potential losses associated with the pool, a portion of future unearned income associated with that specific pool will be added to the reserves for credit losses until total reserves have reached the appropriate level. Subsequent to the purchase, if the reserve for credit losses is determined to be inadequate for a pool which is not fully liquidated, then a charge to income through the provision is used to reestablish adequate reserves. If a pool is fully liquidated and has any remaining reserves, the excess reserves are immediately recognized into income. For pools not fully liquidated, that are determined to have excess reserves, such excess amounts are accreted into income. Reserves accreted into income for the period ended December 31, 2002 were $301,326 compared to $604,321 in the period ended December 31, 2001. Reserves accreted into income for the nine months ended December 31, 2002 was $1,415,651 compared to $1,702,938 for the period ended December 31, 2001.

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.

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

	Three months ended December 31, 2002	Three months ended December 31, 2001	Nine months ended December 31, 2002	Nine months ended December 31, 2001
Balance at beginning of period	$11,952,122	$10,755,104	$11,259,898	$10,306,699
Discounts acquired on new volume	2,160,225	2,120,253	7,378,298	6,466,272
Losses absorbed	(1,980,599)	(1,908,906)	(5,917,291)	(5,113,954)
Recoveries	280,002	211,891	805,170	617,942
Reserves accreted	(301,326)	(604,321)	(1,415,651)	(1,702,938)
Balance at end of period	$12,110,424	$10,574,021	$12,110,424	$10,574,021

Reserve as a percent

of gross finance receivables	9.39%	9.45%	9.39%	9.45%

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

	Three months ended December 31, 2002	Three months ended December 31, 2001	Nine months ended December 31, 2002	Nine months ended December 31, 2001
Balance at beginning of period	$5,081,682	$3,941,970	$4,305,786	$3,465,015
Current period provision	548,554	500,679	1,677,758	1,281,104
Losses absorbed	(923,333)	(264,870)	(1,258,177)	(541,778)
Recoveries	8,921	3,782	24,052	10,133
Reserves accreted	(36,763)	(29,726)	(70,358)	(62,639)
Balance at end of period	$4,679,061	$4,151,835	$4,679,061	$4,151,835
Reserve as a percent of gross finance receivables	3.63%	3.71%	3.63%	3.71%
Total reserves at end of period	$16,789,485	$14,725,856	$16,789,485	$14,725,856
Reserves as a percent of gross finance receivables	13.02%	13.16%	13.02%	13.16%

The average dealer discount associated with new volume increased for the three and nine months ended December 31, 2002 to 9.00% and 8.87% respectively, from 8.81% and 8.48% for the three and nine months ended December 31, 2001, respectively. The Company does not consider these changes to be material and such changes are not the result of any change in buying philosophy or competition.

The provision for credit losses increased for the three and nine-month periods ended December 31, 2002 to $548,354 and 1,677,758 respectively, as compared to $500,679 and $1,281,104 for the three and nine-month periods ended December 31, 2001. This increase is primarily attributed to an increase in the Net Finance Receivable balance from $70.8 million at December 31, 2001 to $81.7 million at December 31, 2002. To a lesser extent, the provision for credit losses increased as a result of certain static pools reaching reserve levels below Company estimates to absorb future credit losses. In these instances, the Company increased reserves related to specific static pools through a direct charge to income through the provision.

The Company's losses as a percentage of liquidation increased from 10.06% and 8.97% for the three and nine-month periods ended December 31, 2001 to 11.97% and 9.88% for the three and nine-month periods ended December 31, 2002. The Company anticipates portfolio performance will stabilize in the near term but will continue to be higher in relation to past years when the overall economic conditions and unemployment rate was better. In response to current conditions the Company has raised its initial target reserve percentage on new static pools to 12.2% from 11.8%. The Company does not believe there have been any significant changes in loan concentrations, terms or quality of contracts purchased during the current fiscal year that would have contributed to the rise in losses. The delinquency percentage for contracts more than thirty days past due for the period ended December 31, 2002 decreased to 3.07% from 3.55% for the period ended December 31, 2001. The delinquency percentage for direct loans more than thirty days past due for the period ended December 31, 2002 increased to 2.52% from 2.03% for the period ended December 31, 2001. The Company does not give significant consideration to short-term trends in delinquency when evaluating reserve levels. Delinquency percentages tend to be very volatile and often are not necessarily an indication of future losses. The Company utilizes a static pool approach to analyzing portfolio performance and looks at specific pool performance and recent trends as leading indicators to future performance of the portfolio.

Recoveries as a percentage of current period losses were 10.00% and 11.56% for the three and nine-month periods ended December 31, 2002 as compared to 9.92% and 11.11% for the three and nine-month periods ended December 31, 2001. Recoveries are seasonally lower in the December quarter and the current year results are consistent with prior reporting periods.

Reserves accreted into income for the three and nine-month periods ended December 31, 2002 were $338,089 and $1,486,009 respectively as compared to $634,047 and $1,765,577 for the three and nine-month periods ended December 31, 2001. The amount and timing of reserves accreted into income is a function of individual static pool performance. The Company has seen deterioration in the performance of the portfolio, more specifically; static pools more than fifty percent liquidated have seen an increase in the default rate when compared to prior year pool performance during their same liquidation cycle. The Company attributes this increase to overall general economic conditions and more specifically to the increased unemployment rate in the Company's markets.

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:

	Period Ended December 31, 2002	Period Ended December 31, 2001

Contracts Gross Balance Outstanding	$124,238,870		$107,053,507	
Delinquencies	Dollar Amount	Percent*	Dollar Amount	Percent*
30 to 59 days	$ 2,595,883	2.09%	$ 2,486,640	2.32%
60 to 89 days	852,351	0.69%	940,610	0.88%
90 + days	363,195	0.29%	370,151	0.35%
Total Delinquencies	$ 3,811,429		$ 3,797,401	
*Total Delinquencies as percent of outstanding balance		3.07%		3.55%
Direct Loans Gross Balance Outstanding	$ 4,753,330		$ 4,831,355	
Delinquencies				
30 to 59 days	$ 52,074	1.10%	$ 49,542	1.03%
60 to 89 days	46,896	0.99%	28,770	0.60%
90 + days	20,869	0.43%	19,521	0.40%
Total Delinquencies	$ 119,839		$ 97,833	
*Total Delinquencies as a percent of outstanding balance		2.52%		2.03%

The delinquency percentage for contracts more than thirty days past due for the period ended December 31, 2002 decreased to 3.07% from 3.55% for the period ended December 31, 2001. The delinquency percentage for direct loans more than thirty days past due for the period ended December 31, 2002 increased to 2.52% from 2.03% for the period ended December 31, 2001.

The Company does not give much consideration to short-term trends in delinquency percentages when evaluating reserve levels. Delinquency percentages tend to be very volatile and often are not necessarily an indication of future losses. The Company utilizes a static pool approach to analyzing portfolio performance and looks at specific pool performance and recent trends as leading indicators to future performance of the portfolio.

Income Taxes

The Company's effective tax rate remained relatively consistent at 36.97% and 37.34% for the three and nine month periods ended December 31, 2002 compared to 36.85% and 37.34% for the three and nine months ended December 31, 2001.

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Liquidity and Capital Resources

The Company's cash flows for the nine months ended December 31, 2002 and December 31, 2001 are summarized as follows:

	Nine months ended December 31, 2002	Nine months ended December 31, 2001
Cash provided by(used in):		
Operating Activities-	$39,753,348	$35,256,770
Investing Activities - (purchase of Contracts)	(43,278,013)	(38,332,869)
Financing Activities	4,212,267	3,146,007
Net increase in cash	687,602	69,908

The Company's primary use of working capital during the three months ended December 31, 2002 was the funding of the purchase of Contracts. The Contracts were financed substantially through borrowings on the Company's Line of Credit. The Line of Credit is secured primarily by Contracts, and available borrowings are based on a percentage of qualifying Contracts. As of December 31, 2002 the Company had approximately $17.7 million available under the Line of Credit. Since inception, the Company has also funded a portion of its working capital needs through cash flows from operating activities.

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

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

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Future Expansion

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

The Company currently intends to continue its expansion through the purchase of additional Contracts and the expansion of its direct consumer loan program. In order to increase the size of the Company's portfolio of Contracts, it will be necessary for the Company to open additional branch offices and increase the size of its revolving Line of Credit arrangement, either with its current lender or another lender. The Company, from time to time, has and will meet with private investors and financial institutions that specialize in investing in subordinated debt. The Company also intends to continue its policy of not paying dividends and using earnings from operations to purchase Contracts or make direct consumer loans. The Company believes opportunity for growth continues to exist in Georgia, North Carolina, South Carolina and Ohio and intends to continue its expansion activities in those states. The Company has expanded its automobile financing program in the State of Ohio to include 5 branch locations and will continue to pursue seeking markets in Ohio for further expansion. The Company is currently pursuing purchasing Contracts in the State of Michigan and South Carolina utilizing employees who reside in those States, respectively. These employees are developing their respective markets and the Company has created a Central Buying Office in its Corporate Headquarters in Clearwater Florida to purchase, process and service these Contracts. The Company's strategy is to monitor these new markets and ultimately decide where and when to open actual branch locations. No assurances can be given, however, that any further such expansion will occur.

Forward-Looking Information

This 10-QSB contains various forward-looking statements and information that are based on management's beliefs and assumptions, as well as information currently available to management. When used in this document, the words "anticipate", "estimate", "expect", and similar expressions are intended to identify forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or expected. Among the key factors that may have a direct bearing on the Company's operating results are fluctuations in the economy, the degree and nature of competition, demand for consumer financing in the markets served by the Company, the Company's products and services, increases in the default rates experienced on Contracts, adverse regulatory changes in the Company's existing and future markets, the Company's ability to expand its business, including its ability to complete acquisitions and integrate the operations of acquired businesses, to recruit and retain qualified employees, to expand into new markets and to maintain profit margins in the face of increased pricing competition.

Part I. Item 3

DISCLOSURES AND CONTROLS

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

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

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Part II - Other Information

Item 1. Legal Proceedings - None

Item 2. Changes in Securities - None

Item 3. Defaults upon Senior Securities - None

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

Item 5. Other Information - None

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

(b) Reports on Form 8-K - None

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SIGNATURES

In accordance with the requirements of the Securities Act of 1934, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form 10-QSB and authorized this Report to be signed on its behalf by the undersigned, in the City of Clearwater, State of Florida, on February 14, 2003.

NICHOLAS FINANCIAL, INC.
(Registrant)

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

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

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

Ralph T. Finkenbrink
(Principal Accounting Officer)

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CERTIFICATION

I, Peter L. Vosotas, certify that:

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

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

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

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

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

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

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

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

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

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

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

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

Peter L. Vosotas
Principal Executive Officer

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CERTIFICATION

I, Ralph T. Finkenbrink, certify that:

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

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

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

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

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

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

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

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

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

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

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

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

Ralph T. Finkenbrink
Principal Accounting Officer

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EXHIBIT INDEX

Item 6. Exhibits and Reports on Form 8-K

3.1	Articles of Incorporation and By-Laws of Nicholas Financial, Inc. Incorporated by reference to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996
4.1	Stock Certificate Incorporated by reference to Exhibit 4.1 to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996
10.1.1	Loan and Security Agreement dated March 31, 1993 between BA Business Credit, Inc. and Nicholas Financial, Inc. Incorporated by reference to Exhibit 10.1.1 to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996
10.1.2	Amendment No. 1 to Loan Agreement dated January 14, 1994 Incorporated by reference to Exhibit 10.1.2 to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996

10.1.3	Temporary Line Increase Agreement dated Mach 28, 1994
	Incorporated by reference to Exhibit 10.1.3 to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996
10.1.4	Amendment No. 2 to Loan Agreement dated June 3, 1994
	Incorporated by reference to Exhibit 10.1.4 to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996
10.1.5	Amendment No. 3 to Loan Agreement dated July 5, 1994
	Incorporated by reference to Exhibit 10.1.5 to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996
10.1.6	Amendment No. 4 to Loan Agreement dated March 31, 1995
	Incorporated by reference to Exhibit 10.1.6 to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996
10.1.7	Amendment No. 5 to Loan Agreement dated July 13, 1995
	Incorporated by reference to Exhibit 10.1.7 to the Company's Form 10-KSB for the fiscal year ended March 31, 1996
10.1.8	Amendment No. 6 to Loan Agreement dated May 13, 1996
	Incorporated by reference to Exhibit 10.1.8 to the Company's Form 10-QSB for the three months ended June 30, 1996
10.1.9	Amendment No. 7 to Loan Agreement dated July 5, 1997
	Incorporated by reference to Exhibit 10.1.9 to the Company's Form 10-QSB for the three months ended September 30, 1997
10.1.10	Amendment No. 8 to Loan Agreement dated September 18, 1998
	Incorporated by reference to Exhibit 10.2.0 to the Company's Form 10-QSB for the three months ended September 30, 1998

10.1.11	Amendment No. 9 to Loan Agreement dated November 25, 1998
	Incorporated by reference to Exhibit 10.2.1 to the Company's Form 10-QSB for the three months ended December 31, 1998
10.1.12	Amendment No. 10 to Loan Agreement dated November 24, 1999
	Incorporated by reference to Exhibit 10.2.2 to the Company's Form 10-QSB for the three months ended December 31, 1999

10.1.13	Amendment No. 11 to Loan Agreement dated August 1, 2000 Incorporated by reference to Exhibit 10.1.13 to the Company's Form 10-KSB for the year ended March 31, 2001
10.1.14	Amendment No. 12 to Loan Agreement dated March 16, 2001 Incorporated by reference to Exhibit 10.1.14 to the Company's Form 10-KSB for the year ended March 31, 2001
10.3.1	Employee Stock Option Plan Incorporated by reference to the Company's 1999 Annual proxy statement dated June 29, 1999
10.3.2	Non-Employee Stock Option Plan Incorporated by reference to the Company's 1999 Annual proxy statement dated June 29, 1999
10.4.1	Employment Contract, dated November 22, 1999, between Nicholas Financial, Inc. and Ralph Finkenbrink, Senior Vice President of Finance. Incorporated by reference to Exhibit 10.2.1 to the Company's Form 10-QSB for the three months ended December 31, 1999
10.4.2	Employment Contract, dated March 16, 2001, between Nicholas Financial, Inc. and Peter L. Vosotas President & Chief Executive Officer. Incorporated by reference to the Company's 2001 Annual proxy statement dated July 2, 2001
21	Subsidiaries of Nicholas Financial, Inc. Incorporated by reference to the Company's Form 10-SB (File No. 0-26680) filed on March 13, 1996
24	Powers of Attorney (included on signature page hereto)
99.1	Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C. 1350
99.2	Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C. 1350

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Exhibit 99.1

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

Solely for the purposes of complying with 18 U.S.C. 1350, I , the undersigned Chief Executive Officer of Nicholas Financial, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-QSB of the Company for the quarter ended December 31, 2002 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Peter L. Vosotas

Peter L. Vosotas
Chief Executive Officer
February 14, 2003

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Exhibit 99.2

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

Solely for the purposes of complying with 19 U.S.C. 1350, I , the undersigned Chief Financial Officer of Nicholas Financial, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-QSB of the Company for the quarter ended December 31, 2002 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Ralph T. Finkenbrink

Ralph Finkenbrink
Chief Financial Officer
February 14, 2003